

Kevane mailbag

February 26, 2015 – Issue 47






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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 business 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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Audit 	The Financial Accounting Standards Board met to discuss its project on principal versus agent analysis as well as two of its simplification initiatives . Read related information on page 2 .
Tax 	Several legislative measures to strengthen the economic development of the island and government collections have introduced important changes you will need to consider when preparing your 2014 tax returns. Read more about this matter on page 3 .
Advisory 	Without adequate succession planning, growth can stagnate, management may become disillusioned and value erosion could follow at alarming speed. Recognizing that shift is one thing. Taking the steps to consider the consequences and structure an appropriate succession plan is another matter altogether. Start planning today! Access the article on page 5 .
Outsourcing 	The Puerto Rico Treasury Department has issued the Informative Bulletin for Internal Revenue No. 15-04 with the new withholding rules applicable to wages paid after December 31, 2014. Read about this topic on page 9 .
General information 	The latest GrowthIQ article looks at the rise of ' The global sharing economy '. With new businesses such as Airbnb, Uber and ZipCar exploiting technology to disrupt their markets. Steve Perkins, Grant Thornton global leader for technology of, tells business leaders to embrace the cultural and social changes that mean people are looking for access rather than ownership

Audit Alert: FASB finalizing ASU for principal versus agent analysis

The Financial Accounting Standards Board met on January 28 to discuss its project on **principal versus agent analysis** as well as **two of its simplification initiatives**.

Source: Grant Thornton, *On The Horizon*, February 5, 2015

Highlights of these discussions are featured below.

Principal versus agent

The staff updated the Board on the status of the principal versus agent analysis project, specifically addressing feedback received from practitioners and financial statement preparers on tentative decisions concerning series mutual funds reached at the December 10, 2014 meeting. Those tentative decisions include the following:

- Mutual funds and similar legal entities that either comply with or operate under requirements similar to those for registered mutual funds under the Investment Company Act of 1940 would be required to perform the variable interest entity/voting interest entity determination under ASC 810-10-15-14(b)(1), *Consolidation*.
- The Board would provide implementation guidance to assist those entities in interpreting the voting right criterion in the variable interest entity/voting interest entity scope determination.

The staff intends to further clarify these tentative decisions in the Basis for Conclusions of the final ASU, which is expected to be published soon.

Balance sheet			
	in	th	in
Figure 1	\$1,400	7,900	4,000
Figure 2	2,700		5,811
Figure 3	1,900	7,300	850
	58,800		34,600
Figure 4		5,000	5,000
Figure 5		7,400	5,500
Figure 6		2,170	5,000
Figure 7		200	700
Figure 8		4,000	4,000
Figure 9		5,000	13,000
		27,200	48,500
Figure 10	5,000	1,000	
Figure 11	3,000	1,000	
	4,000	2,000	
Figure 12	1,000		8,000
Figure 13	5,000		2,000
Figure 14	4,000		3,000
Figure 15	5,000		5,000
Figure 16	5,000		5,000
	26,000		26,000

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 we may be of further assistance in relation to this or any other matter.



Contact us

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Date February 13, 2015

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Tax Alert: Changes to consider when preparing your 2014 tax returns

During 2014 the Puerto Rico Government set forth several legislative measures to strengthen the economic development of the island and increase the government collections. Herein you will find a brief summary of the most important changes, introduced by Act 77-2014, Act 135-2014 and Act 238-2014, you need to consider in the preparation of your 2014 tax returns:

Individual taxation

- \$40,000 exemption on income derived by youngsters from salaries, services rendered and/or self-employment. *(Please note exemption needs to be documented on employee's Form W-2PR in order to be claimed).*
- Change in alternate basic tax ("ABT") rates for taxable year 2014. Higher rate of 24% starts now at the \$300,000 threshold.
- ABT carryover credit now limited to 25% of the excess over regular tax.
- The 2% special tax on self-employed individuals does not apply to agricultural activities.
- Special rate on net long-term capital gain increased to 15% for sales or exchanges taking place after June 30, 2014.
- Special tax on dividend distributions of certain corporations increased to 15% for distributions after June 30, 2014. *(Please note that the withholding requirement increase to 15% is effective October 31, 2014).*

