

**“Private Equity Funds Act”**  
**[Act 185-2014, as amended]**

**Article 1. — Title.**

This act shall be known as the “Private Equity Funds Act”.

**Article 2. — Definitions.**

**(a) “RIA” or “Registered Investment Advisor” means:**

(1) a business that, under a contract with another business (which could be a Fund), is engaged in the investment advisory business and regularly provides consulting services regarding the convenience of investing in, buying or selling securities or any other property, or is authorized to determine which securities or other assets will be purchased by said business,

(2) any other person that in accordance with a contract with the person described in paragraph (1) regularly performs practically all the tasks described in such paragraph.

(3) The person shall be registered (or be exempt from registration) under The Investment Advisers Act of 1940 of U.S.A., as amended (15 U.S.C. § 80b-1 et seq.), Act 60 of 1963, as amended, also known as the “Uniform Securities Act of Puerto Rico” or any other similar Act that supersedes said Acts.

(4) The person shall be register with the SEC or CFIPR, if applicable.

**(b) “GDB”** means the Government Development Bank for Puerto Rico created under the provisions of Act Num. 252 of May 13, 1942, as amended.

**(c) “EDB”** means the Economic Development Bank for Puerto Rico created under the provisions of Act Num. 22 of July 24, 1985, as amended.

**(d) “Carried Interest”** means the share of any profits that the general partners of a Fund receive as compensation for the gains realized from the Fund’s operations.

**(e) “Code”** means Act 1-2011, as amended, known as the Puerto Rico Internal Revenue Code of 2011 or any other similar Act that supersedes the same.

**(f) “PRCUSIC”** means the Puerto Rico Credit Unions Supervision and Insurance Corporation created under the provisions of Act 114-2011, as amended or any other similar act that supersedes the same.

**(g) “IBE”** means an International Banking Entity in accordance with the provisions of the International Banking Center Regulatory Act.

**(h) “IFE”** means an International Financing Entity in accordance with the provisions of the International Financing Center Regulatory Act.

**(i) “PE-Firm”** means a Private Equity Firm, which invests in private equity through a variety of investment strategies configured in Funds, such as: growth capital, leveraged buyout, mezzanine, distressed and venture capital. Typically this firm acts as a general or limited partner.

**(j) “PEF”** means an entity that complies with the provisions established in Article 3 of this Act and which has made an election to be treated as Private Equity Fund in accordance with the

provisions of Article 4 of this Act.

**(k) "PR-PEF"** means a Puerto Rico Private Equity Fund which no later than four (4) years, counting from the date of its organization and at the end of each subsequent fiscal year, maintains:

**(A)** a minimum of sixty percent (60%) of the paid-in capital contributed to the Fund by its Accredited Investors (paid-in capital), (excluding the capital that the Fund maintains in bank accounts and other cash equivalent investments) invested in one of the following:

**(i)** promissory notes, bonds, shares, notes (including secured and unsecured loans and including the collateral) or any other securities of similar nature issued by entities engaged, directly or indirectly, in an active trade or business, that, at the time of acquisition are not offered at public stock exchange markets in the United States or in any foreign country, and that have been issued by a domestic corporation, domestic limited liability company or domestic partnership, or a foreign entity that derives at least eighty percent (80%) of its gross income for the prior three (3) years period from sources within Puerto Rico or from income effectively connected or treated as effectively connected in accordance with the Code provisions.

**(ii)** exempt investment trust under Section 1112.02 of the Code.

**(iii)** promissory notes, bonds, shares, notes (including secured and unsecured loans and including the collateral) or any other securities of similar nature issued by entities engaged, directly or indirectly, in an active trade or business outside of Puerto Rico, that at the time of acquisition are not offered at public stock exchange markets in the United States or in any foreign country; provided that, the operations of the entity are transferred to Puerto Rico within six (6) months from the date of the acquisition of the promissory notes, bonds, shares of stock or notes (including secured and unsecured loans and including the collateral) or any other securities of similar nature, plus any additional period authorized by the Secretary of the Treasury if there is reasonable cause for the extension, and during the period of twelve (12) calendar months commencing the first day of the calendar month succeeding the calendar month during which the operations are transferred to Puerto Rico and each succeeding twelve (12) calendar month period, derives at least eighty percent (80%) of its gross income from sources within Puerto Rico or from income effectively connected or treated as effectively connected with a Puerto Rico trade or business in accordance with the provisions of the Code...

