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Kevane mailbag

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The Kevane mailbag is your link to our communications related to the operations of businesses in Puerto Rico. Our purpose is to offer you up-to-date information concerning tax, accounting and any other matters that might have an impact on the way you conduct business in Puerto Rico.

The Alerts contained in our mailbags can also be accessed through our website under the Publications tab\Professional Articles section or by downloading our businsess and tax application for mobile, tablets and iPad for free through the App Store and the Google Play. Search for Kevane Grant Thornton.

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Icon	Content
Audit 	Continuing from our last month's Audit Alert we now report that the FASB met on March 4 to continue its discussion on financial statements for not-for-profit entities and requirements for fair value measurements. Read related information on page 2.
Tax 	Prepayment windows for certain items and amnesty period still available until April 30 and June 30, 2015. Read more on page 3.
Advisory 	In today's complex financial system, sooner or later every financial transaction will leave a footprint no matter how hard it was tried to tread lightly. Access the article on page 4.
Outsourcing 	Are your service providers' employees or independent contractors? It's critical that business owners correctly determined whether the individuals providing services are employees or independent contractors. Read more on page 7.
General information 	We are happy to announce that we have created an Alumni tab in our website as a resource to reconnect with former Kevane Grant Thornton colleagues, who are an integral part of the Firm's culture. If you are part of this group, visit the Alumni site here. Become part of this initiative and help us spread the word in building a strong network. Thank you!

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Audit Alert: Fair value measurement disclosure review

Continuing from last month audit alert we now report that the FASB met on [March 4](#) to continue its discussion on financial statements for not-for-profit entities and to discuss disclosure requirements for fair value measurements. Highlights of the discussions are featured below.

The Board tentatively decided to remove the following disclosure requirements from ASC 820, Fair Value Measurement, because they are inconsistent with the guidance in the 2014 proposed Concepts Statement, *Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements:*

- the policy for timing of transfers between the fair value hierarchy levels
- the amount of and reasons for transfers between Levels 1 and 2
- the internal valuation processes for Level 3 fair value measurements
- for private companies, the change in the unrealized gains and losses for the period included in earnings (or changes in net assets) on recurring Level 3 fair value measurements that are held at the end of the reporting period.

In addition, the Board tentatively decided to modify the ASC 820 disclosure requirements as follows:

- for investments in certain entities that calculate net asset value, reporting entities would disclose the estimated timing of asset liquidations
- and the date when restrictions from redemptions might lapse only if the investment entity has communicated the information directly or indirectly to the reporting entity.
- private companies would no longer be required to reconcile the opening balances to the closing balances of recurring Level 3 fair value measurements and instead would disclose transfers into and out of Level 3 as well as purchases of Level 3 assets.

Lastly, the Board tentatively decided to require entities, excluding private companies, to disclose the unrealized gains and losses recognized in other comprehensive income and earnings (or changes in net assets) by level for recurring fair value measurements held at the end of the reporting period.

Source: Grant Thornton, On The Horizon, March 12, 2015

We are committed to keep you updated of all developments that may affect the way you do business in Puerto Rico. Please contact us should for assistance in relation to this or any other matter.

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For assistance in this matter, please contact us via luiscarlos.marcano@pr.gt.com

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Tax Alert: Prepayment windows and amnesty period still available

We continue focusing and monitoring the legislative process for the approval of the Transformation of the Tax System Bill (P de la C 2329). Recently, the House of Representatives presented a revised version of Bill 2329 which includes significant changes. Among them, it is probable that the expected relief in the income tax arena will be noteworthy less than what it was originally anticipated.

With all the changes to come, we want to remind you of the benefits of Act 44 approved last March ("Act 44-2015"). This Act provides for the extension of prepayment windows for certain taxable items and established a tax amnesty period. Prepayment windows in effect until **April 30, 2015 are:**

- undistributed accumulated amounts in a variable annuity contract (at a special rate of 10%),
- accrued gain on qualified assets for individuals (at a special rate of 8% and 15%) and corporations (at a special rate of 12%),
- individual retirement accounts ("IRA's") (at a special rate of 8%),
- educational savings accounts in which the taxpayer is the owner or beneficiary (at a special rate of 8%); and
- dividend distributions and deemed dividend distributions made between January 1, 2015 and April 30, 2015 (at a special rate of 5%).

