

Deloitte Tax LLP
Puerto Rico Tax Alert – May 2019 – Number 6

EFFECTIVENESS OF AMENDMENTS INTRODUCED BY ACT 257-2018

On May 1, 2019, the Puerto Rico Treasury Department (PRTD) issued Administrative Determination No. 19-01 (AD 19-01) to clarify the effective dates of various amendments introduced by Act 257-2018 to the 2011 Puerto Rico Internal Revenue Code, as amended, as follows:

<p>For taxable years beginning after December 31, 2016</p>	<ul style="list-style-type: none"> • Section 1031.01(b)(18) - Exclusion from gross income of distributions from an Employees' Trust or an Individual Retirement Account for Disaster. • Section 1081.01(b)(1)(D) - Distributions from an Employee Trust due to a Declared Disaster. • Section 1081.02(d)(1)(I) - Distributions from an Individual Retirement Account due to a Declared Disaster.
<p>For taxable years beginning after December 31, 2017</p>	<ul style="list-style-type: none"> • Section 1010.01(a)(3) - Deadline for the election to be treated as a limited liability company. Therefore, taxpayers will have until the due date of the income tax return, including extensions, to elect.
<p>For taxable years beginning after December 10, 2018</p>	<ul style="list-style-type: none"> • Section 1031.01(b)(3) - Exclusion from gross income of compensation for mental anguish. • Section 4010.01(l)(1)(E) - Amendment to the definition of "Admission Fees" to include fees paid to private or membership clubs that allow members to purchase goods or services in exchange for a membership fee. • Section 4010.01(m) - Amendment to the definition of "Candy" to include drops, spreads or pieces. • Section 4010.01(l)(11)(E) - Elimination of the limitation to the exemption of legal services to those services that could not be provided by other professionals. • Section 4030.19 - Exemption to the rental of machinery, medical-surgical material, equipment and technology used in the rendering of health services. • Section 4030.20 - Exemption on the purchase or rental of electronic books. • Section 4030.26 - Exemption for certain feminine hygiene products.
<p>For taxable years beginning after December 31, 2018</p>	<ul style="list-style-type: none"> • Section 1010.01(a)(35) - Aggregate volume of all related entities will be considered to determine if an entity will be considered Large Taxpayer. • Section 1010.05 - Introduction of terms "Entities" and "Chain of Entities" to the definition of the Group of Related Entities. • Section 1033.14(c)(2) - Restriction on the use of the net operating loss deduction from previous and current year to reduce the distributable share of income from a partnership by the corporate partner in its business operations. • Sections 1035.01(a)(3)(A) and 1035.02(a)(3) - Services rendered to the Government of PR, public corporations, Legislative Assembly, Judicial Branch, municipalities or any other entity created by state or federal law will be deemed income from sources within PR even the services are rendered outside of PR, to the extent that the funds used to pay for such services come from the General Fund. • Section 1062.03(b)(15) - Exemption from withholding tax on payments for services rendered to payments made by a partnership, special partnership or corporation of individuals to an individual that is a partner, shareholder or owner of said entity. • Section 1063.01(a) - Requirement to inform through an informative return the payments made for more than \$500 by any person engage in a trade or business in PR by way of advertisements, insurance premiums, telecommunications services, internet access services, cable or satellite television services. • Section 1033.15 (a)(1)(G) - Procedure to claim the deduction for paid or accumulated interest on residential property when the taxpayer is not the debtor or mortgage co-signer. • Section 1061.02(a) - Large Taxpayers' corporate income tax returns must be certified as prepared or reviewed by a certified public accountant with a PR license.

	<ul style="list-style-type: none"> • Section 1101.02 - Special tax to compensation received by highly compensated officers, directors and employees of non-profit entities. • Section 1101.03 - Special tax for indemnification payments in connection with harassment cases.
For taxable years beginning after May 1, 2019	<ul style="list-style-type: none"> • Section 6030.25 - Procedure for the application of voluntary partial payments and voluntary designated payments for taxes owed to the PRTD.
For taxable years beginning after October 1, 2019	<ul style="list-style-type: none"> • Section 6030.25 - Procedure for the application of voluntary partial payments and voluntary designated payments for taxes owed to the PRTD.

AD 19-01 is effective immediately upon its issuance.

MUNICIPALITY OF SAN JUAN: SALES AND USE TAX AMNESTY

On March 26, 2019, the Municipality of San Juan (Municipality) approved Municipal Ordinance No. 23, Series 2018-2019 to authorize a Sales and Use Tax amnesty to abate interest, surcharges and penalties to those taxpayers with outstanding Municipal Sales and Use Tax debts or those who voluntarily disclose unpaid Municipal Sales and Use Tax.

The amnesty period will cover taxable periods prior to January 1, 2019 and will run from May 1, 2019 thru September 30, 2019.

Each taxpayer shall pay, with the amnesty request, an administrative charge equivalent to five (5%) percent of the tax amount due, which shall not be less than \$100 nor more than \$1,500.

The following benefits shall be available:

- Taxpayers making a one-time payment shall only pay the principal tax amount due;
- Taxpayers under a payment plan shall pay the principal amount of tax due plus ten (10%) percent of such amount owed;
- Taxpayers under judicial proceeding for the collection of the amount due shall pay the principal amount due plus ten (10%) percent of such amount owed.

The taxpayer cannot have Municipal License Tax debts outstanding with the Municipality.

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