Does Luring Individuals Mean Luring Investment? Examining Tax-Induced Migration to Puerto Rico

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We introduce new data to examine the income, assets, and business activity for the beneficiaries of Puerto Rico's individual investor incentive. Under this incentive program, qualified new migrants to Puerto Rico are exempt from federal and local income taxes on broad categories of passive income. The program successfully enticed several thousand wealthy individuals to move to Puerto Rico. 65% of these new arrivals establish businesses and 60% purchase real estate in Puerto Rico. Exempted income (the benefit for the beneficiaries) is primarily capital gains income. This capital gains income is not necessarily connected to investment in Puerto Rico and some of it may reflect income sourcing at odds with the IRS position. We discuss implications for US-Puerto Rico tax competition and the design of place-based policies.

1 Introduction

Many jurisdictions increasingly compete to attract wealthy, mobile residents. Local governments may offer immigration benefits (as in the United States' EB-5 or European Union's "Golden Visa" program) or tax breaks (as in Italy's flat tax for high net worth individuals) to entice wealthy individuals to relocate. The rise of remote work has recently intensified this competition as individuals become even more globally mobile. But relatively little is

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known about how to effectively design these place-based policies. What enticements will attract and retain wealthy migrants while generating meaningful economic benefits for the host jurisdiction?

A central choice when designing these programs is whether to include pre-specified investment requirements. Many programs that attract wealthy individuals require explicit capital deployment.[1] The rationale for investment requirements is clear – jurisdictions want to be assured that beneficiaries will make local investments. But there are also reasonable arguments against such requirements: wealthy individuals may contribute to a host jurisdiction through their consumption and economic activity without making specific investments. Furthermore, a complicated investment requirement can make a program unattractive and unwieldy, as has been the case for the US's EB-5 visa.[2]

Puerto Rico's resident individual investor program (launched in 2012 as Act 22) takes an intermediate position. The resident investor program imposes no minimum investment threshold but seeks to attract investors by offering a full exemption from Puerto Rican taxes on passive income (dividends, interest, and newly accrued capital gains) for qualified new residents. Due to Puerto Rico's status as a US territory,[3] if this income is *Puerto Rican source income* it will also be exempt from US federal tax for bona-fide residents of Puerto Rico. For dividends and interest income, this effectively limits the tax incentive to income generated from local investment. But capital gains exemptions do not inherently tie the exempted income to the exempting jurisdiction. Under federal tax sourcing rules, capital gains are generally sourced to the taxpayer's residence at the time of sale, meaning resident investor beneficiaries can enjoy tax-free capital gains on assets located anywhere. This disconnect between tax benefits and local investment creates potential for beneficiaries to claim program benefits while maintaining primarily non-Puerto Rican investment portfolios

[1] The U.S. EB-5 Immigrant Investor Program offers permanent residency (a green card) to foreign nationals who invest at least $1.05 million in a U.S. commercial enterprise and create ten full-time jobs. European Golden Visa programs similarly trade residency rights for investment: Portugal requires €500,000 in approved investment funds, while Greece demands €250,000 to €800,000 in real estate, depending on location.

[2] The EB-5 program has struggled with issues of corruption and deception by the intermediaries necessary to route the would-be-immigrant's contribution into eligible investments (Singer and Galdes, 2014)

[3] Puerto Rico is a US territory. Individuals born in Puerto Rico are US citizens and travel between Puerto Rico and the US mainland is domestic travel.

– a concern that has driven current policy debates about adding investment requirements.

Is attracting wealthy people to your jurisdiction sufficient to generate local economic benefits, or are explicit investment requirements necessary? Previous work on tax-induced migration has mostly studied labor income incentives, which incentivize relocating individuals to engage in labor activity within a jurisdiction (Kleven et al., 2014; Schmidheiny and Slotwinski, 2018). We provide the first comprehensive empirical examination of wealthy tax migrants under a passive income incentive program. Using novel data obtained through Puerto Rico's freedom of information law, we analyze annual reports filed by all beneficiaries of the Resident Individual Investor Program for tax years 2013-2021. These reports contain detail on beneficiaries' net worth, income composition, assets in Puerto Rico, business activity, real estate holdings, and more. Our sample represents the universe of program participants during this period.

We document three main findings. First, the program successfully attracted (moderately) wealthy individuals to Puerto Rico. The majority of beneficiaries self-report total net worth in the top 10% of the U.S. wealth distribution, 30% report net worth in the top 1% of U.S. wealth distribution, and 4% report net worth exceeding $100 million. Second, most beneficiaries engage meaningfully with Puerto Rico's economy: 65% establish businesses in Puerto Rico, 60% own real estate, and beneficiaries' assets in Puerto Rico grew from around $6 million in 2013 to nearly $12 billion by 2021. Third, however, substantial heterogeneity exists in local economic engagement. A meaningful fraction of beneficiaries report minimal Puerto Rican assets, suggesting they relocated primarily to capture capital gains tax benefits rather than to invest locally.

The composition of exempted income reveals additional nuances in how the program operates. Exempted income is overwhelmingly capital gains – $4.3 billion in 2021 compared to $976 million in dividends and $99 million in interest. While dividend and interest exemptions effectively require Puerto Rican investment (since these income types are sourced to the payer's location), capital gains exemptions do not. Consistent with recent concern from the IRS and lawmakers, we observe patterns in beneficiaries' capital gains reporting that

raise questions about compliance with federal sourcing rules, though detailed portfolio data would be necessary to assess this definitively.

Our findings speak to ongoing policy debates about investment requirements in place-based programs. Puerto Rico is currently considering legislation to add minimum investment thresholds to the program, a proposal that has generated substantial local discussion (Paez, 2025). More broadly, our results inform the design of policies aimed at attracting mobile, high-income individuals. While tax incentives alone can successfully attract wealthy residents and generate significant local investment for many participants, the combination of passive income exemptions with capital gains sourcing rules creates opportunities for minimal local engagement. The program demonstrates both the potential and the limitations of relying on tax incentives without investment mandates.

This paper proceeds as follows. Section 2 provides institutional background on Puerto Rico's Resident Individual Investor Program, detailing eligibility requirements, tax benefits, and the federal tax sourcing rules that determine which income qualifies for exemption. Section 3 describes our data sources and collection process. Section 4 presents descriptive analysis of beneficiaries' characteristics, wealth, income, and economic activity in Puerto Rico. Section 5 discusses policy implications for place-based programs and tax competition.

1.1 Literature Review

Our work relates to several strands of literature. First, we contribute to research on tax-induced migration of high-income and high-wealth individuals. The prior literature has primarily focused on labor income tax incentives.[4] We are not aware of prior empirical work linking migration to individual tax incentive programs focused specifically on passive income. The distinction matters because passive income (particularly capital gains) may be less connected to local economic activity. Some recent work studies cash incentives (rather

[4]Kleven et al. (2014) study Denmark's preferential tax scheme for high-earning foreign workers, which offers a reduced flat rate on labor income for three years. Schmidheiny and Slotwinski (2018) examine tax competition across Swiss cantons, while Agrawal and Foremny (2019) study responses to top tax rate changes across Spanish regions. More recently, Advani et al. (2025) examine migration of the super-rich in response to the UK's removal of preferential treatment for non-domiciled residents' foreign investment income.

than tax breaks) for remote workers to relocate to particular municipalities (Choudhury et al., 2022; Yoo, 2025). A wider literature studies how worker and firm location responds to changes in local tax burdens (Busso et al., 2013; Suárez Serrato and Zidar, 2016; Fajgelbaum et al., 2019). Within this literature, our paper is most closely related to a set of papers that examines discretionary subsidies given by local governments to incentivize firm relocation (Greenstone and Moretti, 2003; Greenstone et al., 2010; Mast, 2025; Slattery and Zidar, 2020; Slattery, 2025).

Beyond migration, our work is related to a broad literature linking investment outcomes to investment incentives. Most of this literature studies firm-side incentives. Our paper is most closely related to prior studies of the effect of individual tax incentives on investment: prior work has examined angel investor tax credits (Denes et al., 2023), the US's tax break on Qualified Small Business Stock (Chen and Farre-Mensa, 2026), and the effect of capital gains tax relief on investment and entrepreneurship (Edwards and Todtenhaupt, 2020; Arefeva et al., 2025; Curtis and Decker, 2018).

Finally, Garrett and Suárez Serrato (2019) and Suárez Serrato (2025) study Puerto Rican business tax incentives, specifically examining how the repeal of corporate tax incentives under Section 936 affected multinational location decisions. Our focus on individual rather than corporate beneficiaries, and on a program offering tax exemptions without investment requirements, provides a complementary perspective on Puerto Rico's broader strategy of using tax policy for economic development.

2 Institutional Background

The US income tax treatment of Puerto Rican residents is unique. US citizens everywhere in the world face US taxes on their worldwide income, but US citizens residing in Puerto Rico are not subject to federal income tax on income from Puerto Rican sources (IRC §933). Traditionally, Puerto Rican residents instead face comparable income tax rates from the territorial government of Puerto Rico. But in 2012, Puerto Rico's Act 22, "Act to Promote the Relocation of Individual Investors to Puerto Rico", introduced full exemptions from

Puerto Rican income taxes for passive income earned by new residents of Puerto Rico.[5] Since then, beneficiaries of this "resident individual investor program" pay no income tax on Puerto Rico sourced dividends, interest income, and newly-accrued capital gains. Pre-arrival asset appreciation is typically subject to U.S. income taxation, even if the gain is realized after establishing residence in Puerto Rico.

2.1 Requirements of the Resident Individual Investor Program

Individuals who have not recently been Puerto Rican residents are eligible to apply to the Puerto Rican government to relocate as a "Resident Individual Investor".[6] Successful applicants are granted a tax decree (considered a contract between themselves and the Puerto Rican government) which outlines certain tax benefits they will receive if they establish themselves as a *bona-fide* resident of Puerto Rico. An individual is considered to a *bona-fide* resident of Puerto Rico by both the Puerto Rican and US governments if he or she: (1) is sufficiently present in Puerto Rico (e.g., for at least 183 days); (2) Does not have a tax home outside of Puerto Rico during the taxable year; and (3) Does not have a closer connection to the United States or a foreign country other than to Puerto Rico during the taxable year (IRC §937).

Resident individual investors file yearly tax returns on their worldwide income with the Puerto Rican Department of the Treasury, on which they are required to list their tax decree number and fill out a special additional tax schedule. Beneficiairies also submit annual reports and a copy of their tax return to the Puerto Rican Department of Economic Development and Commerce. These annual reports make up our primary data souce (described in more detail in Section 3). Puerto Rican residents may also file federal income tax returns with the IRS, but they are only required to do so if they are self-employed or if they have

[5]Effective January 1 2020, Puerto Rico consolidated Act 22 and other tax benefit legislation into a single statute, Act 60. To avoid confusion, we refer to the tax incentive program formerly known as Act 22 as the "resident individual investor program".

[6]The exclusion period (i.e., the period for which prior residency in Puerto Rico renders someone ineligible for the resident individual investor program) has changed somewhat as the law has been revised. Originally, applicants could not have been residents of Puerto Rico between January 16, 1997 and January 16, 2012. In 2017, this was shortened to January 2006 – January 2012. In 2020, this was changed to January 2010 – January 2020.

