

Tax Alert: Proposed value added tax in Puerto Rico – Part III

Puerto Rico Legislature Bill No. 2329, better known as the Transformation of the Commonwealth of Puerto Rico Tax System Act, introduces a value added tax system (VAT) in Puerto Rico.

In this, the third of a series of Tax Alerts devoted to describe the new system, we explain the exclusions and exemptions that will be in effect if the Bill is approved as is.

Items excluded from VAT

The term “**goods**” excludes the following:

- money, stock, bonds, notes, mortgages, and other securities and obligations
- intangibles (except computer programs)
- electricity
- water supplied by the Puerto Rico Aqueduct and Sewer Authority
- any property of the Puerto Rico and U.S. Government.

The term “**imports**” excludes the following:

- goods introduced into foreign trade zones
- goods that are part of a move
- temporary introduction of goods
- alcoholic beverages deposited in a bonded warehouse under certain conditions
- certain promotional materials
- certain vessels acquired by non-residents of Puerto Rico.

The term “**services**” excludes the following:

- services rendered between affiliated entities
- services rendered by the Puerto Rico and U.S. Government
- services rendered as an employee.

The term “**sales**” excludes the following:

- exempt transfers under Subtitle A of the Code
- the delivery of donated goods to not-for-profit entities.

Other items excluded from VAT:

- certain entertainment machines
- sales by non-merchants.



Contact us

For assistance in this matter, please contact us via maria.rivera@pr.gt.com or javier.ovola@pr.gt.com



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Exemptions available until March 31, 2015

The current exemptions for the following transactions expire as of March 31, 2015:

- funeral services
- solar electric equipment
- uniforms, materials and text books.

Exemptions under VAT

The following **taxable transactions** will be exempt from VAT:

1. Financial services, except those that generate bank charges
2. Sale and import of prescription medicines and articles for the treatment of health conditions
3. Sale of articles and equipments for physical or physiological deficiencies
4. Sale of any good or services that qualify for full or partial reimbursement for Medicare, Medicaid and the Puerto Rico Government's Health Insurance Plan
5. Sale of goods and services to the United States Government, the States, District of Columbia and Puerto Rico Government
6. Sale and import of gasoline, aviation fuel, gas oil or diesel oil, kerosene and any mixture of hydrocarbons other than propane and derivatives
7. Hotel room charges fixed by the Puerto Rico Tourism Company
8. Sale and import of food and food ingredients
9. Sale of goods acquired with PAN or WIC funds
10. Sale of real property
11. Real property lease that constitutes the principal residence of the lessee, including student and elderly housing
12. Gratuitous transfers of goods and services by not-for-profit entities

13. Sales of machinery, medical-surgical material, articles, equipment and technology to hospitals and imports of such goods by hospitals
14. Sale and import of agricultural products to bona fide farmers
15. Sale of goods to and the import of goods by a merchant dedicated to a tourism business
16. Sale and import of vehicles.

Please contact our Tax Department should you require additional information regarding this or any other tax issue; we will be glad to assist you.