However, Act 44-2015 also provides for an 8% special tax rate on any dividend distribution and deemed dividend distributions if payments are made between May 1, 2015 and June 30, 2015. It is highly recommended that an "earnings and profits" study be made to properly evaluate the potential savings that this prepayment could offer. The original Bill 2329, as well as the revised version of the House of Representatives, proposes increasing the dividend taxation from 15% to either 30% or 20%, depending on the version of Bill 2329.

In addition, the incentive payment plan and voluntary disclosure program introduced by Act 44 continues until **June 30, 2015.** For more details on the dividend distributions rules, debts covered in the amnesty period and voluntary disclosure program please refer to our April 1, 2015 Tax Alert: **Prepayment windows extension and amnesty period opportunity in Puerto Rico**.

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

Contact us

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April 24, 2015

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Advisory Alert: Tracking transactional footprints in a globalized world

Introduction

Asset tracing is a common challenge faced by investigators in bankruptcy proceedings, criminal and civil prosecution cases, civil litigation, defalcation investigations, matrimonial disputes, and many other situations. The facts and circumstances of each case — and even the types of cases — vary widely, but the ultimate goal is the same: Finding hidden assets.

Assets are anything of value, and they are transformed through financial transactions. Each transaction has a documentation footprint, the size of which depends on the method used to conduct the transaction. A cash-based transaction, for instance, leaves a much smaller footprint than an international wire transfer conducted at a bank.
The documentation for a wire transfer includes wire transfer forms completed by the initiator at the time of the transfer and subsequent documentation on the bank statements of both the sender and the recipient.

Read correctly, transactional footprints can provide an investigator with the facts and information needed to follow the money trail, including the initiator of the transaction, the asset type, the means of the transaction (e.g., wire transfer, “casa de cambio”), and the recipient.

Two analytical options

Investigators can use two related but distinct types of analysis to find hidden assets: Net worth analysis and cash flow analysis. These two types are analogous to the financial reporting world’s balance sheet and income statement.

Net worth analysis is a point-in-time document that provides a listing of assets and liabilities with corresponding values. The subject of an investigation is the beneficial owner of the asset or the party responsible for the liability. Just as a balance sheet provides a snapshot of the book value of a company, the net worth analysis summarizes a person’s overall worth on a specific date.

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April 22, 2015

A cash flow analysis, in the context of asset tracing, is a summary of the fund flows through an investigation of subject's assets and liabilities, such as a wire transfer through a bank account. This type of analysis is similar to an income statement's view of a company's operations.

The backbone of a cash flow analysis is a documented view of the subject's financial transactions within his or her known assets. Just as an income statement is supported by general ledger detail, a cash flow analysis summary is supported by financial transaction detail. Although the cash flow analysis has the word "cash" in its name, it is not limited to cash transactions, nor is it the same as the cash flow statement of a company. Rather, it correlates the income and expense transactions in which an investigation subject participates, regardless of the form of money.

Step 1: Define the universe, timeline and beginning net worth analysis

Defining the investigation subject's universe is the starting point for following the transformation of assets through financial transactions. A timeline should be established to document the scope of work to be performed. Typically, the starting point of the timeline should begin before the triggering event (e.g., the suspected point of employee defalcation) that prompted the investigation. A subject's universe consists of all of his or her known assets and liabilities. Although ownership, responsibility or value may not be fully known at the beginning of an investigation, a baseline of assets and liabilities is very important during documentation of the cash flow analysis (see the next step).

Ultimately, the universe an investigator can define will depend on the documentation available in the case. Multiple types of documentation should be used in tandem to define the universe, including tax returns, public records including UCC filings, and bank account opening documentation or initial statements. Documenting assets and liabilities with corresponding values creates the beginning net worth analysis.

Categories in the net worth analysis include bank accounts; loans, notes and other receivables; equity ownership or securities; employment or other income sources; real estate; life insurance; pensions or retirement accounts; vehicles; other assets; loans, notes and other payables; taxes payable; mortgages or loans on real estate; and other debts.