**(l) "FDIC"** means the Federal Deposit Insurance Corporation.

**(m) "Fund"** means a PEF and/or a PR-PEF as defined in this Article.

**(n) "Accredited Investors"** means:

**(1)** a bank, insurance company, registered investment company, business development entity, small business investment company, GDB, EDB, IBE or IFE. Irrespective of the provisions of the International Banking Center Regulatory Act and the International Financing Center Regulatory Act, it shall be understood that an IBE or an IFE, respectively may be considered Accredited Investors for the purposes of this Act;

**(2)** a Commonwealth of Puerto Rico employee benefits plan or any other employee benefits plan or trust as defined in the Employee Retirement Income Security Act of 1974 ("ERISA"), only if a bank, insurance company, or RIA make the investment decisions, or if the plan's total assets are greater than five million dollars (\$5,000,000);

**(3)** a nonprofit organization, corporation, association whose total assets are greater than five million dollars (\$5,000,000);

**(4)** a director, executive officer or general partner of the issuer of a offering securities;

**(5)** an individual person with a net worth exceeding one million dollars (\$1,000,000) at the time of the purchase, not including the value of the individual person's main residence, either

individually or jointly with his or her spouse;

**(6)** an individual person that earned more than two hundred thousand dollars (\$200,000) in each of the last two (2) years prior to the purchase, or that earned a joint income of three hundred thousand dollars (\$300,000) with his or her spouse and expects to reasonably maintain the same level of income throughout the year in course;

**(7)** a trust with total assets of more than five million dollars (\$5,000,000) that was not organized or created to purchase publicly traded securities and where a sophisticated person makes the purchase; or

**(8)** any business in which the owners of the capital are accredited investors;

**(o) “Puerto Rico Investment Companies Act of 2013”** means the Act 93-2013, as amended, known as the Puerto Rico Investment Companies Act of 2013 or any other similar act that supersedes the same.

**(p) “Investment Companies Act of Puerto Rico”** means the Act Num. 6 of October 19, 1954, as amended, known as Investment Companies Act of Puerto Rico, or any other similar act that supersedes the same. **(q) “Municipal Property Tax Act”** it means the Act 83-1991, as amended, known as the Municipal Property Tax Act of 1991 or any other similar act that supersedes the same.

**(r) “Municipal License Tax Act”** means the Act Num. 113 of July 10, 1974, as amended, known as the Municipal License Tax Act or any other similar act that supersedes the same.

**(s) “Act to Promote Export Services”** means the Act 20-2012, as amended, known as the Act to Promote Export Services.

**(t) “Act to Incentivize the Transfer of Investor Individuals to Puerto Rico”** means the Act 22- 2012, as amended, known as Act to Incentivize the Transfer of Investor Individuals to Puerto Rico.

**(u) “International Banking Center Regulatory Act”** means Act Num. 52 of August 11, 1989, as amended, known as the International Banking Center Regulatory Act or any other similar act that supersedes the same.

**(v) “International Financing Center Regulatory Act”** means the Act 273-2012, as amended, known as International Financing Center Regulatory Act or any other similar act that supersedes the same.

**(w) “CFIPR”** means the Commissioner of Financial Institutions of Puerto Rico created under the provisions of Act 4 of October 11, 1985, as amended, known as Financial Institutions Commissioner’s Office Act.

**(x) “SBA”** means the Small Business Administration.

**(y) “Secretary of Treasury”** means the Secretary of the Puerto Rico Treasury Department.

**(z) “SEC”** means the U.S. Securities and Exchange Commission created under the provisions of the Securities Exchange Act of 1934.

**(aa) “SIPC”** means the Securities Investor Protection Corporation.

**(bb) “General Partners”** means the group that comprises the Fund, in charge of the day-to-day operations of the Fund and usually conducts the investment activity using part of its capital. General Partners have a fiduciary obligation to the Fund’s investors.

