



Tax



Tax Rate



Taxpayer

Tax Rate applicable to partial tax waivers

January 8, 2019

On December 31, 2018, the Puerto Rico Treasury Department issued Internal Informative Bulletin No. 18-24, to provide taxpayers guidance with regards to the partial tax withholding waivers for services rendered in Puerto Rico, in light of the agency's publications prior to the enactment of Act 257-2018 (Puerto Rico Tax Reform) on December 10, 2018.

Background

Pursuant to Section 1062.03 of 2011 Puerto Rico Internal Revenue Code, as amended (the "Code") (as it read before the enactment of Act 257-2018), every person, natural or juridical, that in the conduct of a trade or business or an income producing activity in Puerto Rico pays for services rendered in Puerto Rico must withhold 7% of said payment. Nonetheless, 1062.03(g) allows the Secretary of the Treasury to grant total or partial waivers from said 7% withholding at source tax. In the event of a partial waiver, the tax rate is reduced to 3%.

In the exercise of said prerogative, on December 4, 2018, the Puerto Rico Treasury Department issued Internal Revenue Circular Letter No. 18-15 ("CL 18-15") to establish the administrative procedures for the request and issuance of the Total and Partial Tax Withholding Waiver certificates through the Unified System of Internal Revenue ("SURI", for its acronym in Spanish).

Days later, on December 10, 2018, the Governor signed into law the Puerto Rico Tax Reform under Act No. 257 ("Act 257-2018"). Among other things, Act 257-2018 amended the Section 1062.03 and the following changes were made:

For payments made as of January 1, 2019:

- the tax withholding rate is increased from 7% to 10%
- for taxpayers with partial tax withholding waivers, tax withholding rate is increased from 3% to 6%

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For taxable years commencing after December 31, 2018:

- the exemption from the withholding at source requirement is reduced from the first \$1,500 to \$500 on payments made during the year

Notwithstanding the changes established by Act 257-2018, the Partial Tax Withholding Waivers issued for the taxable year 2019 indicate that the payments for services rendered will be subject to a 3% withholding at source instead of the 6% established under Act 257-2018. Bear in mind that these waivers were issued prior to the approval of Act 257-2018, therefore, not properly considering the changes brought under said Act.

In light of the above, the Puerto Rico Treasury Department issued Informative Bulletin No. 18-24 to provide further clarifications on these changes, specifically, to holders of partial tax withholding waivers.

Internal Revenue Informative Bulletin No. 18-24

On December 31, 2018, the Puerto Rico Treasury Department released Internal Revenue Informative Bulletin No. 18-24 ("IB 18-24") to clarify that, effective January 1, 2019, payments made to service providers with a Partial Tax Withholding Waiver processed for the concept of services rendered will still be subject to a withholding at source of 6%, as established under Act 257-2018, regardless of the 3% stated in the waiver issued.

The Puerto Rico Treasury Department is currently working with updating these waivers, which will be issued by Puerto Rico Treasury Department through the services provider's account in SURL. In the meantime, the current waivers will be valid, subject to the 6% withholding at source, until the revised waivers are issued.

Please contact our Tax Department should you require additional information regarding this or any other tax issue. We will be glad to assist you.



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