



CARIBBEAN TAX SERVICE DESK · GREATER ANTILLES

Puerto Rico

Tax Guide

A guide to corporate, personal and indirect taxes in Puerto Rico

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FOREWORD

Puerto Rico sits inside the United States legal, monetary and customs system, yet writes its own income tax code. Few places in the region ask businesses to manage two tax systems at once.

A business in Puerto Rico deals with Puerto Rico income tax, the sales and use tax (IVU), municipal licence and property taxes, and US federal payroll taxes, often under an Incentives Code decree with its own conditions. Laws passed in 2025 and 2026 changed filing rules and the resident investor regime, and wider reform remains under discussion.

This guide explains the main taxes on companies and individuals in plain language, current to October 2026. It is written for investors, finance teams and individuals with interests in Puerto Rico.

Tax matters are handled by Dawgen Global's Caribbean Tax Service Desk, managed from Kingston. We would be glad to help you plan, comply and resolve issues with confidence.

Dr. Dawkins Brown, Ph.D., MCMI, ACFE

Executive Chairman, Dawgen Global

How to use this guide

This guide summarises the main taxes that apply to companies and individuals in Puerto Rico. It is general information, current to October 2026, and is not a substitute for advice on your circumstances. Rates and rules change; speak to us before you act. Our companion Doing Business guide covers set-up, employment and regulation.

FOUNDATIONS

01 Investment basics

Puerto Rico uses the US dollar, has no exchange controls and reports under US GAAP. Local taxes are administered by the Department of the Treasury (Hacienda).

CORPORATE INCOME TAX**18.5% + surtax**

Graduated surtax of 5% to 19%; combined top rate 37.5%

SALES AND USE TAX (IVU)**11.5%**

10.5% state plus 1% municipal; 4% on B2B services

PERSONAL INCOME TAX**0% to 33%**

33% above US\$61,500 of taxable income

DIVIDEND WITHHOLDING**10% / 15%**

Non-resident companies / individuals

US FEDERAL PAYROLL TAXES**7.65% employer**

Social security and Medicare, matched by employees

EXPORT SERVICES DECREE**4%**

Income tax on eligible income under the Incentives Code

Currency and foreign exchange

The US dollar is the currency. There are no exchange controls, and profits and capital move freely through the US banking system, subject to federal anti-money laundering checks.

Accounting and audit

Financial statements follow US GAAP. Businesses with a volume of business of US\$10 million or more file audited statements with their income tax return; from US\$3 million an agreed-upon procedures report by a Puerto Rico CPA may be accepted instead. Related groups are measured together.

Principal business entities

Corporation

Limited liability company

Foreign corporation or LLC

Partnership

Sole proprietor

Non-profit corporation

Corporations are taxed as separate entities. Partnerships and many LLCs are pass-through entities, and single-member LLCs may be disregarded.

The tax system

Hacienda administers income tax, IVU and excise taxes through SURI. Municipalities and CRIM levy licence and property taxes, and the IRS collects federal payroll taxes.

BUSINESS TAX

02 Corporate taxation

Corporations organised in Puerto Rico pay tax on worldwide income; foreign corporations pay tax on Puerto Rico-source income and income connected with a Puerto Rico business.

Residence and basis

A corporation is resident if created or organised in Puerto Rico. For US federal tax it is a foreign corporation. A US or foreign entity trading in Puerto Rico is taxed like a local company on its Puerto Rico business income.

Taxable income

- ◆ Gross income from all sources, less ordinary and necessary business expenses
- ◆ Depreciation under the Code's rules; straight-line only for the AMT
- ◆ Expenses that must be reported on informative returns are deductible only if reported
- ◆ Service businesses may elect an optional tax of 6% to 20% on gross income, subject to conditions

Surtax net income (after US\$25,000 deduction)	Surtax
Up to US\$75,000	5%
US\$75,001 to US\$125,000	US\$3,750 + 15% of the excess
US\$125,001 to US\$175,000	US\$11,250 + 16% of the excess
US\$175,001 to US\$225,000	US\$19,250 + 17% of the excess
US\$225,001 to US\$275,000	US\$27,750 + 18% of the excess
Over US\$275,000	US\$36,750 + 19% of the excess

The 18.5% normal tax applies to all net taxable income. Combined, the top marginal rate is 37.5%.

