

# *Kevane mailbag*

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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](mailto:kgt@pr.gt.com)

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## Audit

In this issue we refer to the Amendment to the Supplementary Information Reports required by the Puerto Rico Treasury Department.

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## Tax

US entities operating in Puerto Rico could benefit from federal tax incentives if a proposal is approved.

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## Advisory

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A House of Representative Bill could grant rights to domestic workers in Puerto Rico.

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## General Information

**Save the date!** Please join our complimentary webinar – Current state of the Sales and Use Tax in Puerto Rico on Thursday, August 25, 2016 at 2:00 pm AST. More information will follow during the next weeks.

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# Audit Alert: Amendment to the Required Supplementary Information reports

On December 17, 2015, the Puerto Rico Treasury Department (“PRTD”) issued Administrative Determination (“AD”) 15-24 “Amendment to the Guidelines for the Preparation of Schedules Required as Supplementary Information” (“AD 15-24”) to notify the amendments to the supplementary information reports required by PRTD.

The supplementary information is an additional report required by Act No. 163-2013, the “Effective Mechanisms for Tax Oversight Act” and according to the PRTD Administrative Determinations (“AD”) No. 13-22 “Postponement of the Effectiveness of the Supplementary Information Requirement”, AD 14-06 “Guidelines for the Preparation of Schedules Required as Supplementary Information”, AD 14-09 “Postponement of the Effectiveness of Certain Supplementary Information Requirement” and AD 15-24 “Amendment to the Guidelines for the Preparation of Schedules Required as Supplementary Information”.

These amendments include:

- Schedules 14 and 15 were consolidated in schedule number 14 to report on sales and use tax and include credits claimed.
- Schedule number 15 will include exempt sales as reported in the monthly sales and use tax returns.

- New schedules included will report the information from the monthly tax returns (2915A and 2915F), these schedules are:
  - Schedule 33 – Use Tax on Auto Consumption and Use of Inventory reported.
  - Schedule 34 – Sales and Use Tax Reported, Applicable to Services Rendered to Other Merchants and Designated Professional Services, and their Corresponding Deposits.
  - Schedule 35- Exempt Sales of Designated Professional Services and Auto Imposition of Sales and Use Tax on Services from Non-Puerto Rico merchants, as Reported on Sales and Use Tax Monthly Returns.

As established in AD 14-06, the due date to issue the Report on Supplementary Information is the last day of the following month of the due date of the income tax extension regardless if the tax payer applied for an income tax extension or not. For example, Regular Corporations with year ended December 31, 2015 **the due date will be August 31<sup>st</sup>, 2016**. There is no extension for the supplementary information reports.

If the original supplemental information issues need to be amended it should follow AD 14-28, except that in the name of the Report it should include the word “Amended”.



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**July 14, 2016**

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# Tax Alert: A federal tax incentives proposal for Puerto Rico's economic growth

**The Puerto Rico Manufactures Association (PRMA) recently presented to the US Congress a proposal to provide federal tax incentives for US entities operating in the island in an effort to promote the economic growth of Puerto Rico. We may see public discussion on the topic shortly and if the upcoming federal oversight board created by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), endorses the proposal, it may support the required lobby efforts in the US Congress. We hereby provide a general framework of the proposal.**

In essence, the proposal provides preferential tax rates for the repatriation of dividends from US owned subsidiaries in Puerto Rico. In addition, it offers incentives for the local investment in research and development, property, plant and equipment.

The main industry of focus is the manufacturing sector that suffered a significant negative impact when the US IRC Section 936 was eliminated in a ten year transition period that ended in 2006.

The PRMA sustains that if the proposal is adopted it could result in the creation of 50,000 additional direct employment opportunities for Puerto Rico.

The proposal presented by the PRMA has four main components. First, it provides for a

federal tax exemption of up to 85% of the dividends that are repatriated from Puerto Rico operations to the US. This would grant the Puerto Rico corporations, which are currently considered as foreign corporations under the federal tax code, a treatment similar to the US domestic corporations that have the mechanism of the “dividend-received-deduction” under US IRC Section 243.



The second component of the proposal is a 50% reduction on the applicable tax rate for the remaining 15% of the dividend that would be taxable. Since these dividends are normally taxed at the rate of 35%, such rate would be reduced to 17.5%. Provided that the reduced tax rate would only apply to 15% of the dividend, the overall effective tax rate of the dividend would be less than 3%.



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The third and fourth components of the proposal relate to the passive income of the Puerto Rico corporation. Such passive income would be exempt for federal tax purposes up to the amount that represents 25% of the investment made on research and development. However, the passive income that doesn't qualify for the DRD could be maintained in Puerto Rico and federal taxation will be deferred up to five years.