**(cc) “Initial Investment”** means all capital commitments made by an Accredited Investor in a Private Equity Fund.

**(dd) “Capital Commitment”** means the amount of capital Accredited Investor has: (i) contributed to a Fund; (ii) committed to contribute in a private document accepted by the Fund during the term of the Fund; and/or (iii) accepted to assume capital contribution defaults of other Accredited Investors. **(ee)**

**“Resident Investor”** means (i) a resident individual, as defined in Section 1010.01(a)(30) of the Code, (ii) a nonresident United States Citizen; (iii) an entity organized outside of Puerto Rico, whose shareholders, direct or indirect, are residents of Puerto Rico; and (iv) an entity organized under the laws of the Commonwealth of Puerto Rico. It is further provided that in the case of a partnership subject to the

provisions of Chapter 7 of the Code, the partners of such partnership may be considered Residents Investors.

**(ee) “Resident Investor”** means (i) a resident individual, as defined in Section 1010.01(a)(30) of the Code, (ii) a nonresident United States Citizen; (iii) an entity organized outside of Puerto Rico, whose shareholders, direct or indirect, are residents of Puerto Rico; and (iv) an entity organized under the laws of the Commonwealth of Puerto Rico. It is further provided that in the case of a partnership subject to the provisions of Chapter 7 of the Code, the partners of such partnership may be considered Residents Investors.

### **Article 3. — Eligibility**

**(a)** Any partnership or limited liability company organized under the laws of the Commonwealth of Puerto Rico, the United States of America or under any other foreign jurisdiction law, that works with investments on promissory notes, bonds, notes (including secured and unsecured loans and including the collateral), shares or any other securities of similar nature issued by entities that, at the time of acquisition, are not offered at public stock exchange markets in the United States or in any foreign country, shall qualify as a Fund under the provisions of this Act during each year that it complies with the following requisites:

**(1)** office located in Puerto Rico;

**(2)** a minimum of eighty percent (80%) of the paid-in capital contributed to the Fund by its Accredited Investors (excluding the capital that the Fund maintains in bank accounts and other cash equivalent investments) invested in promissory notes, bonds, notes (including secured and unsecured loans and including the collateral), shares or any other securities of similar nature issued by entities that at the time of acquisition are not offered at public stock exchange markets in the United States or in any foreign country;

**(3)** the paid in capital contributions that have not been invested in accordance with paragraph 2, subsection (a) of this Article shall not exceed twenty percent (20%) and shall be maintained in one of the following investments:

**(A)** securities and obligations of the Commonwealth of Puerto Rico and/or the United States governments or instrumentalities or political subdivisions thereof if principal and interest are due within a fifteen (15) month period from the investment date;

**(B)** reselling agreements with institutions insured by the FDIC, SIPC, PRCUSIC, IBE, IFE and/or GDB if due within ninety (90) days or less. The securities relating to the reselling agreements shall be secured with respect to principal and interest by the United States of America or the Commonwealth of Puerto Rico and shall be investment grade. These securities shall be maintained on an institution insured by the FDIC or SIPC;

**(C)** certificates of deposit with a maturity date of one year or less, issued by institutions insured by the FDIC or the PRCUSIC;

**(D)** a deposit account in an institution insured by the FDIC or the PRCUSIC;

**(E)** checking account in an institution insured by the FDIC or the PRCUSIC;

**(F)** an account with reasonable cash balance for miscellaneous expenses; and/or

**(G)** investment certificates issued by GDB, IBE or IFE;

**(4)** No later than four (4) years after its organization date and at the end of each subsequent fiscal year, a PEF shall maintain:

**(A)** a minimum of fifteen percent (15%) of the paid-in capital contributed to the Fund by Accredited Investors (excluding the capital that the Fund maintains in bank accounts and other cash equivalent investments) invested in promissory notes, bonds, shares, notes

(including secured and unsecured loans and including the collateral), or any other securities of similar nature issued by entities that at the time of acquisition are not offered at public stock exchange markets in the United States or in any foreign country and have been issued by a corporation, limited liability company, partnership, foreign or domestic, which derives at least eighty percent (80%) of its gross income for the prior three (3) years period from sources within Puerto Rico or from income effectively connected or treated as effectively connected or treated as effectively connected in accordance with the Code provisions;

(5) that its investors qualify as Accredited Investors;

