

Kevane mailbag

February 23, 2017 – Issue 71

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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.

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 Google Play. We welcome your feedback at kgt@pr.gt.com

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<h3>Audit</h3> <p>The Board has issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, with the purpose of reducing complexity in accounting standards.</p> <p> Read more</p>	<h3>Tax</h3> <p>Puerto Rico Treasury Department has issued a Proposed Regulation to allow taxpayers to elect how to compute and claim automobile expenses incurred/paid in the trade or production of income in Puerto Rico.</p> <p> Read more</p>	<h3>Advisory</h3> <p>Learn the advantages of having a well-developed business plan for your business.</p> <p> Read more</p>	<h3>Outsourcing</h3> <p>The federal tax guide for the employers of Puerto Rico has issued the following changes for the taxable year 2017.</p> <p> Read more</p>
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<h3>General Information</h3>	<p>Webcast - Recent tax updates in Puerto Rico. March 1, 2017 AST 3:00 pm. For registration click here</p>
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Audit Alert: Simplifying the presentation of debt issuance costs

The Board issued ASU 2015-03, [*Simplifying the Presentation of Debt Issuance Costs*](#). The Board issued this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative).

The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements.

Concepts Statement 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit.

The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

This amendment only affects the presentation and disclosure of debt issuance costs in the financial statements it does not affect recognition and measurement guidance.

It says that debt issuance costs related to a note shall be reported in the balance sheet as a direct deduction from the face amount of that note. The discount, premium, or debt issuance costs shall not be classified as a deferred charge or deferred credit.

Amortization of discount or premium shall be reported as interest expense in the case of liabilities or as interest income in the case of

assets. Amortization of debt issuance costs also shall be reported as interest expense.

The amendment is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years.

Other entities effective dates for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016.

An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance.

Source: fasb.org ASU 2015-03 April 2015 and ASC and SAS Updates 2017 Prof. Eva Quiñones.

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Tax Alert: Proposed regulations for the deduction of automobiles expenses in Puerto Rico

On December 28, 2016, the Puerto Rico Treasury Department (“PRTD”) issued a *Proposed Regulation* to amend Articles 1033.07(a)(3)(G)-1 through 1033.07(a)(3)(G)-7 and to repeal Articles 1031.02(a)(33)-1 to 1031.02(a)(33)-6 of Regulation No. 8049 of July 21, 2011, as amended (“Regulation 8049”), which allows taxpayers to elect how will they compute and claim the deduction for expenses incurred or paid for the use and maintenance of automobiles in the trade or business, or for the production of income in Puerto Rico.

State of Affairs prior to new Proposed Regulation

Section 1033.07(a)(3)(G) of the 2011 Internal Revenue Code for a New Puerto Rico (the “Code”) states that the automobile expenses deduction will be based on a standard mileage rate attributable to said trade or business, in lieu of actual expenses incurred, at a rate to be determined by the Secretary of the Treasury through further Regulation.

Further communications were issued to state a standard mileage rate of \$0.60 and to allow the deduction of actual automobile related expenses incurred until December 31, 2013.

As noted in our January 23, 2015 Tax Alert, the PRTD submitted Regulation No. 8297 (“Regulation 8297”) to the Puerto Rico State Department for the purpose of regulating Sections 1031.02(a)(33) and 1033.07(a)(3)(G) of the Code and to incorporate related regulations into Regulation 8049.

Due to constant difficulties in the practical application, and after various extensions postponing the effectiveness of the Regulation 8297, the PRTD repealed Articles 1031.02(a)(33)-1 thru 1031.02(a)(33)-6 and 1033.07(a)(3)(G)-1 thru 1033.07(a)(3)(G)-7 from Regulation 8049, through Administrative Determination No. 15-01.



Proposed Regulation to amend Articles 1033.07(a)(3)(G)-1 thru 1033.07(a)(3)(G)-7 of Regulation 8049
The new *Proposed Regulation* seeks to clarify the computation of automobile expense deduction by allowing taxpayers subject to Section 1033.07(a)(3)(G) of the Code to claim the above-mentioned deduction based on the following alternatives:



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January 16, 2017

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- computation of expense will be based on a standard mileage rate of \$0.60 for each mile attributable to the production of income;
- or
- actual expenses for the use and maintenance of automobiles incurred during the production of income, including those properly disclosed under an accountable plan established by an employer.

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

Once an alternative has been chosen, the taxpayer must use the same alternative during the entire tax period.

Recordkeeping related to the use and maintenance of automobiles

It is important to keep complete records to substantiate deductible automobile expenses reported on the taxpayer's return.

To claim the standard mileage rate, appropriate and detailed records must be available for the review of the PRTD.

