

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

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 in Puerto Rico.

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

Certificates

- **Merchant's and Small Merchant's Registration Certificate** – any person who wants to do business in Puerto Rico must be registered at the Puerto Rico Treasury Department before commencing operations (“MRC”).

The Small Merchant's Registration Certificate (“SMRC”) applies to merchants with gross sales of less than \$75,000. Small merchants holding a SMRC are exempt from collecting VAT. This certificate is optional since the small merchant will not be able to credit any of the VAT paid on its purchases.

The Secretary of the Treasury will establish through regulations or other official pronouncement the requirements to substitute the MRC for the SMRC.

The original MRC or SMRC must be displayed at all times in a place visible by the general public in each place of business for which it was issued.

- **Exemption Certificate on Imports for Eligible Manufacturing Plants** – allows manufacturing plants the right to import articles for manufacturing subject to a tax rate of 0%. This certificate will be effective for three (3) years. It is not clear from the Bill, whether this 0% rate will also apply to local purchases.

Articles for manufacturing consist of:

- raw materials, including hydraulic cement,
- machinery and equipment used in the elaboration of finished goods or used in the manufacturing process of these products, including, but not limited to, the process of electric power,
- articles for which an exemption from the payment of excise taxes is provided under Section 9(a) of Act 73 of 2008, or any similar provision of any previous analogous law or under any law that replaces it.



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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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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Section 9(a) of Act 73 of 2008, provides exemption for the following articles:

- any raw material that is to be used in Puerto Rico to manufacture finished products, except for hydraulic concrete, crude oil, partially manufactured products, finished oil products and finished products from any other hydrocarbon mixture
- machinery, equipment, parts and accessories used:
 - exclusively in the manufacturing process or in the construction or repair of ships
 - to meet environmental, safety and health demands
 - in laboratories of an experimental or a referential nature
 - in the preliminary region exploration phase geared toward the mineralogical development of Puerto Rico, and the graving docks or shipyards for the construction or repair of ships
- fuel used in the co-generation of electric power
- chemicals used in the treatment of used waters
- energy-efficient equipment, duly certified by the Energy Affairs Administration

Merchants should use the certificate to claim a tax rate of 0% at the moment of acquiring or importing the goods and services, in the time, form and manner established by the Secretary.

- **Certificate for Exempt Purchases** – allows merchants to acquire or import goods and services exempt from VAT. This certificate will be effective for three (3) years.

This certificate will be issued to the following eligible persons:

- United States Government, the States, District of Columbia and Puerto Rico Government
- any hospital unit
- any merchant engaged in the tourism business
- bona fide farmers

Sellers will not be required to collect, withhold or remit the VAT in a taxable transaction with merchants holding a Certificate of Exempt Purchases or the Exemption Certificate on Imports for Eligible Manufacturing Plants. These transactions should be documented by obtaining a copy of the certificate from the buyer merchant or other method arranged by the Secretary.

- **Eligible Merchant's Certificate** –this certificate will be issued to those merchants with an annual volume of business in excess of \$500,000 for a three (3) year-period with 80% of total sales subject to a tax rate of 0%. Merchants that hold this certificate will be issued reimbursement of VAT by Treasury.



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