(6) shall use a RIA, which shall be a domestic or foreign person with a business office in Puerto Rico engaged in a trade or business in Puerto Rico in accordance with the provisions of the Code and duly registered with the relevant regulators including, but not limited to CFIPR, the SEC, the SBA, as applicable;

(7) shall operate as a diversified investment entity, therefore, no later than four (4) years from the date of its organization and at the end of each subsequent fiscal year, no more than twenty percent (20%) of its paid-in capital shall be invested in a single business; provided, however, that the fluctuations in the value of the Fund's investments and/or the sale, liquidation or other disposition of any of the Fund's assets pursuant to its investment strategy or objective shall not be taken into account for determining if the Fund is in compliance with this requirement. To determine the twenty percent (20%) investment limit in a single business, a controlled group of corporations or a group of related entities, as provided in Code Sections 1010.04 and 1010.05, will be considered as a business. Therefore, the amounts invested in one or more entities within a controlled group of corporations or a group of related entities shall be aggregated to determine if the Fund has complied with the twenty percent (20%) investment limit in the same business. The foregoing limitation does not prevent a Fund from investing more than twenty percent (20%) of its capital in entities operating in the same industry or engaged in the same type of business. Neither does it prevent a Fund from acquiring all or a majority of the proprietary interests of an entity in which it has invested or is investing its capital;

(8) shall have a minimum capital of ten million dollars (\$10,000,000), including legal commitments of capital contributions duly documented even if not yet received within twenty four (24) months from the Fund's first issuance of proprietary interests and subsequently.

(9) shall appoint at least one of its investors or limited partners in one Advisory Board where matters of interest and concerns regarding the Fund might be discussed and evaluated.

(10) in case of a foreign partnership or foreign limited liability company it shall be engaged in a trade or business in Puerto Rico and derive at least eighty (80) percent of its gross income from sources within Puerto Rico or from income effectively connected or treated as effectively connected in accordance with Code provisions.

#### **Article 4. — Private Equity Fund Election.**

(a) Any entity that meets the eligibility requirements mentioned in Article 3 of this Act may choose to be treated as a Fund only if it notifies said election to the Secretary of Treasury no later than the last day of the third month after the inception date of the Fund. The Secretary of Treasury shall issue through public administrative determinations, circular letters and other similar communication of a general character establishing the form and manner in which the entity should make the election to be treated as a Fund.

**(b)** The compliance with the requirements of Article 3 of this Act will be determined each tax year of the Fund. The initial cost of an investment shall be used to determine the percentage invested in each asset. Failure to comply with the eligibility requirements will prevent the entity to qualify as a Fund during the year of breach and, therefore, the entity will be subject to the applicable taxation under the provisions of the Code, the Municipal License Tax Act, and the Municipal Property Tax Act. If the entity is disqualified for a particular taxable year due to failure of compliance in accordance with the provisions of this Act it shall request the Secretary of Treasury, subject to the requirements that he or she issues in public administrative determinations, circular letters and other similar communication of a general character, to be treated again as a Fund for subsequent taxable years.

#### **Article 5. — Election Effects.**

**(a)** Income Tax — The applicable provisions to partners of a partnership, as provided by Chapter 7 of the Subtitle A of the Code, shall apply to investors of a Fund (including taxable investors who have not contributed money or property in exchange for proprietary interests of the Fund and who have an interest in Fund profit). The Fund shall comply with all Code provisions relating to information (except the tax filing requirement of the Fund in accordance with the provisions of this Act) and tax withholding requirements.

**(1)** Fund

**(A)** Income — A Fund shall be treated for tax purposes as a “partnership” under the applicable rules of partnerships in Chapter 7 of the Code, in which case it is understood that all references made to taxable partnerships under Chapter 7 of the Code includes the Private Equity Funds.

