

# Kevane Grant Thornton Mailbag



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**Kevane Grant Thornton LLP**

33 Bolivia Street  
Suite 400  
San Juan, PR 00917-2013

**T** + 1 787 754 1915

**F** + 1 787 751 1284

**E** [kgt@pr.gt.com](mailto:kgt@pr.gt.com)

[linkedin.com/company/kevine-grant-thornton](https://www.linkedin.com/company/kevine-grant-thornton)  
[facebook.com/kevinegrantthornton](https://www.facebook.com/kevinegrantthornton)

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### Dear clients and friends:

The Kevane Grant Thornton Mailbag is your link to all our communications related to the operations of businesses in Puerto Rico. Our purpose is to offer you with up-to-date information concerning audit, tax, advisory and accounting matters that might have an impact on individuals or in the way you conduct your business in Puerto Rico.

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# Land Easement Practical Expedient for Transition-Topic 842

February 14, 2018



## Aida Ramirez

Partner Head of Audit  
Kevane Grant Thornton  
T (1) 787 754 1915  
E [aida.ramirez@pr.gt.com](mailto:aida.ramirez@pr.gt.com)

The FASB has issued ASU 2018-01, [Land Easement Practical Expedient for Transition to Topic 842](#), to clarify how entities should apply the new guidance in ASC 842, *Leases*, to land easements. The Board issued the ASU in response to stakeholders' concerns about the cost, complexity, and limited benefits of the requirement to evaluate all existing or expired land easements upon adopting ASC 842.

A land easement, or right of way, is the right to use, access, or cross another entity's land for a specified purpose. In accounting for land easements, some entities currently apply the existing guidance in ASC 840, *Leases*, while others apply the existing guidance in either ASC 350, *Intangibles – Goodwill and Other*, or ASC 360, *Property, Plant and Equipment*.

ASU 2018-01 includes a practical expedient that allows entities to elect not to apply ASC 842 to land easements previously accounted for under guidance other than ASC 840. If an entity elects to use the practical expedient, it is required to apply the expedient to all existing or expired land easements as of the effective date of ASC 842 and should continue to account for the land easements existing as of the adoption date in accordance with guidance other than ASC 842. If an entity does not make the election, it should evaluate all existing or expired land easements on the effective date of ASC 842 to determine whether they meet the definition of a lease under ASC 842.

ASU 2018-01 further requires an entity to apply ASC 842 to all new or modified land easements to determine whether the arrangement should be accounted for as a lease. ASU 2018-01 also amends an example in the implementation and illustration guidance of ASC 350-30, *General Intangibles Other Than Goodwill*, to clarify that an entity should determine whether land easements are leases under ASC 842 before applying the guidance in the example.

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The effective date and transition requirements for ASU 2018-01 are the same as those for ASC 842. If an entity has early adopted ASC 842, it should apply these amendments upon issuance of the ASU.

Board discusses comments received on proposed amendments to ASC 842 *All decisions reached at Board meetings are tentative and may be changed at future meetings.*

On January 24, the Board [met](#) to discuss comments received from stakeholders on Part II of the proposed ASU, [Technical Corrections and Improvements to Recently Issued Standards: Accounting Standards Update No. 2016-02, Leases](#).

As a result of these discussions, the Board tentatively decided that the net adjustment to equity resulting from applying the proposed transition guidance in both ASC 842-10-65-1(h)(3) and in ASC 842-10-65-1(w)(3) would be zero.

In addition, the Board clarified that the guidance in ASC 842-10-15-40 does not override other relevant guidance that a lessor should apply when accounting for the nonlease component(s) of an arrangement that contains a lease. For example, the amount of variable payments allocated to the nonlease component(s) would be recognized in accordance with the guidance in ASC 606, *Revenue from Contracts with Customers*, if this guidance applies to these payments.

The Board directed the staff to draft a final ASU for vote by written ballot, and to document the summary of its public discussion of the Board meeting on the [FASB's leases implementation webpage](#).

See the October 5, 2017 [On the Horizon](#) for a summary of this proposal.

Source:

Grant Thornton, *On the Horizon*, February 1, 2018.

We are committed to keep you updated of all developments that may affect the way you do business in Puerto Rico. Please contact us for further assistance in relation to this or any other matter.



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Tax



Properties



Taxpayer

# Brief overview of casualty losses for individuals

February 16, 2018

When one considers the level of devastation that hurricane Maria caused in Puerto Rico, it is no wonder that a surefire item of discussion during this tax season will be casualty losses. Conscious of this, below we provide you with an overview on how these are treated under both federal and local laws for individual tax purposes.