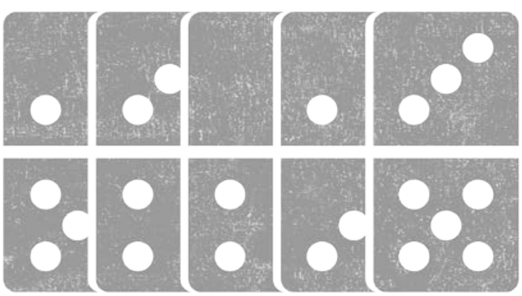
Step 2: Document the cash flow analysis

The cash flow analysis begins when assets are classified as static (those that are not increasing and decreasing in value on a regular basis, such as automobiles) or dynamic (assets whose value rises and falls throughout the period of review, such as bank accounts). Only dynamic assets are included in the cash flow analysis.

Dynamic asset transactions should be documented to identify the account, date, type, description and amount of the transaction. Once information regarding all transactions is documented, each should be classified as generated internally or externally. Internally generated transactions include bank fees, interest and interaccount transfers. Externally generated transactions (flows of funds either into or out of the universe) should be scrutinized to accumulate information regarding source or disposition. In addition, transactions relating to the known assets and liabilities documented in the beginning net worth analysis should be noted in order to calculate value fluctuations.

Step 3: Identify the ending net worth analysis and combine it with the cash flow analysis

After the cash flow analysis is completed, a second point-in-time net worth analysis should be created using value fluctuations found in the cash flow analysis as well as additional information — including public records — identified throughout the case. By removing transactions that are associated with known assets or liabilities, or are universe-generated, the investigator is left with transactions that have an unidentified source or disposition. In some cases, documentation that exists within the account statements used for the cash flow analysis provides information regarding the bank, account number or recipient of a transaction. Public records can be used to bolster the information known about these transactions.



Combining cash flow and net worth analyses allows the investigator to identify transactions in excess of known income, document inaccuracies in the known values of assets or liabilities, and determine potentially unknown stores of wealth.

Conclusion

The nature of today's interrelated, immediate and complex financial system ensures that individuals will leave transactional footprints, no matter how hard they try to tread lightly. At some point, cash has to enter the financial system; burying it means not spending it. The systematic approach outlined above provides a methodology for following a subject's transactional footprints in the globalized world.

Through clear insights, practical solutions and an unmatched commitment to quality, we help clients solve problems, manage risk and seize opportunities to unlock their potential for growth.

Consultations are completely confidential.

Outsourcing Alert: Employee or independent contractor?

The question of whether a person in a business relationship is self-employed or is an employee-employer relationship is not one that is always easy to answer. It's critical that business correctly determined whether the individuals providing services are employees or independent contractors.

Determining whether the individuals providing services are employees or independent contractors

Independent Contractors Defined

People such as doctors, dentists, veterinarians, lawyers, accountants, contractors, subcontractors who are in an independent trade, business, or profession in which they offer their services to the general public are generally independent contractors. The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done.

Employee (Common-Law-Employee)

Under common-law rules, anyone who performs services for you is your employee if you can control what will be done and how it will be done.

The IRS has established seven tips to business owners to determine the correct business relationship. These are rules that will help you determine how to classify the people you hire. This will affect how much you pay in taxes, whether you need to withhold from your workers' paychecks and what tax documents you need to file.

Employers must withhold income taxes, and pay payroll taxes such as Social Security, Medicare and Unemployment tax on wages paid to an employee. Independent Contractors are not subject to payroll taxes and generally are only subject to the income tax withholding at source of 7%.

Links-
IRS Publication - Independent Contractor (Self Employed) or Employee?
http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Independent-Contractor-Self-Employed-or-Employee

Seven Tips for Business Owners: http://www.irs.gov/uac/Employee-vs.-Independent-Contractor-%E2%80%93-Seven-Tips-for-Business-Owners

At Kevane Grant Thornton we provide our clients with personalized attention, valuable advice and recommendations, tailored solutions and direct access to technical experts to help clients resolve issues and identify opportunities.

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