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**From:** jeffrey E. <jeevacation@gmail.com>  
**Sent:** Friday, September 16, 2016 8:11 PM  
**To:** William Blum  
**Subject:** Re: FW: Capital Gain provision/PR Act 22 equivalent

you are right. let me think?

<iv class="gmail\_extra">

On Fri, Sep 16, 2016 at 4:04 PM, William Blum [REDACTED] wrote:

OK. From a federal perspective any property that you owned when you arrived could be made free of capital gains taxes by the VI once ten years has passed. Do you have unrealized gains in such property? How long have you owned it? What about other property?

We need to come up with a method that could attract new residents but does not overly benefit existing residents or it will be attacked as harming revenues instead of enhancing them. So we have to come up with a way to narrow benefits for existing residents.

Bill

William Blum | Partner

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New York, NY 10005

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From: jeffrey E. [mailto:jeevacation@gmail.com  
<mailto:jeevacation@gmail.com> ]  
Sent: Friday, September 16, 2016 4:00 PM  
To: William Blum

Subject: Re: FW: Capital Gain provision/PR Act 22 equivalent

im a resident for 18 years. maybe its how the property becomes territory property after 10 years? , ill think about it over the weekend

On Fri, Sep 16, 2016 at 3:05 PM, William Blum <[wblum@solblum.com](mailto:wblum@solblum.com)> wrote:

SOLOMON BLUM HEYMANN LLP  
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From:  
Sent: Wednesday, September 14, 2016 2:53 PM  
Cc: Erika Kellerhals  
Subject: Capital Gain provision/PR Act 22 equivalent

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Dear Jeff –

In thinking about how to draft these provisions, I note that the PR Act 22 only applies to individuals who relocate to Puerto Rico who have not resided there during the 6 years preceding relocation. Clearly, this is designed to be consistent with the stated purpose of Act 22 to encourage individuals to relocate to Puerto Rico, who would then presumably pay tax there and stimulate the local economy, while preventing current residents from getting a “windfall”.

I am assuming that you would want to benefit from this law personally and that you may have some unrealized capital gains. So I need to find a way to draft around this issue – i.e., to figure out a way that you (and perhaps limited others) could benefit from this without opening the floodgates and actually costing the VI revenue.

In this regard, please give me some facts that might distinguish you from others that might benefit from this but that would accommodate the fact that you have been a USVI resident. In that regard, when did your USVI residency start?

A couple of ideas I had in this regard would be to perhaps allow a partial capital gains exemption (say a rate of 10% instead of 20%) for an individual who is currently a resident but who sells securities with unrealized appreciation during a limited period, say a year, from the date of enactment, regardless of when they took up residency. This can be sold on the basis of an immediate one time cash infusion to help balance the budget now.

Another idea is a flat across the board reduction in the capital gains rate without “date of residency acquisition” restrictions. We couldn’t realistically go to zero, but how about 15% for short term and 7.5% for long term – something like that? Another idea is that this be restricted to individuals who otherwise pay, or will pay, very substantial taxes to the USVI – say at least \$500,000 annually for each of the last x number of years. A0 Just brainstorming.

Please note that there are federal restrictions on this benefit which the Puerto Rico law meets and that we will need to be mindful of. These are designed to prevent gains that have accrued while a person was a resident of the U.S. from not being taxed by a territory to which the person relocated. The main rule here is that there are no restrictions on elimination of tax on gains for any person who has already lived in a territory for 10 years. To the extent that the period of territorial residency is shorter, then an exemption is still allowed for part of the gain, and the amount depends on whether the gain is on publicly traded securities or other property. In the case of publicly traded securities, an exemption is allowed for the exact portion of the taxpayer’s gain that accrued during the “possession holding period”. That term is defined as the part of the taxpayer’s holding period that occurs while he is a territorial resident. C2 For other property, the limitation on gain exclusion test is similar but since there is no market to which to mark the value of the property at the commencement of the possession holding period, the gain is treated as having accrued ratably over the entire holding period with the result that the exemption applies based on the ratio of the number of days in the taxpayer’s possession holding period to the entire number of days in the holding period.

Let me know your thoughts.

William Blum | Partner

SOLOMON BLUM HEYMANN LLP A0 C2

[REDACTED]  
New York, NY 10005

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[REDACTED]

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please note<=>

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