

TAXES & IRAs

Kevane Grant Thornton Looks out for Corporate Clients During Tax Season

BY MARIO BELAVA DÍAZ

With tax season looming, the airwaves are already rife with what Lina Morales, tax partner in the Tax Department of Kevane Grant Thornton in Puerto Rico, described as the “IRA Wars,” referring to financial institutions promoting products such as individual retirement accounts, known by the initials IRAs. However, she said that while the emphasis during tax season tends to be on income tax filed by individuals, there are other taxpayers, such as corporations, that must consider the requisites they have to comply with and should not be overlooked.

“All owners of businesses and corporations have to always consider these requisites,” Morales said, “especially when preparing their annual budgets and particularly during these times of economic austerity.”

Morales explained that unlike the majority of individuals, corporations may have a tax year that is different from the calendar year. The deadline for filing corporate income taxes is on the 15th day of the fourth month after the company closes its tax year.

“For example, in the case of a corporation with a closing date of Dec. 31, the deadline would be April 15, but for a corporation with a closing date of June 30, the deadline is Oct. 15,” Morales explained, adding that the law allows a three-month extension to file in most cases.

A corporation pays taxes on its income as a corporation and generally when it distributes dividends among its owners,

who pay a tax that can reach up to 15%, which is known as double taxation.

“The income-tax law provides alternatives to reduce or eliminate this double taxation,” Morales said. “These can be done through other ways of doing business, such as a partnership, special partnership or corporations of individuals, where the owners pay taxes, and not the entity.”

Regular corporations determine their income tax through two steps: a regular tax, where the total net income subject to tax is multiplied by 20%, and then an additional tax is added for the excess of that net income subject to tax that is over \$25,000. This additional tax is determined by parameters that have already been set. In addition to the income tax, corporations have to file and pay a host of other taxes, which includes a declaration on the volume of business (municipal business tax, or *patente*), which should be filed with municipalities within five days after April 15; and the tax on personal property, which has a May 15 deadline. In addition, if a corporation’s business volume exceeds \$3 million, it must submit audited financial statements from a certified public accountant authorized in Puerto Rico.

“All in all, the taxes and requisites that have to be complied with are many, and that is beside the already great responsibility of running a business,” Morales said. “That is why [businessowners] should seek orientation from their tax and financial adviser so they can invest their time in what really matters: moving business forward and prospering.” ■

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