

2019 UPDATE: Economic Assessment Act 20/22

Summary of Results

Methodology

Data gathering system

- Was developed using DDEC's current filing system.
- Process employed by ETI - essentially transferred most of the information from files ("hardcopies") into a survey system platform.
- Only files with completed applications and actual decree numbers were considered.
- Due to multiple filing mechanisms overtime, the data entry process required a vast amount of manual cleanup.

Database development

Methodology

Combination of multiple data sources

- Hybridization: Combination of annual reports, applications and decrees, by grantee. This entailed gathering the best available data on a case by case basis. Since annual reports are “actuals”, these were considered the highest quality data. For instance, if no data in terms of jobs created was available in an annual report, then that same data field was gathered from applications. This process was followed by each reporting year.
- Annual reports: Offer the highest quality information since program results are actuals rather than expected performance.
- Applications: Offer the widest array of data points, however, numbers are expected rather than actual.
- It is important to keep in mind that data fields within annual reports and applications does not necessarily coincide, thus, certain datapoints are exclusive to each source.

Program Performance

Information Sources	Act 20	Act 22
Decrees with Annual Report Only	159	255
Decrees with Application Only	957	1,253
Decrees with Both (Annual Report and Application)	564	694
Total	1,680	2,202

* The numbers above are limited to the years 2015 – 2019. Thus, “performance” does not capture the entire spectrum of applications and decrees prior to 2015. **However, if a grantee with a decree prior to 2015 submitted an annual report between 2015 and 2019, such number are considered in the report. ***2019 does not reflect all approved decrees. Data is limited to available decrees at the time of the data entry process (June 2019).

- Differences between numbers of decrees and the amount of annual reports, is partially due to the differences in the approval dates of each decree.
- That is, a decree approved during 2015 will not file an annual report during said year.
- To improve the analysis and capture the whole economic effects, a hybrid approach was employed. Thus, information from annual reports was combined with data from applications.
- Due to data limitations, most of the analysis outlined in the report was done using information from applications.

Data completeness

Close to **42%** of Act 22 grantees,
as well as nearly **52%** of Act 20
grantees, submitted their annual
reports.

Program Performance

Act 20 Decrees in Database, by Date of Approval

Act 20 Decrees in Database, by Date of Approval	
Year of Decree Approval	Number of Decrees by Approval Date
2019	215
2018	630
2017	189
2016	292
2015	195
Total	1,680

Numbers of approved decrees may vary due to revoked decrees. A total of 159 reports that originated from previous years (before 2015), were considered for the economic impact analysis. *2019 does not reflect all approved decrees. Data is limited to available decrees at the time of the data entry process.

- A total of 1,680 decrees were found in the DDEC's database for the years 2015 through 2019.
- 2018 was the year with the largest approval of decrees at 630, or 37.5% of the database.
- The dramatic increase in the numbers of decrees is the result of multiple factors:
 - Improvements within DDEC's approval rate
 - Legislative efforts of a new incentives code
 - Promotional efforts, among others

*The actual number of decrees considered in the report could differ from DDEC's decree counts. The report considers the economic impact of grantees, thus, grantees with multiple business operations were considered independently. If a single grantee is considered, the number of establishments could be potentially underestimated. Revoked decrees with annual reports were also considered, due to economic impact methodology.

Grantee profile Act 20

Act 20 Decreases by Eligible Activity

Eligible Activity	Decree Distribution of Eligible Activities
Consultants	40.8%
Centralized Management Services, Including Strategic Planning, Budget	7.5%
Other Eligible Activities (as Determined by the Secretary)	7.1%
Investment Banking and other Financial Services	6.6%
Professional Services, such as Legal, Tax and Accounting Services	6.6%
Advertising and Public Relations	5.6%
Shared Services Centers	3.6%
Computer Programs Development	3.5%
Architecture, Engineering, Construction Blueprint Production, Project Management	3.5%
Other/Unknown Activities	3.3%
Call Centers	2.2%
Specialized Business Services	2.1%
Educational and Training Services	2.1%
Research and Development	1.6%
Electronic Information Processing Services	1.0%
Commercial Arts and Graphics Services	1.0%
Storage and Distribution Centers	0.8%
Hospital and Laboratory Services	0.6%
Voice and Data Telecommunications Outside Puerto Rico	0.4%

- Consultants continue to comprise the largest portion of decrees with 40.8%
- Other eligible activities represent 7.1%.
- Centralized management systems, legal, accounting, and advertising services represent close to 21% of all eligible activities.
- Other or unknown activities represent roughly 3.3% of the database.

