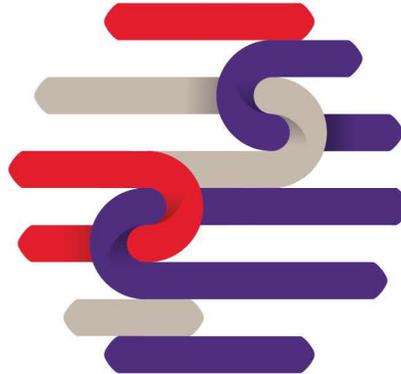


Kevane Grant Thornton Mailbag



Kevane Grant Thornton LLP

33 Bolivia Street
Suite 400
San Juan, PR 00917-2013

T + 1 787 754 1915

F + 1 787 751 1284

E kgt@pr.gt.com

[linkedin.com/company/kevane-grant-thornton](https://www.linkedin.com/company/kevane-grant-thornton)
[facebook.com/kevanegrantthornton](https://www.facebook.com/kevanegrantthornton)

28 June 2018 | Issue 86

Dear clients and friends:

The Kevane Grant Thornton Mailbag is your link to all our communications related to the operations of businesses in Puerto Rico. Our purpose is to offer you with up-to-date information concerning audit, tax, advisory and accounting matters that might have an impact on individuals or in the way you conduct your business in Puerto Rico.

All our previous Alerts publications can be accessed in our webpage or you can also receive them by downloading our business and tax mobile application for free through the App Store or Google Play. We welcome your feedback at kgt@pr.gt.com

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Audit



Records



People

Amendments to Regulation S-X, Rule 2-01

June 20, 2018



Aida Ramirez

Partner Head of Audit

T (t) 787 754 1915

E aida.ramirez@pr.gt.com

The SEC has issued a Proposed Rule, Auditor Independence with Respect to Certain Loans or Debtor-Creditor Relationships, which is designed to amend certain provisions of the auditor independence requirements under Regulation S-X, Rule 2-01.

The SEC believes the amendments will refocus the analysis that must be conducted to determine whether an auditor has a lending relationship with certain shareholders of an audit client at any time during either the audit or the professional engagement period.

The proposed amendments include:

- focusing the analysis solely on “beneficial ownership” instead of the current requirement to consider both “record ownership” and “beneficial ownership”;
- replacing the existing 10 percent bright-line shareholder ownership test with a “significant influence” test
- including a “known through reasonable inquiry” standard with respect to identifying beneficial owners of the audit client’s equity securities
- modifying the definition of “audit client” for a fund under audit to exclude funds that would otherwise be considered affiliates of the audit client



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The proposal also includes a general request for comment on other potential amendments to the SEC's auditor independence rules.

Comments on the proposal are due on or before July 9.

Source:

Grant Thornton, On the Horizon, May 10, 2018.

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



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Tax



Materials



Taxpayer

Back to school tax free periods during 2018-19

June 22, 2018

The Puerto Rico Treasury Department released Internal Revenue Circular Letter 18-10 to establish the dates for the back to school tax free periods for the fiscal year 2018-2019 and also to establish the articles that will be exempt from Sales and Use Tax (“SUT”) during these periods.

The Back to School Tax Free Periods consist of two days in the month of July and two days in the month of January, during which uniforms and school materials will be exempted from payment of the sales tax at the state and municipal level.

As specified in CL 18-10, for the fiscal year 2018-2019 the designated dates for the sale of uniforms and school materials free of SUT will be the following:

Date	Tax free period begins	Tax free period ends
July 2018	Friday, July 13, 2018 at 12:00 am	Saturday, July 14, 2018 at 11:59 pm
January 2019	Friday, January 4, 2019 at 12:00 am	Saturday, January 5, 2019 at 11:59 pm

Among the articles that are exempt during the two days exemption period are the following:

- school uniforms - clothing that is strictly required by an educational institution and is not appropriate for general or continuous use outside the school to substitute ordinary cloth. The term school uniform excludes belt buckles, sewing materials, protective equipment against injuries and diseases, sports and recreational equipment not appropriate for general use, and any other accessories that constitute incidental items worn on the body or in conjunction with clothing such as: cosmetics, hair accessories, jewellery, non-prescribed sunglasses, umbrellas, wallets and watches among others.
- school materials and supplies including storage media, backpacks, calculators, tape, crayons, erasers, paper, pens, pencils, flash drives, acrylic paints, scissors, musical instruments, and maps among others.
- printed books excluding newspapers and magazine (it’s important to take in consideration that printed books are exempt of SUT all year long).

- e-books as long as they are included in an official list from the educational entity (exempt all year long).
- notebooks

In order to be considered as an exempt transaction, any sale under a Lay Away program or purchase by internet, phone, or mail, must be fully paid, the title must be transferred to the buyer and the delivery is before the end of the exemption period.

Rain checks, gift cards and gift certificates used during the exemption period will qualify for the exemption. As a result, articles purchased with rain checks, gift cards or gift certificates during the exemption period will be exempt from SUT. Articles acquired before or after the exemption period will be subject to SUT, regardless of whether the gift card or gift certificate was purchased during the exemption period.

No special reporting is required for the exempt sales made during the exemption period. Merchants should report all the qualifying sales on the Sales and Use Tax Return as exempt sales.

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



María de los Angeles Rivera
Partner Head of Tax and
IBC Director
E maria.rivera@pr.gt.com



Lina Morales
Tax Partner
E lina.morales@pr.gt.com



Francisco Luis
Tax Partner
E francisco.luis@pr.gt.com



Isabel Hernández
Tax Partner
E isabel.hernandez@pr.gt.com



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Leaders can build risk-resilient organizations

June 26, 2018

How boards and executive teams communicate about risk, among themselves and through the ranks, determines much of the organization's approach to risk. Leaders who have been focused on risk management primarily as compliance typically need to examine and discuss the broader risk picture.



