

The Virgin Islands Consortium

Puerto Rico, Already Mired In Stagnation And Recession, Turns To Tech And Entrepreneurialism

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Puerto Rico, with a debt load of over \$70 billion, has found itself in an unfavorable position. The island no longer control its finances (on June 30 2016, President Barack Obama signed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA), which created a committee -- consisting of no elected Puerto Rican officials -- to oversee the island's finances). And [similar to the U.S. Virgin Islands](#), Puerto Ricans pay two to three times more for electricity than average Americans, due in part to their dependence on oil imports and because the government-owned utility company is plagued with billions in debt.

The island's downturn has been blamed on two factors: The local government's irresponsible issuance of bonds and the decision by the U.S. Congress to cut corporate tax breaks. According to Tech Crunch, in 1976, Congress passed Section 936 of the federal tax code, granting U.S. corporations a tax exemption from income originating from U.S. territories. Manufacturers, largely from the pharmaceutical industry, flocked to Puerto Rico to take advantage of these tax breaks. The island flourished during that period; until the tax incentives phased out in 2006 (Congress voted in 1996 to rescind them), Puerto Rico enjoyed 28 out of 29 years of economic growth.

Since 2005, however, [Puerto Rico has seen negative growth eight out of 10 years](#) and, just as the automotive industry left Michigan, so too fled Puerto Rico's most prevalent manufacturers — pharmaceutical companies — in droves, according to Tech Crunch.

But the commonwealth is attempting a bounce-back through a series of tax incentives, which have been signed into law since 2008. Two laws in particular, Act 73 (2008) and Act 20 (2012), set a fixed income tax rate of 4 percent for commercial manufacturers and companies exporting services from the island, respectively. A 50 percent tax credit for research and development activity costs has also been instituted under Act 73. According to Puerto Rico Secretary of Economic Development and Commerce, Alberto Bacó Bagué, “20% of the companies that operate under [Act 20] are tech oriented ... and the rest have a tech-related component.”

“Technology is certainly one of the pillars of our economic development program,” wrote Bacó in an email to Tech Crunch. “As of today, we have a strong tech cluster with examples like Infosys, a global leader in creating breakthrough solutions that address mobility, sustainability, big data, and cloud computing and Honeywell, with a new EMI (electronic magnetic [sic] interference) research lab that alone will create 300 jobs.”

Bacó also mentioned [Truenorth](#), [Rock Solid](#) and [Fusionworks](#) as examples of a burgeoning corporate IT sector.

Excerpts from this article were taken from an in-depth piece on Tech Crunch. [It's worth a read.](#)