

Grow your Business: Opportunities for Local Companies to Raise Capital

CPA Denisse Flores, MST, Tax Division Partner, BDO Puerto Rico, PSC

CPA Aida Escribano-Ramallo, CIRA, CFE, CA, Manager Business Advisory Services, BDO Puerto Rico, PSC



Disclaimer

- This presentation has been prepared for educational purposes only. The information provided in these materials must be used as guidance rather than as a source of technical reference.
- To ensure compliance with requirements imposed by IRS Circular 230, we inform you that any U.S. federal tax advice contained in this presentation (including any attachments) is not intended, or written, to be used, and cannot be used, for the purposes of: (i) avoiding penalties under the United States Internal Revenue Code of 1986, as amended, or (ii) promoting, marketing or recommending to another party any transaction or matters addressed herein.

Identify why you need capital

Evaluate:

- Business Growth
- Operational problems
- Financial condition
- Market condition
- Identify internal and external trends



CREATE A PLAN OF ACTION

- Financial Information-Updated and reliable
- Time Table
- Business Plan
- Good Standing
- Executory Contracts
- Potential risks





Business Plan

- Business Description & History
- Identify reasons of grow or distress-need for capital
- Plan of Action
- Financials
 - ▶ Historic Financial Information
 - ▶ Provide Trends
 - ▶ Vertical and Horizontal Analysis
 - ▶ Projections
 - ▶ Develop assumptions in detail
- Sources and Uses of Funds
- Relevant documents

Identify the Right Product and Source

- Debt
 - Institutional Banking
 - Investors/Private Equity Fund
- Equity
 - ✓ Private Equity Fund
 - ✓ Private Investor
- Combined

