



Tax



Business



Transactions

Sales and Use Tax eliminated for some services providers

March 1, 2019

Act No. 257 of December 10, 2018 introduced a significant change to the Puerto Rico Sales and Use Tax (“SUT”) by eliminating the SUT on: (i) designated professional services, and (ii) services rendered to other merchants by persons whose annual volume of business does not exceed \$200,000. These provisions became effective on March 1, 2019.

To those effects, the Puerto Rico Treasury Department (“PRTD”) issued Circular Letter 19-15 providing additional details on this amendment.

For purposes of determining the \$200,000 threshold, the volume of business generated for the immediately preceding calendar year must be taken into consideration. In the case of merchants that form part of a controlled group, the annual volume of business must be determined considering the volume of business of all the members of the controlled group.

Commencing on March 1, 2019, the Unified System of Internal Revenue (“SURI” by its Spanish acronym) will automatically issue a Merchant Registration Certificate identified as a Non-Withholding Agent to those merchants whose volume of business does not exceed \$200,000 and that meet all the following requirements:

1. the total income reported in the SUT Monthly Returns is derived solely from the provision of designated professional services or services rendered to other merchants, including exempt sales;
2. the merchant must be in compliance with the filing and payment of all the tax obligations related to the SUT; and

3. the sum of all income from designated professional services, services rendered to other merchants and exempt services reported in the SUT Monthly Returns filed for the twelve months of the 2018 calendar year may not exceed \$200,000.

At the beginning of each calendar year, the PRTD will automatically evaluate the volume of business reported in the SUT Monthly Returns corresponding to the immediately preceding calendar year in order to determine if the merchant’s volume of business did not exceed \$200,000.

Any eligible merchant who as a result of not complying with its SUT tax obligations has not received its Merchant Registration Certificate as a Non-Withholding Agent must make sure to file any outstanding SUT return or pay any SUT balance due by March 25, 2019. Once in compliance, the Non-Withholding Agent certificate will be issued no later than March 31, 2019, being considered as valid for services rendered from March 1, 2019.

On the other hand, those merchants whose volume of business does not exceed \$200,000 that provide services to other merchants, and also sell taxable items or taxable services, will continue with their Merchant Registration

Certificate as a Withholding Agent. Therefore, these merchants will have the obligation to collect the SUT in the sale of taxable items and taxable services. However, commencing on March 1, 2019, they will not be required to collect the SUT in the services rendered to other merchants.

Finally, transactions invoiced as of March 1, 2019, by merchants under the accrual basis that received the Merchant Registration Certificate as a Non-Withholding Agent will be exempt from the SUT. In addition, for merchants under the cash basis, the transactions that are considered exempt from the payment of SUT will be those whose collection or payment is received after February 28, 2019.



We have prepared the following table summary:

Special rules for sellers of tangible personal property and services			
Activity	Volume from the specific activity from January to December 2018	New certificate as non-withholding agent	Next Steps
Sale of tangible personal property and services (Excludes taxable services such as: bank charges, collection services, security services, cleaning, laundry, uncapitalizable repairs, maintenance, telecommunication services, waste collection and operating leases of motor vehicles)	Up to \$200,000	No	Continue collecting the Puerto Rico Sales and Use Tax on the sale of tangible personal property. If the volume of business from both activities combined is up to \$200,000 during natural year 2018, stop collecting the Puerto Rico Sales and Use Tax on the services provided.
	Over \$200,000	No	Continue collecting the Puerto Rico Sales and Use tax on the sale of tangible personal property and the services provided

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



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