



AN INTERNATIONAL FINANCIAL ENTITY
licensed in the US territory
of Puerto Rico

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A BIT OF HISTORY ON PUERTO RICO

- Puerto Rico (Spanish for "Rich Port"), officially the Commonwealth of Puerto, is a territory of the United States located in the northeast Caribbean Sea with a population of 2.2 million.
- Puerto Ricans have been citizens of the United States since 1917 and enjoy freedom of movement between the island and the mainland.
- As it is not a state, Puerto Rico does not have a vote in the United States Congress
- As residents of a U.S. territory, American citizens in Puerto Rico are disenfranchised at the national level and do not vote for president and vice president of the U.S, nor pay federal income tax on Puerto Rican sourced income.
- Puerto Rico is thus free to create their own tax laws, which, in turn, allowed the territory to create the most efficient banking statute in the world.
- Banks on the island are regulated by the Puerto Rico Office of the Commissioner of Financial Institutions (OCIF). And OCIF is regulated by the US Federal Reserve.

INDUSTRY REVIEW



- The offshore banking industry has been contracting for about 6 years.
- For example, the Cayman Islands has gone from 250 banks to about 150 in the last two years.
- Belize has not issued a new license in 6 years and not a single internationally licensed bank in Dominica is operating.
- The reason is simple: US regulations have made it nearly impossible for offshore banks to get correspondent accounts. Without a USD correspondent, a bank can't transact in dollars.
- There are three things that keep an offshore banker up at night: correspondent accounts, correspondent accounts, and correspondent accounts.

INDUSTRY REVIEW



- When a bank loses its correspondent, all money is frozen and all transactions stop until a new partner bank is found. This happens all the time... and happened three times in one year to Caye International Bank in Belize (for example).
- ONLY Puerto Rico is expanding. There are currently 58 international banks licensed and there are over 60 licenses pending.
- Demand is also intense when a bank license comes on the market. Licenses are selling for \$2 to 3 million. Banks with a basic correspondent relationship sell for \$3 to \$5 million. Those with FedWire sell for \$6 million and up. The largest sale was for \$10 million.

Act 273, International Financial Entity (IFE) License in Puerto Rico

- Act 273 allows OCIF to issue international banking licenses to qualified applicants.
- The most important factor in licensing is the quality and qualifications of the applicants.
- Each license allows for specific services, such as taking deposits, making loans, etc. If the activity is not listed in the license, the bank is prohibited from offering that service.
- The only limitation is that you can't offer services to people or companies in PR.
- The application process is broken into two components. The Permit to Organize phase and the Permit to Operate phase.
- The timeline for the Permit to Organize is typically 6 months. It's up to the owners how much time they want to take to build out the business.

UNIQUE BENEFITS OF PUERTO RICO

- IFEs are treated like State licensed banks in the United States.
- IFEs can apply to the US Federal Reserve for FedWire services. This makes the Fed your correspondent bank.
- Because IFEs are licensed in a US territory, banks in Puerto Rico are part of the US banking systems and can set up EFT systems (rather than sending funds via wire).
- Puerto Rico has the lowest capital requirements of a major jurisdiction. Starting capital is \$550,000, compared to \$10 million in most competitors.
 - New applicants should have \$2,550,000 to be taken seriously by regulators and a path to reach \$5 million in 2 years.
- FATCA and CRS do not apply in Puerto Rico.
 - No CRS brings in about 90% of the business to Puerto Rico.
 - They stay because of the availability of correspondent accounts.
 - The low tax rate is just icing on the cake for most operators.



CAPITAL REQUIREMENTS



- Minimum capital during the permit to organize stage is \$550,000.
 - \$300,000 in a CD
 - \$250,000 paid in share capital
 - Evidence of the ability to put in up to \$5 million as necessary
 - Maximum authorized shares of \$5 million
- When you begin operations, you need to have a plan to reach \$5 million in two years.
- The higher your expected volume, the more capital you should bring in.
- The more capital you bring, and the more jobs you bring, the more respect you get from regulators.

TAX AND EMPLOYEE REQUIREMENTS

- Guaranteed tax rate of 4% (10-year contract that's renewable).
- The key to this tax offer is that United States Federal tax does not apply.
- Very different from a bank in Miami. They pay Federal tax at 25% and no State tax.
- No withholding tax on dividends to foreign holding companies or foreign shareholders.
- Dividends to US persons and US entities are reported and taxable in the United States.
- The tax offer applies to Puerto Rico sourced income and transfer pricing issues are considered if you have operations in the United States.
- The minimum number of employees in Puerto Rico is 4 and we recommend at least 5. The purpose of the law is to bring quality jobs to the territory.
- The most important employee in Puerto Rico will be your chief compliance officer.
- Any US citizen, green card holder, or person that can legally work in the US, can move to the island and count as one of your 5 employees.
- We often have banks managed by non-US persons who enter as tourists. They do not count as employees for purposes of the law.

Thank You!

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Send me an email if you would like a free PDF copy of my 2020 book on offshore banking licenses.

