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Can Puerto Rico Use New Hedge Fund Tax Dodgers?

The island's plan for luring wealthy investors has always been iffy, but bond traders like the renewed interest.

Puerto Rico might be the new Florida for hedge funds. But should the island want that?

Throughout the Covid-19 pandemic, titans of the investing world have made clear that they're not wedded to New York City, the financial capital of the world. By and large, they've targeted Florida, which boasts warm weather and, crucially, no state income tax. Goldman Sachs Group Inc. in December was considering a new hub in the Sunshine State to house its asset-management division; Steve Cohen's Point72 Asset Management said in January that it would open an office in West Palm Beach; Dan Sundheim, who runs the \$20 billion D1 Capital Partners, decided in March to open an office in Miami; and just in the past month, Bloomberg News reported that both Apollo Global Management Inc. and Millennium Management would set up more offices in Florida.

However, some hedge funds are starting to realize the best tax haven might just be a four-hour plane ride southeast of Miami in Puerto Rico. Bloomberg's Miles Weiss and Jim Wyss reported that ExodusPoint Capital Management and Millennium have established subsidiaries on the island, aiming to take advantage of legislation from 2012 known as the "Act to Promote the Relocation of Individual Investors to Puerto Rico." As it stands, at least for the next 15 years, money managers can effectively dodge U.S. taxes on capital gains and even performance fees as long as they're considered by the Internal Revenue Service to be a "bona fide resident of Puerto Rico" and it's considered "Puerto Rican source income."

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