



INTERNATIONAL FINANCIAL ENTITY

2025 Update

TABLE OF CONTENTS

- About Puerto Rico
- Offshore banking industry
- Outline of Puerto Rico's international banking license
- Benefits of Puerto Rico
- 2025 Capital requirements
- Tax and employee considerations
- 2025 Fees Update





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 10 years.
- For example, the Cayman Islands has gone from 250 banks to about 83 in the last two years (Class B only).
- Belize has not issued a new license since 2003 and Dominica last issued a license in 2012.
- 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 70 international banks licensed and 9 license applications pending.
- Demand is also intense when a bank license comes on the market. Licenses are selling for \$5 million (just the license). Banks with a basic correspondent relationship sell for \$5 to \$15 million depending on liabilities. Those with FedWire sell for \$55 million and up.
- These amounts do NOT include paid in capital, which is \$5m to \$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. Custody of digital assets was added to the law in 2024/2025.
- The only limitation is that you can't offer services to people or companies in Puerto Rico.
- 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 join SWIFT and get an ABA number.
- The tax rate for a Puerto Rico IFE is 4%. US Federal income tax is not applicable to the bank.
- FATCA and CRS do not apply in Puerto Rico.



CAPITAL REQUIREMENTS



2025 Banking Law Update

- Minimum capital for a new license application is \$12 million.
 - \$1 million in a CD (unencumbered assets)
 - \$10 million paid in capital
 - A startup budget of at least \$1 million
- The more capital you bring, and the more jobs you bring, the more respect you get from regulators. The purpose of the law is to bring in quality operators and high paying jobs to the island.
- Proof of funds is required with the application. This can be through audited financial statements or other documentation.

2025 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.
- As of 2025, the minimum number of employees in Puerto Rico is 10. The Chief Compliance Officer and his team must be on the island.
- 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 employees.
- We often have banks managed by non-US persons where the CEO and CFO are located outside of Puerto Rico

2025 Fees Update

- **Application Fee**

As of 2024, the non-refundable application fee for a new international banking license has increased significantly from **\$5,000 to \$50,000**. This fee must be submitted at the time of application and reflects Puerto Rico's intention to raise the bar for new entrants.

- **Regulatory Investigation Fee**

In addition to the application fee, regulators may impose a **structure and shareholder due diligence fee**, typically estimated at **\$25,000**. This is used to cover the cost of vetting the applicant's ownership, financial background, and organizational structure.

- **Annual Licensing Fee**

Each IFE must pay an **annual license fee of \$25,000**, plus **\$5,000 for each branch** (if any). This replaces the former \$5,500 fee and ensures ongoing compliance and operational oversight.

- **Change of Control Fee**

For any transfer of **10% or more of voting shares**, a **\$50,000 non-refundable fee** applies, along with an additional **\$25,000 research fee**, totaling **\$75,000**. This makes it costly to bring in small investors or restructure ownership.

Thank You!

Prepared by Christian Reeves, MBA, JD
Aviara Advisors, LLC



Email: christian@banklicene.pro



Phone: (619) 323-1151



Website: www.banklicense.pro

.