

Clark Armitage Comments on Pricing Agreements for Puerto Rican Entities

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Last month, IRS Commissioner Danny Werfel jolted some of the thousands of Americans living part-time in Puerto Rico when he disclosed that the agency had “recently identified about 100 high-income individuals” claiming lucrative tax benefits there while skirting strict residency and source of income rules.

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J. Clark Armitage, an international tax lawyer at Caplin & Drysdale in Washington, D.C., said that when a Puerto Rican entity is set up to provide services to a U.S. mainland company, the owner of the island entity effectively becomes the “principal service provider” to that U.S. company.

The owner doesn’t owe U.S. tax on the money he receives through the island entity, provided the services are rendered from Puerto Rico. A pricing agreement between the Puerto Rican entity and the U.S. company determines how much the Puerto Rico entity should be paid for its services. The more valuable the owner of the Puerto Rican entity is to the success of the U.S. company, the more he can charge for his services to the U.S. company, Armitage said.

For the full article, please visit *The Messenger’s* website.

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