In addition, if an employer provides a car that is also available for the employee's personal use, it must use an allocation procedure to determine what will be consider personal vs. business use.

Note: As highlighted in our July 1, 2016 Tax Alert, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), seeks, among other things, to provide Puerto Rico with fiscal and economic discipline through the creation of a control board. Virtually every fiscal decision by the Government of Puerto Rico will be made or approved by the Oversight Board (the "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.

We will monitor the development of this proposed regulation and keep you updated through our Tax Alerts.

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Advisory Alert: A well-developed business plan can become a management tool

Every business, from start-up to an established multinational group, should prepare a business plan which is regularly updated. Each business plan should be tailored to the particular circumstances of the business concerned and often may be targeted at potential investors or process re-engineering.

Potential benefits

The benefits of having and maintain up-to-date a business plan include:

- providing framework where cohesive decisions can be made and actions taken;
- focusing ideas from a wide variety of groups within the business;
- the plan can be used to communicate ideas, decisions, and actions to people within the business;
- providing a basis to raise finance through a professional document which can be presented to banks and adventure capitalists;
- financial bankers to the business (e.g. shareholders and bankers) draw confidence from a business plan, thus, making it easier to raise future funding for expansion, new projects, among other related subjects;

- identification of action which will improve profitability and cash flow;
- providing management with a benchmark by which to monitor actual performance against target set in the business plan;
- identification and reconciliation of conflicting objectives (e.g. between major shareholders, partners, divisions, or product lines); and
- the very process of preparation concentrates on the minds of key executives on where the business is going – an issue which is often overlooked in the day to day management of business.

As a **management tool**, the business plan should be a living document used first and foremost by management. However, it may also serve a specific additional purpose – it is one of the key means by which the finance provider will make a decision about lending funds and in these circumstances it should aim to convince potential investors of the company's ability to exploit its potential.

A provider of finance will not know the background of the company. The business plan will be the initial guide as to whether the proposals are viable and whether there will be



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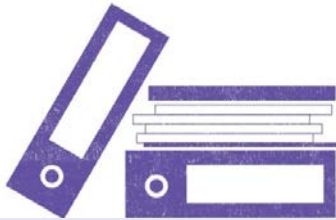
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sufficient rewards for the risk associates in providing finance.



Business Plan fundamental key points:

- The strategic aims of the business;
- How business intends to implement initiatives to achieve its strategy;
- The financial consequences of these actions;
- How to set targets, such as financial projections to measure achievements; and
- How to monitor the results of implementing these strategies.

The business plan is a direct reflection of your business and yourself – do you understand your market place, do you have the vision and skills set to take your business forward, have you evaluated the risks you face and taken steps to minimize them?

Who should produce a business plan?

A business plan should reflect the strengths of the business and the abilities of management. It will, therefore, almost always be most effective as a working document if management is closely involved in its production.

However, the business planning exercise will involve taking stocks of where the business is now before deciding on where it is going. It is often in this area that management find that they are too closely involved in the everyday running of the business to be objective.

We understand what is important to both, management and the finance providers – what they need to see and what they don't; how to

present the information to help them reach decision quickly. Ultimately, any finance provider's lending decision will be based on an assessment of the quality of management and the strength of the proposal. A good business plan will ensure you communicate the basis of your proposal concise and effectively.

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Outsourcing Alert: What's New for Social Security and Medicare

The federal tax guide for the employers of Puerto Rico (Publication 179) has issued the following changes for the taxable year 2017.

Social Security Tax 2017

The Social Security and Medicare tax rates are applicable to both employee and employer. Social security rate remained the same as in 2016; new wage limit is \$127,200.

The Medicare tax rate is 1.45% and it also did not change for 2016. There is no wage base limit for Medicare tax.

Social Security and Medicare taxes are applicable to wages of household workers to whom you pay \$2,000 or more in cash or an equivalent form of compensation. Social Security and Medicare taxes apply to election workers who are paid \$1,800 or more in cash or an equivalent form of compensation.

Qualified small business payroll tax credit for increasing research activities

For tax years beginning after December 31, 2015, a qualified small business may elect to claim up to \$250,000 of its credit for increasing research activities as a payroll tax credit against the employer's share of social security tax.

Reminders

In addition to withholding Medicare Tax at 1.45%, employers must withhold a 0.9% Additional Medicare Tax from wages paid to an employee in excess of \$200,000 in a calendar year. You are required to begin

withholding Additional Medicare Tax in the pay period in which you pay wages in excess of \$200,000 to an employee and continue to withhold it each pay period until the end of the calendar year.

Severance payments are subject to social security, Medicare and FUTA tax.



Link-IRS

<https://www.irs.gov/pub/irs-pdf/p179.pdf>

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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