

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.

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Audit



People



Records

Pension plan accounting: updated mortality information

March 15, 2018



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In October, the Society of Actuaries (SOA) [published](#) an updated mortality improvement scale for pension plans called Scale MP-2017, which updates MP-2016 to incorporate mortality data released by the Social Security Administration through 2013. MP-2017 also incorporates 2014 and preliminary 2015 mortality data from the Centers for Disease Control, Centers for Medicare and Medicaid Services, and the U.S. Census Bureau.

The updated improvement scale reflects a slight decline in life expectancy. Based on preliminary estimates, the SOA therefore expects that incorporating the MP-2017 scale, and using a 4 percent discount rate, might reduce a pension plan's liabilities by 0.7 percent to 1.0 percent, depending on the plan's specific characteristics.

To measure a defined benefit plan's costs and obligations under U.S. GAAP, a sponsor must use assumptions that reflect its best estimate of the plan's future experience. Although sponsors are not required to use SOA information to develop mortality assumptions, many sponsors do. Those sponsors should consider the updated improvement scale when preparing their financial statements.

Plan sponsors should be aware of the requirements to disclose information about changing their approach for measuring components of net periodic benefit cost in the notes to their financial statements and, if applicable, in Management's Discussion and Analysis.

Source:
Grant Thornton, On the Horizon, November 2, 2017.

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Tax



Property



Taxpayer

Property casualty loss deduction for 2017 tax return

March 20, 2018

As a result of Hurricane Maria's extensive damage to Puerto Rico's infrastructure, particularly to residential and personal property, a key topic heading into the already-upon-us tax season has been how will taxpayers claim the property casualty loss deduction allowed under the Puerto Rico Internal Revenue Code of 2011, as amended (the "Code"), and comply with its documentation requirements within the confines of the Puerto Rico Treasury Department's electronic filing obligation for the 2017 Puerto Rico Individual Income Tax Return (the "2017 Tax Return").

To reconcile these, on March 5, 2018 the Puerto Rico Treasury Department issued Administrative Determination No. 18-05 ("AD 18-05") to both confirm the requisite filing of documentation to properly claim the property casualty loss deduction, and to establish the process whereby this evidence will be submitted to the Puerto Rico Treasury Department for purposes of the 2017 Tax Return.

Deduction for property casualty losses under Section 1033.15(a)(10)

Section 1033.15(a)(10)(A) of the Code allows a deduction to individuals on the net loss of his/her principal residence sustained from fire, storm or other casualty, that was not compensated for by insurance.

Moreover, paragraph (B) allows for a maximum \$5,000 deduction or (\$2,500 in case of married filing separately) on losses from automobiles, furniture, household goods and other property, excluding the value of jewellery or cash, that were part of the main residential property of the taxpayer and which were not compensated for by insurance or otherwise. In order to claim the property casualty loss deduction under Section 1033.15(a)(10)(B) it is imperative that (i) the affected area has been designated as a disaster area by the

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Governor of Puerto Rico and (ii) the aggrieved taxpayer claim, within the appointed term and place, the assistance program benefits approved for disaster cases. Also, a duly filed and approved copy of the assistance program claim must be filed along with the 2017 Tax Return.

Property casualty loss deduction on taxpayer's principal residence

In addition to disclosing the amount of loss attributable to the principal residence on Schedule A, Part 1, Line 2, of the 2017 Tax Return, the taxpayer must file the following documents:

- 1) a certification from either the Federal Emergency Management Agency ("FEMA"), the Small Business Administration ("SBA"), the insurance company or an application for the "Tu Hogar Renace" program where the principal residence loss amount, that has not been compensated by insurance, is reported;
- 2) copy of the deed of sale for the principal residence or title study that proves that at the time of the hurricane, the taxpayer was the owner of the property;
- 3) evidence of the amount of loss incurred including cancelled checks or payment receipts on such cases where the main residence was repaired. In those cases where the property has not been repaired, a certification that shows the value of the property before and after the hurricane or a copy of the repairs estimate; and
- 4) duly completed AD 18-05 Worksheet

Property casualty loss deduction on taxpayer's personal property

In addition to disclosing the amount of loss attributable to personal property on Schedule A, Part 1, Line 5, of the 2017 Tax Return, the taxpayer must file the following documents:

- 1) copy of the claim duly filed with FEMA, SBA or any other similar program from the Government of Puerto Rico or the United States Government;
- 2) copy of the claim filed with the insurance company, as well as the evidence of the compensated amount;
- 3) cancelled checks or payment receipts and copy of the invoices that shows the cost of the personal property acquired in substitution of those personal property destroyed by the hurricane and
- 4) duly completed AD 18-05 Worksheet

Filing with 2017 Tax Return

Taxpayers that claim the property casualty loss deduction and are required to file their 2017 Tax Return through electronic means must submit the required documentation under AD 18-05 no later than three (3) days after the filing of the tax return to the following email address: perdidashuracanmaria@hacienda.pr.gov, as follows:

- 1) one pdf record not larger than 20 megabytes
- 2) include evidence of the 2017 income tax return electronic filing confirmation, and this should be the first page of your pdf record

The taxpayer must also include the last seven digits of the electronic filing confirmation number, as well as his/her complete name (including both last names) and the taxable year for which the deduction is being claimed. Example: (subject line) 1234567 – Juan del Pueblo Ortiz - 2017

It is important to highlight that any insurance compensation received by the individual in any taxable year subsequent to 2017 must be included as part of the taxpayer's gross income for that same year.

