

## Tax Insights: Can Puerto Rico afford the effects of the recent Treasury Department's interventions?

During the past months the Puerto Rico Treasury Department ("PRTD") has been very aggressive with merchants who have failed to remit the sales and use tax ("SUT") collected from customers, as well as other withholding taxes. Some of these interventions performed by the PRTD have resulted in the assessment of millionaire debts and the foreclosure of properties, causing several of these merchants to close operations or file for bankruptcy.

It is clear that not remitting the SUT to the PRTD is unlawful and must be penalized. The owners of these businesses are fully responsible for establishing the adequate procedures to comply with the requirements of the law.

The question many people are asking tough is: Why now? Why does the PRTD wait for merchants to accumulate large amounts of debts to take action and collect those debts?

Since August 2014, the PRTD implemented the electronic system called PICO used by merchants to file the Declarations of Imports, Tax on Imports Monthly Returns and the SUT Monthly Returns. Prior to PICO, the SUT Monthly Returns were also filed electronically. Therefore, the PRTD has in its database the information of every merchant, being able to identify the merchants that are not in compliance, especially those filing returns but not remitting the tax collected.

This situation brings to the table the discussion of the effectiveness of these interventions versus investing in a more efficient fiscalization and monitoring system.



Our appreciation is that the most affected by these interventions are the small businesses and their employees who may lose their jobs if the PRTD closes the operation. Businesses filing for bankruptcy and a higher unemployment rate would not be helpful for the improvement of the fiscal crisis that Puerto Rico is currently suffering. Instead, this situation may strengthen the inability of the tax system to generate the revenue needed to cover the government expenditures. Many studies have demonstrated that the best way to positively impact the economy of a country is by investing in local businesses.



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It is true, the Secretary of the PRTD has expressed the positive effect these businesses interventions have had in other businesses that are not in compliance, but how many more interventions will it take to create the so called “intangible” for the Treasury Department?

The Puerto Rico government has the necessary personnel (if not in Treasury in other agencies) to monitor and control the SUT evasion. However, a rigorous plan is necessary to re-train personnel and thus increase the uptake of SUT. By doing this, the PRTD will impose its authority, gain the respect from the taxpayers and create its intangible.

With the effectiveness of the VAT just around the corner (April 1, 2016), it is time for businesses to assess their compliance or lack thereof, with the SUT rules and regulations and have a clean start.

The Secretary has expressed some of his plans to continue increasing the collection of the SUT and eventually the VAT. We certainly expect these will reduce the need for interventions to businesses trying to collect due taxes and provide the needed stability and certainty business require to invest in our economy.

At **Kevane Grant Thornton** we are prepared in assisting you with the compliance of SUT rules and regulations. We can help you determine the course of action to become compliant and also evaluate alternatives.