

# Tax Alert: Deduction for expenses incurred or paid for the use and maintenance of automobiles

On January 9, 2015, the Puerto Rico Department of Treasury issued Administrative Determination 15-01 to address the deduction for expenses incurred or paid for the use and maintenance of automobiles in the trade or business, or for the production of income in Puerto Rico.

Section 1033.07(a)(3)(G) of the 2011 Internal Revenue Code (“PR Code”) states that said deduction will be determined based on a standard mileage rate attributable to said trade or business, in lieu of actual expenses incurred, at a rate to be determined by the Secretary of the Treasury through further regulations.

Further communications were issued to state a standard mileage rate of \$0.60 and to allow the deduction of actual automobile related expenses incurred until December 31, 2013.

Section 1031.02(a)(33) states the exemption from gross income for expenses reimbursed to an employee under a plan for expense reimbursement (“accountable plan”) established by an employer, which meets the requirements to be established through further regulations.

Regulation #8297 was previously issued to address the sections mentioned above and incorporate related regulations into Regulation #8049 from July 21, 2011.

Due to constant difficulties in the practical application, and after various extensions postponing the effectiveness of the Regulation #8297, the Department of Treasury has repealed Articles 1031.02(a)(33)-1 thru 1031.02(a)(33)-6 and 1033.07(a)(3)(G)-1 thru 1033.07(a)(3)(G)-7 from Regulation #8049.

## Deduction Computation

Until a new regulation is issued, taxpayers subject to Section 1033.07(a)3(G) will be allowed to claim the above mentioned deduction based on the following alternatives:

- Computation of expense will be based on a standard mileage rate of \$0.60 for each mile used attributable to the production of income, or
- Actual expenses for the use and maintenance of automobiles incurred during the production of income, including those properly disclosed under an accountable plan established by an employer.

Once an alternative has been chosen, the taxpayer must use the same alternative during the entire tax period.



## Contact us

For assistance in this matter, please contact us via [maria.rivera@pr.gt.com](mailto:maria.rivera@pr.gt.com), [lina.morales@pr.gt.com](mailto:lina.morales@pr.gt.com), [Isabel.hernandez@pr.gt.com](mailto:Isabel.hernandez@pr.gt.com) or [francisco.luis@pr.gt.com](mailto:francisco.luis@pr.gt.com)



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Taxpayers that chose to deduct automobile expenses based on a standard mileage rate of \$0.60 during the period of effectiveness of Regulation #8297, may still be allowed to use this deduction only if the taxpayer was in compliance with Section 1033.07(a)(3)(G).

Note that even though the regulations have been repealed, accountable plan requirements still apply for the deduction of actual expenses. However, the guides issued by the Secretary of Treasury under the repealed regulation articles are no longer applicable or required.

An analysis of the impact of these alternatives is recommended to address any noncompliance, previous and prospective, to the issuance of administrative determination 15-01.

The provisions of this Administrative Determination shall apply immediately.

**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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