- Puerto Rico dividends special tax rate on non-resident alien individuals increased to 15% effective June 30, 2014. *(Please note that the withholding requirement increase to 15% is effective October 31, 2014)*
- Holding period for short-term and long term capital transactions increased (short-term – 1yr or less; long-term more than 1yr) effective for transactions after June 30, 2014.
- New limits on carryover capital loss amounts. Now, limited to 90% of the gain, plus taxpayer net income or \$1,000 which ever is less.
- New carryover periods on capital losses. Seven (7) years carry over period for losses incurred in taxable year 2012 and forward.
- Earned income credit was eliminated for taxable years beginning after December 31, 2013.
- Credit for low income persons age sixty-five (65) years and older decreased to \$200. *(Please note credit is only available to PR residents).*



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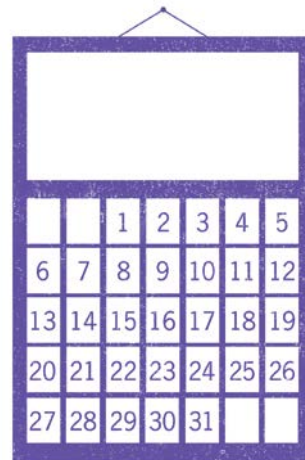
February 16, 2015

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Corporate taxation

- Special rate on net long-term capital gain increased to 15% for sales or exchanges taking place after June 30, 2014.
- Special tax on dividend distributions of certain corporations increased to 15% for distributions after June 30, 2014. *(Please note that the withholding requirement increase to 15% is effective October 31, 2014)*
- New “patente nacional” dispositions (Section 1023.10A) in effect:
 - i. Patente nacional now an additional tax (not part of AMT or ABT).
 - ii. New rates table ranging from .35% for income \$3 million to \$100 million to 1% on income over 1,500 million.
 - iii. Special rates for merchants in the retail sale of unprepared foods.
 - iv. Amount paid on or before the due date to file the income tax return can be claim as a deductible expense for such year.
 - v. Partnerships, special partnerships and N corporations subject to the Supplementary Return filing need to include copy with informative income tax return upon filing.
- Holding period for short-term and long term capital transactions increased (short-term – 1yr or less; long-term more than 1yr)effective for transactions after June 30, 2014.
- New limits on carryover capital loss amounts. Now, only 90% of the gain.
- New carryover periods on capital losses. Seven (7) years carry over period for taxable year 2012 and forward.
- Alternative minimum tax carryover credit now limited to 25% of the excess over regular tax.
- New 10% tax on deemed dividend distributions to a foreign owner of a Corporation regardless of the actual payment of dividend date. *(Please note that services rendered for a foreign owner or related party will be excluded from the term “Foreign Asset”).*



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

Advisory Alert: Succeeding at succession — structuring your transition plan

Matching your objectives with your exit strategy

In the early years of a privately held business, it's not uncommon for owners to follow Bob Dylan's risk mitigation strategy: when you got nothing, you got nothing to lose. Over time, those who successfully employ that strategy, as well as more conventional ones, frequently find themselves with something—a profitable business—and much to lose: wealth, family harmony and more.

Despite these achievements, many business owners unwittingly risk losing everything by failing to adopt the optimal transition structure. Very frequently, family-owned businesses fail following the death of the founder. Unexpected events aren't the only source of business failure.

Just 30% of family-owned businesses survive the second generation, 15% the third generation and 5% the fourth, according to the Canadian Association of Family Enterprise (CAFÉ). 78% of family businesses face a transition of ownership within the next 15 years, yet 70% have done no succession planning.

These numbers paint a bleak picture for the future of privately held business, at least at first sight. Yet many businesses thrive and prosper after succession.

Why? Because the owners took time to align their personal objectives with an appropriate succession structure, one that not only pays

financial and emotional dividends, but also reduces the risk of business failure and minimizes taxes.

Have you reached a turning point in your business?

While the need for an effective succession plan is ongoing and best started early, it is often precipitated by a shift in the owner's outlook toward business and life. In some cases, owners who were willing to bet the house on a new or rapidly-growing business become more reluctant to gamble with both personal and company assets as time goes on. In other cases, the need for a new generation of managers or a transition to the next generation is the impetus for the succession.