Act 20/22 Tax Incentives

ACT
20

REQUIREMENTS



MINIMUM OF 5
EMPLOYEES



OFFICE IN
PUERTO RICO



EXPORT SERVICES
FROM PUERTO RICO

ACT
22

REQUIREMENTS

PRESENCE IN
PUERTO RICO FOR
183 DAYS

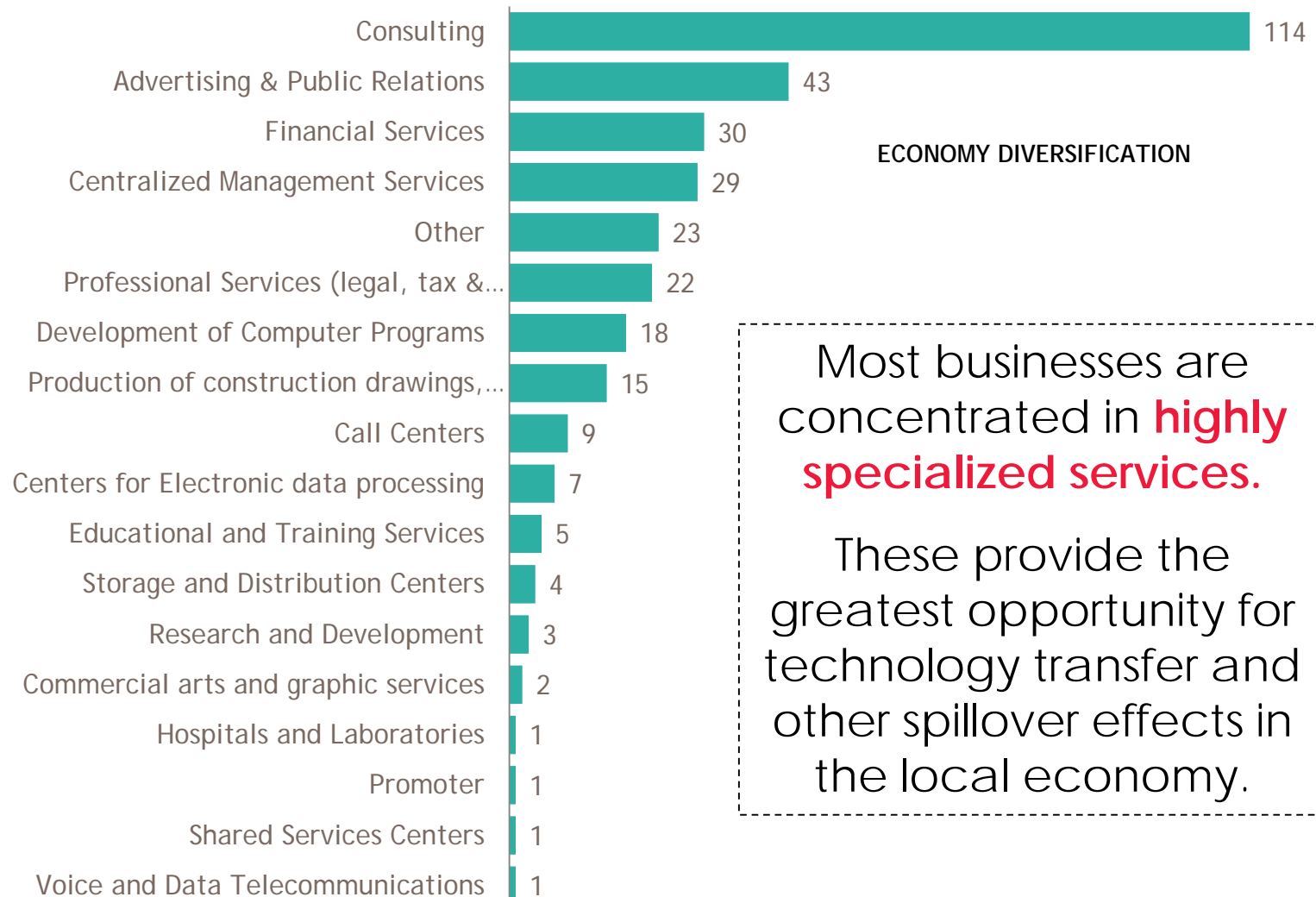


NO TAX HOME
OUTSIDE OF
PUERTO RICO



CLOSER CONNECTION TO
PUERTO RICO THAN
ANY OTHER COUNTRY

Profile of Act 20 Companies by Service Type



ECONOMY DIVERSIFICATION

Most businesses are concentrated in **highly specialized services**.

These provide the greatest opportunity for technology transfer and other spillover effects in the local economy.

Source: Department of Economic Development

Puerto Rico Private Equity Fund Structure

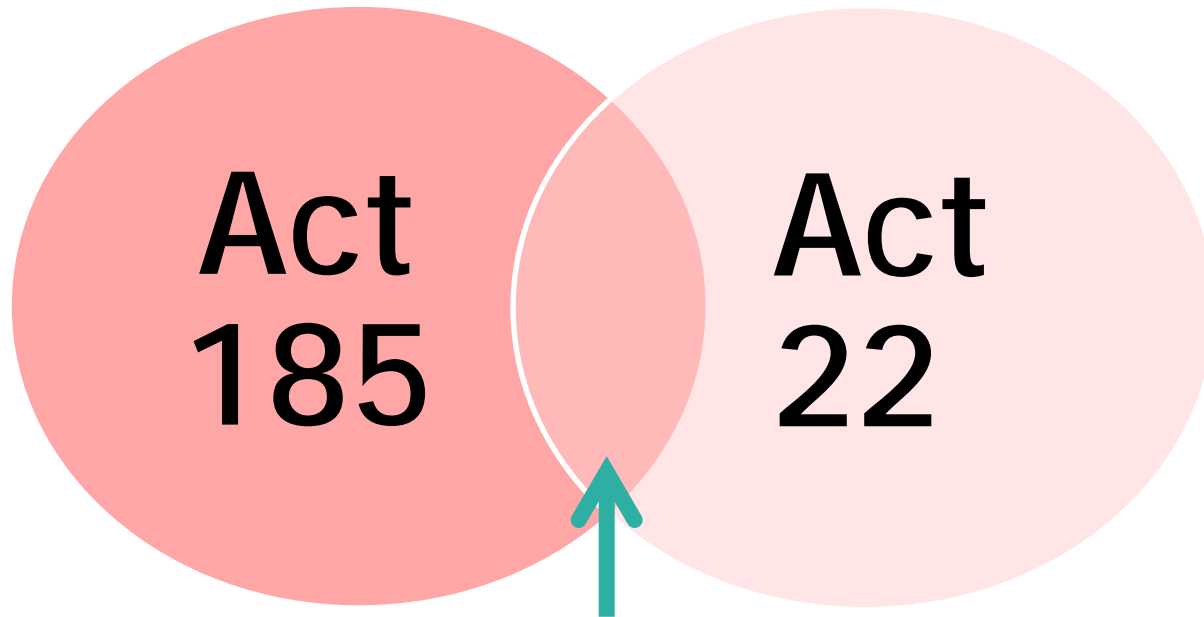
- To help raise capital in an attractive and effective way from Puerto Rican investors (including Act 20/22), International Financial Entities (“IFE”) and other Accredited Investors under Act 185-2014 which might provide capital funding to target companies to nurture expansion, new-product development, or restructuring companies’ operations, management, or ownership.
- Act 185-2014 provides attractive tax rates for interest, dividends and capital gains derived from a Puerto Rico Private Equity Fund (“PR-PEF”).
- PR-PEF provides initial investment deduction for the accredited investor, which reduces individual’s tax expense up to 30%*.