*The shares mentioned above distribute the number of decrees by eligible activities; it must not be interpreted as the largest businesses within Act 20. i.e. Data shows that two of the biggest Act 20 businesses (based on # of jobs) are call centers.

Grantee profile Act 20

Main Export Destination

- Only 465 cases of the 723 annual reports considered answered the export destination question
- 85% of Act 20 grantees reported the U.S. mainland as their main export destination (those who specified).
- In the 2015-2016 report the U.S. represented 66% of all export destinations. Such change shows an increased concentration in the U.S. market.
- Yet, the vast majority didn't specify (73%) their main export destination.
- Around 21 cases did mention several destinations for their exports.

Main Export Destination per the Annual Report

Destination	Count
USA (United States of America)	112
VIR (Virgin Islands)	4
DOM (Dominican Republic)	2
BRB (Barbados)	2
CYM (Cayman Islands)	1
GTM (Guatemala)	1
PAN (Panama)	1
PER (Peru)	1
GBR (United Kingdom of Great Britain and Northern Ireland)	1
COL (Colombia)	1
DEU (Germany)	1
CHN (China)	1
AGO (Angola)	1
VGB (Virgin Islands)	1
CAN (Canada)	1
Did not Specify	359
Total (N = 465)*	490

*Approximately 21 cases had more than one export country specified throughout their reporting years. These additional destinations amounted to 25. Hence, the total number of destinations and decrees may not coincide.

Source: Estudios Técnicos, Inc, DDEC

Grantee profile Act 20

Payroll and Employment

Employment & Wage Information for Act 20 Decrees

Employment and Wage Information for Act 20 Decrees				
Hybridized Data				
Concept	Eligible Activities	Non-Eligible Activities	Total	Average per Decree
Total 1-Year Payroll	\$300,759,710	\$294,222,507	\$594,982,216	\$354,156
Employment**	8,257	8,435	16,693	10
Average Wages	\$36,424	\$34,880	\$35,644	\$35,644

**2 cases reported invalid values for employment (in excess of 100,000 employees); therefore, the total was extrapolated by estimating the mean of the non-outlying cases, and elevating it to the decree total.

- Act 20 decree holders have a total payroll of \$595 million, with 51% on eligible activities.
- Payroll related to eligible activities generates 8,257 jobs, with an average wage of \$36,424.
- Non-eligible activities represent another 8,435 jobs with an average salary of \$34,880.

