

Jesús F. Méndez Rodríguez
Secretary of the Treasury

March 14, 2011

INTERNAL REVENUE CIRCULAR LETTER NO. 11-03

SUBJECT: APPLICABLE PROCEDURE FOR THE SALE, ASSIGNMENT OR TRANSFER OF TAX CREDITS GRANTED UNDER THE ARTICLE 7.3 OF ACT NO. 27 OF MARCH 4, 2011, KNOWN AS THE "PUERTO RICO FILM INDUSTRY ECONOMIC INCENTIVES ACT".

I. Tax Credits

On March 4, 2011, the Governor signed Act 27, known as the "Puerto Rico Economic Incentives for the Film Industry in Puerto Rico" (the "Act"). Article 7.3 of the Act authorizes the Secretary of the Treasury (the "Secretary") the issuance of tax credits in relation to the production of a Film Project¹ and its related expenses in Puerto Rico (the "Tax Credit"). Pursuant to Article 7.3(e), the Concessionaire may sell, transfer or assign in whole or in part the Tax Credits previously certified by the Secretary through a ruling, subject to the execution and presentation of a sworn statement describing the transaction. This Circular Letter provides the terms and conditions governing such Transfers.

II. Requirements for the sale, assignment or transfer of the Tax Credits

The Tax Credit may be transferred, sold or otherwise assigned, in whole or in part by the Concessionaire only once. However, a transfer from a Concessionaire that is a partnership or limited liability company, taxed in Puerto Rico as a flow-through entity, to its investors would not be considered a transfer for purposes of the one-time transfer limitation described herein. In such cases, the partnership or limited liability company shall notify the Secretary in the ruling requesting the credit, the name of each investor, social security number, and the percentage of the Tax Credit they are entitled to. The

¹ All terms in this Circular Letter will have the meaning given in the Act, unless otherwise provided herein.

Secretary shall issue the ruling certifying the Tax Credit to the different investors, instead of the partnership or the limited liability company.

For purposes of this circular letter, any reference to the Concessionaire will also include the investors of a partnership or limited liability company, when the Tax Credit is certified to them directly, instead than to the Concessionaire.

The following other limitations and requirements apply:

A. Sale, assignment or transfer of the Tax Credits

The transfer, sale or other assignment of a Tax Credit by a Concessionaire must be made through a sworn statement which shall include the information set forth below. A transfer from a Concessionaire that is a partnership or limited liability company, taxed in Puerto Rico as a flow-through entity, to its investors would not need to be documented through a sworn statement, as described in the preceding paragraph. A certified copy of said sworn statement shall accompany the income tax return of the corresponding transferee for each year in which the transferee wishes to claim all or part of the Tax Credit assigned to him. Any Person who acquires a Tax Credit from an Concessionaire through transfer, sale or other form of assignment, does not become an Concessionaire; however, the credit assigned shall maintain its original characteristics and will be subject to the same terms and conditions described in Article 7.3(c), (e) and (h) of the Act.

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The advanced Tax Credits certified by the Secretary pursuant to Article 7.3(f) will be eligible for sale, assignment or transfer; provided, however, that the Concessionaire will be subject to the same provisions and limitations of Article 7.3, including the recapture provisions described in Article 7.3(d).

B. Notices

The transferor and transferee of a Tax Credit shall execute a sworn statement before a notary public which shall include:

- (i) the name, address and social security number of the Transferor,
- (ii) the name, address and social security number of the Transferee,
- (iii) the total amount of the Tax Credits approved by the Secretary to the Transferor,
- (iv) the total amount of the Tax Credits previously transferred by the Transferor,
- (v) the amount of the Tax Credit being transferred in this transaction,
- (vi) the date of the Transfer and the tax year in which the Tax Credit Transfer may be claimed according to the provisions of Article 7.3 of the Act, and
- (vii) the consideration given in exchange for the Tax Credit,
- (viii) The balance (if any) of Tax Credits still available for the Transferor.

Said notice shall be included with the income tax returns of the Transferee for the year of the assignment and in each year in which the tax credit is claimed.

The notice shall be filed within 30 days of the transfer, sale or other assignment of the Tax Credit with:

División de Exención Contributiva del Negociado de
Asistencia Contributiva y Consultas Especializadas del
Departamento de Hacienda,
PO Box 9024140,
San Juan, Puerto Rico 00902-4140

and

Film Commissioner, Puerto Rico Motion Picture Arts,
Sciences, and Industry Development Corporation
PO Box 362350
San Juan, PR 00936-2350



C. Exempt Amounts

Any property or money received in exchange for a transferred Tax Credit shall be tax exempt up to an amount which is equal to the face value of the Tax Credit transferred. The amount paid for a Tax Credit may not be taken as a deduction, nor may it be capitalized or otherwise considered to be an expense under the Internal Revenue Code for a New Puerto Rico ("Code"). Likewise, when the amount paid for a Tax Credit by the transferee is less than the amount of the credit, the difference shall not be considered income to the transferee or a loss to the transferor of the credit.

A distribution by the Concessionaire to its investors made up of proceeds from the sale of tax credits granted pursuant to Article 7.3 is exempt from the payment of any tax imposed by the Government of Puerto Rico.

D. Broker Dealer

The Concessionaire may transfer, sell or otherwise assign its Tax Credit through a broker dealer licensed as such in Puerto Rico. However, the person acting as broker dealer in the transfer, sale or otherwise assignment of the Tax Credit may not appear on behalf of the Transferee in the execution of the sworn statement required hereby.

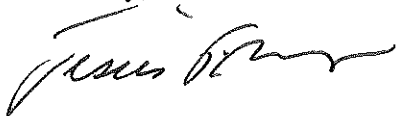
III. Effectiveness

The provisions of this Circular Letter are effective immediately.

For additional information on this Circular Letter, please contact the Internal Revenue Bureau at (787) 722-0960, (787) 723-2989 or (787) 723-0467.

In Hacienda, we are at your service.

Cordially,



Jesús F. Méndez Rodríguez
Secretary of the Treasury