

Kevane mailbag

February 25, 2016 – Issue 59

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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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Audit

The Financial Accounting Standards Board has issued proposed ASUs which will impact defined benefit plan sponsors and cash flow issues.

 Read more

Tax

The Puerto Rico Department of Treasury seeks to update the agency's technology infrastructure which will result in better services to taxpayers and also provide the PRDT with tools for fiscalization.

 Read more

Advisory

With careful planning, foresight and a touch of innovation, well-capitalized, well-positioned, and well-managed, businesses should be able to turn the crisis to their advantage.

 Read more

Outsourcing

The Puerto Rico Treasury Department announces changes in reporting requirements for 2015 Informative Returns.

 Read more

General Information

Due to observance of holy week our offices will be closed on Friday, March 25, 2016.

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Audit Alert: Proposed ASUs impact on defined benefit plan sponsors and cash flow issues

Board issues two proposed ASUs impacting defined benefit plan sponsors

The FASB recently issued a [proposed ASU](#), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, to improve defined benefit plan sponsors' presentation of benefit costs in the income statement. At the same time, the Board also issued a [proposed ASU](#), Changes to the Disclosure Requirements for Defined Benefit Plans, to modify the disclosure requirements for defined benefit plan sponsors.

Stakeholders have until April 25 to comment on the proposals. Read more about the proposed ASUs in NDS 2016-01, "Improving presentation and disclosure for defined benefit plan sponsors."

New proposed ASU suggests solutions to eight specific cash flow issues

The Board issued a [proposed ASU](#), Classification of Certain Cash Receipts and Cash Payments – a consensus of the EITF, which addresses eight specific cash flow issues. The proposal aims to reduce the existing diversity in practice in how certain cash receipts and payments are presented and classified in the financial statements.

Stakeholders have until March 29 to comment on the proposal.



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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February 15, 2016

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Tax Alert: Unified System of Internal Revenue at Puerto Rico Department of Treasury

On January 27, 2016, the Secretary of the Treasury (the “Secretary”) presented to the Governor of Puerto Rico the UNIFIED SYSTEM OF INTERNAL REVENUE (“SURI”, for its acronym in Spanish), a new Puerto Rico Treasury Department (“PRTD”) mechanism aimed at improving the agency’s administration of tax revenue and supervisory duties.

The new technology seeks to transform and update the PRTD’s tax oversight and collection responsibilities by increasing tax revenues, improving its services to taxpayer, and maximizing its efficiency, as well as assisting the Administrator of the new Office of Internal Revenue that the PRTD is creating.

For the development of SURI, the PRTD contracted Fast Enterprises, a company focused on tax technology solutions for governmental agencies across the USA, Europe and Asia.

As it stands today, the PRTD employs a myriad of diverging systems to administer its fiscal and oversight functions. Given that most of these do not share cross-platform elements, communications between the various systems have not been possible. By unifying all of the operating systems employed within the PRTD – the Puerto Rico Integrated Administration Systems (“PRITAS”) manages income and sales and use taxes, the REFO system that manages the processing of individual tax returns, the Integrated Merchant Portal (“PICO” for its acronym in Spanish)

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currently used to declare and pay the tax on merchandise imported to Puerto Rico, and the General Merchandise - administered by Excise Taxes; among other systems used by the PRTD – SURI endeavors to create operational efficiencies within the beleaguered agency and streamline the communication between the PRTD’s various divisions.

SURI’s implementation will be handled in there (3) phases:

- **Phase 1(a):** Value Added Tax, online services, tax return filings and payment modules (*operational by April and October 2016*)
- **Phase 2:** integration of corporate and other business-related taxes (*operational by December 2017*)
- **Phase 3:** integration of individuals, withholdings and Gift & Estate Taxes (*operational by December 2018*).

The Secretary’s stated intention is the renovation of the PRTD’s technology infrastructure in order to raise revenues collection, increase the amount of tax audits, reduce fraud, provide taxpayers with alternatives to perform transactions without the intervention of PRTD employees, and improve the agency’s internal processes. As a result, the agency will be able to work on a consolidated system, thus aiding its technical staff to better analyze the taxpayer’s current tax condition on a more efficient manner.



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Advisory Alert: A few business management reminders in challenging times

Our advice to businesses is to take proactive steps to prepare for challenging periods. In the current environment, businesses need to make fundamental changes to their strategies and approaches to assess risks and opportunities. With careful planning, foresight and a touch of innovation, well-capitalized, well-positioned, and well-managed businesses should be able to turn the crisis to their advantage. Sitting still and waiting for the recession to go away could be a recipe for disaster.

Focus on core business

This is a good time to review the business portfolio and focus on core businesses that will generate higher return. More than ever, the old adage of “focus on what you are good at, and do it very well” is valuable advice. Produce the products that the customers want, not necessarily the products that the company likes to produce.

Strengthen liquidity

As the lifeblood of any business, cash is extremely important in a slowing economy. Manage cash intensely and strengthen the companies’ liquidity as much as possible.

