

Tax Alert: Relevant proposed changes included in the project for the Transformation of the Commonwealth of Puerto Rico Tax System

The Puerto Rico Legislature Bill No. 2329, better known as the Transformation of the Commonwealth of Puerto Rico Tax System Act, provides us with a first glance of the recently proposed new Puerto Rico tax structure.

The legislative measure introduces substantial changes in the taxation structure of Puerto Rico ranging from a reduction in the income tax rates applicable to individuals up to the implementation of a new goods and services tax, better known as the Value Added Tax ("VAT"), in substitution of the Sales and Use Tax.

Herein is a brief summary of the most relevant proposed changes:

Individual taxation

- Individual tax rates are significantly reduced, introducing more flexible thresholds on net income subject to tax (\$40,000 for singles; \$80,000 for married couples).
- Fixed tax rates on capital gains and dividends of thirty (30) percent.
- Eliminates the alternate basic tax on individuals.
- Total exemption on income tax on the sale of the principal residence is eliminated after March 31, 2015.

- Recognizes the exemption on the event of a dismissal without just cause up to one hundred (\$100,000) thousand dollars.
- Substitutes the deduction on mortgage interest for a non-refundable tax credit.
- Keeps the following deductions at individual level:
 - i. Charitable contributions, if the recipient is engaged in trade or business in Puerto Rico.
 - ii. Medical Expenses
 - iii. University Student Loans
 - iv. Contributions to retirement and pension plans
 - v. Casualty Losses
 - vi. Individual Retirement Accounts Contributions

Corporate taxation

- Fixed tax rates on capital gains and dividends of thirty (30) percent.
- Corporate tax rates are set at a thirty (30) percent, with the elimination of the gradual adjustment.
- Introduces changes to the alternative minimum tax calculations and reduces the applicable tax rate from a thirty (30) percent to a twenty five (25) percent.



Contact us

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Through the **Kevane Grant Thornton business and tax application for mobile devices** you will have access to our Alerts, Tax News and other related matters, plus a customized tax calendar for individuals, businesses and other entities, thus providing an excellent tool to manage filing and payment due dates with government agencies in Puerto Rico.

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- Reactivates the moratorium on certain tax credits effective January 1, 2015 for a two year period. Credits available will be subject to a twenty (25) percent limitation of the tax liability.
- Charitable contributions deduction is limited to recipients that are engaged in trade or business in Puerto Rico.
- Substitutes the one (1) percent municipal Sales and Use Tax for a Municipal Development fund which will be assigned a point two (.2) percent of the sixteen (16) percent VAT to be distributed to each municipality based a combination of the municipality individual budgets and their population rate.

Flow-through entities taxation

- Effective January 1, 2015, an automatic statutory conversion to a new flow-through entity under the proposed new tax code is required on entities with elections for treatment as special partnerships and N corporations.

Value Added Tax ("VAT")

- Incorporates a Value Added Tax of sixteen (16) percent to all transactions (with limited exceptions) beginning on January 1, 2016.
- Transitory dispositions are provided to the current Sales and Use Tax system, increasing the tax rate from a seven (7) percent to a sixteen (16) percent effective April 1, 2015.
- Introduces changes to the nexus and situs sourcing rules for the Value Added Tax.
- Imposes a limitation on the amount of the credit to be claimed on the value added tax paid in excess during one month of up to ten (\$10,000) thousand dollars.
- Incorporates the payment to the eligible consumer (regressivity relief), which shall be made available to the taxpayers no later than the last day of the month of November, March and July of each taxable year, beginning in November 2015.



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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