

Estate planning notes

Deductions and credits available to Puerto Rico individuals

The following deductions are available in Puerto Rico for PR individuals (residents of Puerto Rico that will be taxed at the time of death on their worldwide assets and for federal tax purposes only on the assets located in the United States):

Marital deduction - The value of property transferred by Will to the surviving spouse (other than the share in the community property) is allowed as a deduction from the gross estate. The deduction will be limited to the amount that the decedent can transfer without impairing the rights of forced heirs (Puerto Rico Civil Code).

Fixed exemption - A fixed exemption of \$1,000,000 is allowed as a deduction from the gross estate of a decedent who is a resident of Puerto Rico at the time of death. This deduction must be taken before the deduction for property located in Puerto Rico and is prorated among the estate assets based on the fair market value of the assets. The basis of the property acquired from a decedent is increased by the prorated allocated exemption independently if the asset qualified for the deduction for property located in Puerto Rico or for the credit for the responsible taxpayer.

Property located in Puerto Rico - A deduction for the value of the property located in Puerto Rico (PLPR) on the date of death but the definition of PLPR has some special requirements in the case of entities owned by the decedent.

If a decedent owned more than 10% of the stock or interest (by value or voting power) of entities organized under the laws of Puerto Rico, the entity must derive at least 80% of its gross income from the active conduct of a trade or business in Puerto Rico during the three-year period ending with the close of the taxable year preceding the death (gross income test). For this test, the gross income of any entity in which the Puerto Rico entity owns directly or indirectly, more than 50% of the stock should be taken into account. In the alternative, 100% of its assets should consist of PLPR (assets test). If none of these tests are satisfied, the stock or interest in the entity will not qualify for the deduction for PLPR. If the decedent has stock or interest in a foreign entity (i.e. not organized under Puerto Rico laws), the same will qualify for the deduction for PLPR, if it complies with the gross income test.



Contact us

For assistance in this matter, please contact us via maria.rivera@pr.gt.com, lina.morales@pr.gt.com, francisco.luis@pr.gt.com or isabel.hernandez@pr.gt.com



Adding true value means exceeding our clients' expectations, anticipating their needs and being proactive and innovative in the accounting profession.

Through the **Kevane Grant Thornton business and tax application for mobile devices** you will have access to our Alerts, Tax News and other related matters, plus a customized tax calendar for individuals, businesses and other entities, thus providing an excellent tool to manage filing and payment due dates with government agencies in Puerto Rico.

Download for free the application. Available for iPhone, Motorola and all tablets.



Follow us on  and 

July 7, 2015

Kevane Grant Thornton LLP
33 Calle Bolivia Ste 400
San Juan, Puerto Rico 00917-2013
T + 1 787 754 1915 F + 1 787 751 1284
www.kevane.com

DISCLAIMER: This update and its content do not constitute advice. Clients should not act solely on the basis of the material contained in this publication. It is intended for information purposes only and should not be regarded as specific advice. In addition, advice from proper consultant should be obtained prior to taking action on any issue dealt with this update.

© 2015 Kevane Grant Thornton LLP All rights reserved.
Kevane Grant Thornton LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please visit www.kevane.com for further details.

Other examples of property that qualifies for the deduction for PLPR are: bonds, notes and other obligations of the government of Puerto Rico, qualified annuities, individual retirement accounts, deposits, certificates of deposit and savings accounts.

Funeral expenses - the deduction for expenses paid for the funeral of the decedent is limited to \$6,000.

Professional services fees - The maximum deduction for fees paid to accountants, lawyers, appraisers, partitions, executors and surveyors is 5% of the gross estate. Qualifying fees are those actually paid until the date of filing the final estate tax return.

Other deductions - decedent's debts or mortgages, taxes, accidental losses not compensated by insurance, legacies or bequests for public and charitable or religious purposes.

Tax computation based on net taxable estate - once the net taxable estate is determined the tax will be a flat rate of 10%. However, the Law provides some tax credits to offset the tax as follows:

Tax credit for the responsible taxpayer - Estate of a decedent resident of Puerto Rico who at the date of death does not have tax debts pending payment (including any entity owned 10% or more by the decedent) and whose executor timely complies with the payments of the tax obligations due after the death could offset 100% of the Puerto Rico estate tax.

Other credits - Death taxes paid to any state or the District of Columbia, federal death taxes paid and gift taxes paid or tax on prior transfers are also creditable.

We can help you understand the complex estate tax rules and create an estate plan with you. We provide sound and practical solutions to minimize the effect of taxes on your estate.

Formalize your wishes in an estate plan. It is an important step that cannot wait.

