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Outsourcing Alert:

Reporting of qualified payments under Administrative Determination No. 17-21

December 19, 2017

As informed in our Tax Alert of October 9, 2017, the Puerto Rico Treasury Department (PRTD) issued the Administrative Determination 17-21 (AD 17-21) with purpose of establishing a temporary exemption on those payments made by an employer in favor of its employees to compensate the damages and losses received by individuals as a result of the passing of Hurricane Maria.



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In accordance with this Administrative Determination and in a supplementary manner, the Department of the Treasury also issued a Q & As publication with the purpose of addressing the most frequent questions arising as a result of the publication of the AD 17-21.

Significant notes

- those qualified payments, as defined by DA 17-21, will be considered as excluded from the term "gross income" in accordance with Section 1031.01 (b) of the Internal Revenue Code of Puerto Rico of 2011, as amended ("Code").
- the employer may deduct qualified payments to determine its net income subject to income tax provided that it is reported on the employee's Withholding Statement Form W-2PR.
- qualified payments will be deductible to determine the net income subject to tax on the employer's income, regardless of whether they exceed one thousand dollars (\$ 1,000) per employee per month. However, any excess will have to be reported as taxable income in the employee's Withholding Statement (Form W-2PR) or in the informative return of income subject to withholding (Form 480.6B), as applicable.

- any payment made by a merchant to an independent contractor that is a natural person and that meets all the requirements of a qualified payment, will be considered as such even though there is no employee-employer relationship between the independent contractor and the merchant. The merchant may deduct qualified payments to determine its net income subject to income tax provided that these payments were reported on Form 480.6D, as applicable.

Links:

Administrative Determination No. 17-21

<http://hacienda.pr.gov/publicaciones/determinacion-administrativa-num-17-21>

Q & As under Administrative Determination No. 17-21

<http://www.hacienda.gobierno.pr/publicaciones/preguntas-y-respuestas-pagos-cualificados-por-concepto-de-asistencia-por-desastre-bajo-la-determinacion-administrativa-num-17-21-version-7-dic-17>

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