

# *Kevane mailbag*





## November 23, 2016 – Issue 68

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Our Kevane mailbag is your link to all 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.

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<h3>Audit</h3> <p>The FASB addresses tentative decisions related to the impairment test, reporting units with zero or negative carrying amounts, fair value, and effective date and transition.</p> <p> <a href="#">Read more</a></p>	<h3>Tax</h3> <p>A new act eliminates the exclusion of casinos, gambling rooms and analogous activities from the list of eligible tourism activities.</p> <p> <a href="#">Read more</a></p>	<h3>Advisory</h3> <p>Five best practices for a high- performing internal audit function.</p> <p> <a href="#">Read more</a></p>	<h3>Outsourcing</h3> <p>The Puerto Rico Department of Treasury has released new filing requirements for forms 499R-2/W-2PR and Informative Returns.</p> <p> <a href="#">Read more</a></p>
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**General Information** Due to Holiday festivities our offices will be closed on November 24 and 25, 2016. We will reopen our offices on regular hours, Monday, November 28, 2016.

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# Audit Alert: Accounting for goodwill impairment

The FASB [met](#) on October 10 to consider comments received on two proposed ASUs. The Board also made the following tentative decisions:

**Impairment test**- The proposed guidance would remove Step 2 of the existing goodwill impairment test rather than allowing Step 2 as an option. In addition, the Board tentatively decided to: • Include guidance on the deferred tax effects of tax-deductible goodwill on the impairment charge • Supersede the existing guidance in ASC 350-20-35, Intangibles – Goodwill and Other: Goodwill, related to circumstances in which the impairment test is not complete at the reporting date • Clarify that an entity should not allocate to a reporting unit the foreign currency–translation adjustments reported in accumulated other comprehensive income.

**Reporting units with zero or negative carrying amounts**-Under the proposal, an entity would apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts, and would be required to disclose the amount of goodwill allocated to such reporting units. The Board tentatively decided not to require any additional disclosures about reporting units with zero or negative carrying amounts.

**Fair value**-The Board tentatively decided to retain the existing fair value guidance on assuming a taxable versus a non-taxable transaction in ASC 350, as modified in the proposed guidance to reflect the change to a one-step impairment test.

**Effective date and transition** The effective date for the proposed amendments would be

the same as those for ASU 2016-13, Measurement of Credit Losses on Financial Instruments, *with early adoption permitted for all entities as of January 1, 2017*: • **For public business entities that are SEC filers**: Annual periods, including interim periods therein, *beginning after December 15, 2019* • **For public business entities that are not SEC filers**: Annual periods, including interim periods therein, *beginning after December 15, 2020* • **For all other entities**: Annual periods *beginning after December 15, 2020 and interim periods in annual periods beginning after December 15, 2021*.

**Private companies** that have elected the private company alternative on the subsequent accounting for goodwill, but have not yet adopted the private company alternative on accounting for certain intangible assets, would be allowed to change their accounting to the proposed guidance without justifying that the new guidance is preferable. The proposed guidance would be applied on a prospective basis. The Board directed the staff to draft a pre-ballot draft of an ASU for Board and external review.

*Source: Grant Thornton, On the Horizon, October 20, 2016*

**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.**



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**November 11, 2016**

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# Tax Alert: Major sea change for the casino industry in Puerto Rico

As noted on our Tax Alert dated September 21, 2016, *New Developments on Puerto Rico's Tourism Industry*, on August 5 and 6, 2016, the Governor of Puerto Rico signed Acts No. 136 ("Act 136-2016") and No. 137 ("Act 137-2016"), effectively amending Act No. 74 of 2010, known as the Puerto Rico Tourism Development Act of 2010 (the "TDA").

As a segue to our prior alert, on this current Alert we discuss upon a particularly noteworthy change brought by Act 136-2016; namely, that the TDA has been amended to, among other things, eliminate the exclusion of casinos, gambling rooms and analogous activities from the list of eligible tourism activities contained under §2(a)(1) of the TDA.

This amendment represents a significant change in public policy for the Puerto Rico Tourism Company ("PRTC"). For the first time in the history of the tourism incentives program, casinos are not expressly excluded from being considered eligible tourism activities.

But, is it "not excluded" the same as being "included"? That is quite the philosophical conundrum.

Prior to this amendment, TDA expressly excluded the operation of a casino from the eligible tourist activity definition. However, while the overt exclusion originally found at the end of the eligible tourist activity definition at the TDA in paragraph (A) of §2(a)(1) was most certainly struck down by Act 136-2016 (interestingly enough, without any mention of it throughout the final version of legislation's

statement of motives), the language of paragraph (A) was not amended to explicitly include casinos, gambling rooms and analogous activities as eligible activities.



Nonetheless, when surveying the Act's legislative history it is quite clear that the legislator's intention was the inclusion of a casino operation as an eligible activity, right up the Conference Committee's report on June 30, 2016. Afterwards, all the versions of the bill circulated and submitted for approval lacked the now-elusive inclusion.

However, taking the aforesaid legislator's intention as evidenced in the history of the project, as well as the approved version, one can safely assume that the ownership and/or operation of a casino will not be precluded from requesting the tax benefits conferred by the TDA.