US or other non-Puerto Rico source income to report. According to the IRS, a bona fide resident of Puerto Rico with a U.S. filing obligation need not report Puerto Rican source income on a U.S. income tax return.[7]

Beyond establishing residency in Puerto Rico and filing tax returns, other program requirements for resident individual investors are written into their tax decrees and depend on when the tax decree was granted. Decrees granted after 2017 require the beneficiary to donate $5,000 a year to certain Puerto Rican charities, and this requirement was increased to $10,000 a year for decrees granted after 2020. Interestingly, the terms of the resident individual investor program do not require beneficiaries to commit to any threshold amount of investment in Puerto Rico. In some years, new decree holders were required to purchased a primary residence in Puerto Rico and some decree holders were obligated to establish a Puerto Rican bank account.[8] But a more general investment requirement has never been required, although proposals for a minimum investment threshold have been repeatedly put forward in the local public debate around the law (Estudios Técnicos, 2015; Paez, 2025).

Currently, the resident individual investor program is set to expire on December 31, 2035. After this date, former program beneficiaries will be taxed as any other Puerto Rico resident

2.2 Tax Benefits for Resident Individual Investors

Since all *bona-fide* Puerto Ricans are exempt from US federal taxation on Puerto Rican source income[9] and beneficiaries of the resident investor program are exempt from Puerto Rican tax on Puerto Rican source passive income,[10] federal sourcing rules are key to determining the

[7]Despite the lack of a filing requirement, taxpayers with exclusively Puerto Rican source income may choose to report that income to the IRS voluntarily. One reason to do so is that the usual three-year statute of limitations will not preclude the IRS from contesting bona-fide residency and assessing tax if the taxpayer did not file an IRS return (Leeds, 2023).

[8]Grantees with decrees issued between 2015 and 2016 or with decrees issued after 2020 are required to purchase a primary residence in Puerto Rico within two years of their decree grant. Other grantees have no home purchase requirement and may rent their primary residence.

[9]IRC §933(1).

[10]Act 22 (as amended and as subsequently incorporated into Act 60) exempts beneficiaries of the resident individual investor program from Puerto Rican income tax on dividends, interest income, and long-term capital gains accrued after arrival in Puerto Rico. Long-term capital gains accrued prior to arrival in Puerto Rico are taxed at a 5% rate, but there is also a foreign tax credit available for any tax paid on this capital

tax incentives available under this program. To benefit from the federal tax exemption for dividend and interest income, beneficiaries will need to invest in Puerto Rican companies or assets. But the benefit of the capital gains tax exemption can be received while maintaining an exclusively non-Puerto Rican investment portfolio.

In general, dividend and interest income will be tax-free for resident investor beneficiaries only if the location of the income-generating investment is in Puerto Rico. This is because dividend and interest income are sourced, under IRC §861 and §862, to the location of the entity paying the income.

On the other hand, the source (and therefore the exemption status) of capital gains income generally depends on the location of the taxpayer when the capital gains were accrued and realized. The usual rule is that capital gains would be sourced to the taxpayer's residence at the time of sale (IRC §865) but there is a special 10-year lookback rule for the sale of property by individuals who move to Puerto Rico (Treas. Reg. S1.937-2(f)).[11] Capital gains realized within 10 years of establishing residency in Puerto Rico from property owned prior to becoming a Puerto Rican resident will be at least partially US source income. The default is that the entire capital gain will be US source, but the taxpayer can make an election to split the sourcing between the US and Puerto Rico depending on when the capital gain accrued (for marketable securities) or the relative length of the holding period in the US and Puerto Rico (for other assets). Act 22 adopts the same split-holding period distinction for determining which capital gains are exempt under the resident individual investor incentive. Capital gains accrued prior to arrival in Puerto Rico are not exempt from taxation.[12] Capital gains accrued after arrival in Puerto Rico are exempt for beneficiaries of the resident individual investor program. The special Puerto Rican tax form required for beneficiaries of the resident individual investor program prompts these taxpayers to divide their capital gains income by whether the gain was accrued before or after arrival in Puerto

gains income to the US federal government.

[11] There is some disagreement about the scope of the 10-year lookback rule, which we discuss further in Section 5

[12] Officially, these pre-arrival capital gains realized within 10 years of arrival are taxed by Puerto Rico at a rate of 5% despite being considered US source income. But since foreign tax credits are available within the Puerto Rican system to offset US taxes paid, individuals who pay US federal taxes on these capital gains will not have any additional obligation to Puerto Rico.

Figure 1: Illustration of Resident Individual Investors' Capital Gains Tax Calculation

Part III **Capital Assets Gains and Losses**

Description and Location of Property	Date Acquired (Day/Month/ Year)	Date Sold (Day/Month/ Year)	(A) Sale Price	(B) Market Value on the Date of Establishing Residence in P.R.	(C) Adjusted Basis	(D) Gain or Loss (Col. A - Col. C)	(E) Amount Attributed to the Period Prior to Establishing Residence in P.R. (Col. B - Col. C)	(F) Amount Attributed to a Period after Establishing Residence in P.R. (Col. D - Col. E)
	(21)	(24)	(27) 00	(30) 00	(33) 00	(36) 00	(39) 00	(43) 00
	(22)	(25)	(28) 00	(31) 00	(34) 00	(37) 00	(40) 00	(44) 00
	(23)	(26)	(29) 00	(32) 00	(35) 00	(38) 00	(41) 00	(45) 00
1. Net long-term capital gain or loss (Transfer the total of Column (E) to Schedule D Individual, Part III, line 22. Transfer the total of Column (F) to Schedule IE Individual, Part II, line 34, first Column)							(42) 00	(46) 00

Note: This figure reproduces Part III of Schedule F1 of Puerto Rico's Individual Income Tax Return. Schedule F1 Individual is titled "Detail of Income Under Act 22-2012 (Resident Individual Investors)" and is required for all recipients of resident individual investor decrees. Notably, the calculation prompts these individuals to divide their capital gains income between amount attributable to the period prior to establishing residence in Puerto Rico (column E) and the period after establishing residence in Puerto Rico (column F). These columns' sums are then transferred to, respectively, the schedule to report taxable capital gains (Schedule D Individual) and the schedule to report excluded and exempt income (Schedule IE Individual). The official instructions guide for Schedule F1 Individual from the Puerto Rican Department of the Treasury is presented in Appendix B.

Rico (see Figure 1).

If the resident investor has a business in Puerto Rico, that business may be eligible for one of a number of other tax incentive programs. These programs are not exclusive to beneficiaries of the resident investor program. The most prominent business tax incentive program is for export-oriented business and (if a tax decree is granted to the qualified business) guarantees a Puerto Rican corporate tax rate of 4%.

A further implicit benefit of the resident individual investor program is that it compares favorably to other expatriation options for US citizens and residents. Moving to Puerto Rico does not mean leaving the United States. In contrast to expatriation to other countries, residents of Puerto Rico can (partially) exit the US tax system without renouncing US citizenship or permanent residency (and without the exit tax obligation that renunciation may require under IRC §877). It is also easy to move back to the US and there will not be any repatriation tax on income earned as a Puerto Rican resident.

3 Data

3.1 Annual Reports

Our analysis primarily uses annual reports filed by beneficiaries of the resident investor program for tax years 2013-2021. Decree holders must submit annual reports for every year the decree is valid.[13] These annual reports are designed to track the compliance of the requirements under Act 22 and collect information about the grantee's net worth, household composition, details of income sources (classified by category and between "exempt income" and "non-exempt income"), days, expenditure, and assets in Puerto Rico, and associated businesses in Puerto Rico. In order to submit a complete annual report, the grantee must include a copy of their income tax returns for the reporting taxable year.

Using Puerto Rico's freedom of information (FOIA) law, we requested and received redacted versions of all annual reports filed by beneficiaries of the resident investor program between 2015 and 2023.[14] Personal information such as names, physical addresses, social security numbers, and telephone numbers are redacted or removed from the documents before we receive them.

3.2 Decrees

Individuals considering moving to Puerto Rico under the resident individual investors program must request and receive a decree from the Puerto Rican government. As an additional data source, we retrieve the names and decree dates of all resident investor program grantees from the website of the Department of Economic Development and Commerce ("DDEC"). The number of grantees in this data is an overestimate of the number of people actually benefiting from the Act 60 provision, since a successful decree grant does not necessarily

[13] The annual report requirement was only added to the law in mid-2013, so this requirement does not necessarily bind on the 17 grantees whose decrees were granted in 2012 or on a fraction of the 107 grantees from 2013. Despite this, we observe most of these early beneficiaries filing annual reports (11 of 17 and 84 of 107 file for tax year 2018).

[14] The Puerto Rico FOIA law is Law 141-2019: "Transparency and Expedited Procedure for Access to Public Information Act". Our FOIA success owes a debt of gratitude to the investigative journalists at Puerto Rico's *Centro de Periodismo Investigativo*, who won a 2022 determination from the Puerto Rican Supreme Court Case that these annual reports are public records and thus subject to the FOIA law (Centro de Periodismo Investigativo, 2022).

imply that an individual has moved to (or stayed in) Puerto Rico.

4 Descriptive Analysis

4.1 Number of beneficiaries

Figure 2 displays the number of new grants of investor decrees and the number of resident investors filing annual reports in each year. Between tax years 2012-2021, 4,288 individuals were granted decrees that would allow them to benefit from the resident investor program. Interest in the resident investor program built up slowly over time. A year after the law was passed, only a few dozen individuals had been granted decrees. In 2021 alone, 1,143 new individuals were granted decrees. A decree grant, however, does not necessarily mean that the individual moved to (or stayed in) Puerto Rico. The number of annual report filings provides a better picture of current beneficiaries. In tax year 2021 (our last year of data), 2,220 beneficiaries were present in Puerto Rico and filing annual reports.