## Federal treatment

Pursuant to IRS Publication No. 547, a casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual. As a general rule, casualty losses are deductible during the taxable year on which the loss occurred. A deductible casualty loss could be attributed to a car accident, earthquakes, floods, fires and storms (including hurricanes and tornadoes), among many other events. The extensive damage to Puerto Rico's infrastructure and collective psyche cannot be overstated.

In light of such devastation, the Puerto Rico Treasury Department was given considerable leeway to take all reasonably prudent and necessary measures to assist

taxpayers in the aftermath of hurricane Maria, issuing bulletins, determinations and circular letters on a (seemingly) weekly basis to postpone filing due dates and exempt prepared foods from sales & use taxes, among many other matters.

To deduct a casualty loss, the taxpayer must prove the type of casualty, when it occurred, that the loss was directly attributable to the casualty, that the taxpayer had possession of the property and the existence of a reimbursement claim for which there is a reasonable expectation of recovery, if any. Once it is determined that the casualty is deductible, one must determine the amount of loss and whether there are limits to said loss.

	How is the loss computed	Limitation on deduction
US	<ul style="list-style-type: none"> <li>determine the lesser amount between the property's adjusted basis before the casualty and the decrease in Fair Market Value on the property as a result of the casualty</li> <li>subtract any insurance or reimbursement received</li> </ul> <p><i>The casualty loss should be determined separately for each type of property (personal and real).</i></p>	<ul style="list-style-type: none"> <li>when determining the deduction, reduce each casualty loss by \$100 and by 10% of the individual's adjusted gross income</li> </ul>

### How about Puerto Rico?

For Puerto Rico purposes, the individual taxpayer the applicable tax treatment will depend on whether the property that suffered the loss is the principal place of residence or personal property.

	How is the loss computed	Limitation on deduction
Residential property	<ul style="list-style-type: none"> <li>determine lesser amount between: the actual loss (value of the property just before the casualty less its value after) and the adjusted basis of the property</li> </ul>	<ul style="list-style-type: none"> <li>none</li> </ul>
Personal property (i.e. automobiles, furniture, household goods and other property, excluding the value of jewelry or cash)	<ul style="list-style-type: none"> <li>determine lesser amount between: the actual loss (value of the property just before the casualty less its value after) and the adjusted basis of the property</li> </ul>	<ul style="list-style-type: none"> <li>limited to \$5,000</li> <li>\$2,500 in the case of spouses filing separate returns</li> <li>any excess may be carried over for 2 years (subject to the annual limits)</li> </ul>

Please contact our Tax Department should additional information is required regarding this or any other tax issue. We will be glad to assist you.



**María De Los Angeles Rivera**  
Partner Head of Tax and  
IBC Director  
E [maria.rivera@pr.gt.com](mailto:maria.rivera@pr.gt.com)



**Lina Morales**  
Tax Partner  
E [lina.morales@pr.gt.com](mailto:lina.morales@pr.gt.com)



**Francisco Luis**  
Tax Partner  
E [francisco.luis@pr.gt.com](mailto:francisco.luis@pr.gt.com)



**Isabel Hernández**  
Tax Partner  
E [isabel.hernandez@pr.gt.com](mailto:isabel.hernandez@pr.gt.com)



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# Execs view M&A as critical to growth

February 15, 2018

Careful planning and preparation should start well in advance of an M&A deal – even several years ahead of time -- not only to bolster a deal but to make it successful. This is something well known to professionals who help guide companies through the process. Yet it is not always obvious to executives, who may view M&A as critical to their growth strategies yet lack real experience in such transactions.



## Ojel Rodriguez

Partner Head of Advisory  
Kevane Grant Thornton  
T (1) 787 754 1915  
E [ojel.rodriguez@pr.gt.com](mailto:ojel.rodriguez@pr.gt.com)

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Do company leaders know what is valuable and what's a strategic asset? Do they know what correlates with or builds on what the company has? Are all C-suite executives in agreement? Not doing a thorough [enterprise-wide approach](#) can lead to a deal's not living up to expectations, or failure.

### What the NCMM says?

That M&A is a driver of middle market growth, was borne out by [results of a survey](#) by the National Center for the Middle Market (NCMM), which found that in the past three years, more than half of middle market companies have bought or sold all or part of a business, or have merged with one. Executives at these companies view M&A as critical to their growth strategies – buyers in particular hope to recognize 26% of their future growth from acquisitions – yet most executives say they lack real experience in such transactions; about 30% of middle market companies that bought or sold in the past three years were doing a first deal, and 40% do deals infrequently.

Significantly, the NCMM survey showed dealmakers often fail to hire outside professionals whose business is helping companies understand and prepare for all aspects of a deal, even though [outside expertise and support](#) pave the way to winning transactions.