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

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**November 15, 2016**

# Advisory Alert: Five steps for a high-performing internal audit function

A strong internal audit (IA) function can provide your higher education institution with an independent, objective perspective; help improve its compliance and controls; and increase the efficiency and effectiveness of operations. Here are a few recommendations to maximize the value provided by your IA function, based on our experience as outsourced and co-sourced internal auditors, as well as our knowledge of industry best practices:

- 1. Establish a strong tone at the top.**  
Support from leadership is crucial to the IA department's ability to function effectively and help your institution be at the top of its game. Strong support from the board and senior management helps communicate the importance of IA's activities to the institution's community. IA should regularly discuss findings, recommendations and emerging risks with senior leadership, and develop value-added, implementable recommendations that can trigger positive change within your institution. Although the IA function needs to earn its reputation for excellence, we have seen that senior management's open support can pave the way for an efficient and effective IA function.
- 2. Promote the IA function's independence.** IA should be independent from management and the business functions that it reviews in order to allow the department to perform its

duties in an unbiased manner, free from interference or compromised relationships. Ideally, IA should report directly to the board of trustees or the audit committee, although we have often seen it report administratively to the president, executive vice president, CFO or general counsel. An independent and objective IA department can more effectively monitor the institution's compliance and controls, and decrease the risk of fraud.

## Key internal audit roles

The objective of IA is to help the organization achieve its goals by using a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance. Here are six fundamental IA duties:

1. Identify and prioritize areas of risk throughout the organization.
  2. Mitigate these risks through targeted audit plans, resulting in findings and recommendations for change.
  3. Evaluate the effectiveness of internal controls from a best practices perspective.
  4. Assess compliance with laws, regulations and contracts.
  5. Recommend process improvements that address the efficiency and effectiveness of operations.
  6. Follow up on recommendations and report on remediation efforts.
- 3. Line up skilled, flexible resources.** IA knows to expect the unexpected. Special projects, "fire drills" often associated with



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fraud or special investigations, and shifting priorities are now the norm. Many IA functions struggle to provide value, often due to a lack of experience. A skilled and diverse staff is needed to deal with the unexpected and to create and effectively execute a well-rounded audit plan. A high-performing IA department should include staff with a mix of skills and experience, including compliance and controls, operational improvement, and more specialized areas such as IT systems and infrastructure. If your institution has a modest IA staff, consider co-sourcing as a viable way to supplement existing in-house skills and resources with specialized talent and experience.

- 4. Leverage IA's expertise in strategic risk assessment.** In an increasing number of institutions, IA no longer simply acts as an institution's compliance cop. Many strong IA functions have also been serving in a consultant-like capacity, making recommendations to improve the institution's operational efficiency and effectiveness. To become a high-performing function, IA's observations and recommendations must provide actionable insights that align with your institution's strategic priorities and provide maximum value to your institution. Increasingly, we have seen institutions' IA functions participate in the institutional enterprise risk management (ERM) program. IA's risk assessment experience and institutional knowledge can be great resources when you set out to identify the risks to achieving your strategic goals (i.e., strategic risk). IA can also participate in

the ERM process by assessing current and recommended risk mitigation practices.

- 5. Perform a quality assurance review (QAR).** The Institute of Internal Auditors (IIA) recommends that self-assessments of the IA function be performed periodically (we suggest annual IA self-assessments), while third-party assessments should be performed every five years. A QAR can be a key driver in improving IA's performance because it assesses the function's adherence to the IIA's International Standards for the Professional Practice of Internal Auditing and Code of Ethics. The QAR also evaluates how effective the IA function is in fulfilling its mission, and identifies ways to enhance IA's management and work processes, as well as the value it ultimately brings to the institution.

See more at:

<https://www.grantthornton.com/issues/library/whitepapers/nfp/2014/5-steps-for-high-performing-internal-audit.aspx#sthash.lzzRvegA.dpuf>

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# Outsourcing Alert: New filing requirements for forms 499R-2/W-2PR and Informative Returns

The Puerto Rico Treasury Department has issued the Informative Bulletin 16-14 and Publication 16-04 with the electronic filing requirements for Forms 499R-2/W-2PR and Informative Returns.

## What's New

- the Access Codes Notification Letter is Available on Hacienda's Website under "Colecturía Virtual" access. This letter will no longer sent by regular mail.
- a box was added to include the employee's date of birth, in those cases where exempt wages up to \$40,000 are being reported under the provisions of the Young Entrepreneurs Act.
- There are some editorial changes and corrections for clarification purposes, please refer to forms instructions.

## Filing Reminders

- The Puerto Rico Treasury Department will not accept forms printed without the confirmation number (handwritten or typed confirmation numbers on the forms) will automatically invalidate the forms.
- The Department of the Treasury has required the electronic filing of Form AS 2727 "Request of Extension of Time to File the Withholding Statement (W-2PR) and Reconciliation Statement of Income Tax

Withheld (499R-3). The electronic application is available through the PRTD's website. Filings in paper form, via fax, mail or any other method will be considered as not filed.

- the social security wage base for the tax year 2016 is \$118,500.
- the Contributions to CODA cannot exceed \$24,000.

## Links:

Informative Bulletin 16-14

[http://www.hacienda.pr.gov/sites/default/files/publicaciones/2016/10/bi\\_16-14\\_-\\_radicacion\\_de\\_w-2pr\\_e\\_informativas\\_2016.pdf](http://www.hacienda.pr.gov/sites/default/files/publicaciones/2016/10/bi_16-14_-_radicacion_de_w-2pr_e_informativas_2016.pdf)

Publication 16-04

[http://www.hacienda.pr.gov/sites/default/files/publicaciones/2016/11/publication\\_16-04\\_0.pdf](http://www.hacienda.pr.gov/sites/default/files/publicaciones/2016/11/publication_16-04_0.pdf)

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