Alternative minimum tax and branch profits tax

The AMT is 18.5%, or 23% for corporations with a volume of business of US\$10 million or more, with a US\$500 minimum. Losses offset up to 70% of AMT income. A 10% branch profits tax may apply to foreign corporations on top of income tax, but not to income under export services and certain other decrees.

BUSINESS TAX

03 Corporate taxation (continued)

Dividends

Dividends between resident corporations are not subject to withholding, and a dividends received deduction may apply to dividends from certain resident companies. Distributions of income covered by an incentive decree are often exempt.

Capital gains

Long-term capital gains of corporations are taxed at 20%. Short-term gains are taxed as ordinary income.

Losses

Net operating losses carry forward for 10 years, and may offset up to 90% of net income in a year. There is no carry-back.

Foreign tax credit

Resident corporations may credit income taxes paid to the United States, US possessions and other countries against Puerto Rico tax on the same income, within limits.

Holding companies and groups

There is no participation exemption or holding company regime. Consolidated returns are not permitted: each entity files its own return.

Incentives Code in brief (Act 60-2019)

Regime	Main benefit
Export services	4% income tax, exempt distributions, 75% property tax and 50% municipal licence tax exemptions
Manufacturing	Reduced income tax, generally 4%, with property and municipal relief
Tourism and green energy	Reduced income tax and other relief for approved projects
Resident individual investors	Changed by Act 38-2026; see page 09
Physicians, researchers, young entrepreneurs	Reduced rates on eligible income

Decrees are granted by DDEC, usually for 15 years, with employment, investment and reporting conditions.

CROSS-BORDER PAYMENTS

04 Withholding taxes and tax treaties

Tax withheld is generally deposited with Hacienda by the 15th of the following month. Puerto Rico has no tax treaties, so domestic rates apply.

Payment	Resident	Non-resident company	Non-resident individual
Dividends	15% individuals; nil to corporations	10%	15%
Interest	Generally nil; special rates for qualifying interest	Generally nil; 29% to related companies	Generally nil
Royalties, rents and other fixed income	None	29%	29% (20% for US citizens)
Services performed in Puerto Rico	10% on payments over US\$500, unless Hacienda issues a waiver	29%	29% (20% for US citizens)
Long-term capital gains	None	Taxed on Puerto Rico-source gains	25% (15% for US citizens)
Branch profits	None	10% branch profits tax in some cases	

Payers report payments and tax withheld on Hacienda's informative returns. A 1.5% special contribution applies to the value of professional, consulting and legal services contracts with the Government of Puerto Rico; it is not creditable.

No tax treaties

Puerto Rico has no tax treaties or CARICOM-type agreements, and US federal tax treaties do not cover Puerto Rico taxes. Incentive decrees may reduce withholding on some payments.

Double taxation relief

Relief comes from domestic rules: residents credit foreign and US taxes, and bona fide residents generally exclude Puerto Rico-source income from US federal income tax (Section 933).

Practical point

Vendors can obtain a waiver or reduced-rate certificate from Hacienda each year. Payers should keep a current copy on file, since without it the full rate applies.

INTERNATIONAL RULES

05 Anti-avoidance and international rules

Puerto Rico generally follows US principles on transfer pricing. Hacienda's audit focus includes intercompany loans and payments to foreign affiliates.

Transfer pricing

Related-party transactions must be at arm's length, following the US Section 482 principles. Only 49% of certain charges from related parties outside Puerto Rico is deductible (the 51% disallowance), unless a transfer pricing study is completed by the return due date and a certification of compliance is filed with the return.

Interest limits

There are no specific thin capitalisation rules. Interest deductions follow general rules and arm's length pricing.

CFC rules

Puerto Rico has no controlled foreign company rules. US shareholders of a Puerto Rico corporation are subject to the US CFC rules, so US groups should model both systems.

General anti-avoidance

There is no general anti-avoidance rule, but Hacienda may reallocate income and deductions between related parties.

Substance

Incentive decrees require real operations, jobs and investment in Puerto Rico. The IRS closely examines individual claims of Puerto Rico residence.