### What drives high-growth companies?

The NCMM survey found buyers are looking to drive growth by acquiring market share, capabilities, technology and talent. Sellers more often have financial reasons and a need or desire to monetize all or part of a company, or they want to divest themselves of divisions that are not part of the core business. Most buyers and sellers make their decision, then begin looking sensibly for a potential target or buyer. Yet unexpected opportunities can arise and seem irresistible. Contributing to a competitive M&A market are a favorable economy and an abundance of capital from record-high corporate profits, bank loans and other debt capital, as well as private equity.

### Preparation is key

The NCMM survey showed middle market leaders are unprepared for the challenges and complexities of the M&A process. Becoming deal-ready requires that the necessary capabilities and connections be in place well before a transaction. Tips for success include:

- gain a better understanding of the M&A landscape.
- identify areas that need careful consideration well in advance of execution.
- do a better job of sourcing sellers or buyers, conducting due diligence, crafting smarter deals, and planning for post-merger integration.
- acquire and work with expert outside advisers.

Almost all deals have hiccups. Yet when companies invest in careful planning and assemble the right deal team, their M&A decisions are more likely to deliver the desired results without painful surprises and interruptions.

### Key takeaways from the NCMM survey

- **half of companies plan to do an M&A deal.** In the past three years, 51% of middle market companies have participated in acquiring or selling all or part of a business.
- **financial conditions are driving competitiveness.** While actual deal counts have increased only slightly, more players are in the game, creating a sense of urgency and contributing to the perception that M&A in the middle market has increased even more than it has.
- **M&A is critical to growth.** Driving growth is the No. 1 reason companies consider M&A. Companies that have completed a merger or acquisition in the past three years hope to achieve 26% of their total growth through inorganic means.
- **most middle-market companies have little M&A experience.** Among companies that have completed a purchase in the past three years, 29% were doing their first deal and 41% had limited previous experience. Among sellers, 46% were selling for the first time.
- **not understanding the complexities hurts deals.** Forty-one percent of buyers and 50% of sellers find it very or extremely difficult to assess the value of the business they are buying or selling. Parties on both sides face difficulties obtaining, assessing and analyzing financial data. Post transaction, 44% of both buyers and sellers say integration -- related to technology and systems, culture and people -- is a major challenge.



- **not leveraging external advisers hinders finding targets and buyers.** Middle market leaders say that finding the right target or buyer is confusing, yet they often don't seek help from outside professionals, relying instead on internal executives and top managers.
- **careful planning and preparation help deals succeed.** Most deals take three to 12 months to complete, yet planning to become deal-ready should take three to five times that long. Developing capabilities in planning, financial reporting, valuation and execution as much as four to five years in advance of having a specific target in mind ensures that companies are ready to move when the time comes.

You can read more; [Execs view M&A as critical to growth](#)

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# What's new under Social Security and Medicare

February 19, 2018

The Employer's tax guide has issued the following changes for the taxable year 2018.



**Julio Villegas**  
Audit Partner and  
Head of Outsourcing  
T (t) 787 754 1915  
E julio.villegas@pr.gt.com

## Social Security Tax 2018

The social security tax rate is 6.2% each for employee and employer, unchanged from 2017. The new social security wage limit is \$128,400.

The Medicare tax rate is 1.45% each for the employee and employer, unchanged from 2017. There is no wage base limit for Medicare tax.

Social security and Medicare taxes apply to the wages of household workers you pay \$2,100 or more in cash or an equivalent form of compensation. Social security and Medicare taxes apply to election workers who are paid \$1,800 or more in cash or an equivalent form of compensation in 2018.

## Disaster tax relief

Disaster tax relief was enacted for those impacted by Hurricane Harvey, Irma, or Maria. Additionally, the IRS has provided special relief designed to support employer leave-based donation programs to aid the victims of these hurricanes and to aid the victims of the California wildfires that began October 8, 2017. For more information about disaster relief, including the treatment of amounts paid to qualified tax-exempt organizations under employer leave-based donation programs, see Pub. 976.

## Reminders

In addition to withholding Medicare Tax at 1.45%, employers must withhold a 0.9% Additional Medicare Tax from wages paid to an employee in excess of \$200,000 in a calendar year. You are required to begin withholding Additional Medicare Tax in the pay period in which you pay wages in excess of \$200,000 to an employee and continue to withhold it each pay period until the end of the calendar year.

Severance payments are subject to social security, Medicare and FUTA tax.

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[\(Circular E\). Employer's Tax Guide](#)

[Disaster Assistance and Emergency Relief for Individuals and Businesses](#)

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