

Kevane mailbag

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The Kevane mailbag is your link to 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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Audit 	In this issue we will discuss the FASB proposal to simplify employee benefit plan accounting. Read related information on page 2 .
Tax 	It is imperative that all businesses in Puerto Rico review their compliance with tax laws and regulations, especially with those related to the SUT and its requirements. Read more on page 3 .
Advisory 	Purchase price allocation considerations are left until after a transaction closes, resulting in issues that can be challenging to resolve. Access the article on page 5 .
Outsourcing 	The State Insurance Fund Corporation provides insurance coverage to employees against all work-related injuries, illness or death. Read more on page 7 .
General information 	For second consecutive year we have been sending our audit and tax clients a survey to evaluate their experience with us. Your responses, combined with those provided by other clients, will help us identify opportunities for improvement. This survey is being sent by a third party provider on our behalf. We will greatly appreciate your answering the survey as soon as it is received.

Audit Alert: Employee benefit plan accounting-proposed standards

The FASB recently issued an exposure document containing three [proposed ASUs](#), *Fully Benefit-Responsive Investment Contracts*, *Plan Investment Disclosures*, and *Measurement Date Practical Expedient – a consensus of the FASB Emerging Issues Task Force*, to simplify the measurement and disclosure requirements for employee benefit plans. These proposed standards would amend the existing guidance in ASC 960, *Defined Benefit Pension Plans*, ASC 962, *Defined Contribution Pension Plans*, and ASC 965, *Health and Welfare Benefit Plans*.

The amendments in the proposed ASUs would simplify plan accounting as follows:

- * Fully benefit-responsive investment contracts would be measured, presented, and disclosed only at contract value, and plans would no longer be required to reconcile contract value to fair value. However, a plan would continue to disclose information that assists financial statement users in understanding the nature and risks of fully benefit-responsive investment contracts.
- * Plan assets would be grouped and disclosed by general type either on the face of the financial statements or in the notes, and would no longer be disaggregated in multiple ways.
- * Plans would no longer disclose individual plan assets that constitute 5 percent or more of net assets available for benefits.
- * The net appreciation or depreciation in investments for the period would be

presented in aggregate and would no longer be disaggregated and disclosed by general type.

* Plans with investment funds measured using the net asset value per share practical expedient in ASC 820, *Fair Value Measurement*, that file Form 5500 with the Department of Labor as direct filing entities would no longer be required to disclose that investment's strategy.

* Plans would be permitted to measure investments and investment-related accounts as of a month-end that is closest to the plan's fiscal year-end when the fiscal year-end does not coincide with a month-end. Plans that utilize this practical expedient would be required to disclose the policy election, the measurement date, and the financial effects of contributions, distributions, and significant events occurring between the measurement date and the plan's fiscal year-end.

The proposed measurement-date practical expedient would be applied prospectively. The other proposed guidance would require retrospective application. The proposed effective dates will be determined after the EITF considers feedback from stakeholders.

The comment period on these proposed ASUs ends May 18.

Source: Grant Thornton, On The Horizon, April 30, 2015.



Contact us

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Tax Update: Sales and Use Tax- important reminders

While the transition from our current Sales and Use Tax system (“SUT”) to a new Value Added Tax (“VAT”) is still under scrutiny, we need to re-focus on the current tax system components. The SUT still is one of the major collection mechanisms in Puerto Rico. Therefore, it is imperative that all businesses in Puerto Rico review their compliance with tax laws and regulations, especially those related to the SUT and its requirements.

The following paragraphs will list some of these requirements.

