an option in some other so-called tax havens. Although the tropical island is just a little more than 1,000 miles from Florida, it might as well be halfway around ...

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Some of your well-to-do clients may be thinking of moving to the "51st state." Puerto Rico is quickly becoming a tax haven for U.S. citizens fed up with paying higher taxes on the mainland. If you qualify, the tax rate on much of your investment income – including certain capital gains, dividends and interest – is a rock bottom zero percent.

Although the tropical island is just a little more than 1,000 miles from Florida, it

all the income they receive regardless of where they reside and where it is earned. However, under Section 933 of the tax code, Puerto Rico residents may be exempted from paying U.S tax on income from sources in Puerto Rico as long as they live on the island for more than half of the year. In that case, the tax laws for Puerto Rico prevail.

To entice more U.S. taxpayers to relocate – and, in the process, help boost a sagging economy – Puerto Rico legislators enacted two important new tax laws in 2012. The tax breaks last for 20 years (30 years if certain conditions are met).

- Under Act 20, certain hedge funds and professional business entities pay tax on corporate income resulting from exported services at a flat rate of only four percent, while the firm's owners are exempted from the local Puerto Rico income tax.

- Act 22 allows new arrivals in Puerto Rico to pay a zero percent tax rate on all capital gains realized after becoming a resident as well as dividends and interests from Puerto Rican sources. This is especially beneficial to wealthy retirees who are living off their investments during their golden years.

Compare the tax breaks for Puerto Rico residents to the higher tax burden within the 50 states of the union. For high-income earners, the top federal tax rate on ordinary income in the U.S. is 39.6 percent. Short-term capital gains are taxed at ordinary income rates while the maximum long-term capital gain rate is 20 percent. Plus, some investors must tack on a 3.8 percent surtax on net investment income like capital gains. Finally, residents of states with high income tax rates, like California and New York, might pay an overall tax rate exceeding 50 percent on a portion of their income.

Of course, clients may not be able to get off completely scot-free. They still have to pay U.S. taxes on dividend and interest income from mainland sources as well as deferred compensation and pensions. Also, retirees may owe tax on the Social

Finally, if you move to Puerto Rico, you can retain your U.S. citizenship while saving taxes, not an option in some other so-called tax havens. Of course, this can't be "form over substance." You must legitimately live in Puerto Rico for at least 183 days a year to benefit from the tax breaks. Merely listing a P.O. box as your home address or having your mail sent to a shack on the beach won't suffice.

On the flip side, Puerto Rican authorities have generally embraced the new wave of arrivals with open arms. Although the tax laws may change in the future – both here and in Puerto Rico – this could be an attractive landing spot for some of your clients.

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