



## TAX INSIGHTS

### Puerto Rico Tax Exemption & Compliance for Non-Profits

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Not-for-profit organizations are essential to society, as they serve in many important social, educational, and humanitarian causes. These organizations can provide hope, improve quality of life and address health related issues for those in need, making them pillars in society. As a matter of public policy, the government acknowledges that these organizations provide essential services typically entrusted to the public sector that would otherwise require public funding. In recognition of their contribution, they are granted tax exemptions.

Like any other operating entity, not-for-profit entities (“NFP”) rely on diverse sources of income to fund their operations and fulfill their mission. Such funds consist mainly of donations, grants, fundraising events and other types of contributions such as voluntary work. Therefore, the efficient use of these funds is extremely important as their priority is to reach the communities in need.

Understanding federal and local requirements is also essential, as it can help NFPs to preserve their tax-exempt status and support their legitimacy and sustainability. This article will help NFPs to maximize their while complying with the Puerto Rico Tax authorities and avoid unnecessary penalties and other hassles.

#### **What is considered a non-for-profit entity in Puerto Rico?**

In Puerto Rico, an NFP entity is an entity that is legally organized as such and offers services without the purpose of generating profit, aimed at helping the community for public benefit without distributing profits to members, officers, or directors.

However, to be considered exempt for Puerto Rico income tax purposes, the organization must request an exemption under Section 1101.01 of the Puerto Rico Internal Revenue Code (PRIRC)

and a certificate of compliance to the Puerto Rico Department of Treasury (PRDT). It is not an automatic status even if qualified under Section 1101.01, or if the organization has a Federal exemption under Section 501(c)(3) of the U.S. Federal Internal Revenue Code (USIRC).

### **Requesting the Exemption and Compliance Certificate in Puerto Rico.**

Every NFP, domestic or foreign, must request a determination from the Secretary of the PRDT approving the tax exemption under Section 1101.01 of the PRIRC. To make this request, the entity must file Form SC 2645 electronically through the Unified Internal Revenue System (SURI) along with all the required information requested in such Form. PRDT Circular Letters 07-08 and 20-06 establish the process and documents that must be submitted by NFP seeking the tax exemption.

Per CC RI 18-08, and at the Secretary's discretion, the NFP will be required to submit an Agreed Upon Procedure (AUP) or Compliance Report, issued by an authorized CPA with a valid license in Puerto Rico to obtain the tax-exempt status under an expedited procedure process. Such AUP or Compliance Report must certify that the entity complies with all the requirements to obtain the exemption. In those cases, the tax exemption request will be considered approved within 30 days of its filing unless the Secretary rejects it during such period.

### **Organizations Holding Federal Exemption Under Section 501(c)(3).**

A common misconception is that organizations holding a federal tax exemption under Section 501(c)(3) of the USIRC automatically have an exempt status in Puerto Rico. However, entities with federal exemptions are subject to the same exemption requests and compliance as domestic NFPs in Puerto Rico, in order to achieve their exempt status for Puerto Rico income tax purposes.

On the bright side, federal tax-exempt NFPs can request an expedited exemption request to the PRDT following the requirements laid out in Circular Letter 25-11.



**Key Insight:** To obtain a tax-exempt status, organizations, foreign or domestic, must be current with their tax responsibilities with the PRDT.

### **Puerto Rico Tax Compliance Requirements.**

#### **Tax Compliance**

While an NFP that complies with all the requirements to maintain its tax exemption status is exempt from income taxes and municipal taxes, it must submit tax returns and/or reports to the respective governmental agencies and municipalities.

## Informative Return for Income Tax Exempt Organizations, Form 480.7(OE)

- Must be prepared by every not-for-profit entity exempt from taxation under Section 1101.01 of the PRIRC, as amended.
- Religious organizations under PRIRC Sec 1101.01(a), tax- exempt employees trusts, and government-affiliated nonprofit organizations are exempt from filing Form 480.7(OE).
- Due on the 15<sup>th</sup> day of the 6<sup>th</sup> month following the closing of the taxpayer fiscal year. Must be filed electronically in most cases. Six-month extension is available. Must be filed electronically through SURI.
- Must submit separately a copy of the entity's Income Statement to the PRDT.