**(2)** Accredited Investors — Accredited Investors, Residents of Puerto Rico, of a Fund shall be responsible of income taxes on their distributive share of Fund income, except for the EDB and the GDB which are exempt of taxation in accordance with their respective organic acts. In the case that Accredited Investors are nonresidents of Puerto Rico, the Fund shall withhold at source its applicable tax and shall remit it to the Department of Treasury of Puerto Rico. In both instances, the tax shall be paid according to the following rules:

**(A)** Income — Income received from the Fund by Accredited Investors from interest and dividends will pay, instead of any other tax imposed by the Code, including the alternate basic tax and the alternative minimum tax which shall not be applicable to investors of the Fund, an income tax to be computed using a fixed rate of ten percent (10%). Exempt interests or dividends generated by the Fund shall preserve their exempt nature in the possession of the Investors. In the case of investors, they shall pay taxes in Puerto Rico at the income tax rates provided herein, unless (i) the applicable income tax rate under any other special law is less than the one provided herein or (ii) under the principles of the Code such investors are not obligated to pay income taxes in Puerto Rico. It is provided that the Fund’s operating expenses (except capital gains) shall be allocated in proportion to the gross income amount of each class.

**(B)** Capital Gains — The capital gains received by Accredited Investors from the Fund shall be completely exempt from income tax and shall not be subject to any other tax imposed by the Code, including the alternate basic tax and the alternative minimum tax which shall not be applicable to investors of the Fund. Such gains shall be separately informed to the investor in accordance with Section 1071.02 of the Code.

**(C)** Sale of Ownership Interest — The capital gains made by investors of the Fund in the

sale of their proprietary interest in the Fund will be subject to income tax at a fixed rate of five percent (5%) in the year in which the sale occurs or income is perceived. If within ninety (90) days of the sale the Accredited Investor reinvests the entire gross income in a PEF-PR, the capital gains will not be subject to income tax. Such gains shall be separately informed to the investor in accordance with Section 1071.02 of the Code.

**(D) Net Capital Loss** — Net capital losses, including reserves incurred by the Funds, may be taken as a deduction by Accredited Investors of a Fund who are Residents of Puerto Rico up to its distributive share in the Fund losses to the extent that such losses are derived from a corporation, limited liability company, partnership, foreign or domestic, which derives at least eighty percent (80%) of its gross income for the prior three (3) years period from sources within Puerto Rico or from income effectively connected or treated as effectively in accordance with the Code provisions. The losses can only be used in the following manner:

**(i)** against income from other Funds to the extent that such losses are considered as capital losses at Fund level;

**(ii)** to reduce any capital gain generated by the Accredited Investor from other sources in accordance with the provisions of the Code;

**(iii)** losses in excess might be carried over indefinitely.

**(3) General Partners**

**(A) Income** — Income derived by the General Partners of the Fund from interest and dividends will be subject to income tax at a fixed rate of five percent (5%) instead of being subject to any other tax imposed by the Code, including the alternate basic tax and the alternative minimum tax. It is provided that the Fund's operating expenses (except capital gains) shall be allocated in proportion to the gross income amount of each class.

**(B) Capital Gains** — Capital gains received by General Partners or Sponsors of the Fund will be subject to a fixed income tax of two point five percent (2.5%) in the taxable year in which that sale occurs instead of being subject to any other tax provided in the Code, including the alternate basic tax and the alternative minimum tax which shall not be applicable to investors of the Fund. Such gains shall be separately informed to the investor in accordance with Section 1071.02 of the Code.

**(C)** The rules of sale of ownership and net capital losses applicable to the Accredited Investors and described in the subparagraphs (C) and (D) of the paragraph (2) of the subsection (a) of Article 5 shall apply to General Partners.

**(4) RIA and PE-Firm**

**(A) Income** — Income derived by RIA and PE-Firm from interest and dividends derived from the Fund will be subject to income tax at a fixed rate of five percent (5%) instead of being subject to any other tax imposed by the Code, including the alternate basic tax and the alternative minimum tax. It is provided that the Fund's operating expenses (except capital gains) shall be allocated in proportion to the gross income amount of each class.

**(B) Capital Gain** — Capital gains received by RIA and PE-Firm of the Fund will be subject to a fixed income tax of two point five percent (2.5%) in the taxable year in which that sale occurs instead of being subject to any other tax provided in the Code, including the alternate basic tax and the alternative minimum tax which shall not be applicable to the investor in accordance with Section 1071.02 of the Code.