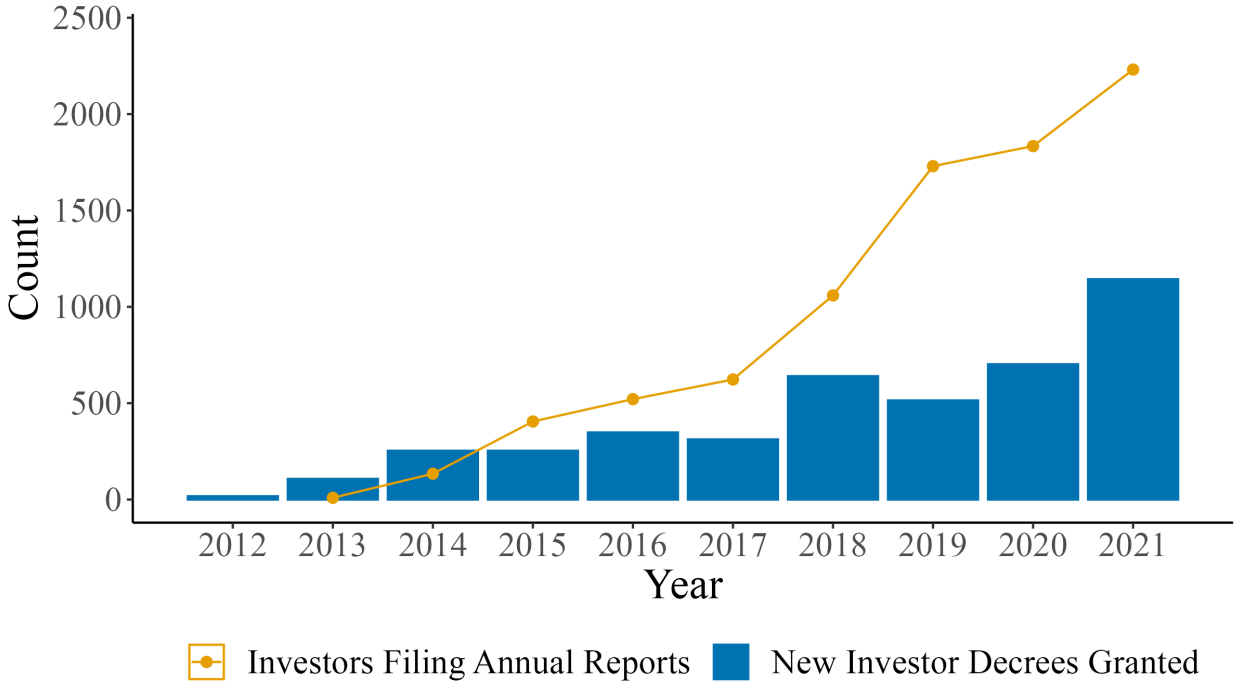
4.2 Wealth & Investment Activity

Figure 3 divides beneficiaries who file annual reports for 2021 into self-reported categories of total net worth. The majority of beneficiaries self-report a total net worth between 1 and 10 million dollars, which would put most of them in the top 10% of the US wealth distribution, but outside the top 1%.[15] Around 30% of beneficiaries are in the top 1% of the US wealth distribution, reporting total net worth above 10 million dollars. Additionally, 4% of beneficiaries report total net worth above 100 million dollars, which would put them in the top 0.1% (or even top 0.01%) of the US wealth distribution. At the other end of the distribution, 15% of investors reported net worth below $1 million dollars.

The annual report asks beneficiaries to report the wealth they have in Puerto Rico, divided into four categories: financial assets, assets in privately held businesses, real estate assets, and other assets. Additional questions are asked about the value of the beneficiaries'

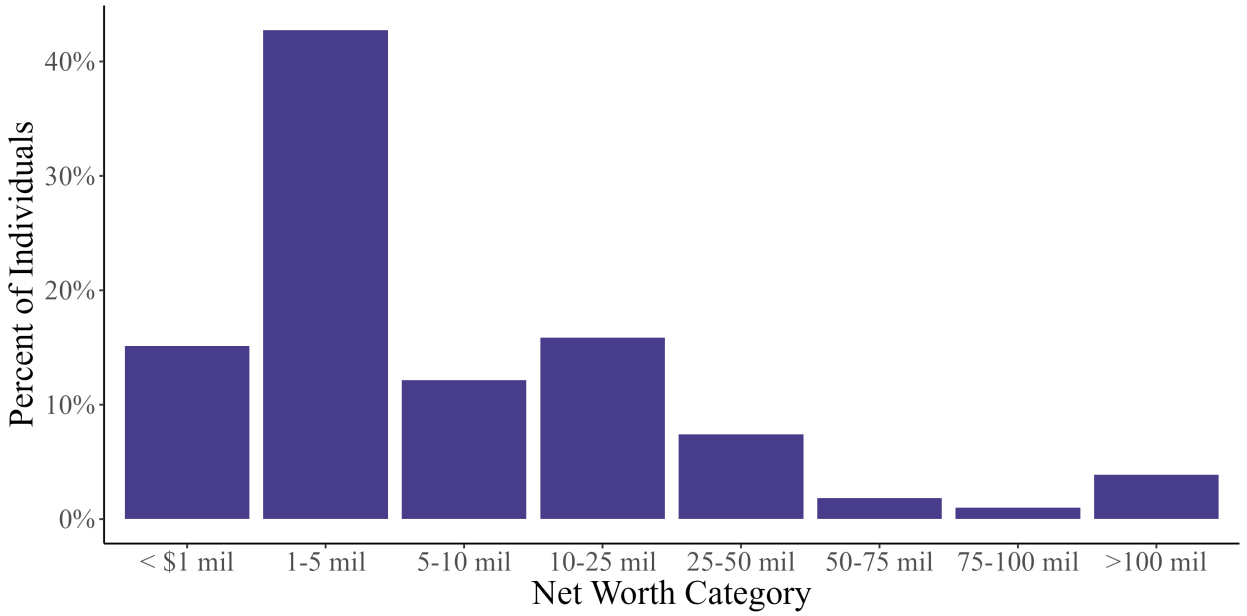
[15] In 2022 (the most recently available year of the Survey of Consumer Finance), the cutoff for the top 10% of the US wealth distribution was around $1.6 million and the cutoff to be a part of the top 1% was $11.6 million (Jones and Neelakantan, 2023).

Figure 2: Resident Investors Filing Annual Reports & New Investor Decrees Granted



Note: This figure displays the number of individuals with resident investor decrees who file annual reports in a given year (orange line) and the number of new investor decrees granted each year (blue bars). The number of new investor decrees granted reflects growing interest in and successful applications for Puerto Rico's resident investor decree. But not every successful applicant moves to Puerto Rico to take up the incentives, and there may be a multi-year delay before some grantees relocate. Therefore the number of investors filing annual reports better reflects the number of decree recipients who have actually moved to Puerto Rico and taken up the tax incentives. The program built up slowly over time. By end-of-year 2013 (the first year after the passage of Act 22), 124 individuals had been granted decrees (17 in 2012 and 107 in 2013) but only 8 resident investors were present in Puerto Rico and filing annual reports. In tax year 2021 (our last year of data), 2,220 resident investors filed annual reports.

Figure 3: Net Worth of Resident Investor Beneficiaries, 2021



Note: This figure displays the percentage of individuals who file annual reports for tax year 2021 for each of the indicated categories of net worth. The data is taken from individuals' annual reports, in which they are asked to indicate which of the eight categories contains their total net worth.

primary residence in Puerto Rico (if they own their residence). A large majority of grantees (87.2% in 2021) have some assets in Puerto Rico (Table 1). However, the most common category of reported asset in Puerto Rico is financial assets (75% in 2021) and it is not clear from the regulation what it means for a beneficiary to have financial assets "in" Puerto Rico.[16] Some beneficiaries may include all their financial wealth, regardless of whether that financial wealth has actually been brought to Puerto Rico. More substantively, 60% of beneficiaries in 2021 report owning real estate and 40% report owning privately held business assets in Puerto Rico. 50% own some "other" type of asset in Puerto Rico. Figure 4 shows average wealth in Puerto Rico by net worth category and asset type for 2021.

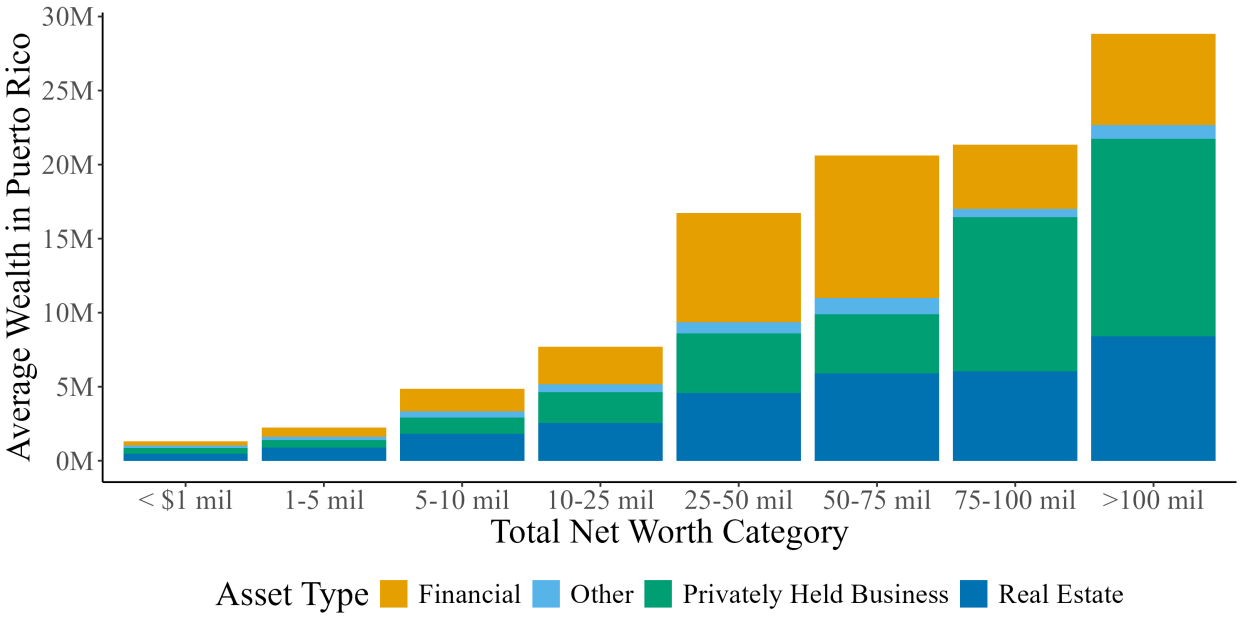
Figure 5 shows the evolution of total wealth held in Puerto Rico by beneficiaries over time, broken down by asset type. Total reported assets in Puerto Rico grew from around $6 million in 2013 to $12 billion by 2021. Total wealth in the categories of financial assets, private business assets and real estate is roughly equal in 2021, with about $3.5-3.9 billion

[16]The relevant regulation is Regulation 9248, "Reglamento De Incentivos".