Pillar Two

Puerto Rico has not adopted the OECD global minimum tax. Groups should model the rules of their parent and other jurisdictions; US-parented groups may use the side-by-side arrangement released by the OECD in January 2026.

Information exchange and disclosure

- ◆ **FATCA:** applies under the US framework
- ◆ **CRS:** not adopted, in line with the United States
- ◆ **Foreign accounts:** residents declare accounts over US\$10,000

CORPORATE COMPLIANCE

06 Compliance for corporations

Corporations self-assess and file electronically through Hacienda's SURI system.

Tax year and returns

The tax year may be the calendar year or a fiscal year. There are no consolidated returns. Pass-through entities file in the third month after year-end, and decree holders by the 15th day of the sixth month.

1

Estimated tax

Four equal instalments covering 90% of the year's tax or 100% of last year's.

15TH OF MONTHS 4,
6, 9, 12

2

Annual return and balance

Six-month extension available; tax remains due on time.

15TH OF MONTH 4
AFTER YEAR-END

3

Audited statements

Filed with the return where volume of business requires them.

WITH RETURN

Penalties and interest

A missed estimated payment attracts a 10% penalty. Late filing and payment attract penalties of up to 25% plus interest at a rate set by law, with civil and criminal penalties in serious cases.

Audits, records and rulings

Hacienda generally assesses within four years of filing. Keep records until the assessment period closes, and longer under a decree. Private rulings, closing agreements and voluntary disclosure agreements are available.

Objections and appeals

Proposed adjustments may be disputed administratively within Hacienda. A final notice of deficiency may be challenged in the Court of First Instance, then the Court of Appeals and the Supreme Court of Puerto Rico. Time limits are strict.

Practical points

Reconcile informative returns to the expense ledger, since unreported expenses can be disallowed. Complete transfer pricing studies before the return due date. Diary decree reports alongside tax deadlines.

BEYOND INCOME TAX

07 Other taxes on corporations

Tax	Rate and base	Who pays
Social security and Medicare	6.2% on wages up to US\$184,500 (2026) and 1.45% on all wages, each	Employer and employee
Unemployment	Puerto Rico tax, experience-rated plus a special assessment, on the first US\$7,000; federal tax, net 0.6% after credit	Employer
Disability insurance (SINOT)	0.3% on the first US\$9,000 of wages, each	Employer and employee
Workers' compensation	Premium by industry, set by the State Insurance Fund Corporation	Employer
Municipal licence tax	0.2% to 0.5% of gross receipts for most businesses, by municipality; higher for financial businesses	Businesses in each municipality
Real property tax	Municipal rates on CRIM's assessed value, based on historic values	Owner
Personal property tax	5.8% to 9.83% on business assets and inventory, self-assessed	Businesses
Stamps and registry fees	On deeds and recorded instruments; no separate transfer tax	Parties to the deed
Capital duty	None	—
Act 154 excise tax	4% on purchases from large manufacturers, where still in force	Related foreign purchasers
Excise taxes	On fuel, alcohol, cigarettes, vehicles, cement and other goods	Importers, manufacturers
Room occupancy tax	Charge on hotel and short-term stays	Accommodation providers

Decree holders may receive partial exemptions from property and municipal licence taxes. Most of these taxes are deductible for income tax.

INDIVIDUALS

08 Personal taxation

Residents pay Puerto Rico tax on worldwide income; non-residents pay on Puerto Rico-source income. US federal rules apply alongside.

Basis of taxation

- ◆ **Resident:** worldwide income, with credit for US and foreign tax
- ◆ **Non-resident:** Puerto Rico-source income only
- ◆ **US federal:** bona fide residents generally exclude Puerto Rico-source income (Section 933), but file US returns on other income

Residence tests

For Puerto Rico tax, residence follows domicile, with a presumption for those present for a set part of the year; facts matter. For US purposes, bona fide residence needs presence (generally 183 days), a tax home in Puerto Rico and no closer connection elsewhere, notified on IRS Form 8898 in the move year.

Filing status

Individual, married filing jointly or separately.