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



Value proposition



Risk

Five ways to achieve performance-driven risk management

March 19, 2018

Achieving high performance in the current business environment demands an understanding of not only risk and risk management, but also truly integrated risk management and how to realize it. High-performing organizations accept that risk accompanies the pursuit of growth and profitability. They develop, adopt, deploy and integrate risk management methods that enable performance amid the disruption that now characterizes business. Forward-thinking organizations are recognizing the need to achieve truly integrated, performance-driven risk management, as exhibited in the following activities:



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Integrating the value proposition and risk culture:

Organizations with a clear value proposition, and a risk culture that supports it, can achieve higher performance than those lacking either. This is the starting point in aligning risk management with strategy. Even when management takes a risk and fails, the organization will weather the event — provided the risk-taking served the value proposition, risk management was aligned with strategy and risks were proactively managed.

Creating true risk management cultures:

In a sound risk management culture, everyone plays a role in risk management. People do not view risk management as an afterthought or believe it's solely the risk management function's job. They understand that their decisions and actions hold opportunities as well as risks for the organization, and they conduct themselves accordingly.

Distinguishing between compliance and risk management:

The NCMM survey showed middle market leaders are unprepared for the challenges and complexities of the M&A process. Becoming deal-ready requires that the necessary capabilities and connections be in place well before a transaction. Tips for success include:

Organizations are increasingly viewing compliance as a cost of doing business and treating compliance risk as part of operational risk — one more risk to be managed. Organizations focused mainly on compliance (and loss prevention) define risk and risk management too

narrowly. As a result, they find integrated risk management hard to achieve. Performance-driven risk management recognizes the importance of compliance and compliance risk, but addresses them in the context of operational risks within the larger risk management framework.

Integrating cyber risk into overall risk management:

Cyber risk management capabilities can either boost or limit an organization's growth and profitability. Organizations with superior cyber risk management can develop or adopt new technologies, partner with emerging companies and pursue new solutions more aggressively. These organizations are increasingly looking beyond traditional IT risk management. They are strengthening cyber risk management by having the chief information security officer or other IT risk manager report to the Cyber Security Officer (CSO). They are strengthening cyber risk governance by including cyber within operational risk, conducting more rigorous cyber threat reviews and having internal audit provide independent assurance to the board regarding cyber risk management.

Bringing risk management into real time:

Companies integrating risk management into real-time operations put the related tools in the hands of those who actually manage risk — those in the first line of defense in the businesses and functions — as well as those who advise on and oversee risk in the second and third lines. The more visibility everyone has into risks before or as they arise, the better they can manage risk while pursuing high performance.

Conclusions

A truly integrated approach to risk management creates a context for adopting innovations ranging from strengthening internal audit to assessing risks in real time and adopting predictive analytics. As a result of true integration, the organization can pursue high performance by reinforcing its value proposition at the strategic level, protecting and delivering value at the operational level, and managing the full range of risks at every level. This approach amounts to performance-driven risk management in that it enables the organization to take risks that are worth taking, avoid those that could be devastating and clearly perceive the difference between the two.

This article is an excerpt of Grant Thornton's LLP whitepaper titled "Performance-driven risk management: An integrated approach".

Source: [Integrate risk management in your pursuit of high performance](#)

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Federal tax guide for the employers of Puerto Rico (Publication 179)

March 21, 2018

The federal tax guide for Puerto Rico employers (Publication 179) has issued the following changes for the taxable year 2018.



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What's new?

The social security tax rate is 6.2% each for employee and employer, unchanged from 2017. The new social security wage limit is \$128,400.

Please note that on November 27, 2017, the Social Security announced an update to the Social Security wage limit informing that the new amount is \$128,400 and not \$128,700, as previously informed.

The Medicare tax rate is 1.45% each for the employee and employer, unchanged from 2017. There is no wage base limit for Medicare tax.

Social security and Medicare taxes apply to the wages of household workers you pay \$2,100 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 in 2018.

Disaster tax relief

Disaster tax relief was enacted for those impacted by Hurricane Harvey, Irma, or Maria. Additionally, the IRS has provided special relief designed to support employer leave-based donation programs to aid the victims of these hurricanes and to aid the victims of the California wildfires that began October 8, 2017. For more information about disaster relief, including the treatment of amounts paid to qualified tax-exempt organizations under employer leave-based donation programs, see Pub. 976(SP).

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Reminders

Employers of the federal government in Puerto Rico.

An agreement has been established between the US Department of Treasury and

Puerto Rico pursuant to section 5517 of the Title 5 of the United States Code (known by its abbreviation in English, 5 U.S.C.5517) in November 1988. According to this agreement, all employers of the federal government (including the Department of Defense of United States) have the requirement to withhold income taxes on state revenues from Puerto Rico (instead of federal contributions about income) and deposit such taxes with the Puerto Rico Department of Treasury for employees who are subject to Puerto Rican contributions and whose regular federal place of employment is in Puerto Rico.

For additional reference, please see special rules for various kinds of services and payments section.

Link-IRS: [Guía Contributiva Federal para Patronos Puertorriqueños](#)

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