Certificates and Bonds

Merchants should be aware of the expiration date of their certificates:

- **Bond to guarantee the payment of taxes, fines, interest and penalties on articles for use and consumption** – (effectiveness of one year) allows for the deferral of payment of SUT on inventory introduced in Puerto Rico until the month following the month of introduction.
- **Eligible Reseller Certificate** – (effectiveness of one year) allows a reseller to introduce inventory for resale without paying SUT upon importation.
- **Reseller Certificate and Municipal SUT Exemption Certificate** – (effectiveness of one year) allows the reseller merchant to claim a credit for the SUT paid upon importation or purchase and provides for the exemption of the Municipal portion of the SUT.
- **Exemption Certificate for Manufacturing Plants** – (effectiveness for three years) allows manufacturers to introduce or acquire items for manufacturing with no SUT.



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Filing of returns

The following returns must be filed through the PICO system:

- **Declaration of Imports** – the declaration must be filed and the tax paid as a prior requirement for taking possession of the imported tangible personal property (unless merchant is a bonded merchant).
- **Tax on Imports Monthly Return** – the return must be filed no later than the 10th day of the following month in which the property was imported.
- **Sales and Use Tax Monthly Return** – the return is due the 20th day of the following month in which the taxes were collected.
- **Municipal Sales and Use Tax Monthly Return** – the return is due the 20th day of the following month in which the taxes were collected.

Please keep in mind that the majority of municipal returns should be filed through the COFIM portal. However, there are various municipalities, like Carolina and San Juan, which have their own system for the filing of the returns.

Penalties

Merchants may be subject to penalties if they are not in compliance with the SUT requirements. Some of these are:

- failure to register = \$10,000
- refuse the installation or the use of a fiscal terminal (IVU Loto Registration) = \$20,000
- displaying a falsified Merchant's Registration Certificate = \$5,000
- failure to keep and maintain all documents evidencing exemptions and filings related to the SUT = penalties may vary from \$500 to \$20,000 for each violation

- failure to display the Merchant's Registration Certificate = \$1,000
- failure to notify changes or amendment to the required information and others = \$500.

SUT "Check Up"

In order to minimize any risk associated to a SUT audit conducted by the Puerto Rico Treasury Department to your business, **Kevane Grant Thornton** can perform a SUT "Check Up" to determine if the procedures followed by your business are in compliance with all the statutory requirements. By engaging in this type of review, we will verify if the procedures you have established are adequate and in compliance with the requirements of the law. At the end of the review, you will receive a full report detailing our findings and any possible exposure. In addition, we will provide our recommendations for improvements in any area found deficient.

The costs associated with an audit of SUT can rapidly accumulate taking into consideration that the penalties imposed by the SUT provisions are very onerous.

Nowadays, in the economic and challenging business environment that we are operating, the need to reduce possible penalties and exposure become vital for the survival and success of businesses in Puerto Rico.

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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Advisory Alert: Due diligence and purchase price allocation considerations

Introduction

Purchase price allocation is critical to deal success, and shouldn't be an after-thought. But all too often, purchase price allocation considerations are left until after a transaction closes, resulting in issues that can be challenging to resolve. Even if they are resolved, the outcomes may be less desirable than had sufficient attention been given to these issues prior to closing. Having an integrated due diligence team that includes financial, taxation and valuation professionals from the outset can help identify issues during the due diligence process that may impact the purchase price allocation.

Why an integrated approach?

There are a number of benefits of having an integrated approach to due diligence, including purchase price allocation, from the outset. These benefits include the ability to: (1) negotiate one engagement letter for a single firm to perform the due diligence and purchase price allocation, rather two separate engagements and two different firms; (2) manage one professional services firm rather than two; (3) coordinate information requests and reduce redundancies, and; (4) share information between groups and leverage the different engagement teams' areas of focus.

This integrated approach can avoid problems that happen when purchase price allocation is left until after a transaction closes, albeit the typical method. When a transaction closes very close to a company's year-end, especially in the case of public companies, it can be particularly stressful to management.

Reporting requirements are onerous and the timing is always an issue, especially for public companies that have a certain time frame in which to publish results. Even though GAAP allows for a period of time to complete the analysis, estimates are normally provided until the analysis is finalized. Proper planning and an integrated approach from the outset can address major issues and alleviate some of these stresses.