Net taxable income	Rate
Up to US\$9,000	0%
US\$9,001 to US\$25,000	7%
US\$25,001 to US\$41,500	14%
US\$41,501 to US\$61,500	25%
Over US\$61,500	33%

Tax due is 95% of the regular tax, or 92% for gross income up to US\$100,000. A gradual adjustment applies above US\$500,000, and an alternate basic tax may apply to higher incomes.

Taxable income

Salaries, Christmas bonuses, benefits in kind, business and rental profits, interest, dividends and pensions. Dividends and some interest qualify for flat rates.

INDIVIDUALS

09 Personal taxation (continued)

Capital gains and investment income

Long-term gains are taxed at 15%; short-term gains at regular rates. Dividends from Puerto Rico corporations are taxed at 15%.

Resident individual investors (Act 38-2026)

Decrees obtained by 31 December 2026 keep interest, dividends and post-move gains exempt to 2035. Applicants from 1 January 2027 pay 4% on that income to 2055, need six years of prior non-residence and must buy a home within two years. Annual donations and reports apply.

Deductions and reliefs

- ◆ Mortgage interest on the main home, within limits
- ◆ Approved retirement accounts and pension plans
- ◆ Charitable donations and certain medical expenses
- ◆ Expenses of a trade or business

Employment benefits

Benefits in kind are taxable. Qualifying reimbursed business travel may be excluded.

Tax	Position for individuals
Social security (employee)	6.2% on wages up to US\$184,500 (2026)
Medicare (employee)	1.45%, plus 0.9% on wages over US\$200,000
Self-employment tax (federal)	15.3% combined, paid to the IRS
Disability (SINOT)	0.3% on the first US\$9,000
Property tax	Real property tax to CRIM on assessed value
Stamps on deeds	Scaled to value on property transfers
Estate and gift tax (Puerto Rico)	None
US estate and gift tax	May apply, depending on how US citizenship was acquired
Net wealth tax	None
Capital acquisitions tax	None

INDIVIDUAL COMPLIANCE

10 Compliance for individuals

Employers withhold income tax from wages. Individuals with other income, or tax not covered by withholding, file and pay estimates.

Employees and withholding

The tax year is the calendar year. Employers withhold using Hacienda's tables, deposit by the 15th of the next month, file quarterly returns and give employees an annual withholding statement early in the new year. A return is generally required unless all tax was withheld at source.

Returns and estimated tax

When	What
15 April	Annual return and balance; six-month extension available
15 April, 15 June, 15 September, 15 January	Estimated tax where the balance due will be at least US\$1,000

Self-employed residents suffer 10% withholding on service fees over US\$500 unless they hold a waiver.

Non-residents and expatriates

- ◆ Non-resident employees suffer flat withholding: 29%, or 20% for US citizens
- ◆ Remote employees of overseas employers that do not withhold pay estimated tax
- ◆ US citizens moving in or out file IRS Form 8898 where required
- ◆ Bona fide residents still file US returns on non-Puerto Rico income
- ◆ Residents declare foreign accounts over US\$10,000; penalties apply
- ◆ Decree holders file annual reports with DDEC
- ◆ Foreign nationals need US work authorisation

Two systems, one plan

Moves to or from Puerto Rico affect both Puerto Rico and US federal tax. Plan the timing and keep evidence of presence, home and ties.

INDIRECT TAXES

11 IVU and customs

The sales and use tax (IVU) applies to most sales of goods and many services, and to goods brought into Puerto Rico, including from the US mainland.

Rate	Applies to
11.5% standard	Most goods and taxable services (10.5% state, 1% municipal)
7%	Prepared food sold by merchants certified by Hacienda
4%	Services to other merchants and designated professional services
Exempt	Most unprepared food, prescription medicines, exports, certain manufacturing inputs and other listed items

Registration and returns

All merchants register with Hacienda and hold a Merchant Registration Certificate before trading; there is no turnover threshold. Returns and payment are due monthly by the 20th.

Small professional providers

The 4% rate on designated professional services applies to providers above a US\$300,000 annual volume of business. Check eligibility and any exemption certificates with Hacienda.

Credits and resale

IVU is a retail-stage tax, not a VAT. Resellers buy goods for resale free of IVU with exemption certificates, and use tax paid on imports can be credited on the monthly return.