External change, such as market dynamics, can also bring an owner to a turning point. The business may need new strategic direction to maintain competitive advantage and maximize shareholder value. Or the new realities may put the owner at odds with younger managers or family members seeking faster change or more aggressive tactics.

No matter what the precipitating factor, the shift in attitude can have unintended consequences. Without adequate succession planning, growth can stagnate, management may become disillusioned and value erosion could follow at alarming speed. Recognizing that shift is one thing. Taking the steps to consider the consequences and structure an appropriate succession plan is another matter altogether.



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February 13, 2015

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The first step is to reflect on what you want for yourself and for your business. Few business owners allow themselves this luxury, but it's critical to establishing a personal agenda and identifying catalysts for change. This self-evaluation requires the owner to honestly answer questions such as:

- What are your personal ambitions? How long, for example, would you like to stay active in your business;
- Are your personal aspirations aligned with the objectives of your business?
- What is your appetite for risk and is it aligned with your company's strategic direction?
- What underlying challenges does your business face?
- Do they require capital?
- Is your management team capable of operating and growing the company?
- Do you need any personal liquidity?

It's important to keep an open mind when undertaking this self-evaluation. Your answers may surprise you. Quite often, an owner is thinking more about aspirations for their business and less about outcomes from a

personal perspective. In other cases, the owner may harbor nagging self-doubts about their own abilities, believing their company will be substantially better off in the hands of someone else. Then, through this introspective discovery process, they realize that isn't the case after all.

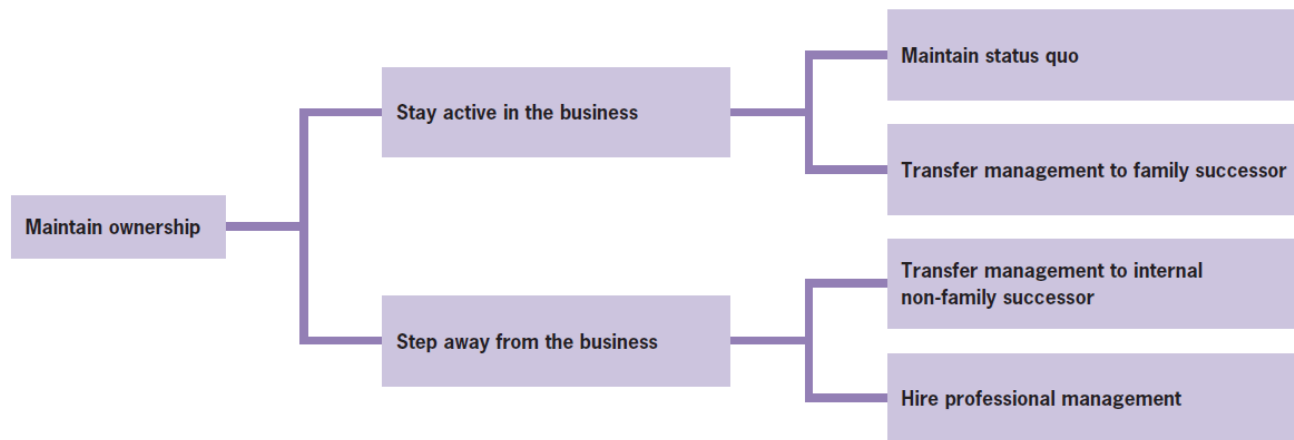
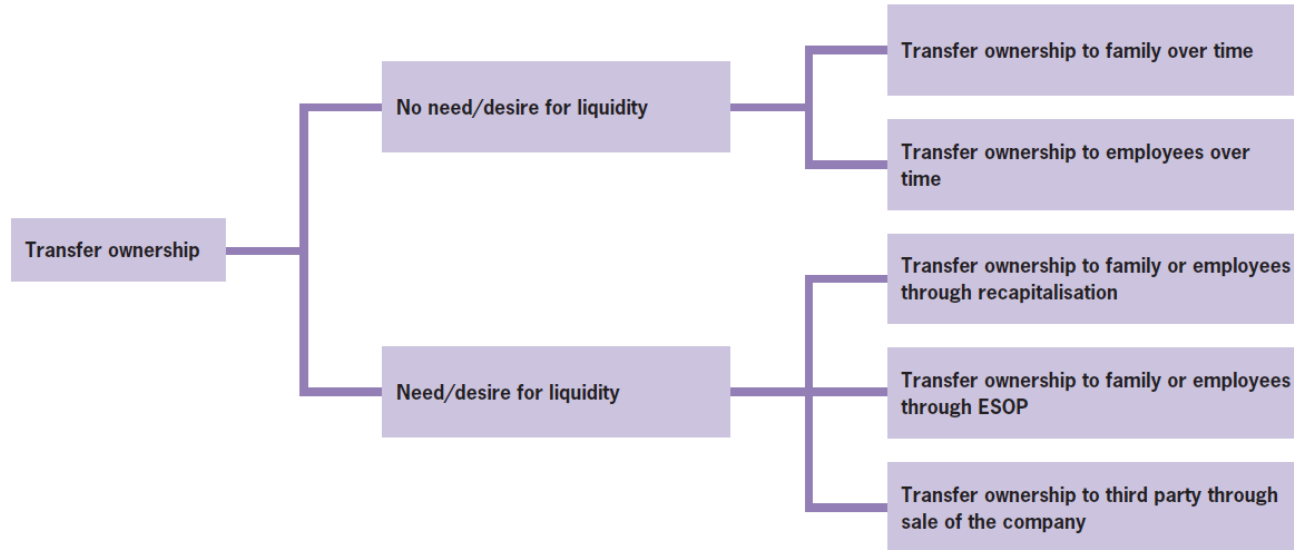
Of course, any number of conclusions is possible, including maintaining the status quo, at least for the time being. The goal is to reaffirm what you're seeking for yourself and to determine the implications of those choices from a business ownership and management perspective.