Table 1: Summary Statistics for Resident Investors, 2021

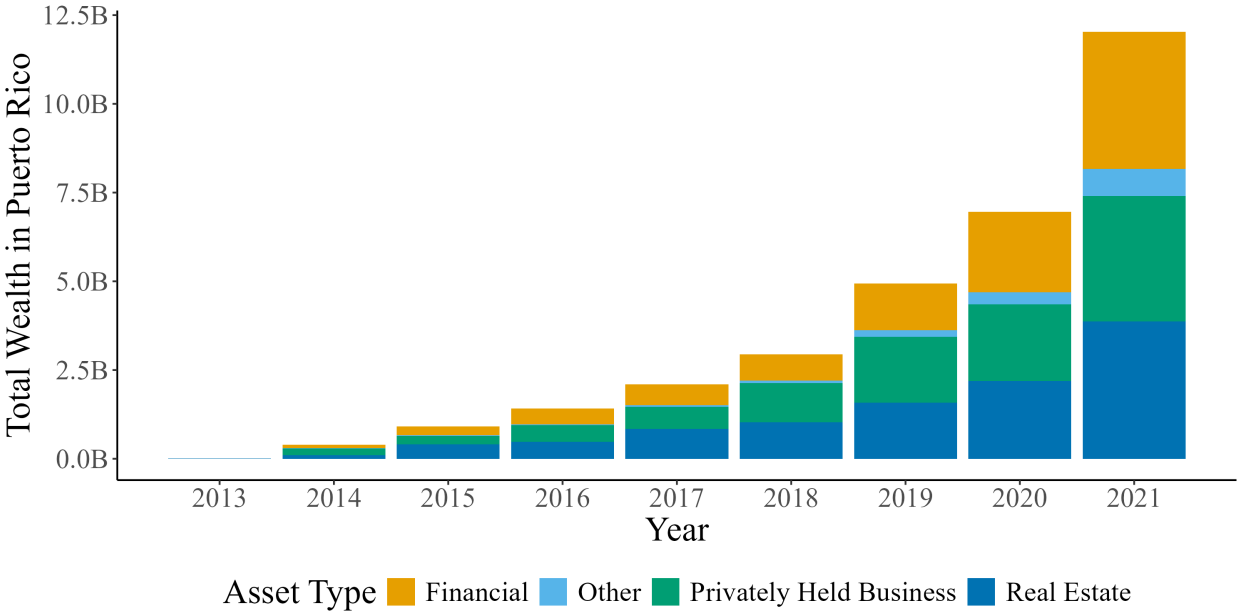
Panel A: Asset Participation Rates	
Assets - Financial	75.0%
Assets - Other	50.4%
Assets - Privately Held Business	40.0%
Assets - Real Estate	59.8%
Does Grantee Have A Business In Puerto Rico	65.2%
Does Grantee Have Assets Located In Puerto Rico	87.2%
Primary Property Value	61.4%
Secondary Property Value	15.2%
Panel B: Total Assets by Type ($ Billions)	
Assets - Financial	3.81
Assets - Other	0.76
Assets - Privately Held Business	3.53
Assets - Real Estate	3.86
Total Assets	11.94
Panel C: Exempt Income by Type ($ Millions)	
Interest	99.11
Dividends	976.09
Capital Gains	4,269.66
Wages	2.04
Other	123.44
Total Exempt Income	5,470.35
Panel D: Non-Exempt Income by Type ($ Millions)	
Capital Gains	188.72
Wages	148.02
Other	607.24
Interest	0.15
Dividends	0.73
Total Non-Exempt Income	944.87
Panel E: Capital Gains Exemption Distribution	
N with Capital Gains	1,661
0% Exempt	4.6%
(0,0.25]	2.7%
(0.25,0.5]	1.5%
(0.5,0.75]	3.8%
(0.75,1)	11.9%
100% Exempt	50.5%

Figure 4: Average Wealth in Puerto Rico by Net Worth, 2021



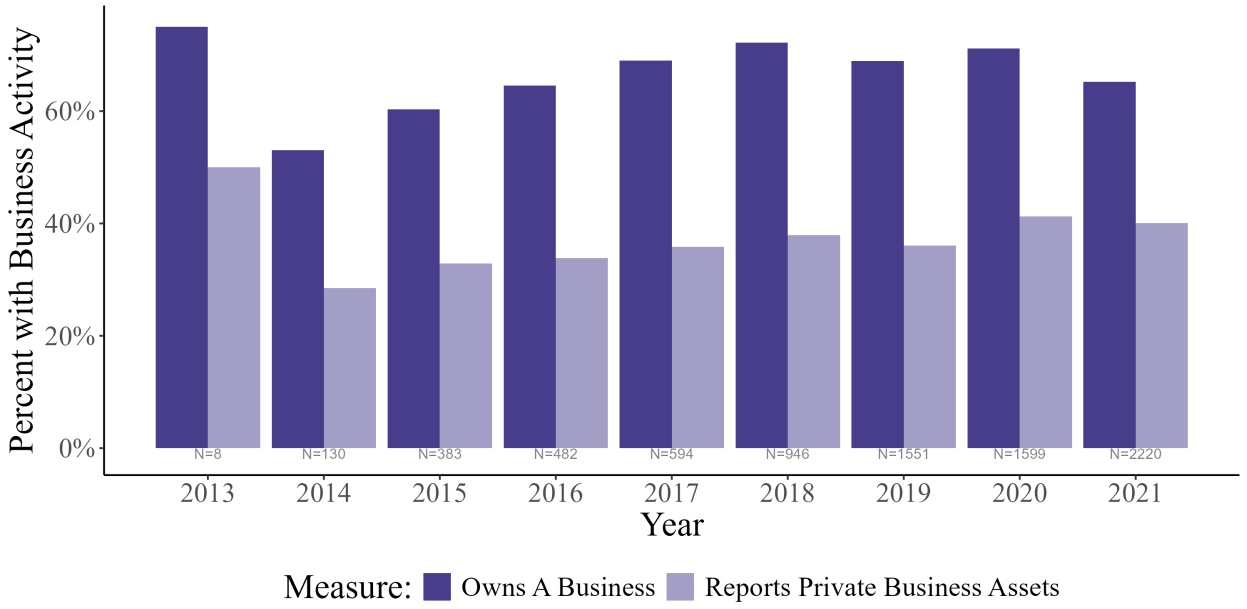
Note:

Figure 5: Total Wealth in Puerto Rico by Year



Note:

Figure 6: Resident Investors' Business Activity in Puerto Rico, by Year



Note:

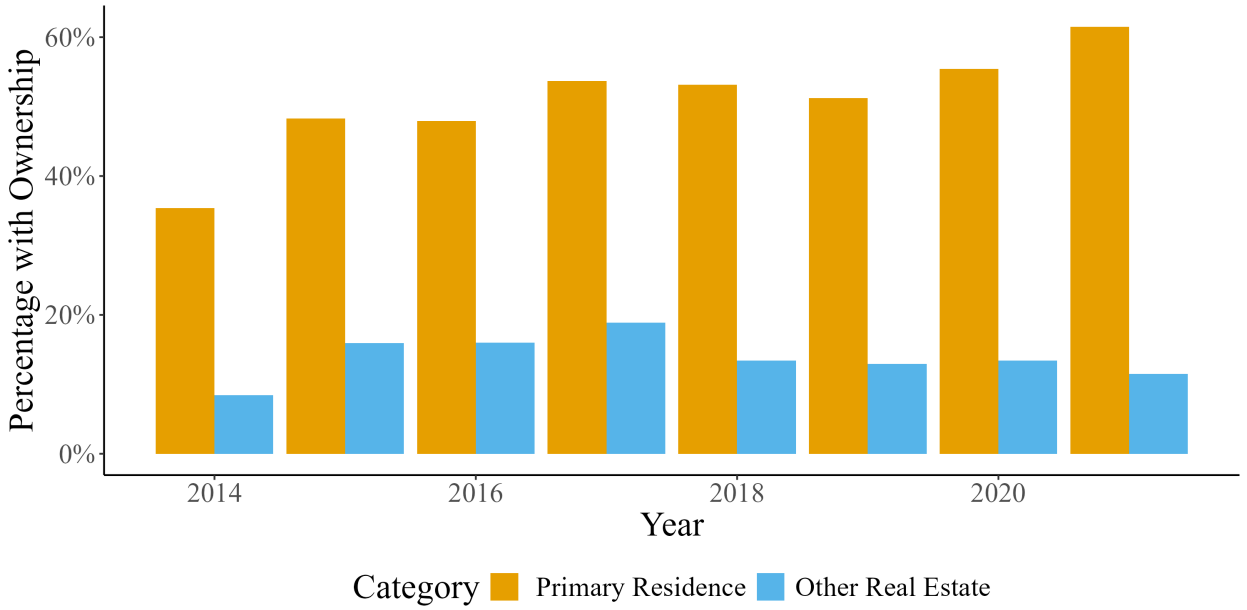
in each category. The growth in total assets reflects both the increasing number of program participants and rising asset values per participant over time.

4.2.1 Business Activity

Beyond asset ownership, a substantial majority of beneficiaries establish businesses in Puerto Rico. Figure 6 shows that the share of beneficiaries owning a business in Puerto Rico over time. In 2021, 65% of beneficiaries reported owning a business. Among those who own businesses, the most common specified type is "Service," although the majority of business owners select the catch-all "Other" category (see Appendix Figure 12). From earlier years' annual reports (when business type was a free text entry rather than a category choice), it is clear that a plurality of businesses are some sort of "consulting."

Many beneficiaries' businesses also hold tax decrees under other provisions of Puerto Rico's tax incentive code. Among businesses owned by resident investors in 2021, approximately 40% held decrees under one of Puerto Rico's business tax incentive programs. The most prominent business tax incentive program is for export-oriented businesses and (if a

Figure 7: Resident Investors' Real Estate Activity in Puerto Rico, by Year



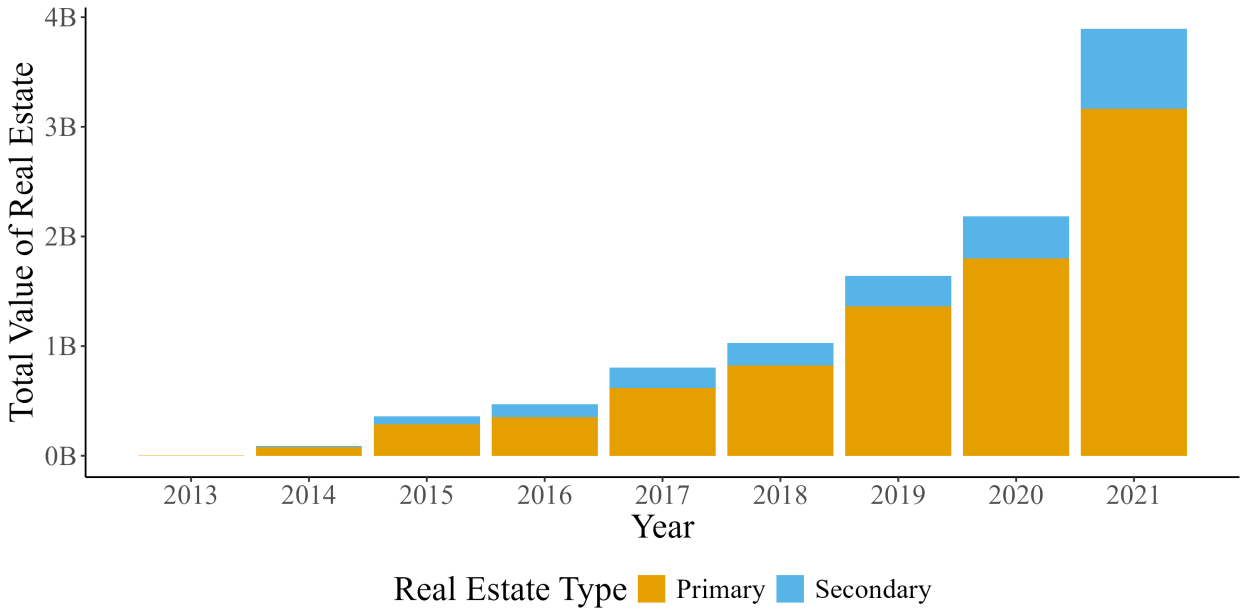
Note:

tax decree is granted to the qualified business) guarantees a Puerto Rican corporate tax rate of 4%. These programs are not exclusive to beneficiaries of the resident investor program, but the combination of individual and corporate tax benefits can create substantial tax advantages for beneficiaries who establish qualifying businesses.