Imports, remote sellers and digital products

Use tax is collected on goods entering Puerto Rico, which are held at port until it is paid unless the importer is bonded. Remote sellers and marketplace facilitators must collect IVU, and digital products are taxable.

Customs and excise

Puerto Rico is in the US customs territory: goods from the mainland are duty-free, and US Customs and Border Protection applies US duties and tariffs to other imports. Hacienda levies excise taxes on goods such as fuel, alcohol, cigarettes and vehicles.

ADMINISTRATION

12 Tax calendar and administration

Main tax laws

Internal Revenue Code of 2011; Incentives Code (Act 60-2019); Municipal Code; Employment Security Act; Disability Benefits Act; the US Internal Revenue Code for federal taxes; PROMESA.

Authorities

Hacienda administers income tax, IVU and excise taxes; CRIM and municipalities levy property and licence taxes; DDEC grants decrees; the IRS collects federal payroll taxes. Tax disputes go to the Court of First Instance.

Recent and upcoming changes

- ◆ **2025:** Act 65-2025 and related laws simplified filings, allowed disregarded single-member LLCs and raised the cash-method limit to US\$10 million
- ◆ **2026:** Act 38-2026 reshaped the resident investor regime; a one-off direct tax relief payment was approved; the Oversight Board certified a General Fund budget of about US\$13.2 billion for 2026–27
- ◆ **Ahead:** 4% investor rate for applications from 1 January 2027; a wider reform to cut individual rates was not enacted by October 2026

When	What
15th monthly	Income tax withheld on wages, services and non-resident payments
20th monthly	IVU return and payment; import use tax
Month after each quarter	Federal Form 941-PR; Puerto Rico withholding, unemployment and disability returns
January and February	Annual withholding statements and informative returns
15 April	Corporate and individual returns; first estimated instalment
Fifth business day after 15 April	Municipal volume of business declaration (decree holders: after 15 June)
15 May	Personal property tax return to CRIM
15 June, 15 September, 15 December	Corporate estimated tax instalments
1 July	Government fiscal year begins
15 July and 15 January	Municipal licence tax instalments

Dates assume a calendar-year taxpayer. Weekend and holiday dates usually move to the next working day.

YOUR PARTNER

13 How Dawgen Global helps

Our Caribbean Tax Service Desk, managed from Kingston and supported by our US office in Miami, helps companies and individuals with Puerto Rico and related US federal taxes.

Tax compliance

Corporate and personal returns, estimated tax, informative returns and SURI filings.

Corporate tax advisory

Structuring, surtax and AMT planning, losses, dividends and transactions.

International tax and transfer pricing

Withholding, transfer pricing studies, the 51% rule and US federal interaction.

Indirect taxes (IVU and customs)

Merchant registration, IVU returns, import use tax, excise and customs reviews.

Payroll and employment taxes

Wage withholding, federal payroll taxes, unemployment and SINOT returns.

Tax disputes and authority engagement

Hacienda audits, deficiency notices, CRIM and municipal assessments.

Incentives and investment planning

Incentives Code decree applications, annual reports and compliance reviews.

Private client and expatriate tax

Residence planning, Section 933, resident investor decrees and assignees.

Tax technology and reporting

Tax calendars, provisions, data and reporting processes.

Start with a conversation

Tell us about your plans or your tax question in Puerto Rico, and we will set out the steps and timeline for your situation. Some regulated services are performed by affiliated firms; we will advise you of the arrangements when you make a request. Fees are tailored to each client's circumstances and set out in an engagement letter. Email puertorico@dawgen.com or info@dawgen.global, or call (876) 926-5210.

Talk to the Caribbean Tax Service Desk about Puerto Rico

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Key official sources

- Puerto Rico Department of the Treasury, Hacienda (hacienda.pr.gov)
- Municipal Revenue Collection Center, CRIM (crimpr.net)
- Department of Economic Development and Commerce (ddec.pr.gov)
- Department of State (estado.pr.gov)
- Department of Labor and Human Resources (trabajo.pr.gov)
- US Internal Revenue Service (irs.gov)
- US Customs and Border Protection (cbp.gov)
- Financial Oversight and Management Board for Puerto Rico (oversightboard.pr.gov)

