

# Kevane Grant Thornton Mailbag



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## 31 May 2018 | Issue 85

### 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.

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Audit



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# Highlights from FASB's March 7 meeting

May 16, 2018



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On March 7, the FASB met to discuss stakeholders' comments on **two** proposed ASUs featuring targeted improvements to the new leasing guidance and amendments to the disclosure requirements for fair value measurement. These discussions are summarized below.

*All decisions reached at Board meetings are tentative and may be changed at future meetings.*

### Targeted improvements to ASC 842

The Board discussed feedback received on the optional transition method included in the proposed ASU, Leases (Topic 842): Targeted Improvements, and tentatively decided to affirm this proposal. If an entity elects to apply this new transition method, the Board clarified, it should include the disclosures required under ASC 840, Leases, including the operating lease obligations disclosure in ASC 840-20-50-2, in the financial statements for comparative periods.

The Board will discuss comments received on the proposed practical expedient related to the separation and allocation requirements for lessors, also included in the proposed ASU, at a future meeting.

### Disclosure requirements for fair value measurements

The Board continued its discussion of the amendments in the proposed ASU, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, and confirmed certain amendments in the proposal, including previous tentative decisions. It also tentatively decided to require prospective transition for the narrative description of disclosure uncertainty.

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The effective date of the amendments upon issuance in an ASU for all entities would be for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. Early adoption would be permitted.

The Board directed the staff to draft an ASU for vote by written ballot.

Source:

Grant Thornton, On the Horizon, March 15, 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



Business



Taxpayer

# Puerto Rico Tax authorities embrace digitization

May 23, 2018

The digital age is rapidly transforming the relationship between tax authorities and taxpayers. Driven by a desire for steadier revenue streams, greater efficiency and improved compliance in an atmosphere of shrinking resources, tax authorities are increasingly relying on digital means to gather and analyze tax data.

This move towards tax “digitization” is allowing tax authorities, including Puerto Rico, to collect tax data in real time or near real time, and use the information to respond quickly and in targeted ways to perceived compliance risks. Digitization is, in some cases, allowing taxpayer information to be cross-referenced and shared among governments and agencies. Businesses with dated systems or those that are not able to adapt quickly may face increased risk, unexpected costs and compliance challenges to which they are not prepared to respond.

Notwithstanding the above, some disadvantages arise though the electronic filing of tax returns. For example, software glitches and Internet issues can cause unexpected problems for people who file electronically, especially if they wait until the last minute. Tax programs are typically swamped on the last day and could experience system slowdowns or errors. Problems can also happen after filing. As you will see below, software glitches and a massive blackout caused governmental agencies to extend some deadlines of certain tax returns in Puerto Rico.

Considering the real-world effect of technological advances while still reeling from some operational deficiencies resulting from hurricane Maria, various tax authorities in Puerto Rico have instituted changes to their filing requirements to better address these changes.

## Puerto Rico Treasury Department

As a general rule, domestic and foreign corporations that are engaged in a trade or business in Puerto Rico must file a corporate income tax return by **not later** than the 15th day of the four month following the close of the tax year.

Due to the technology-transformation initiative, for 2017 tax year, regular corporations filing Form 480.20 have the option to electronically file their corporate income tax returns through a program certified by the Puerto Rico Treasury Department. These programs can be assessed on the Puerto Rico Treasury Department's website at: [www.hacienda.pr.gov](http://www.hacienda.pr.gov) under Corporate Returns.

Nonetheless, as a result of technical difficulties with its electronic filing system, the Puerto Rico Treasury Department extended the filing due date of this tax return from April 17, 2018 to April 25, 2018. The extended due date also applies to any tax payments that must be paid with the return, or any other payment required to be made by April 17, 2018.

In the event an extension to file was needed, the Puerto Rico Treasury Department issued Administrative Determination No. 18-07 granting all taxpayers who request an automatic extension of time to file the 2017 Income Tax Return a 6-month period, instead of the 3 months provided under the 2011 Puerto Rico Internal Revenue Code, as amended. For taxpayers with a December 31, 2017 year-end, the extension request must have been requested by April 25, 2018.