4.2.2 Real Estate Activity

Real estate represents a major form of investment for beneficiaries in Puerto Rico. Figure 7 shows that real estate ownership has grown steadily over time. By 2021, 61% of beneficiaries owned their primary residence, while 15% owned properties other than their primary residence. The total value of real estate owned by resident investors reached $3.8 billion in 2021 (see Figure 8), of which 81% represents primary residence value. A small number of resident investors (81 individuals in 2020) operate real estate-related companies (Appendix Figure 12).

Figure 8: Total Value of Resident Investors' Real Estate in Puerto Rico, by Year



Note: Property values are winsorized at the 1% level.

4.3 Income Composition and Tax Exemptions

Having examined beneficiaries' wealth and economic activities in Puerto Rico, we turn to the income they earn and the extent to which it qualifies for tax exemption under the program. Figure 9 Panel (a) shows the composition of exempted income reported by all beneficiaries from 2014 to 2021. Exempted income grew dramatically over this period, from approximately $184 million in 2014 to $5.5 billion in 2021. The composition of exempted income is heavily dominated by capital gains, which accounted for $4.3 billion of the $5.7 billion in exempted income in 2021. Dividends and interest income—the other two categories eligible for exemption—comprised $976 million and $99 million respectively in 2021.

Figure 9 Panel (b) shows the composition of non-exempted income over the same period. Non-exempted income also grew substantially, reaching almost $1 billion in 2021, but remained much smaller than exempted income throughout the period. The largest category of non-exempted income is "other income" (i.e., neither dividend nor interest nor wages nor capital gains income), followed by wages. Non-exempt capital gains are relatively small—only $198 million in 2021 compared to $4.3 billion in exempted capital gains.

The stark difference between the magnitude of exempted and non-exempted income reflects the program's core benefit: the elimination of Puerto Rican income tax on passive income for beneficiaries. The tax benefits are substantial. In 2021, beneficiaries reported $5.7 billion in exempted income.

4.3.1 Capital Gains Sourcing Patterns

The dominance of capital gains in exempted income merits closer examination, particularly regarding how beneficiaries divide their capital gains between exempt and non-exempt categories. As discussed in Section 2, capital gains accrued before establishing Puerto Rican residency are not exempt from taxation, while capital gains accrued after arrival in Puerto Rico are fully exempt. The special Puerto Rican tax form required for beneficiaries (Schedule F1, reproduced in Figure 1) prompts taxpayers to divide their capital gains income by whether the gain was accrued before or after arrival in Puerto Rico.

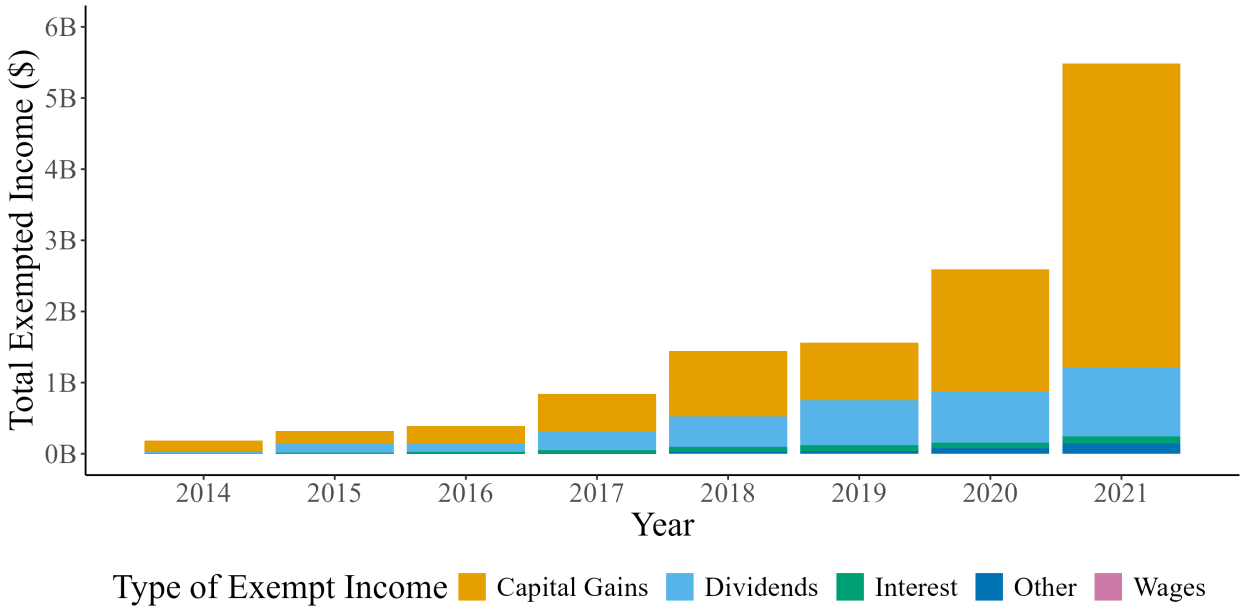
Under Treasury Regulation 1.937-2(f)(1), for the first 10 years of Puerto Rican residency, capital gains from property held prior to establishing Puerto Rican residency will typically be split between U.S. and Puerto Rican sources. Therefore we would expect capital gains realizations for most grantees to include both exempt and non-exempt components, unless all their capital gains come from the sale of property acquired after moving to Puerto Rico.

We do not know the specifics of the resident investors' portfolios, so we cannot determine precisely how much of the exempted capital gains are from assets acquired after arrival in Puerto Rico (which would fall entirely outside of the 10-year lookback rule). We would certainly expect some proportion of the capital gains income to be exempt. However, all beneficiaries in our data have been in Puerto Rico for less than 10 years as of 2021, and we therefore expect them to be subject to the 10-year lookback rule for assets owned prior to arrival.

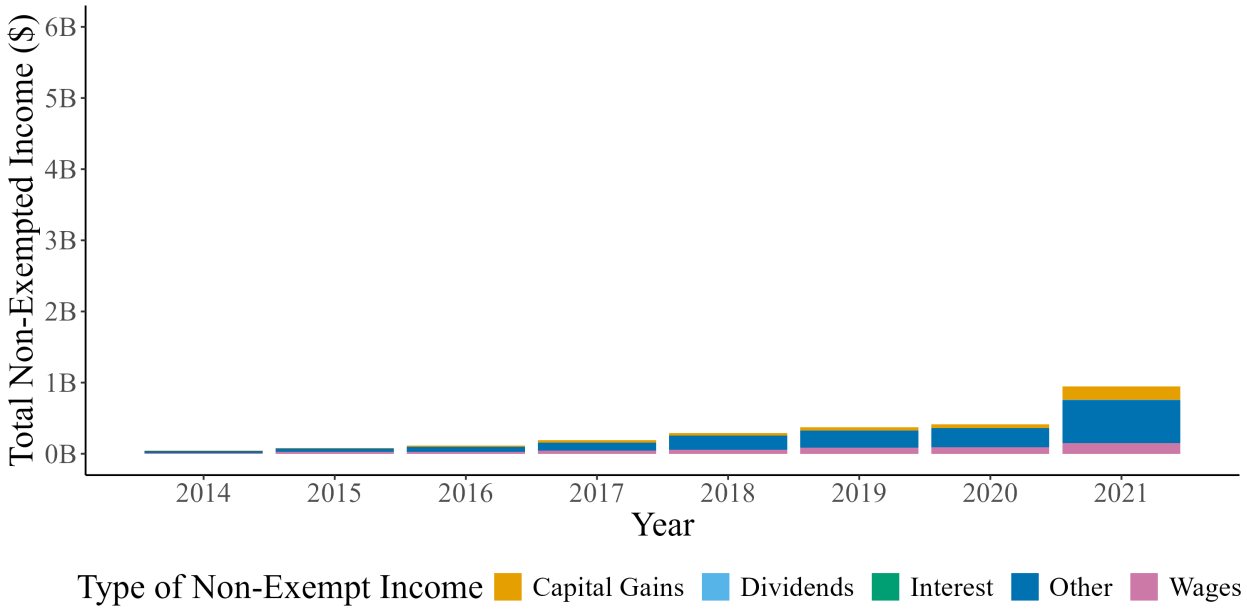
Figure 10 shows the distribution of how beneficiaries with capital gains income in 2021 allocated their gains between exempt and non-exempt categories. Of the 1,662 annual reports in 2021 with capital gains income, 67% report only exempt capital gains income, without

Figure 9: Total Income by Category for Resident Investors

(a) Exempt Income



(b) Non-Exempt Income



Note: This figure depicts the total amount of all income reported by beneficiaries of the resident investor program each year. Reported income is divided into categories by type of income and whether the income is exempt or non-exempt.

any non-exempt capital gains income. An additional 27% report some capital gains in both categories, suggesting they are applying the split-holding period rules for pre-arrival assets. Only 6% report capital gains exclusively in the non-exempt category. This pattern is not unique to 2021. Appendix Figure 13 shows the distribution for all years 2014–2021. In every year since the program's start, a majority of filers with capital gains income have reported 100% of their capital gains income as exempt.

These patterns are surprising given the mechanical application of the split holding period division. Several factors could explain the prevalence of 100% exempt capital gains reporting. First, some beneficiaries might only realize assets acquired after establishing Puerto Rican residency. Second, some beneficiaries may be investing exclusively in assets whose gains are not subject to the lookback rule. Third, some beneficiaries may be interpreting the sourcing rules differently than the IRS would, potentially claiming exemptions on capital gains that include pre-arrival appreciation. Without detailed portfolio data and information on acquisition dates, we cannot distinguish definitively among these explanations. However, the high and growing prevalence of 100% exempt capital gains reporting, even among recent arrivals, suggests the program's capital gains exemption is being utilized broadly and perhaps more expansively than the federal sourcing rules would seem to allow.