Valuation and the accounting for business combinations, goodwill and other intangible assets should be part of the upfront dealing planning. For example, a long-term, complex contingent earn-out may require a third party to value the instrument in future years, resulting in additional costs for financial reporting and potential period gains and losses when the instrument is revalued on each reporting date.



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There are a number of key issues to be on the lookout for as part of an integrated due diligence process:

- Inventory-related issues including the lack of perpetual record-keeping and costing problems can be problematic. Although a step up in the carrying value of inventory to fair value may have a favorable result on future tax liabilities, it often creates a reduction in net earnings in the earlier periods of the acquisition. If a step down is required, it may also create phantom income from a tax perspective.
- Customer contracts may involve contractual issues and require consents when transferred. An issue that may arise is how much should be set aside in escrow until such time the contract is legally conveyed. Knowing how to value this relationship will aid the purchaser in protecting its new investment.
- GAAP treatment related to certain payments may have an impact on future tax liabilities for the seller. For example, a contingent earn-out structure structured to include future employment of critical former shareholders may be classified as compensation expense to sellers, and not included in total purchase consideration used for allocation purposes, thereby making the proposed transaction less attractive to the seller.
- Estimated useful lives will assist in understanding future amortization expenses that will be required. Fair value of indefinite lived assets such as goodwill and trade names and in-process R&D may not be amortized in the future, but will be subject to annual impairment testing.

- Definite lived assets such as non-competition agreements, customer relationships and technology will be amortized over their estimated useful lives. Understanding the differences may help buyers and sellers understand the impact of these on the future profitability of the target and other tax ramifications.
- Seller notes are frequently used as part of the purchase consideration paid to the seller and may be subordinated to other acquisition debt. As a result, the fair value may be below the stated value and the sellers may not be happy, since the transaction was negotiated and presumed to be at market.

Conclusion

In summary, there are many synergies that may be realized from examining these and other issues during due diligence using an integrated team. Besides the economic impact on the structure of the transaction that may be more favorable to both the buyer and seller, there are many additional benefits, such as the ability to identify issues early in the process, reduce costs, and improve efficiency and communication in the process.

As your business expands, our advisory services professionals stand ready to help you address your purchase price allocation and due diligence needs.

Contact us at any time. We will be glad to assist you.



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Outsourcing Alert: State Insurance Fund

It is the duty of every employer to insure his or her employees against all work-related injuries, illnesses or death. The State Insurance Fund Corporation's (CFSE by its acronym in Spanish) Worker's Insurance is the exclusive remedy available to the employee in these cases.

Annual payroll statement- Next due date

The Annual Payroll Statement (Form FSE 693) must be filed with the CFSE on or before July 20, 2015. The same must show the number of employees, occupation or industry classification and the respective total amount of wages paid during the immediately preceding fiscal year ended June 30th.

Employers should be receiving the Annual Payroll Statement by mail during the next month. Also, the statement can be completed and filed through the CFSE internet portal.

Online Services

All employers insured under the State Insurance Fund Corporation (CFSE) may request and obtain a Certificate of Good Standing through the CFSE internet portal. This is an official document certifying that the employer complies with all applicable requirements to be insured by the CFSE. This document can be used for bidder's registrations, legislative donations, proposals, license renewals, etc. This certificate can be obtained 24 hours a day without visiting any of the Corporation's regional offices.

Other online services available at the CFSE internal portal are:

- debt certificates
- rate of experience plan certificates
- certificate code verification
- online filing of the Annual Payroll Statement
- policy payment
- file work accident report

Link-CFSE Internet Portal

<http://www.cfse.gov.pr>

Link-Classification Manual

<http://www.cfse.gov.pr/CMS/CMSFileStorage/20b2615790a432b9.pdf>



Contact us at any time should you require assistance with this or any other matter. We will be glad to assist you.



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