**(C) Sale of Ownership Interest** — The capital gains made by investors of the Fund in the

sale of their proprietary interest in the Fund will be subject to income tax at a fixed rate of five percent (5%) in the year in which the sale occurs or income is perceived. If within ninety (90) days of the sale the Accredited Investor reinvests the entire gross income in a PEF-PR, the capital gains will not be subject to income tax. Such gains shall be separately informed to the investor in accordance with Section 1071.02 of the Code.

**(D) Net Capital Loss** — Net capital losses, including reserves incurred by the Funds, may be taken as a deduction by Accredited Investors of a Fund who are Residents of Puerto Rico up to its distributive share in the Fund losses to the extent that such losses are derived from a corporation, limited liability company, partnership, foreign or domestic, which derives at least eighty percent (80%) of its gross income for the prior three (3) years period from sources within Puerto Rico or from income effectively connected or treated as effectively in accordance with the Code provisions. The losses can only be used in the following manner:

**(i)** against income from other Funds to the extent that such losses are considered as capital losses at Fund level;

**(ii)** to reduce any capital gain generated by the Accredited Investor from other sources in accordance with the provisions of the Code;

**(iii)** losses in excess might be carried over indefinitely.

### **(3) General Partners**

**(A) Income** — Income derived by the General Partners of the Fund from interest and dividends will be subject to income tax at a fixed rate of five percent (5%) instead of being subject to any other tax imposed by the Code, including the alternate basic tax and the alternative minimum tax. It is provided that the Fund's operating expenses (except capital gains) shall be allocated in proportion to the gross income amount of each class.

**(B) Capital Gains** — Capital gains received by General Partners or Sponsors of the Fund will be subject to a fixed income tax of two point five percent (2.5%) in the taxable year in which that sale occurs instead of being subject to any other tax provided in the Code, including the alternate basic tax and the alternative minimum tax which shall not be applicable to investors of the Fund. Such gains shall be separately informed to the investor in accordance with Section 1071.02 of the Code.

**(C)** The rules of sale of ownership and net capital losses applicable to the Accredited Investors and described in the subparagraphs (C) and (D) of the paragraph (2) of the subsection (a) of Article 5 shall apply to General Partners.

### **(4) RIA and PE-Firm**

**(A) Income** — Income derived by RIA and PE-Firm from interest and dividends derived from the Fund will be subject to income tax at a fixed rate of five percent (5%) instead of being subject to any other tax imposed by the Code, including the alternate basic tax and the alternative minimum tax. It is provided that the Fund's operating expenses (except capital gains) shall be allocated in proportion to the gross income amount of each class.

**(B) Capital Gain** — Capital gains received by RIA and PE-Firm of the Fund will be subject to a fixed income tax of two point five percent (2.5%) in the taxable year in which that sale occurs instead of being subject to any other tax provided in the Code, including the alternate basic tax and the alternative minimum tax which shall not be applicable to investors of the Fund. Such gains shall be separately informed to the investor in accordance with Section 1071.02 of the Code.

**(C)** The rules of sale of ownership and net capital losses applicable to the Accredited



Investors and described in the subparagraphs (C) and (D) of the paragraph (2) of the subsection (a) of Article 5 shall apply to RIA and PE-Firms.

**(b) Incentive Acts Coordination**

The provisions of the Act shall not be interpreted or understood as a limitation to tax treatment that the Accredited Investors, General Partners, or a RIA and PE-Firm might obtain under the provisions of any current or future Incentive Act including the Act to Promote Export Services and the Act to Incentivize the Transfer of Investor Individuals to Puerto Rico, if and only if the applicable requirements and application process provided in the applicable acts is completed.

**(c) Initial Investment Treatment for Resident Investors of Puerto Rico.** Provided that after a Fund is in compliance with the investment requirements stated in Article 3 of this Act, every Resident Investor who invests in:

- 1.** a PEF may deduct up to a maximum of thirty percent (30%) of his or her Initial Investment. The deduction shall be available to be used by the Resident Investor in the tax year in which the Fund invested all or part of said Initial Investment and for the ten (10) following years. If the Fund invests the Initial Investment partially, the ten (10) year period in respect to the invested portion shall count from the year it was invested. In the case the investment is made after the end of the tax year, but before submitting the income tax return for the year in question, as described in the Code, including any extensions granted by the Secretary of Treasury, the Resident Investor can claim the deduction for said tax year. The maximum deduction the Resident Investor can deduct in a tax year will not exceed fifteen percent (15%) of his or her net income prior to said deduction.
- 2.** a PEF-PR may deduct up to a maximum of sixty percent (60%) of his or her Initial Investment. The deduction shall be available to be used by the Resident Investor in the tax year in which the Fund invested all or part of said Initial Investment and for the fifteen (15) following years. If the Fund invests the Initial Investment partially, the fifteen (15) year period in respect to the invested portion shall count from the year it was invested. In the case the investment is made after the end of the tax year, but before submitting the income tax return for the year in question, as described in the Code, including any extensions granted by the Secretary of Treasury, the Resident Investor can claim the deduction for said tax year. The maximum deduction a Resident Investor can deduct in a tax year will not exceed thirty percent (30%) of his or her net income prior to said deduction.

**(d) Deduction for Initial Investment.** The deduction for the Initial Investment that a Resident Investor of Puerto Rico may claim pursuant to Article (5)(b) of this Act may be used, at the Resident Investor of Puerto Rico's discretion, against any type of income for purposes of determining any type of tax under Subtitle A of the Code, including the alternate basic tax applicable to individuals and the alternative minimum tax applicable to corporations. It is provided that in the case of spouses that live together, file a joint return, and choose the optional computation of the tax provided by Section 1021.03 of the Code, they may, at their discretion, assign between them the total amount of the claimable deduction for the Initial Investment by each of them for each tax period.

**(e) Municipal License Tax Act.**

- (1)** The income received by the Fund and the distributions that those entities make to their investors, shall not be considered "gross income" nor shall they be included under the of "volume of business" for purposes of the "Municipal License Tax Act".
- (2)** Funds will be exempt from filling the corresponding volume of business declaration provided in the Municipal License Tax Act.

**(f) Property Tax.**

**(1)** Personal and real properties belonging to a Fund will be exempt from any property tax imposed by any municipality or by the Commonwealth of Puerto Rico.

**(2)** The Funds shall be exempt from filling the corresponding return provided in the Municipal Property Tax Act.

**(g) Investment Company Act.** The Funds shall be exempt from compliance with the provisions of the “Investment Company Act of Puerto Rico” and the “Puerto Rico Investment Companies Act of 2013”.

**Article 6. — Information Disclosure.**

**(a)** Any participation or investment offer in a Fund shall be properly registered or notified to CFIPR and comply with all provisions of the Federal Security Law of the United States and Puerto Rico, as applicable with respect to disclosure and registration.

**(b)** Every Fund shall:

**(1)** Inform its investors of its operating results on a quarterly basis (unaudited) and annually audited by a certified public accountant duly licensed in Puerto Rico in order to verify that the Fund is operating in accordance to the policies, practices, and agreements presented during its organization. The annually audited report shall include: internal return of investment (“IRI”), breakdown of fees and expenses of the partnership, summary of Capital Calls, debt summary and a letter from the General Partners to the investors.

**(2)** The disclosure of the Fund shall include:

(A) Risks and opportunities in the Fund as well as material events including but not limited

to: fraud, material breach of the fiduciary duty, material breach of an agreement, bad faith, and gross negligence.

(B) Certification of Fund compliance with provisions of this Act duly sworn by the chief executive officer.

**(3)** Hold up a annual meeting for its partners in which the General Partners shares information regarding the operation of the Fund with its Investors and/or Limited Partners.

**(4)** CFIPR shall have the power to conduct tests and inspections of the Funds to ensure that its operations and financial results have been properly informed, meet the fiduciary duty with its investors and comply with the requirements of this Act. The Fund will pay the cost established by the CFIPR under regulation to perform such tests and inspections. CFIPR will take the necessary actions including the liquidation of the Fund and cessation if additional offerings of its securities in the event of a breach.

**Article 7. — Term of the Funds.**

Every Fund will be created with a term of existence that will be determined by its General Partners. The General Partner has the ability to automatically extend the term of existence of the Fund for a maximum period of one (1) year. Additional terms of existence shall require approval in accordance to Fund statutes to the extent that the majority of the Fund’s limited partners consent the extension.