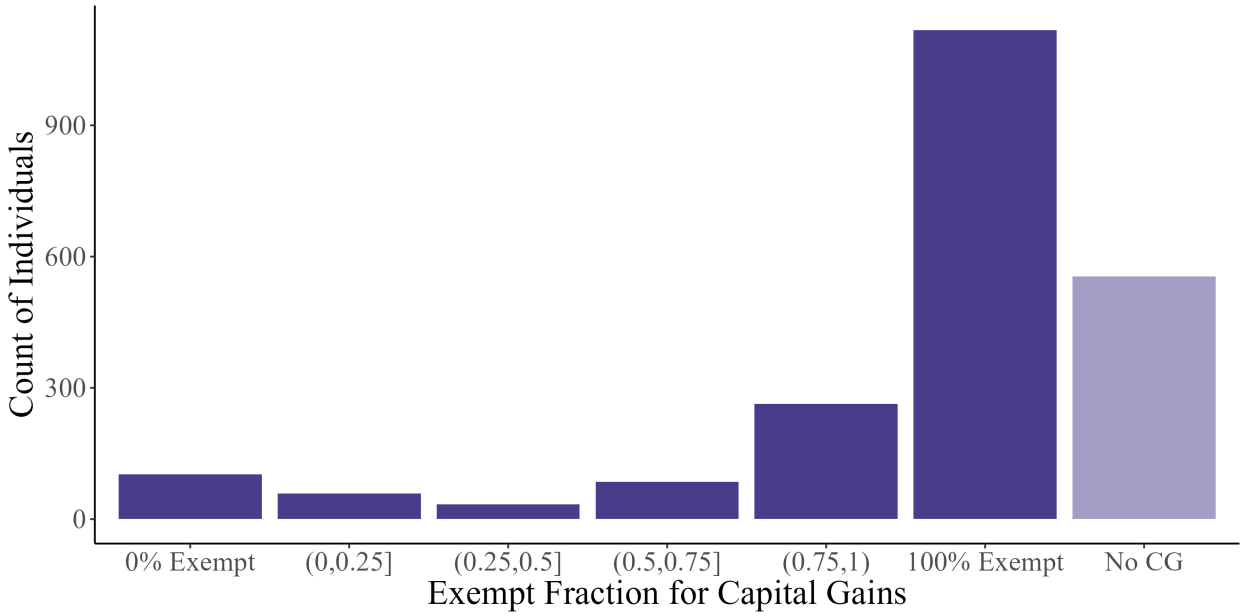
The IRS has expressed concern about potential non-compliance with sourcing rules among beneficiaries of Puerto Rican tax incentives. In January 2021, the IRS launched a compliance campaign specifically targeting taxpayers who may be erroneously claiming bona fide residency in Puerto Rico and/or incorrectly treating capital gains on property acquired while a U.S. resident as Puerto Rican source income. As of 2021, the IRS identified approximately 100 individuals claiming the incentives who did not appear to meet the law's residency requirements. These enforcement efforts have included examinations, outreach, and soft letters to potentially non-compliant taxpayers. The IRS has also pursued criminal cases in several instances.[17]

[17]In August 2024, Miami investor Suresh Gajwani pleaded guilty to willfully making false statements to avoid paying $7 million in capital gains tax related to Puerto Rican business tax incentives and was sentenced to one year of probation. In October 2020, Gabriel F. Hernandez, the former head of the tax division at BDO Puerto Rico, was indicted on 10 counts of wire fraud in connection with allegedly preparing false federal income tax returns and fraudulent applications related to Puerto Rico business tax incentives for clients.

Beyond individual enforcement actions, there has been ongoing ambiguity and discussion regarding the scope of the 10-year lookback rule. Some individuals have argued that the lookback provision does not apply to certain assets, such as cryptocurrency, or to assets held indirectly through partnerships or S corporations. Opinion letters from local law firms have supported these positions, though other tax professionals have characterized such opinions as aggressive and likely contrary to the IRS position (Loricchio et al., 2025). The IRS has responded with guidance clarifying its interpretation with respect to passthrough structures but not for cryptocurrency.[18] The combination of aggressive taxpayer positions, limited IRS guidance, and modest enforcement resources suggests that the capital gains sourcing patterns we observe may reflect a range of interpretations and compliance postures among beneficiaries.

[18]In December 2024, the IRS released Advice Memorandum 2024-005 stating that all gains from an S corporation's sale of appreciated assets should be sourced to the U.S., since S corporations are U.S. residents by definition (Internal Revenue Service, 2024). In January 2025, the IRS released Chief Counsel Advice 202538025, which clarified that while partnership sales are more complex, Puerto Rico resident partners can elect to treat their distributive share of partnership gains as split holding period property (Internal Revenue Service, 2025). These positions, however, are articulated in low-level guidance rather than in revenue rulings or proposed regulations, leaving some continued uncertainty.

Figure 10: Distribution of Exempt versus Non-Exempt Capital Gains Income, 2021



Note: This figure shows the count of annual reports in 2021 by the fraction of the report's capital gains income that was put into the exempt versus non-exempt category. The x-axis groups beneficiaries by their reported fraction of capital gains income that is exempt: from "0% exempt" to "100% exempt". The count of individuals without any capital gains income ("No CG") is also displayed in a lighter color. Conditional on having any capital gains income, a majority of beneficiaries reported exclusively exempt capital gains income. Appendix Figure 13 shows a similar graph for all years 2014-2021.

5 Discussion and Conclusion

Puerto Rico's Resident Individual Investor Program represents an experiment in place-based policy design: can tax incentives alone, without explicit investment requirements, successfully attract wealthy residents and generate meaningful local economic activity? Our analysis of comprehensive administrative data on program beneficiaries from 2013 to 2021 provides three initial answers to this question.

First, the program successfully attracted wealthy, mobile individuals. The majority of beneficiaries report net worth placing them in the top 10% of the U.S. wealth distribution, with 30% in the top 1% and 4% in the top 0.1%. By 2021, 2,220 individuals were actively participating in the program, representing substantial growth from the program's inception in 2012. This demonstrates that preferential tax treatment for passive income can be an effective tool for attracting high-net-worth individuals, consistent with findings from the

broader literature on tax-induced migration of wealthy individuals.

Second, most beneficiaries engage meaningfully with Puerto Rico's economy. Sixty-five percent establish businesses in Puerto Rico, 60% purchase real estate, and aggregate assets held in Puerto Rico by beneficiaries grew to $12 billion by 2021. This level of local economic engagement occurred despite the program imposing no minimum investment requirements. The results suggest that, for many participants, the combination of passive income tax incentives and the practical requirements of establishing bona fide residency is sufficient to generate substantial local investment without explicit mandates.

However, the program's structure creates important tensions and potential limitations. Capital gains constitute the overwhelming majority of exempted income—$4.3 billion of $5.7 billion in 2021—yet capital gains are precisely the form of passive income whose sourcing is not tied to investment in a particular location. Under federal tax rules, capital gains are generally sourced to the taxpayer's residence at the time of sale, meaning Puerto Rican residents can claim tax-free capital gains on assets located anywhere in the world (subject to the 10-year lookback rule for pre-arrival appreciation). This creates a fundamental disconnect between the tax benefit received and local investment: unlike dividend and interest income, which effectively require Puerto Rican investment to qualify for exemption, capital gains exemptions can be claimed on purely non-Puerto Rican portfolios.

Our analysis reveals patterns in capital gains sourcing that raise questions about how beneficiaries and their advisers interpret federal sourcing rules. Among beneficiaries reporting capital gains in 2021, 67% reported their gains as entirely exempt, suggesting either that they only sell assets purchased after establishing residency, or that they are interpreting the 10-year lookback rule more narrowly than the IRS would. The IRS has indeed expressed concern about non-compliance with sourcing rules among beneficiaries of Puerto Rican tax incentives, launching a compliance campaign in 2021 and pursuing several criminal cases. Legal ambiguity around the application of sourcing rules to cryptocurrency and assets held through pass-through entities has created space for aggressive tax planning that may not align with the program's stated objectives.

These findings have important implications for the design of place-based policies aimed at attracting wealthy residents. The debate between tax incentives and explicit investment requirements involves tradeoffs. Investment mandates provide certainty that capital will flow to the local economy but may deter some mobile individuals and require administrative capacity to verify compliance. Tax incentives without investment requirements can attract more participants and require less oversight, but their effectiveness depends critically on the structure of the tax benefits and their relationship to local economic activity.

Puerto Rico's experience suggests that the design details matter enormously. When tax benefits are tied to income types that effectively require local investment (dividends and interest from local sources), the incentive structure naturally channels capital to the local economy. When tax benefits extend to income types with flexible sourcing rules (capital gains), beneficiaries can potentially claim substantial tax savings while maintaining minimal local investment. This may be particularly true when legal ambiguity or limited enforcement capacity creates room for aggressive interpretation of sourcing rules.

There can be valid reasons to attract wealthy individuals even if they do not invest locally. High-net-worth residents may contribute to the local economy through consumption spending (housing, services, goods), generate tax revenue on non-exempted income, and potentially create positive spillovers through their networks and expertise. Recent programs offering cash incentives to remote workers—such as Tulsa Remote's $10,000 grants, which have attracted over 3,500 participants—reflect this consumption-focused approach to place-based policy. However, Puerto Rico's explicit framing of its program as the "Act to Promote the Relocation of Individual *Investors*" suggests policymakers had more than consumption effects in mind. The ongoing policy debate in Puerto Rico about adding minimum investment requirements reflects concern that the program, as currently structured, may not be delivering the anticipated investment benefits.

Finally, Puerto Rico's territorial relationship with the United States creates a unique dynamic in this case, one that distinguishes it from tax competition among sovereign nations or even among U.S. states. A crucial feature of the program's tax benefits comes not

from Puerto Rico willingly forfeiting revenue, but from the federal government's decision—enshrined in IRC Section 933 since 1954—to exempt Puerto Rican residents from U.S. federal income tax on Puerto Rico-source income.[19] This creates a form of competitive federalism that operates differently than typical interstate tax competition: Puerto Rico's territorial status allows it to facilitate federal tax avoidance, not just interstate tax competition. This raises questions about whether territorial tax autonomy should extend to policies that primarily benefit recent arrivals from the mainland at the expense of federal revenue. It also highlights the peculiar political economy of U.S. territories. Whether this arrangement serves the interests of Puerto Rico's long-term residents remains an open and politically charged question.

[19]This use of IRC §933 has generated concern among some members of Congress. In 2019, Representatives José Serrano, Nydia Velázquez, Raúl Grijalva, and Alexandria Ocasio-Cortez wrote to the Treasury Department arguing that Acts 20 and 22 "appear to undermine the federal goals of IRC Section 933" and that "the combination of the Federal and territorial tax exemptions is not only depriving the territorial government of revenue intended by IRC Section 933, but it also appears to do so without any showing of economic benefits." They requested that Treasury evaluate whether Section 933 should apply to Act 22 beneficiaries at all, or whether the statute should be amended (Serrano et al., 2019).

