

# Tax Alert: Changes to consider when preparing your 2014 tax returns

During 2014 the Puerto Rico Government set forth several legislative measures to strengthen the economic development of the island and increase the government collections. Herein you will find a brief summary of the most important changes, introduced by Act 77-2014, Act 135-2014 and Act 238-2014, you need to consider in the preparation of your 2014 tax returns:

## Individual taxation

- \$40,000 exemption on income derived by youngsters from salaries, services rendered and/or self-employment. *(Please note exemption needs to be documented on employee's Form W-2PR in order to be claimed).*
- Change in alternate basic tax ("ABT") rates for taxable year 2014. Higher rate of 24% starts now at the \$300,000 threshold.
- ABT carryover credit now limited to 25% of the excess over regular tax.
- The 2% special tax on self-employed individuals does not apply to agricultural activities.
- Special rate on net long-term capital gain increased to 15% for sales or exchanges taking place after June 30, 2014.
- Special tax on dividend distributions of certain corporations increased to 15% for distributions after June 30, 2014. *(Please note that the withholding requirement increase to 15% is effective October 31, 2014).*
- Puerto Rico dividends special tax rate on non-resident alien individuals increased to 15% effective June 30, 2014. *(Please note that the withholding requirement increase to 15% is effective October 31, 2014)*
- Holding period for short-term and long term capital transactions increased (short-term – 1yr or less; long-term more than 1yr) effective for transactions after June 30, 2014.
- New limits on carryover capital loss amounts. Now, limited to 90% of the gain, plus taxpayer net income or \$1,000 which ever is less.
- New carryover periods on capital losses. Seven (7) years carry over period for losses incurred in taxable year 2012 and forward.
- Earned income credit was eliminated for taxable years beginning after December 31, 2013.
- Credit for low income persons age sixty-five (65) years and older decreased to \$200. *(Please note credit is only available to PR residents).*



## Contact us

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



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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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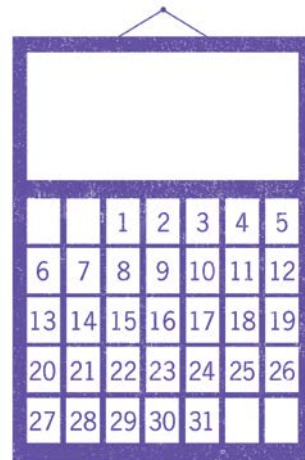
February 16, 2015

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Corporate taxation

- Special rate on net long-term capital gain increased to 15% for sales or exchanges taking place after June 30, 2014.
  - Special tax on dividend distributions of certain corporations increased to 15% for distributions after June 30, 2014. *(Please note that the withholding requirement increase to 15% is effective October 31, 2014)*
  - New “patente nacional” dispositions (Section 1023.10A) in effect:
    - i. Patente nacional now an additional tax (not part of AMT or ABT).
    - ii. New rates table ranging from .35% for income \$3 million to \$100 million to 1% on income over 1,500 million.
    - iii. Special rates for merchants in the retail sale of unprepared foods.
    - iv. Amount paid on or before the due date to file the income tax return can be claim as a deductible expense for such year.
    - v. Partnerships, special partnerships and N corporations subject to the Supplementary Return filing need to include copy with informative income tax return upon filing.
  - Holding period for short-term and long term capital transactions increased (short-term – 1yr or less; long-term more than 1yr)effective for transactions after June 30, 2014.
  - New limits on carryover capital loss amounts. Now, only 90% of the gain.
  - New carryover periods on capital losses. Seven (7) years carry over period for taxable year 2012 and forward.
  - Alternative minimum tax carryover credit now limited to 25% of the excess over regular tax.
- New 10% tax on deemed dividend distributions to a foreign owner of a Corporation regardless of the actual payment of dividend date. *(Please note that services rendered for a foreign owner or related party will be excluded from the term “Foreign Asset”).*



**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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