## Municipal Revenue Collection Center

Generally, Personal Property Tax Returns, as well as the applicable automatic extension request and payment of tax, are due on May 15th of each year. For the taxable year 2017, the Municipal Revenue Collection Center ("CRIM" for its acronym in Spanish), extended both the filing and payment date from May 15, 2018 to May 21, 2018, pursuant to Administrative Order 2018-04, and subsequently to May 23, 2018 based again on communication difficulties.

In addition, businesses with taxable personal property in Puerto Rico must have filed their 2017 personal property return or extension through the CRIM's new electronic platform. Issued on May 3, 2018, Administrative Order 2018-03 requires mandatory electronic filing of the personal property return for all taxpayers, starting with the 2017 taxable year. Through this portal, taxpayers will also have to remit any balance due with the return or the extension, as well as make estimated personal property tax payments.

## Municipalities

The Municipal License Tax Act of 1974, as amended, and its regulations establish that the Volume of Business Declaration ("VOB") is due five business days after April 15 or the date prescribed by the PRTD for the filing of the income tax return.

As a result of the additional time granted by the PRTD for filing the 2017 income tax return, the Puerto Rico Management and Budget Office through Circular Letter No. 154-18 established that the deadline for filing the VOB for Fiscal Year 2018-2018 or the extension applicable request was to be May 2, 2018. Taxpayers interested in receiving the 5% discount off their municipal license taxes must pay the tax by May 2, 2018, when they file their VOB or extension request.

Though not every municipality has jumped into the e-filing bandwagon, San Juan, Carolina and Guaynabo and Fajardo have stepped up their game and have institute online portals for the filing and/or payment of the VOB.

At Kevane we are ready and available to assist you and your business with any of the determinations and documentation needed to claim these benefits. Please contact María de los A. Rivera, Francisco Luis, Isabel Hernández or Lina Morales for assistance.



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# Is your internal audit function artificially intelligent?

May 15, 2018

In recent years, the world has seen exponential growth in the amount of data being captured, processed and stored by organizations, mirrored by a relative reduction in the cost of data storage itself. As a result, the timely, accurate analysis and appropriate management of these vast amounts of data ('big data') is where organizations can recognize real business value.



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Global technology companies are facilitating organizations in this endeavor by collaborating with them in the development of Artificial Intelligence (AI).

### What is AI?

The consensus is that AI is hardware and software capable of behaving like the human brain including, learning, reasoning, adapting, analyzing, making decisions and performing complex and judgment driven tasks. There are many other interchangeable terms for AI such as machine learning, image recognition and cognitive computing. AI is not about being absolutely correct and complete; it uses probability to process data and estimate the likelihood of particular events occurring. The higher the quantity of good quality data processed, then the greater accuracy of the AI's decision making, thereby allowing management to place greater reliance on the AI's output.

### What does AI mean for internal audit?

Internal audit functions will need to recognize the global shift towards AI and consider the advisory/assurance role they will have in this movement. It will be critical that they keep pace with the practical application of AI in business and develop competencies that will enable them to provide AI related advisory and assurance services to their organization. As AI is founded upon data analysis and the processing of big data, some of the key risks associated with AI will derive from risks relating to data management, quality and security, as well as AI specific risks. Is your internal audit function artificially intelligent? Internal audit will be expected to provide assurance on the risks underlying the design, performance, oversight and monitoring of AI based processes. Additionally internal audit will be tasked with identifying, assessing and communicating to the board and senior management, the risks associated with AI and the efforts of the business to address those risks, each being key in assuring AI augmented processes.

Internal audit can fulfil its AI assurance role by engaging in certain distinct activities related to AI such as:

- including AI in its risk assessment and considering whether to include AI in its risk-based audit plan;
- being actively involved in AI projects from the beginning, providing advice and insight contributing to successful implementation;
- where AI has been implemented within business operations or incorporated into a product or service, internal audit should provide assurance on the management of risks related to the reliability of the underlying algorithms and the data on which the algorithms are based;
- ensuring the moral and ethical issues that may surround the organization's use of AI are being addressed; and
- providing assurance in relation to AI established governance structures

### **Our AI auditing framework**

Each element of the AI auditing framework is set within the context of an organization's AI strategy and are outlined below.