Grantee profile Act 20

Employment by Activity

Employment by Eligible Activity

Eligible Activity Description	Eligible Activities			Non-Eligible Activities			Total		
	Employment	1-Year Payroll	Average Wage	Employment	1-Year Payroll	Average Wage	Employment	1-Year Payroll	Average Wage
Research and Development	98	\$5,279,262	\$54,080	24	\$963,165	\$40,081	122	\$6,242,427	\$51,315
Advertising and Public Relations	272	\$15,420,815	\$56,720	48	\$2,315,480	\$48,323	320	\$17,736,295	\$55,462
Consultants	3,630	\$125,747,101	\$34,639	3,824	\$106,400,887	\$27,825	7,454	\$232,147,988	\$31,144
Specialized Business Services	76	\$4,008,164	\$52,995	95	\$17,114,390	\$179,522	171	\$21,122,553	\$123,548
Commercial Arts and Graphics Services	89	\$2,813,819	\$31,765	0	\$0		89	\$2,813,819	\$31,765
Architecture, Engineering, Construction Blueprint Production, Project Management	338	\$11,165,877	\$33,034	1,858	\$44,582,295	\$23,995	2,196	\$55,748,172	\$25,386
Professional Services, such as Legal, Tax and Accounting Services	372	\$16,332,692	\$43,891	327	\$13,254,442	\$40,562	699	\$29,587,134	\$42,335
Centralized Management Services, Including Strategic Planning, Budget	334	\$17,322,684	\$51,814	1,060	\$58,892,158	\$55,574	1,394	\$76,214,843	\$54,672
Electronic Information Processing Services	38	\$2,594,986	\$67,597	0	\$33,026		38	\$2,628,012	\$68,458
Computer Programs Development	96	\$4,006,578	\$41,771	97	\$14,033,826	\$144,679	193	\$18,040,404	\$93,514
Voice and Data Telecommunications Outside Puerto Rico	5	\$162,081	\$32,416	0	\$0		5	\$162,081	\$32,416
Call Centers	318	\$7,804,771	\$24,536	19	\$581,002	\$30,052	337	\$8,385,773	\$24,852
Shared Services Centers	589	\$12,572,718	\$21,349	721	\$15,539,577	\$21,550	1,310	\$28,112,295	\$21,460
Educational and Training Services	240	\$7,681,662	\$31,963	8	\$375,349	\$48,959	248	\$8,057,011	\$32,488
Hospital and Laboratory Services	39	\$1,817,820	\$46,062	4	\$123,899	\$33,791	43	\$1,941,719	\$45,019
Investment Banking and other Financial Services	476	\$19,608,856	\$41,171	255	\$6,113,123	\$24,004	731	\$25,721,979	\$35,190
Storage and Distribution Centers	34	\$1,313,459	\$38,917	0	\$0		34	\$1,313,459	\$38,917
Other Eligible Activities (as Determined by the Secretary)	1,213	\$45,106,366	\$37,197	96	\$13,899,889	\$144,300	1,309	\$59,006,254	\$45,079
Total (All Activities)	8,257	\$300,759,710	\$36,424	8,435	\$294,222,507	\$34,880	16,693	\$594,982,216	\$35,644

- Specialized Business Services generate the highest average salaries, at over \$123,000 in eligible activities.
 - This is almost 6 times the median household income in Puerto Rico.

Investment ACT 20

- Act 20 grantees promised to invest over \$1,261,904,086 million
- \$221 million in real estate,
- \$391 million in machinery & equipment, and a further
- \$650 million in other assets.
- If the \$1.2 billion investment were to take place in 1 year, it would represent more than 12% of the Island's gross domestic investment in fiscal 2018.

Investment by Act 20 Decrees

Concept	Value
Real Estate	\$221,291,982
Machinery & Equipment	\$390,719,416
Other Assets	\$649,892,688
Total Investment	\$1,261,904,086
N = 1,680 Decrees	

Economic Impact

Monetary Impact of Act 20 Employment

Monetary Impact	Eligible	Non-Eligible	Total
Employment (total)	17,918	18,304	36,222
Salary	\$ 401,928,065	\$ 347,795,337	\$ 749,723,402
Individual Income Tax	\$ 58,492,902	\$ 40,838,931	\$ 99,331,833
SUT	\$ 17,518,016	\$ 15,769,979	\$ 33,287,996

Source: Estudios Técnicos, Inc, PR Planning Board 2007 Inter-industrial multipliers.

Indirect employment is assumed to have a salary of \$19,775 the median household income in Puerto Rico

These jobs generate:

- Over \$635.6 million in salaries,
- \$100 million in individual income tax and
- \$27 million in sales & use tax

Note: For indirect and induced employment, it was assumed that the salary was equal to \$19,775 (median household income for Puerto Rico). These taxes were estimated by applying the current income tax rates to the average wages and SUT was applied to be 50% of the after-tax income (the percent subject to SUT in PR). For indirect & induced employment, because of the low income the tax is equal to \$0. (Estudios Tecnicos, Inc estimates)

Total Jobs Created by Act 20

Total Direct Jobs from Eligible Activities

8,257

Total Direct jobs from All Activities

16,692

Total Jobs Created in the Economy

36,222

Program Performance

A total of 2,202 Act 22 decrees were analyzed

622 of these were from 2018, and an additional 287 in 2019

As was the case with Act 20, its likely that the large amount of decrees approved in 2018 is a result of hurricane María impacting approvals in late 2017

Act 22 Decrees in Database, by Date of Approval	
Year of Decree Approval	Number of Decrees by Approval Date
2019	287
2018	622
2017	374
2016	355
2015	309
Reports Only/Out of Range Approval Dates	255
Total	2,202

*2019 does not reflect all approved decrees. Data is limited to available decrees at the time of the data entry process.