*Assuming the investor falls in the highest tax bracket 30%.

Puerto Rico Private Equity Fund Structure

- The Act lays a framework for partnerships and LLCs whether domestic or foreign, to elect to be treated as a fund (PEF) under the Act and obtain significant tax benefits for the fund and its investors.
- Broadly, there are two options:
 - ✓ PR-PEF- Requisite to invest 60% or more in targets that derive at least 80% of their income from PR sources.
 - ✓ PEF - Requisite to invest 15% or more in targets that derive at least 80% of their income from PR sources.
- Minimum Fund capital \$10M
- Diversification - No more than 20% can be invested in same business activity

Incentives Tax Coordination



Act 22 Tax Rates Apply:

- ▶ 0% tax on dividend and interest income
- ▶ 0% short and long term capital gains

Act 185 Private Equity Funds

	General	Act 22
Fund	Income 0%	N/A
Accredited Investor	<ul style="list-style-type: none"> Interest and Dividends 10% Capital Gains 0% Sale of Ownership Interest 5% 	<ul style="list-style-type: none"> Interest and Dividends 0% Capital Gains 0% Sale of Ownership Interest 0%
General Partner or Registered Investment Advisor	<ul style="list-style-type: none"> Interest and Dividends 5% Capital Gains 2.5% Sale of Ownership Interest 5% 	<ul style="list-style-type: none"> Interest and Dividends 0% Capital Gains 0% Sale of Ownership Interest 0%
Initial Investment in qualified Fund by the Residents of Puerto Rico	<p><u>PR-PEF</u>: May deduct up to a maximum of 60% of Initial Investment within a maximum period of 15 years (Limit: not to exceed 30% of net income).</p> <p><u>Foreign PEF</u>: May deduct up to a maximum of 30% of Initial Investment within a maximum period of 10 years (Limit: not to exceed 15% of net income).</p>	

SPEAKER

AIDA M. ESCRIBANO, CPA, CIRA, CFE

Manager
Business Advisory Services
BDO Puerto Rico, P.S.C.
787-754-3999
aescribano@bdo.com.pr

Mrs. Escribano is a Certified Public Accountant, Certified Insolvency and Restructuring Advisor and Certified Fraud Examiner. With more than fifteen (15) years of experience, Aida has worked at management level or as advisor within the manufacturing, distribution, tourism, development, and construction industries.

Aida specializes as a Financial Advisor assisting clients with acquisitions and restructuring strategies, bankruptcy processes and creating tax structures to maximize return on investment for shareholders, among other matters.

PROFESSIONAL AFFILIATIONS

Puerto Rico Society of Certified Public Accountants
Association of Certified Fraud Examiners
Association of Insolvency and Restructuring Advisors
Certified Arbitrator by the Supreme Court of Puerto Rico

EDUCATION

Bachelor's Degree in Business Administration with a major in Accounting from the University of Puerto Rico, Dean's List Student

DENISSE FLORES-CALDERA, CPA, MST

Partner
Tax Advisory Services
BDO Puerto Rico, P.S.C.
787-754-3999
dflores@bdo.com.pr

Denisse Flores-Caldera is a partner at BDO Puerto Rico where she leads the tax consulting division. BDO is the second largest accounting firm in Puerto Rico and the first in tax consulting. Denisse is a proven leader and highly respected member in the broader Puerto Rican business community. She has significant experience in Puerto Rican, US and international tax matters and regularly advises clients spanning across a wide array of industries, including private equity and financial services, as well as multinational clients with operations in Puerto Rico.

Denisse primarily focuses on both inbound and outbound Puerto Rican and US federal income tax matters. She supports BDO Puerto Rico's existing focus on Acts 20/22 and other Puerto Rico Tax Incentive Acts.

Denisse is a CPA and former president of the Puerto Rico CPA State Society, one of the most prestigious business organizations in Puerto Rico, where she has held a number of leadership roles and continues to be actively involved.

PROFESSIONAL AFFILIATIONS

Puerto Rico Society of Certified Public Accountants

EDUCATION

Masters in Tax from Bentley University
Bachelor's Degree in Business Administration with a major in Accounting from the University of Puerto Rico