Ojel Rodríguez

Partner Head of Advisory
T (1) 787 754 1915
E ojel.rodriguez@pr.gt.com

Visit our website

www.grantthornton.pr

The real priority, however, is not risk management for its own sake but risk management as an enabler of growth and profitability. In that light, risk management – and risk governance by the board – either enhances or hampers performance. Risk-resilience results from leaders' ability to develop, adopt, deploy and integrate risk management methods that enable performance, even amid the disruption that risk and innovation can create.

Companies that traditionally saw little need to leverage opportunities and manage risks now face disruptive competitors that they never saw coming. These competitors often emerge from nowhere, seemingly growing overnight from zero to billions of dollars in market capitalization. To ready their organizations to take acceptable risks, leaders must view risk broadly and holistically and align risk taking and risk management with their business strategy. This alignment should protect the organization from known risks while leveraging risk management skills, capabilities and practices to enhance performance. This method calls for identifying and monitoring current and emerging risks, as well as those that could undermine longer-term drivers of performance. It also calls for an integrated approach to risk.

Gearing up risk governance

Boards are accountable for managing enterprise risk, and can do so effectively only when they have a coherent picture of major risks across the entire organization. Risk-related information comes to the board piecemeal and fragmented, based on different models and narrowly defined risks – compliance, legal, operations, cyber and so on – because those managing these functions focus only on risks they see as related to their area.

Each function also typically speaks its own language of risk. Compliance speaks in terms of regulatory interventions, legal in terms of violations and exposures, cyber in terms of breaches and vulnerabilities. These different risk “dialects” make it difficult for boards and executive teams to recognize, reconcile, prioritize and plan for the full range of risks across the organization.

To deepen and broaden the conversation around risk, the board must push management to develop an integrated approach to risk across the enterprise. Here are potential steps toward that goal, from the board's perspective:

- **Clearly articulate information needs.** The issue is not lack of information but rather too much information. Boards need to communicate to business leaders the information they need to properly govern and oversee risk. The board needs to understand the likelihood and impact of actual risks, expressed in a common risk language.
- **Develop the capability to view risk across functional barriers.** To gain a holistic view of risk to the overall business, boards need visibility across business units. This means that the risks must "roll up" to an integrated picture in which threats to the drivers of performance in various areas become clear.
- **Encourage businesses to see and work beyond individual silos.** Risk does not respect functional boundaries, and should therefore be managed in an integrated manner. Modeling and scenario planning enable management and the board to gauge the knock-on effects of a risk event in one area on other areas within the organization – and to develop risk-resilient responses.
- **Link risk taking to performance.** In our post-Sarbanes Oxley, post-financial crisis era, boards should not mistake compliance for risk management. Instead, encourage the executive team to identify and manage strategic risks so as to achieve growth and profitability while protecting value.

A risk-resilient organization embraces risk as essential to innovation and performance, not as something to be avoided and contained at all costs. The perspective should be forward-looking, anticipatory and aimed at identifying and managing new forms of risk. Risk-resilience positions the organization to perform critical functions required for survival amid slow motion disruption as well as a sudden risk event.

Communications

Board and management communications about risk must be ongoing. The conversation is never over, nor can it be isolated, because risk permeates every business activity and initiative, and the board must continue to challenge management and remain engaged to fulfill its risk-related responsibilities.

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



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People



Checklist



Operational
excellence

State Insurance Fund – annual payroll statement

June 18, 2018

It is the duty of every employer to insure his/her employees against all work-related injuries, illnesses or death with the Puerto Rico State Insurance Fund Corporation (CFSE) Worker's Insurance.



Julio Villegas
Audit Partner and
Head of Outsourcing

T (1) 787 754 1915
E julio.villegas@pr.gt.com

Annual payroll statement - next due date

The Annual Payroll Statement (Form FSE 693) must be filed with the CFSE on or before July 20, 2018. The same must show the number of employees, occupation or industry classification and the respective total amount of wages paid during the immediately preceding fiscal year ended June 30.

Employers start receiving the Annual Payroll Statement by mail during the month of May. Also, the statement can be completed and filed through the CFSE internet portal. Please note that tax payments are due regardless of this website's availability.

Filing requirements

Employers must provide with the Payroll Statement one of the following documents:

- Quarterly Unemployment & Disability Insurance Tax Report submitted to the Department of Labor for the quarters of September 2017, December 2017, March 2018 and June 2018.
- Employer's Quarterly Return of Income Tax Withheld for the quarters of September 2017, December 2017, March 2018 and June 2018.
- Employer's Quarterly Federal Tax Return (Form 941) for the quarters of September 2017, December 2017, March 2018 and June 2018.

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This requirement does not apply to employers whose policies only cover domestic activities and house maintenance, nor employer that only have in their policies the self-employers classifications (8811, 8812, 8813, 8814, 8815, 8816 or 8817).

Access the CFSE link for Internet Portal

<http://web.fondopr.com/es/transacciones-linea>

If the employer submits the Payroll Statement using the CFSE Internet Portal, will have an access to upload the require documents. If the information requested is not provided, the employer recognizes and accepts that the CFSE could make the necessary arrangements to obtain the information and make any premium adjustments.

The CFSE makes changes to the Internet Portal, so your experience submitting the payroll statement will be faster and easier.

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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