

Kevane Grant Thornton Mailbag



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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



Companies



Web

Audit Alert: FASB Webpage launched on implementing new standards

November 14, 2017



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The FASB launched a new webpage titled “Implementing New Standards” that addresses how the FASB positions entities for a successful transition to new financial accounting and reporting guidance.

The new webpage focuses on how the FASB

- conducts outreach with stakeholders
- establishes and operates transition resource groups (TRGs)
- offers a technical inquiry service for implementation questions

The webpage includes educational materials and implementation guidance for some of the FASB’s new standards, including ASU 2017-12, **Targeted Improvements to Accounting for Hedging Activities**. The webpage also includes links to the activities of, and the materials posted by, the Revenue Recognition TRG and the TRG for Credit Losses.

The FASB has produced a video that provides an overview of how the Board conducts its implementation assistance efforts. The video can also be found on the FASB’s website.

Proposal articles on:

www.grantthornton.pr

Source: Grant Thornton, On the Horizon, September 21, 2017.

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.



Tax



Records



Taxpayer

Tax Alert: AAFAF issues new resolution on tax credit use

November 16, 2017

On November 6, 2017, the Committee for the Authorization of Expenditures and Tax Concessions issued Resolution No. 2017-10 to modify the amount and time limitation rules established by Resolutions 2017-05, 2017-08 and 2017-09 for the use of Tax Credits granted under various Puerto Rico incentive acts.

The Committee issued a series of resolutions to guide the process for the assessment, concession and use of tax credits for both pending and new petitions. Particularly, Resolution No. 2017-05 limited the use of tax credits granted on or before March 7, 2017 for taxable years 2017 and onwards. Meanwhile, Resolutions No. 2017-08 and 2017-09 established that approved tax credits may only be used to offset up to a maximum of 25% of the income tax liability for the taxable year in question (the “25% Limitation Rule”) and imposed a 4-year term (with an optional 3-year extension) for their usage (the “Time Limitation Rule”), among other things.

The aftermaths of Hurricane María brought in insult to injury to the island beleaguered economy, and although austerity measures were put in place to steer Puerto Rico towards fiscal responsibility and (hopefully) economic revitalization, these had to be rethought in light of this new wind-swept reality. Conscious of its integral role in the government’s recovery apparatus for Puerto Rico, the Committee issued Resolution No. 2017-10 on November 6, 2017 to (i) amend the 25% Limitation Rule and (ii) implement special rules regarding the Time Limitation Rule.

25% Limitation Rule Waiver

Firstly, Resolution No. 2017-10 establishes that tax credits granted under Resolution No. 2017-08 will not be subject to the 25% Limitation Rule, so long as the credits remain subject to the usage rules that the corresponding Incentives Law and Puerto Rico Internal Revenue Code impose.

Nonetheless, the holder of tax credits granted pursuant to the pending or completed tax credit applications of Resolutions No. 2017-08 and 2017-09, respectively, can request the Committee to waive the 25% Limitation Rule. Said request – which must be in writing – must show that the waiver will contribute to the government’s financial recovery efforts by means of new investment and job creation. If accepted, the Committee may issue either a full or partial waiver.

Time Limitation Rule

Subject to the timely filing of its 2017 income tax return, an eligible holder can request a one-year extension of the 4-year term established under Resolutions No. 2017-08 and 2017-09, thus allowing it to use the tax credits on 2018, instead of 2017.

An **eligible holder** is defined as “any holder of a granted credit available for use in tax year 2017, which experienced a tax loss on its Puerto Rico Income Tax Return for such year and holds the granted credit on the filing date of its Puerto Rico Tax Return corresponding to tax year 2017.”

Furthermore, if the one-year extension is requested with respect to credits that were granted in accordance with their corresponding incentive laws and are governed by Resolution No. 2017-05, the eligible holder may claim the tax credit against its income tax liability without it being subject to the 25% Limitation Rule in 2018. The 25% Limitation Rule would commence in the taxable year 2019.

If the eligible holder requests the one-year extension and subsequently transfers a part or all of the tax credit, the acquirer will automatically benefit from the extension.

Scope and applicability

Resolution 2017-10 will not apply to credits that are self-determined by the applicant and claimed in a Puerto Rico income tax return without requiring the prior resolution or determination of the governing agency.

Note: As highlighted in our July 1, 2016 Tax Alert, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, among other things. Virtually every fiscal decision by the Government of Puerto Rico will be made or approved by the Oversight Board created by PROMESA. On this regard, the board has authority to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

For additional information visit our Professional Articles on:

www.grantthornton.pr

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



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Advisory Alert: Insurance Claim Services at a glance

November 20, 2017

Most commercial property insurance policies provide coverage for business income loss (business interruption) by including an endorsement to the insured property policy. This endorsement is designed to protect the insured for losses of business income sustained as a result of direct physical loss or damage to property at the premises, by a covered peril.