**Number of approved decrees by year could differ from DDEC’s grantee counts. Minor changes were performed based on differences between hardcopy files and electronic database. Due to tangible effects in the economy, Estudios Técnicos considered revoked decrees with annual reports.

Grantee Profile Act 22

Country of Residency	Number of Decrees
United States of America (the)	1,233
Colombia	7
Singapore	7
Venezuela (Bolivarian Republic of)	5
United Arab Emirates (the)	4
Mexico	4
Brazil	3
Canada	3
Chile	3
Spain	3
United Kingdom of Great Britain and Northern Ireland (the)	3
Argentina	2
Belgium	2
Costa Rica	2
Hong Kong	2
South Africa	2
Switzerland	1
Ecuador	1
Isle of Man	1
Italy	1
Unspecified Location	733

Practically all of those that answered regarding their country of origin, came from the **United States.**

Grantee Profile Act 22

- Within the US, Florida and California were the main states for Act 22 grantees. **Both states represent almost 40% of all grantees.**



State of Residency	Number of Decrees
Florida	122
California	114
New York	74
Texas	65
Puerto Rico	39
New Jersey	27
Nevada	24
Illinois	22
Colorado	21
Arizona	16
Pennsylvania	14
Georgia	13
Massachusetts	13
Washington	10
Connecticut	9
Utah	8
Michigan	7
Iowa	6
Maryland	6
North Carolina	6
Tennessee	6
Louisiana	5
Maine	5
Missouri	5
Virginia	5
Alabama	3
Kansas	3
Minnesota	3
Virgin Islands	4
Wisconsin	3
Hawaii	2
Nebraska	2
Oregon	2
Rhode Island	2
Arkansas	1
Dist. of Columbia	1
Delaware	1
Idaho	1
Indiana	1
Mississippi	1
New Hampshire	1
New Mexico	1
Ohio	1
South Dakota	1
Unspecified	557

Grantee Profile Act 22

Act 20 & 22 Businesses

Concept	Value	Value
Number of Act 22 Decree Holders with a Business Established in PR	768	100%
With Businesses that are Tax Decree Holders	666	87%
With Businesses that are Act 20 Tax Decree Holders	599	78%

Out of those Act 22 grantees with businesses in Puerto Rico, 78% are exporting services from the Island under Act 20

Almost 35% of all Act 22 grantees have a business operation in Puerto Rico.

Over 760 Act 22 grantees have established a business in Puerto Rico.

And 599 have a business with an Act 20 decree.

666 have a business with a tax decree



Economic Impact of Act 22 Grantees

- Act 22 grantees who have a business with an Act 20 decree mainly operate in the **consulting** industry.
- The second largest activity reported by Act 22 and Act 20 holders is the investment **banking and other financial services** activities.

Eligible Activity Distribution of Act 20 Businesses Owned by Act 22 Grantees

Eligible Activity Distribution of Act 20 Businesses Owned by Act 22 Decree Holders	
Eligible Activity	Distribution
Research and Development	0.9%
Advertising and Public Relations	5.3%
Consultants	38.0%
Specialized Business Services	0.2%
Commercial Arts and Graphics Services	0.7%
Architecture, Engineering, Construction Blueprint Production, Project Management	0.8%
Professional Services, such as Legal, Tax and Accounting Services	3.3%
Centralized Management Services, Including Strategic Planning, Budget	4.9%
Electronic Information Processing Services	0.1%
Computer Programs Development	2.5%
Voice and Data Telecommunications Outside Puerto Rico	0.1%
Call Centers	0.7%
Shared Services Centers	2.3%
Educational and Training Services	1.1%
Hospital and Laboratory Services	0.6%
Investment Banking and other Financial Services	6.7%
Storage and Distribution Centers	0.0%
Other Eligible Activities (as Determined by the Secretary)	3.6%
Unknown/In Filing Process for Act 20	28.3%
N = 599 Act 20 businesses held by Act 22 decree Holders	