## Municipal License Tax, Form OGP PA01

- Although exempt from the Municipal License Tax, NFPs may be required to file a Volume of Business Declaration and or register in the Municipality in which the entity is doing business, depending on the Municipality's internal administrative procedures.
- Due on the 5th business day following the 15th of April of each year or the date established by the PRDT for the filing of the income tax return. A six-month extension is available. Electronic filing or Paper Filing will be subject to the requirements of each separate municipality.

## Real and Personal Property Taxes

- Normally, Real and Personal property owned by NFPs are exempt from property taxes. However, personal and/or real property not used by the NFP or rented to other for-profit businesses will be subject to tax.
- Due on May 15 of each year. A three-month extension is available. Both the extension and the return must be filed electronically.

**Key Insight:** Some NFPs choose to file personal property tax returns as a protective measure and/or to obtain good standing certifications with the Municipalities, which sometimes are required for other transactions.

## Department of State Annual Report

- Must be filed annually on or before April 15 of each year through the Department of State Portal, and it has a filing fee of \$5. An extension and additional extensions are also available through the portal. Each extension also has its additional filing fee.

## Sales and Use Tax (SUT) and other related taxes.

- NFPs are not exempt from SUT and other related taxes. Such entities must file monthly SUT returns when applicable.

**Key Insight:** Unrelated Business Income as well as property directly used on unrelated business operations will be subject to taxation. For more information, jump to the “Unrelated Business Income” section below.

## U.S. Federal Tax Compliance Requirement.

### Return of Organization Exempt from Income Tax, Form 990/990EZ

- If the NFP enjoys a federal tax exemption under section 501(a) of the USIRC, it must file an annual information return (Form 990 or 990-EZ) or submit an annual electronic notice (Form 990-N), depending upon the organization's gross receipts and total assets.
- Entities registered in Puerto Rico, domestic and foreign, that have a requirement to file a 990/990EZ must file the return on or before the 15th day of the 5th month after the organization's accounting period ends (May 15th for calendar-year filers).

## Other Annual Obligations in Puerto Rico

For years beginning on January 1, 2019, domestic Puerto Rico NFPs will be subject to prepare and submit AFS to the PRDT when its Unrelated Volume of Business is \$3,000,000 or higher. If this threshold is not met, or the entity does not have unrelated business income, AFS will not be required.

NFPs must comply with payroll-related filing requirements, informative returns (Forms 480s) requirements and their respective withholding at source when applicable.

**Key Insight:** Although NFPs have an exempt status, penalties for late filing, and/or interest and surcharges for late payments will be applicable in cases of non-compliance.

For more information regarding tax returns and other compliance reporting due dates for entities doing business in Puerto Rico, you may access our Tax Calendar on the following link: [2025 Tax Calendar](#)

## Unrelated Business Income

A nonprofit organization may be subject to income tax if it is engaged in an unrelated business activity or pays substantial compensation to its employees, officers or directors. In such cases, the entity will be subject to the regular taxes imposed on regular corporations doing business in

Puerto Rico. The NFP will also be subject to the municipal license tax and real and personal property taxes on the unrelated business operations.

**Key Insight:** NFPs should stay alert to UBI balances. If they surpass certain thresholds, the NFP's tax-exempt status could be jeopardized. It is essential to monitor UBI balances and consult with advisors to ensure ongoing compliance with exemption requirements.

### Benefits of compliance

Compliance with government laws and reporting requirements plays a vital role in keeping their tax-exempt status, ensuring financial sustainability, and continued eligibility for public and private funding. Also, donors will be able to claim deductions on their income tax returns when compliance is met. Given the complexity of these laws and the fast-paced environment, we highly encourage NFPs to seek professional guidance to stay informed on compliance requirements, ensure they remain in good standing, and continue fulfilling their goals and achieving their impact in society.

We have highly qualified tax professionals ready to assist you with these tax exemptions and their compliance requirements. Feel free to contact us, and we will gladly schedule a call with you to help you.

We are committed to helping you navigate Puerto Rico's tax environment and keep you up to date with all tax-related developments. Please contact our Tax Department for additional information on the incentives discussed above or any other available incentives. We will gladly assist you.



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