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The purpose of the business income loss endorsement is to help businesses be in the same economic condition it was before the event loss. This endorsement typically provides coverage for: (a) profits that would have been earned if the covered peril had not occurred, (b) fixed costs incurred during the restoration period, (c) costs incurred for relocating the operations to a temporary location, and (d) extra expenses, beyond fixed costs, that allow the business to continue operations while the property is being repaired.

Your challenge

Time is of the essence when your business suffers a loss due to a natural disaster, accident, employee theft, cyber-attack, or other peril. When disaster strikes, your focus must be on maintaining the safety and security of your people and property, reserving cash flows, mitigating loss, and restoring operations. Business interruption events often result in significant cash outflows to repair and replace property at a time when cash inflows are reduced due to a partial or complete cessation of operations. We help you accelerate the claim process, so that you can get back to business as quickly as possible.

We recognize the complexity of insurance claims and the burden the process can place on a company's staff during the restoration period. We work collaboratively with clients, their insurance brokers, and their counsel to provide loss advisory and insurance claim preparation services. We strive to achieve timely and appropriate settlement of your claims – protecting your interests while voiding unexpected pitfalls.

Immediate response

Phase 1: Develop preliminary loss estimate and approach

- understand policy coverage, mitigation, and particulars of the loss
- set up communication and reporting protocols
- compile and analyze relevant data
- develop preliminary loss estimate and plan for comprehensive claim
- support cash advance requests

Robust analysis and support

Phase 2: Prepare and document comprehensive claim

- calculate projected revenues and expenses had loss not occurred
- identify extra or expediting expenses
- develop a comprehensive claim package with appropriate support
- address questions raised by carriers, their adjusters, and their accountants
- help management present the claim to the carrier team

Expedited process

Phase 3: Effect a fair and timely settlement

- provide independent insights and analysis
- support management in its negotiations to resolve claims
- help management analyze and understand insurer's calculations
- help manage internal and external expectations

The Grant Thornton advantage

Complex claim experience

Grant Thornton member firms have deep expertise in many industries, as well as significant experience with claims resulting from hurricanes, floods, fires, explosions, and other insured events. Our professionals have worked for insurance carriers, brokers and carrier accounting firms, and can anticipate potential claim pitfalls at the outset of the process.

Immediate responsiveness

The timing of insured perils is unpredictable. We are immediately responsive to your needs and can deploy an onsite team around the globe to help 24/7. Insureds must manage the claim process or it can languish. We help you expedite claim cash flows and move toward settlement—enabling you to focus on running your business.

Geographic reach

We are where you are. Grant Thornton has over 47,000 employees located in more than 130 countries around the world. We have local resources in your market, led by experienced claim professionals.

Fee coverage

Fees for loss adjustment services provided by Grant Thornton are often covered under your policy and become part of your claim. Unlike other service providers, our fees are not contingent on the outcome of your settlement, but are instead based on time and materials.

Client service examples

- supported a heavy equipment manufacturer with recovery of a \$20 million windstorm claim involving interdependent facilities
- assisted a luxury apartment company with recovery of a \$70 million construction defect claim related to water damage and mold losses
- prepared \$10 million business and service interruption claim on behalf of a major pharmaceutical manufacturer that suffered damages from an accidental chemical spill and Hurricane Floyd flooding
- led development of a \$30 million business interruption claim on behalf of a major fruit grower related to damaged levees and drainage canals caused by Hurricane Mitch in Guatemala
- led an investigation and fidelity claim recovery in connection with a payroll fraud onboard a cruise line fleet
- managed preparation of \$50 million business interruption claim on behalf of an auto parts manufacturer after a fire destroyed a key finishing plant in Torreón, Mexico

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

Outsourcing Alert:

Publication 17-04 Electronic Filing Requirements for Forms 499R-2/W-2PR

November 21, 2017

The Puerto Rico Treasury Department issued the Publication 17-04 including the new electronic filing requirements for Forms 499R-2/W-2PR for 2017.



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What's new

- a box was added to include the disaster assistance qualified payments according to Administrative Determination 17-21.
- exempt salaries paid for any of the following concepts must be informed with the applicable code:
 - public employees' wages for overtime worked during emergency situations.
 - income from overtime worked by a Puerto Rico Police member
 - stipends received by certain physicians during the internship period.
 - compensation paid to an eligible researcher or scientist services.
 - salary not over \$40,000 per year to employees between ages of 16 and 26.
 - vacation and sick leave liquidation payment to public employees.
 - disaster assistance qualified payment.
- there are some editorial changes and corrections for clarification purposes, please refer to forms instructions.

Access our publication
www.grantthornton.pr

Filing reminders

- the W-2PR forms filing due date is January 31, 2018
- the 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 2017 is \$127,200
- the contributions to CODA cannot exceed \$24,000.

Links: Publication 17-04 <http://bit.ly/2zYKgHM>

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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