Stress-test your business plan and understand the resulting impact on liquidity. Based on your financial projections, forecast your cash flow, including near to medium term receipts and payments, identify peaks in demand for

cash, manage your receivable balances and improve your cash conversion cycle.

Bargain with your suppliers for the most favorable credit terms and balance the benefit of early payment discount against your need for credit. In addition, sell-down aged inventory, reduce inventory levels, decrease investment in stock, improve stock management and employ just-in-time stock management.



Steadily control costs

During the economic downturn, most companies try to cut costs to ease margin compression and improve on liquidity. Intelligent cost control across the board is recommended. Understand the company’s



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fixed and variable costs and do not overlook any outstanding liabilities that are not reflected on the balance sheet. Institute policies that encourage and reward cost savings and cash conservation.

Do not automatically cut marketing costs or employees as it might affect the business operations and competitive position when the market conditions pick up.

Focus on key customers

In times of slowing sales, competitors will be more aggressive in their efforts to win over your best customers. It is recommended for companies to strengthen the relationship with all key customers, understand their needs, and try to improve the quality of services or help them reduce costs. Customer relationship management and customer experience enhancement initiatives are recommended to keep them loyal, but don't forget to watch the upstream of your value chain carefully to ensure that your suppliers are robust and in good shape.

Consider your investment plan carefully

Don't automatically stop investing. Consider investments in core-business assets with the potential to generate higher income in the short-term. Re-focus away from longer-term innovation but encourage innovation that may achieve shorter-term revenue increases or improve cash flow. Do not cancel an investment if it is vital to keep the business operating properly. To further preserve cash, management teams may consider the use of asset financing or debt to acquire assets.

Get close to your Bank

Proactively manage your relationship with your lenders. Treat them as a partner in the business, keep them informed, and help them understand your business. If your company

needs additional borrowing, have a plan in hand and give them prior notice. It is always better off if the management is the one to tell the bank about any issues, rather than have the bank discover it themselves. Stay current on your company's debts and ensure the company has the finance available to operate the business effectively.

Be strategic in workforce management

Focus on productivity and manage excess resources. Look after top performing and loyal employees. If companies must retain excess workforce, try to agree to reduced or flexible hours and compensation.

Avoid excessive micro-management of people. It is tempting to start micro-managing, to be seen to be 'doing something' about the crisis. Focus on the critical issues, give clear direction and let the management and people get on with their tasks.

Keep an eye out for bargains

Best buys are often made in a down market. As lending markets contract and demand weakens, a number of the companies that have liquidity problems will consider a sale transaction as a viable option due to a need to realize cash, a lack of confidence in a recovery or just to focus on their core business. These situations create buying opportunities at attractive prices.

The limited access to capital may force other potential buyers onto the sidelines. The result will be less competition for attractive acquisition targets and thus, reduced pricing multiples on acquisitions. Working with a good professional advisor can increase awareness of such opportunities, while ensuring transactions are priced and executed in an effective, cost-efficient manner.

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Protect personal wealth

Business owners should think hard about financing options before they agree to become more personally exposed for the sake of business. They should ask themselves the following questions: Can the business survive a long-term recession? What will we do the next time the business needs cash?

Debt is not the only source of cash. Consider other options, such as equity financing, which may be a safer alternative. If you choose debt financing, try to avoid personal guarantees and pledges of personal assets to secure business debt.

Summary

Businesses must take measures to help cope with the effects of easing demand. It is important that management truly understand the business, competitors, industry dynamics and cash flows. Understand the value drivers. Be prepared to take tough decisions. Businesses adopting a strong, strategic approach into and out of the downturn will be the stars of the future.



We want to help you solve problems, manage risk and seize opportunities to unlock your potential for growth. Feel free to contact us for advice.

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Outsourcing Alert: Reporting requirements 2015 Informative Returns

The Puerto Rico Treasury Department (PRTD) has issued Informative Bulletin 16-02 announcing changes in reporting requirements for 2015 Informative Returns.

Significant Changes

Employers or Withholding Agents who have made payments during 2015 for services to individuals with a Total Waiver, will report those payments on Form 480.6B and include in the column of tax withheld an amount equal to zero.

Commencing with the reporting of 2016 informative returns it will be required to enter the waiver's certificate number assigned by the Puerto Rico Treasury Department to the person receiving the payment, however this information is optional when filing 2015 480.6B Forms.

Employers or Withholding Agents are required to complete Lines 1 and 2 of the Form 480.6A, to report payments made during the year and that were not subject to withholding in accordance with the provisions of Section 1062.03(b)(2) through (14) of the PR Internal Revenue Code and also to report payments of \$1,500 or less.

The provisions of this Informative Bulletin have an immediate effect.

Links:

Informative Bulletin 16-02

http://www.hacienda.gobierno.pr/sites/default/files/publicaciones/2016/01/bi_16-02_-_radicacion_de_w-2pr_e_informativas_2015_1.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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