



Tax



Business



Taxpayer

A new Puerto Rico Municipal Code has been enacted

October 20, 2020

On August 14, 2020, the Governor of Puerto Rico signed into law Act 107-2020, known as the Puerto Rico Municipal Code (“Municipal Code”) with the purpose of integrating, organizing and updating the existing legislation for the organization, administration and operations of the municipalities in Puerto Rico, while also incorporating new practical models to achieve greater autonomy.

Most employers were forced by their government to close non-essential businesses physical facilities, resulting in millions of employees working from home or other remote locations. While this reality, has opened a new window of opportunities for employers to search for talent outside their jurisdiction, special consideration must be given to the income tax implications associated with new and former employees telecommuting or working remotely.

As a result, all legislation related to the municipalities is codified and consolidated into a single law, facilitating the analysis, as well as establishing a single structured and compiled legal system that contains all municipal obligations and responsibilities. Previously, there were multiple municipal laws and regulations that lacked uniformity. This is the reason why these laws were repealed but integrated into the Municipal Code.

The Municipal Code is divided into eight books:

- I. Municipal Government
- II. Municipal Administration
- III. Municipal Services
- IV. Municipal Processes and Community Management
- V. Economic Development
- VI. Territorial Planning and Ordering
- VII. Municipal Treasury
- VIII. Definitions, Table of Content, Repeals, Separability and Effectiveness

Among the contents of the Municipal Code, “Book VII – Municipal Treasury” is one of the most relevant books for taxpayers. This Book establishes the rules and laws with respect to income and financing for the operation of the municipalities. Said Book addresses the Municipal Revenue Collections Center (known as “CRIM” for its Spanish acronym), types of municipal taxes and municipal financing. In the specific case of construction excise taxes, they were included in Book II – Municipal Administration, Chapter X – Excise and Municipal Taxes.

Following are some significant changes among all the provisions provided under Book VII:

A. CRIM and Property Taxes

- Whenever the due date for the payment of estimated taxes for the concept of personal property taxes falls on a Saturday, Sunday or holiday, such date is moved to the next work day.
- In the event that the taxpayer failed to make an estimated tax payment or made an incomplete payment, 10% (previously 5%) of the unpaid amount will be added to the tax liability.

B. Municipal Taxes

- The definition of the term “gross income” was amended to **exclude**: “the profit generated in the sale of personal and real assets not related to the business operations”.
- In those cases where more than one business is located within the same municipality under the same employer identification number, the person may request permission from the municipality to be considered as having a single business.
- In the event that business operations are carried out in two or more municipalities, where one of the activities has no volume of business, the computation of the municipal license tax must be made by prorating the volume of business reported, taking as a basis the average number of square feet of the areas of the buildings used in each municipality.
- A cease of operations will be considered temporary if it is for 5 years or less.



After years in the making, the municipalities have finally achieved a simplified guideline to follow. The municipalities are confident that this is a new and great opportunity to promote the economic development, improve the quality of the services rendered to taxpayers and to be updated within the global changes.

We are committed to keeping you up to date with all tax-related developments. Please contact our Tax Department should additional information be required regarding this or any other tax issue. We will be glad to assist you.



Lina Morales
Partner Head of Tax
E lina.morales@pr.gt.com



María de los A. Rivera
Tax Partner and IBC Director
E maria.rivera@pr.gt.com



Francisco Luis
Tax Partner
E francisco.luis@pr.gt.com



Isabel Hernández
Tax Partner
E isabel.hernandez@pr.gt.com



grantthornton.pr

DISCLAIMER: This update and its content do not constitute advice. Clients should not act solely on the basis of the material contained in this publication. It is intended for information purposes only and should not be regarded as specific advice. In addition, advice from proper consultant should be obtained prior to taking action on any issue dealt with this update.

© 2020 Kevane Grant Thornton LLP All rights reserved. Kevane Grant Thornton LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please visit www.grantthornton.pr for further details.