

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

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 fifth of a series of Tax Alerts devoted to describe the new system, we explain the **way to collect and pay the tax** that will be in effect if the Bill is approved as is.

Person responsible for the payment of the VAT

Generally, the person responsible for the payment of the VAT will be:

- **on imports** – the person that imports the goods to Puerto Rico
- **on non-retail sales of goods or services rendered in Puerto Rico** – the seller as withholding agent for the buyer is primarily responsible, but the person that buys the goods or services is also responsible
- **on retail sales** – the seller as withholding agent for the buyer
- **on services rendered by a non-resident to a Puerto Rico resident** – the person in Puerto Rico that receives the service.

Collection of the tax

Every merchant that sells a good or service subject to a 16% tax rate, except small merchants holding a Small Merchant’s Registration Certificate, must collect the VAT as a withholding agent.

Merchants that purchase goods or services may request a Fiscal Statement to the seller merchant that withheld the tax. These merchants should request the Fiscal Statement within thirty (30) days of receiving the goods and the seller merchant must provide the Fiscal Statement within thirty (30) days of the request. However, the seller merchant is not required to provide the statement if the goods or services were:

- exempt
- subject to a tax rate of 0%
- sold to a small merchant
- sold at retail, or
- the buyer merchant uses the cash basis method for VAT purposes and has not made the corresponding payment of the VAT

On the other hand, in a retail sale the seller merchant must provide to the buyer a receipt, invoice, ticket or any other evidence that does not show separately the price of the good or service sold and the applicable tax.



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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Credit for VAT paid

Every merchant, except small merchants holding a Small Merchant's Registration Certificate, will be allowed to claim a credit for the VAT paid during the corresponding month.

The credit amount to be claimed is calculated by adding the following items:

- the VAT paid on the introduction of goods, as reported in the Tax on Imports Monthly Return, that is directly or indirectly related to the sale of taxable goods or services (subject to a 0% or 16% tax rate),
- the VAT paid on the purchase of goods and services, as reflected in the Fiscal Statement, that is directly or indirectly related to the sale of taxable goods or services, and
- the VAT paid by a merchant for services rendered by a non-resident person, as reflected in the Monthly VAT Return.

In those cases in which it cannot be determined if the VAT paid corresponds directly to a particular good, it will be considered that it is related to the sale of an exempt good and therefore, would not be creditable. However, the VAT paid will be allocated in order to determine which amount of VAT paid is creditable.

VAT overpayment

A VAT overpayment will be the excess of any adjustments and credits over the applicable VAT on sales of goods and services made during the corresponding month, as disclosed on the Monthly VAT Return. When the VAT overpayment does not exceed \$10,000, it must be applied against the VAT liability shown in the Monthly VAT Return and for the following months until fully exhausted.

However, if the VAT overpayment exceeds \$10,000, the merchant is allowed to request a reimbursement, if it is considered an eligible merchant or it is the third consecutive month showing an overpayment in the Monthly VAT Return.



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