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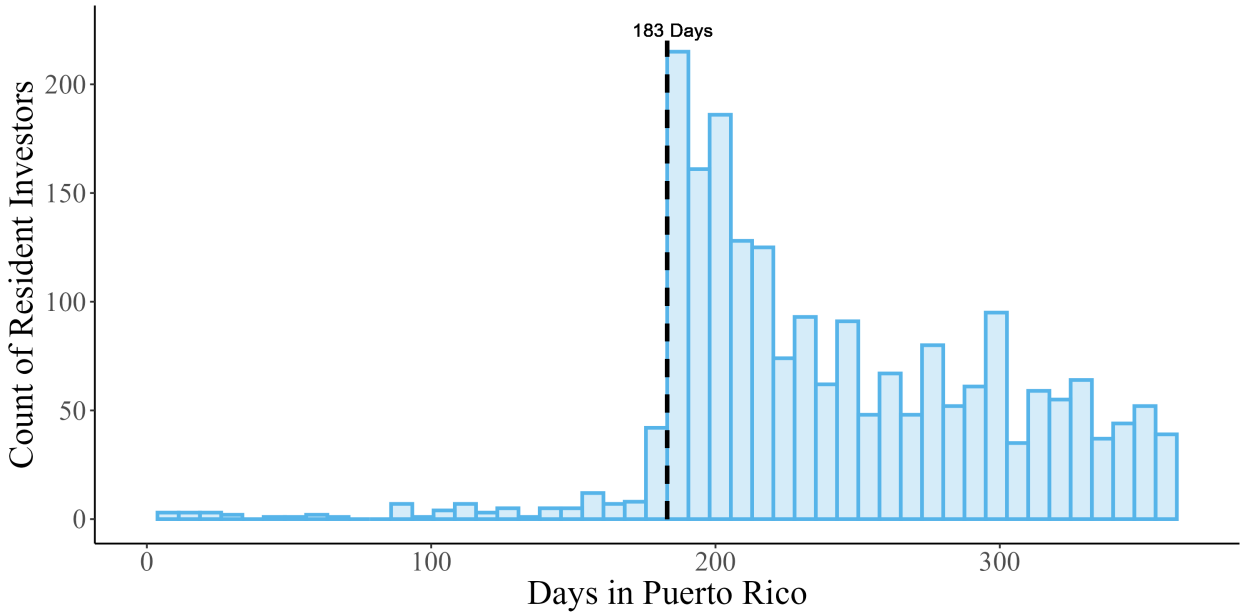
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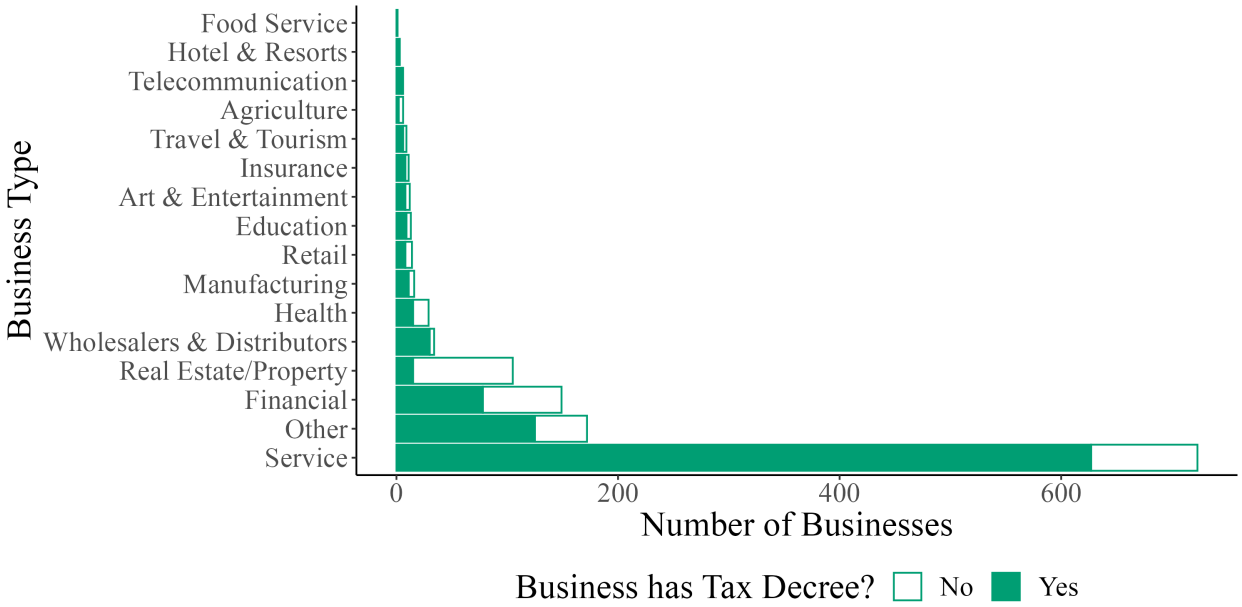
A Additional Tables and Figures

Figure 11: Days in Puerto Rico, 2021



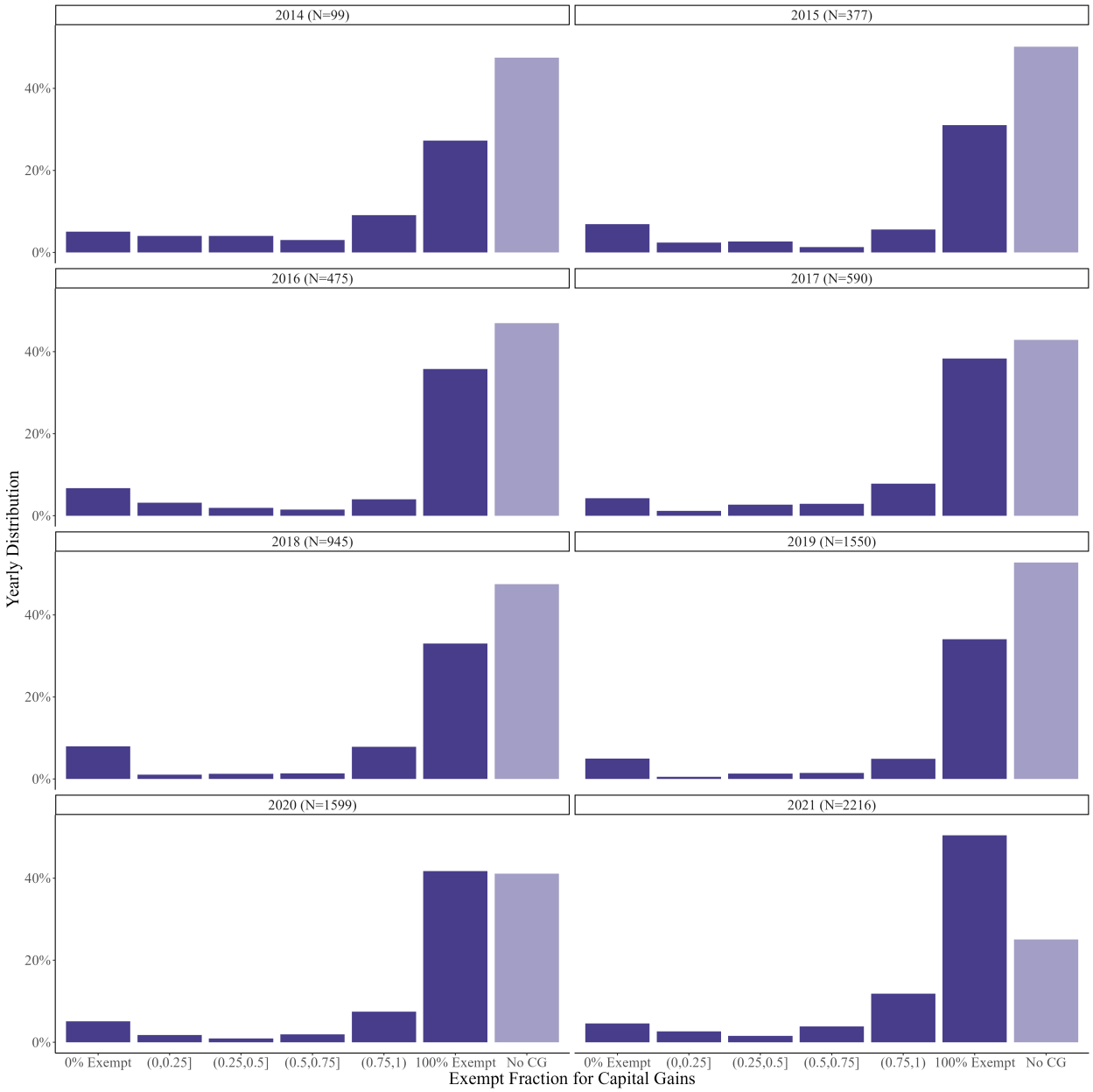
Note: This figure presents the distribution of resident investors' number of days in Puerto Rico, as reported on their annual reports. The dashed line denotes the value of 183 days. A common way to meet the presence test (one of three requirement to establish *bona-fide* residency in Puerto Rico) is to be present in Puerto Rico for at least 183 days. However, the presence test can also be met in other ways (via a 3 year average), or a lack of presence or income or connection in the United States, so residing for less than 183 days in Puerto Rico does not necessarily mean someone is not a *bona-fide* resident of Puerto Rico.

Figure 12: Count of Resident Investors' Businesses in 2020, by Business Type



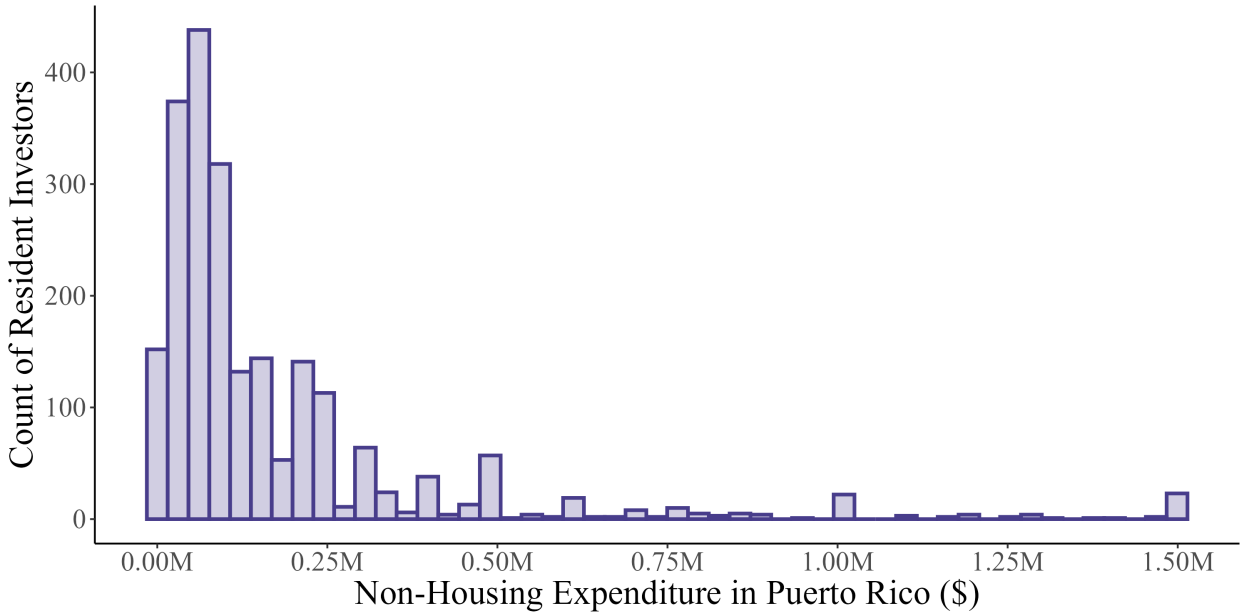
Note: Resident investors who own a business are given a free text field in which to describe their business(es). We subsequently categorize this text into one of the above categories.