Selecting the best structure

With a clear understanding of your objectives, you have the elements you need to structure your succession plan. Whether you intend to transfer or maintain ownership, the following decision trees can assist you in evaluating your options.

This process is especially useful in helping you decide whether to look internally or externally for the human and financial resources you'll need to reach your objectives.

Transferring ownership options



There are many techniques and structures that can work independently or together. The key is to match these to your company’s cash flow, growth plans and your need to take money off the table.

Keeping your options open

Establishing a structure for your succession plan is essential, but it’s only a good first step. Because in business, as in life, things rarely go according to plan. So the structure must be flexible enough to adjust to changing

circumstances. Determining the degree of flexibility requires consideration of two groups of factors: controllable factors, such as company policies, family creed and business values; and uncontrollable factors, including economic trends, ownership continuity and growth plans.

All of these internal and external factors, controllable and uncontrollable, form the basis for testing various succession structures.

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Making the most informed choice

Experience tells us that the best approach to succession planning is to start early. That helps to avoid surprises and gives you time to gain confidence in and comfort with your decisions.

The bottom line

Succession planning is a highly personal process. With many options or combinations of options available, it can be daunting for even the most experienced entrepreneur.

Being a once in a lifetime experience doesn't make the task any easier. That's why outside advisers with succession planning expertise can be valuable. From estate and tax planning to transaction advisory, we can help you build an effective transition strategy. With our global reach, proven track record, integrated suite of services and in-depth knowledge of privately held businesses, our practitioners truly act as your trusted guides to help you navigate the succession planning process.

Call us to make an appointment with one of our experienced advisors. Consultations are completely confidential.



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Outsourcing Alert: New wages withholding tax rules for 2015

The Puerto Rico Treasury Department has issued the Informative Bulletin for Internal Revenue No. 15-04 with the new withholding rules applicable to wages paid after December 31, 2014.

This Informative Bulletin is intended to inform that the employers should continue using the Employers' Guide Manual for wages paid after December 31, 2013 and before January 1, 2015; for the wages paid after December 31, 2014.

Note that the employers or withholding agents shall not consider the special deduction for certain individuals, as part of the applicable withholding income tax calculation.

The provisions of the informative bulletin are effective immediately.

Links

Informative Bulletin No. 15-04
<http://hacienda.gobierno.pr/publicaciones/buletin-informativo-de-politica-contributiva-num-15-04>

Employer's Guide

http://hacienda.gobierno.pr/sites/default/files/individuos/docs/tablas_retencion_2014.pdf



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February 11, 2015

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