If the proposal is approved, it will be important to evaluate the interplay with the Puerto Rico local tax incentives like for example Act 73 of May 28, 2008, known as the Economic Incentives Act for the Development of Puerto Rico and Act 20 of January 17, 2012, known as the Act to Promote the Export of Services, which could provide substantial tax savings for the US owners.

We will monitor the development of this proposal and keep you updated with our Alerts.

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

# Advisory Alert: Turnaround “apps” for the public sector - the Leadership platform

## Introduction

This is the fifth and last of a series of articles covering our strategic framework for executing turnarounds in the public sector. Our framework is based on 4 turnaround platforms or “apps” that cover the following key areas:

- Strategy
- Operations
- Finance
- Leadership

Our [last article](#) covered the **Finance** app. On this piece, we will be focusing on the **Leadership** platform.

## The leadership platform

Successful turnarounds occur only when there is strong leadership that possesses a few definitive characteristics: courage, unwavering commitment to achieve the best for the most constituencies, decisiveness, credibility, tolerance and the ability to persuade. These characteristics are those ideally found in leaders we elect to public office. The difference is that many public office leaders may have never faced the kind of fiscal crisis that can rattle even the best corporate executives. Further, elected officials are not required to have any training or experience in business or finance, two critical ingredients for a well-functioning public sector.



## Leadership app #1:

### Turnaround coach

In private sector turnarounds, an “outsider” with no stake in the outcome of the restructuring other than to create stability and return the business to profitability is often brought in. A Chief Restructuring Officer can restore credibility to management and give confidence to boards of directors and outside constituencies like banks and shareholders. But an elected or appointed government unit leader cannot simply cede authority to an outsider. But he or she may do well to hire an “auxiliary authority” in the form of a turnaround adviser who can rise above political considerations and stay focused on strategy, operations and finance. Professionals who have been in the trenches in crisis situations can help develop options that may not have been previously considered. Outside



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advisers can also ensure that the fact gathering and data analysis, so important in reaching agreement on the restructuring activities, is done in a way that avoids political tinkering.

#### Leadership app #2:

##### Pain sharing

For restructurings to be successful, all stakeholders must buy in to the need for the restructuring. They must see themselves as part of the problem, and part of the solution. Strong leadership is often needed to help the constituencies see that they play both roles. Reaching consensus can be difficult and normally requires each party, sometimes to varying degrees, to agree to concessions for the sake of the greater good. In the private sector this normally translates into a company that maximizes profit or value. In the public sector, this concept is more ephemeral.

Accepting such resolutions and compromises is called “sharing the pain.” In the private sector, where there is a broad history of restructurings, this concept is well understood as an expectation by parties in interest at the onset of a restructuring. The public sector, by contrast, is not always incented to “share pain.” Sometimes it is more politically expedient to defer pain or mask it or ignore it. But if the goal is to effect lasting, permanent change in a troubled situation — such as a current or future budget deficit — the strategic approach to prioritizing programs and services, coupled with the reasoned negotiation, can yield a successful outcome.

#### Conclusion

The complexities of governing and the economic crises facing leaders today will require new approaches and challenge even the best politicians. But the expectation that new problems can be solved by continuing to repeat the standard operating practices of the past will only yield frustration and a result that the turnaround cannot be effected.

The turnaround community’s experience in fixing troubled businesses for more than three decades has yielded lessons that have direct application for governments. The platform fundamentals of strategy, operations, finance and leadership provide a reasoned and structured framework to tackling crises as well as instituting necessary long-term changes.

To review previous articles or to see our series on turnaround apps, please visit <http://www.kevane.com/index.php/publications.html>.

**Call us to make an appointment with one of our experienced advisors. We will be glad to assist you.**



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# Outsourcing Alert: House of Representatives Bill grant rights to domestic workers

The Puerto Rico House of Representatives has approved an initiative which creates the Bill of Rights for Domestic Workers, which would grant this group labor rights enjoyed by other labor groups.

The project aims to do justice to domestic workers in Puerto Rico who work around six days a week, but do not have fringe benefits that are mandatory for other employees.

The House Bill No. 2383 received the endorsement of the Labor and Justice Departments, Women's Procurement Office and the Ombudsman, through the Office of Small Business.

Workers in this sector may require a contract, minimum wage, overtime pay, guaranteed days off, no excessive working hours, rest periods, vacation and sick time.

This legislation would also allow these workers to eventually receive benefits when they are unfit to work.

The initiative also seeks to protect the public interest by restricting the underground economy and reduce evasion of contributions, allowing the government to seek additional resources to the treasury.

Link-P. de la C. 2383

<http://www.tucamarapr.org/dnncamara/Documents/Measures/3f3eddd9-b4d0-4269-bfb0-50d83a9e92e0.pdf>



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