Figure 13: Distribution of Exempt versus Non-Exempt Capital Gains Income, by Year



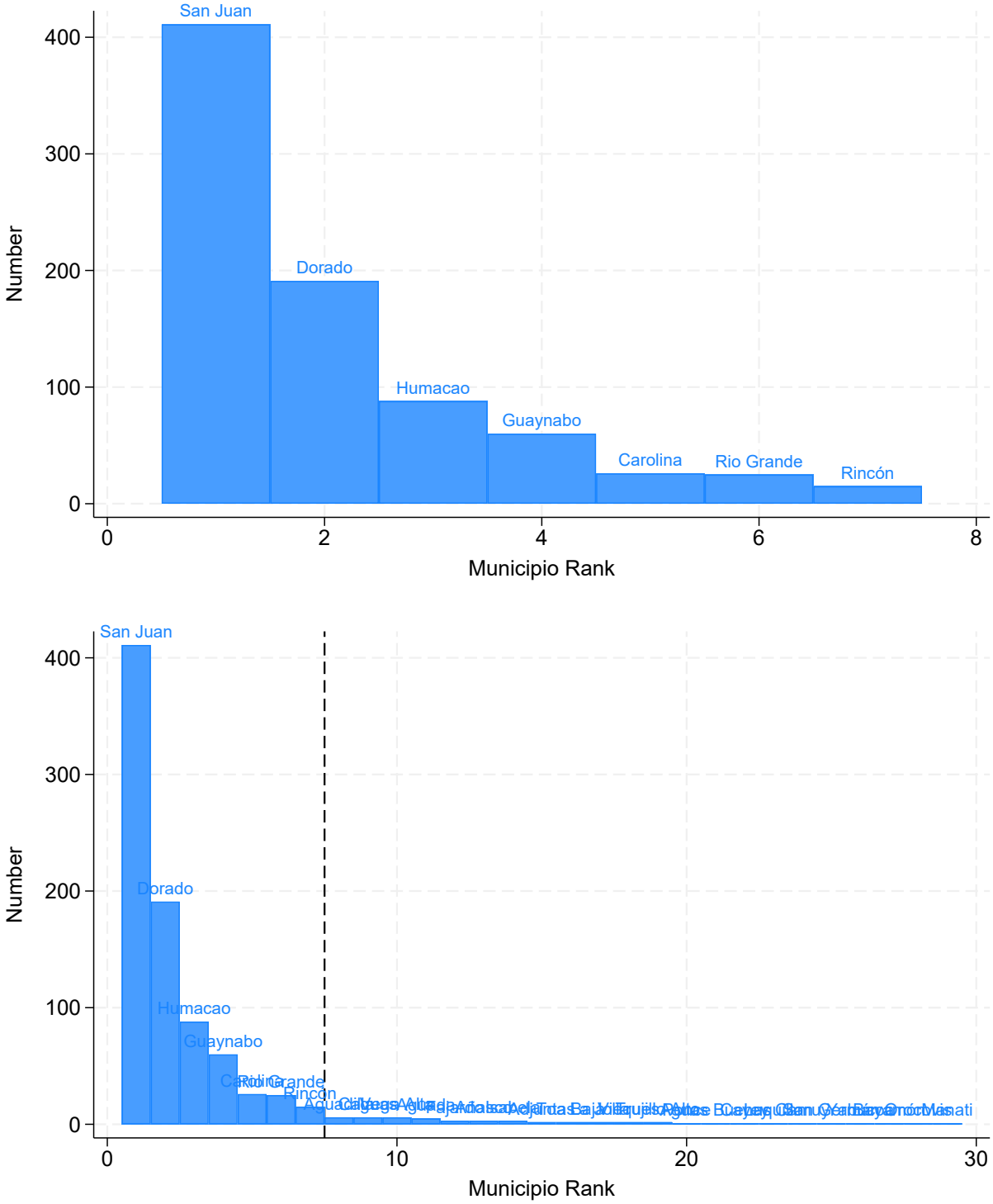
Note: This figure extends Figure 10 by showing the distribution of exempt versus non-exempt capital gains income for individuals with annual reports in each of the indicated years. The x-axis groups beneficiaries by their reported fraction of capital gains income that is exempt: from "0% exempt" to "100% exempt". The count of individuals without any capital gains income ("No CG") is also displayed in a lighter color. In every year, the majority of individuals who report any capital gains income report that 100% of their capital gains income was exempt.

Figure 14: Self-Reported Non-Housing Expenditure in Puerto Rico, 2021



Note: The annual report asks resident investors "On average, how much money did [you] spend in Puerto Rico during the previous calendar year, excluding rent or mortgage payments?". In this figure we present a histogram with the answers (winsorized at the 1% level). The distribution is centered around a median of $100,000 (rounded values are very common), with a mean of $174,198

Figure 15: Act 60 Residents by Municipality in 2019 Annual Reports:



Note: This figures plots the number of resident investors by their municipality of residence. The top panel shows the top seven municipalities (Carolina, Dorado, Guaynabo, Humacao, Rio Grande, Rincon, and San Juan), where 94% of beneficiaries of the resident investor program locate. The bottom panel shows the entire sample of municipalities where beneficiaries locate.

B Puerto Rican Income Tax Schedule for Resident Investors

Note: Recipients of the resident individual investor benefits must file a special tax form, Schedule F1, as a part of their Puerto Rican tax return. The following reproduces the full instructions for Schedule F1 from Departamento de Hacienda (2013)'s *Instructions Booklet for Individual Income Tax Returns in 2013* (English version). We have added footnotes to describe all substantive changes to the language of more recent versions of the instructions (i.e., for tax years after 2013):

SCHEDULE F1 INDIVIDUAL - DETAIL OF INCOME UNDER ACT 22-2012

Use this Schedule to inform passive income from interest, dividends and long-term capital gains earned by a resident individual investor with respect to his/her investments. Such exemption will be in effect until December 31, 2035.

For purposes of Act 22-2012, **"resident individual investor"** means a resident individual, as defined in Section 1010.01(a)(30) of the Code, who was not a resident of Puerto Rico during the last 15 years[20] before January 17, 2012 and who becomes resident of Puerto Rico not later than the taxable year ending on December 31, 2035.[21]

PARTS I AND II - INTEREST AND DIVIDENDS

Describe the name of the person who made the payment, employer identification number of said person, the account number and the amount received. It should be totally exempt from the payment of income tax for Puerto Rico, including the alternate basic tax, the income

[20] From 2017 on, consistent with amendments to Act 22, this phrase is changed to "during the last six years before January 17, 2012"

[21] From 2015, an additional paragraph is added here: "You should indicate the number of the tax exemption decree issued by the Department of Economic Development and Commerce and the date on which you established your residence in Puerto Rico". From 2019 this new paragraph has the additional the line "You must have answered "Yes" in Question E of the Questionaire on page 1 of the return". From 2022, this new paragraph has the additional line: "Fill in the corresponding oval to indicate whether the income details for resident investors pertain to the taxpayer or their spouse."

from all sources earned by a resident individual investor, after becoming resident of Puerto Rico but before January 1, 2036, consisting of :

- interest and dividends, including but not limited to, interest and dividends from a registered investment company described in Section 1112.01 of the Code, and
- interest, financing charges, dividends or share in partnerships benefits received from international banking entities duly authorized according to the Banking Center Regulatory Act.

Transfer the total of line 1, Parts I and II to Schedule IE Individual, Part II, line 34, first Column.

PART III - CAPITAL ASSETS GAINS AND LOSSES

You must inform in this part the long-term capital gains and losses derived from:

Accretion before becoming resident of Puerto Rico

The total net long-term capital gain derived by a resident individual investor related to any accretion in securities owned before he/she became resident of Puerto Rico, that is recognized after 10 years of becoming resident of Puerto Rico and before January 1, 2036, will be subject to the payment of a 5% tax, in lieu of any other tax provided by the Code. If such accretion is recognized at any other moment, the net long term capital gain related to such securities, shall be subject to the payment on income tax according to the tax treatment provided by the Code. The amount of this net long term capital gain shall be limited to the share of the gain related to the accretion on the securities while the resident individual investor was living out of Puerto Rico.[22]

[22]From 2017, an additional line is added to this paragraph: "It is stipulated that, for taxable years beginning after December 31, 2016, such capital gain will be considered income from sources outside of Puerto Rico for purposes of the income tax imposed under the Code." (This comes from Act 45-2017 and clarifies that investors can claim a foreign tax credit on such gain.) From 2022-2023, they also add "The amount of this net long-term capital gain shall be limited to the share of the gain related to the accretion of the securities while the resident individual investor was living outside of Puerto Rico. Provided that, for taxable years beginning after December 31, 2016, said capital gain will be considered income from sources outside of Puerto Rico for purposes of the income tax provided in the Code"

Accretion after becoming resident of Puerto Rico

The total net long-term capital gain derived by a resident individual investor related to any accretion in securities[23] owned after he/she became resident of Puerto Rico, that is recognized before January 1, 2036, will be totally exempt from the payment of income tax for Puerto Rico, including the alternate basic tax provided by the Code. If such accretion is recognized after December 31, 2035, the net long-term capital gain related to such securities, will be subject to the payment on income tax according to the tax treatment provided by the Code. The amount of this net long-term capital gain is in relation to the share of the gain related to the accretion of the securities, including the securities owned by the resident individual investor at the moment of becoming resident of Puerto Rico as well as the ones that he/she acquires after becoming resident of Puerto Rico.[24]

Transfer the total of line 1, Column (E) to Schedule D Individual, Part III, line 22. Transfer the total of line 1, Column (F) to Schedule IE Individual, Part II, line 34, first

[23]From 2023, the word "securities" is replaced with "securities or other assets".

[24]From 2016 on, this paragraph is followed by a new paragraph: "You must indicate the sale price and the adjusted basis of the capital asset sales transactions included in this Part III, in Columns A and C, respectively. In addition, in those cases in which the sale of capital assets included in this part correspond to securities that the resident investor owned at the moment of becoming resident of Puerto Rico, shall indicate in Column B the market value of said securities at the date of establishing residence in Puerto Rico."

From 2023 on, additional paragraphs are added: "For purposes of this exclusion, the terms securities and other assets shall have the following meaning:

Securities - Any note, bond, promissory note, evidence of debt, options, futures contracts, so-called forwards, shares and any other similar instrument or with similar characteristics, including derivative instruments, as provided by circular letter, administrative determination, regulation or any other joint pronouncement between the Secretary of the Treasury and the Secretary of the DDEC.

Other Assets - Commodities, currencies and any digital asset based on blockchain technology.

Transactions involving the sale of securities and other assets related to any appreciation that said securities and assets owned by the resident investor individual had before becoming a resident of Puerto Rico, **that are recognized after 10 years of becoming a resident of Puerto Rico and before January 1, 2036, must be included in Schedule D Individual, Part III** and not in this Schedule. In this way, the taxpayer may opt for the special tax rate of 5%.

However, if this type of transaction **is recognized at any other time**, the net long-term capital gain related to said securities and other assets will be included in Part III of this Schedule and will be subject to income tax according to the tax treatment provided by the Code. In this case, transfer the total from Line 1, Column (E) to Schedule D Individual, Part II, Line 15.

For transactions where the entire net capital gain generated by a resident individual investor related to any appreciation of securities and other assets after becoming a resident of Puerto Rico is recognized before January 1, 2036, such gain will be completely exempt from Puerto Rico income tax, including the alternative minimum tax provided in the Code. In this case, transfer the total from Line 1, Column (F) to Schedule IE Individual, Part II, Line 33.

For more information, refer to Act 22-2012, as amended, or Act 60-2019, as amended."

Column. For additional information refer to Act 22-2012.