Economic Impact of Act 22 Grantees

Profile of Act 22 Grantees

- Their businesses would generate almost **4,400 jobs**.
- Only **37%** of grantees planned to transfer capital
- Act 22 grantees planned to make over **\$679 million** in capital investment.
- Over **81%** of these individuals have a net worth below **\$10 million**, while **2.8%** have a net worth above **\$50 million**.

Concept	Value
Planned Capital Investment (Application Only)	\$678,804,274
Estimated Employment from Businesses in PR	4,393
Net Worth	
Less than 10 million	81.2%
10 million - 50 million	14.5%
More than 50 million	3.9%
Unspecified	0.4%
Percentage of Planned Capital Investment (Application Only)	
0% - 25%	14.9%
25% - 50%	6.4%
50% - 75%	5.4%
75% - 100%	10.4%
Unspecified	62.9%
Money Spent in Puerto Rico	\$140,629,249

Economic Impact of Act 22 Grantees

- The value of purchased real estate was slightly above **\$1.3 billion**.
- Total 1-year value of rent estimated equals **\$560 million** (aggregated 2015-2019).
- Close to 68% had purchased a property, while 32% currently rent a property in the Island.

Profile of Act 22 Decree Holders

Concept	Value
Value of Purchased Real Estate	\$1,315,955,569
Residential	\$1,240,407,188
Commercial	\$75,548,381
Value of Rent	\$560,062,344
Residential	\$560,062,344
Commercial	\$0

10 Year Forecast Act 20

Act 20 Decrees & Economic Impact (2020-2029)

Variable	2015-2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Number of Decrees	1,680	1,980	2,311	2,675	3,070	3,447	3,805	4,144	4,461	4,756	5,026
Eligible Activities	2015-2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Sales	\$17,872,881,295	\$5,710,310,766	\$6,000,459,281	\$6,742,498,032	\$7,759,801,735	\$8,700,631,509	\$9,597,828,974	\$10,444,654,440	\$11,271,055,775	\$12,026,364,414	\$12,726,531,616
Operating Costs	\$13,034,562,649	\$2,065,500,164	\$1,752,597,688	\$2,020,936,811	\$2,375,382,041	\$2,620,603,356	\$2,849,791,387	\$3,062,435,624	\$3,258,322,267	\$3,435,851,224	\$3,593,551,118
Employment	8,257	11,247	13,070	14,303	15,999	17,664	19,195	20,606	21,899	23,065	24,085
Total Wages	\$1,503,798,550	\$393,314,713	\$464,747,691	\$494,724,133	\$554,552,337	\$623,057,485	\$689,108,400	\$751,903,586	\$812,809,799	\$870,297,368	\$923,261,248
Corporate Income Tax Paid	\$348,603,948	\$111,377,502	\$117,036,741	\$131,509,933	\$151,352,066	\$169,702,604	\$187,202,109	\$203,719,126	\$219,837,780	\$234,569,795	\$248,226,298
Municipal Income Tax Paid	\$31,973,306	\$10,215,337	\$10,734,392	\$12,061,847	\$13,881,730	\$15,564,807	\$17,169,829	\$18,684,739	\$20,163,113	\$21,514,305	\$22,766,855
Non-Eligible Activities	2015-2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Sales	\$3,221,126,385	\$3,738,021,103	\$4,364,041,699	\$4,995,630,438	\$5,684,816,915	\$6,347,757,721	\$6,975,748,965	\$7,562,824,200	\$8,132,800,616	\$8,648,593,963	\$9,121,338,800
Operating Costs	\$3,130,012,543	\$669,046,434	\$639,985,545	\$729,515,195	\$848,169,388	\$932,826,516	\$1,011,122,692	\$1,083,269,556	\$1,150,529,475	\$1,211,301,762	\$1,263,764,311
Employment	8,435	12,270	13,475	15,317	16,723	17,889	18,855	19,653	20,315	20,824	21,159
Total Wages	\$1,471,112,533	\$458,032,723	\$324,393,911	\$401,723,257	\$535,314,357	\$584,767,954	\$630,071,799	\$670,294,647	\$707,904,202	\$740,363,953	\$766,990,772
Corporate Income Tax Paid	\$102,865,240	\$119,372,043	\$139,363,733	\$159,533,238	\$181,542,102	\$202,712,822	\$222,767,443	\$241,515,431	\$259,717,375	\$276,189,005	\$291,285,903
Municipal Income Tax Paid	\$62,512,698	\$72,544,122	\$84,693,361	\$96,950,662	\$110,325,767	\$123,191,521	\$135,379,006	\$146,772,430	\$157,834,014	\$167,844,064	\$177,018,666
Totals from 2020 onwards also incorporate the continuing impact from the existing Act 20 decree holders.											