#### **Strategy**

Each organization's AI strategy will be unique based on its approach to capitalizing on AI opportunities. Internal audit must consider the organization's AI strategy at the outset and internal audit should help management and the board realizes the importance of formulating a deliberate AI strategy consistent with the organization's objectives.

#### **Governance**

AI governance refers to the structures, processes and procedures implemented to direct, manage and monitor AI activities in pursuit of achieving the organization's goals. Regardless of the specific approach, AI governance establishes accountability and oversight, helps to ensure that those responsible have the necessary skills and expertise to effectively monitor AI and helps to ensure the organization's values are reflected in its AI activities. AI activities must result in decisions and actions that are in line with the ethical, social and legal responsibilities of the organization.

#### **Data architecture and infrastructure**

All data architecture and infrastructure will likely reflect the organization's architecture and infrastructure for handling big data. It includes considerations of:

- the way that data is accessible (meta-data, taxonomy, unique identifiers and naming conventions);
- information privacy and security throughout the data life-cycle (data collection, use, storage and destruction); and
- roles and responsibilities for data ownership and use throughout the data life-cycle.

#### **Data quality**

The completeness, accuracy and reliability of the data on which AI algorithms are built are critical. It is not unusual for an organization to have a poorly defined, incoherent structure to its data. Often, systems are not integrated and do not communicate with each other and only do so through complicated add-ons or customizations. How this data is brought together, synthesized and validated is crucial.



### Performance measurement

As an organization integrates AI into its activities, performance metrics should be defined to tie AI activities to business objectives and clearly illustrate whether AI is effectively contributing to the achievement of those objectives. Management must actively monitor the performance of its AI activities.

### The human factor

Algorithms are developed by humans. Human error and biases will impact the performance of algorithms. The human factor component considers whether:

- the risk of unintended human biases in AI design are identified and managed;
- AI has been effectively tested to ensure that results reflect the original objective;
- AI technologies can be transparent given the complexity involved; and
- AI output is being used legally, ethically and responsibly.

### The black box factor

As organizations advance to implementing Type III and Type IV AI technologies, utilizing machines or platforms that can learn on their own or communicate with each other, how the algorithms are operating becomes less transparent or understandable. The black box factor will become more and more of a challenge as an organization's AI activities becomes more sophisticated.

### Conclusion

The internal auditing profession cannot sit on its laurels for fear of being left behind in what may be the next digital revolution – AI. To prepare, internal auditors must understand the fundamentals of AI, the role that internal audit should play in it, as well as its underlying benefits and risks. We can assist internal audit functions in navigating the challenges of AI by recalibrating their plans, expertise and methodologies to cater for same. This will ensure they are best placed to critically assess the effectiveness of AI risk management, control and governance processes.

Source: <https://www.grantthornton.ie/globalassets/1-member-firms/ireland/insights/factsheets/grant-thornton---artificial-intelligence-2018.pdf>

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Outsourcing



Regulation



People

# New regulation of the PR unemployment insurance program

May 21, 2018

On April 27, 2018, The Puerto Rico Department of Labor and Human Resources informed the intention to adopt a new regulation for the administration of the unemployment insurance program.



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The purpose of this regulation looks into establishing the legal requirements to receive unemployment benefits and the procedure to enable employers to pay unemployment taxes, as required by law.

In addition, uniform rules and procedures are adopted for the granting of attorney's fees to the legal representatives of claimants of benefits of insurance for unemployment, during the appellate process of said cases and in the lighthouses administrative and/or judicial forums, as provided by Section 6 of Law No. 74.

This regulation will be available for review during the next 30 days, from the publication date of the public notice, and will become effective on July 1, 2018, in accordance with the provisions of the "Uniform Administrative Procedures Act of the Puerto Rico Government", Law No 38 of June 30, 2017.

Links- Puerto Rico Department of Labor

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