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MEMORANDUM

August 23, 2010

Senate Bill 1720, Real Estate Market Stimulus Act

Senate Bill 1720, previously House of Representative's Bill 2814, is expected to become the Real Estate Market Stimulus Act, as part of the Puerto Rico Government's 2011 Housing Stimulus Program. This Act proposes a series of incentives, tax and transactional cost reductions for the purchase and sale of new and existing housing and commercial properties in Puerto Rico. This program is connected with three other local stimulus initiatives: My Mortgage Insurance, My New Home and the Rental Market Stimulus. Senate Bill 1720 is expected signed into law shortly, with amendments, with retroactive effect to transactions closing September 1, 2010.

The benefits and incentives of the Real Estate Market Stimulus Act would apply to housing acquired between September 1, 2010 and June 30, 2011. The proposal includes incentives for sellers/buyers as well as for rental agreements of real property. The specific incentives for new housing are the following:

Purchase and sale

- a) Total exemption from long term net capital gains taxes for the purchasers of new construction to be granted during the program's term, until the disposition of the property in the future.
- b) Proceeds /disbursements from a sale of covered real estate will not be subject to income tax withholding in its origin.
- c) The Buyer would have total exemption from real property taxes (both property and the special property tax) for 5 years, beginning in fiscal year 2010-2011.
- d) All parties involved in such purchase and sale transactions will be exempt from the payment of internal revenue and presentation vouchers and stamps required by law for the granting, the execution, and the filing of deeds before the Property Registry. This exemption would also be applicable to other ancillary transactions other than the sale, such as a long term lease, loans, mortgages and cancellation of mortgages and other liens.

- e) Public Notary-Attorneys' fees for the drafting and execution of deeds will be established in accordance to the Notary Law.
- f) These benefits would be available to eligible taxpayers, for example, it would be applicable to residents and non-residents, but not to related parties.
- g) These benefits would only be available to the first seller and its corresponding first buyer under the program. It is not available for any subsequent transaction over the same property.

Rentals

- a) Total income tax exemption for rental income during a ten (10) year period. For new construction properties the term would start when the property is acquired, or on January 1, 2012, whichever occurs first.
- b) The rental income subject to the above described exemption would not be subject to income tax withholdings in its origin either.

This proposed legislation would also establish incentives for the purchase and sale of existing housing, and commercial properties with a sales price not to exceed \$3 Million, during the program's term, and for rents derived from existing residential properties as well.

This memorandum is for informational purposes only. It is not intended as, and does not constitute, either, legal advice or solicitation, of any prospective client. If you have any questions or wish additional information regarding this matter, please contact any of the attorneys of NOLLA, PALOU & CASELLAS, LLC.