- The first column highlights the aggregated impact of Act 20 for the years 2015-2019.
- The next columns provide a yearly forecast of the economic impact for 2020 through 2029.
- It's expected that there will be a small increase in decrees for 2020 and subsequently accelerates for both the number of decrees and the total sales.
- For eligible activities, employment is forecasted to increase consistently along with sales.
- Non-eligible activities, tend to be more cyclical, essentially having a big increase in employment in the first year, before declining.
- By 2029, over 5,026 Act 20 decrees are expected, generating over 24,000 jobs and \$12.7 billion in sales in eligible activities alone. Non-eligible activities should generate an additional 21,159 jobs and \$9.1 billion in sales.

10 Year Forecast Act 22

Act 22 Decrees & Economic Impact (2020-2029)

	2015-2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Concept	2015-2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Number of Decrees	2,202	2,594	3,018	3,475	3,965	4,433	4,878	5,298	5,691	6,057	6,392
Employment from Businesses in PR	8,435	13,046	17,778	18,939	22,409	25,702	28,493	31,161	33,718	36,159	38,318
Money Spent in Puerto Rico	\$703,146,245	\$318,153,501	\$389,351,320	\$463,924,944	\$542,733,346	\$621,783,827	\$701,459,098	\$781,339,804	\$859,154,671	\$937,118,588	\$1,010,821,549
Aggregate Value of Purchased Properties	\$1,315,955,569	\$2,996,569,719	\$3,486,899,034	\$4,014,932,749	\$4,582,647,526	\$5,122,200,571	\$5,635,057,182	\$6,122,062,105	\$6,574,533,671	\$6,998,560,348	\$7,383,910,994
Residential	\$1,240,407,188	\$2,547,120,084	\$2,963,905,865	\$3,412,740,836	\$3,895,305,183	\$4,353,931,722	\$4,789,865,972	\$5,203,825,979	\$5,588,432,220	\$5,948,859,965	\$6,276,412,621
Commercial	\$75,548,381	\$449,449,633	\$522,993,169	\$602,191,913	\$687,342,342	\$768,268,849	\$845,191,210	\$918,236,126	\$986,101,451	\$1,049,700,383	\$1,107,498,373
Aggregate 1-Year Value of Rent Paid (Residential)	\$560,062,344	\$70,877,853	\$148,204,963	\$191,873,077	\$227,279,382	\$264,452,897	\$302,083,889	\$339,847,969	\$376,763,074	\$413,967,886	\$449,591,347
Totals from 2020 onwards also incorporate the continuing impact from the existing Act 22 decree holders.											

- The first column highlights the aggregated impact of Act 22 for the years 2015-2019.
- The next columns provide a yearly forecast of the economic impact for 2020 through 2029.
- By 2029 it is expected that there will be over 38,000 jobs generated by almost 6,392 Act 22 grantees.
- The aggregated impact for the real estate sector (2015-2029) is \$7.4 billion in purchased property and almost \$450 million for rented property.