

Kevane Grant Thornton Mailbag



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27 July 2017 | Issue 76

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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Audit Alert: Proposed ASU targets related party VIE guidance

July 19, 2017



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Call to action

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The Board issued the proposed ASU, Targeted Improvements to Related Party Guidance for Variable Interest Entities, which is intended to improve financial reporting related to consolidation of variable interest entities (VIEs). The proposal is being issued in response to stakeholders' observations that ASC 810, Consolidation, could be improved when an entity applies the VIE guidance to private entities under common control and to other situations where related parties are involved. The main provisions of the proposal are summarized below.

Private company accounting alternative

Under the existing guidance codified from ASU 2014-07, *Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a consensus of the Private Company Council)*, a reporting entity that is a private company can elect to apply an accounting alternative exempting it from being required to apply the VIE guidance to certain common control leasing arrangements. Under the proposed amendments, a reporting entity that is a private company could also elect an accounting alternative to not be required to apply VIE guidance to all legal entities under common control if both the parent and the legal entity being evaluated for consideration are not public business entities.

This alternative accounting policy election would apply to all of the current and future legal entities under common control, so an entity would not be permitted to apply this election to select common control arrangements. If an entity elects the alternative accounting policy, it would still be required to follow other consolidation guidance (such as the voting interest entity guidance) unless another scope exception applies.

Further, if an entity elects the alternative accounting policy, it would be required to provide certain disclosures about its involvement with and its exposure to the legal entity that is under common control.

Decision-making fees

Under the existing guidance related to determining whether fees paid to decision makers and to service providers are variable interests, indirect interests held through related parties in common control arrangements are considered as a direct interest in their entirety. Under the proposal, these indirect interests would only be considered on a proportional basis, consistent with how indirect interests held through related parties not under common control are considered when determining whether a reporting entity must consolidate a VIE.

Under the proposal, if, for example, a decision maker or a service provider owns a 20% interest in a related party under common control and that related party owns a 40% interest in the legal entity being evaluated, the direct interest in the VIE held through the related party under common control would be considered only an 8% direct interest (instead of a 40% direct interest under the existing guidance) for determining whether its fees are variable interests.

VIE related party guidance

Existing guidance requires that when power is shared among related parties or when related parties under common control, as a group, have the characteristics of a controlling financial interest (but no reporting entity individually has a controlling financial interest), the party within the related party group that is *most closely associated with the VIE* is the primary beneficiary of the VIE.

The proposal would instead require that if substantially all of the VIE's activities either involve or are conducted on behalf of one party within the related party group, that party would be the primary beneficiary of the VIE. However, when substantially all of the activities of the VIE do not involve and are not performed on behalf of any single entity in the related party group, the proposal would require the reporting entity to consider whether it has a controlling financial interest in the VIE by considering certain factors (none of which are individually determinative) that indicate whether the reporting entity should attribute decision making to itself.

The proposed guidance also states that after considering those factors, situations may exist in which no single party in a shared power arrangement or within a related party group may conclude that it has a controlling financial interest in the VIE. When related parties under common control, as a group, have a controlling financial interest in a VIE, the parent entity would consolidate the VIE unless a scope exception applies, regardless of the conclusions reached by the individual related parties that are under the parent's control.

Effective date, transition and comment period

The Board will set the effective date for the proposed amendments when it considers feedback on the proposal. Early adoption would be permitted.

Entities that have not adopted the amendments in ASU 2015-02, Amendments to the Consolidation Analysis, would be required to adopt the amendments in the proposal at the same time they adopt ASU 2015-02, and would apply the same transition method elected for ASU 2015-02.

Entities that have already adopted ASU 2015-02 would be required to apply the amendments in the proposal retrospectively by restating all prior periods presented.
Comments on the proposal are due Sept. 5.

Source: Grant Thornton, *On the Horizon*, June 29, 2017.

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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Families



Planning



Tax

Tax Alert: Municipalities continue to raise and impose new taxes

July 19, 2017

Levying new taxes or raising established ones has become the “go-to” treatment for the Municipalities ailing coffers.

In 1993, an Irish band called The Cranberries released their debut album, *Everybody Else Is Doing It So Why Can't We?* To which one might ask, “What does this have to do with Puerto Rico taxes?” Well, not much, actually. Except that said album title succinctly sums up the current mentality of Municipalities in Puerto Rico when it comes to levying new taxes: “if Municipality X can raise taxes, why can't we?”

Municipalities in Puerto Rico, already cash-strapped and forced to undertake additional essential services that were once handled by the Central Government in light of the latter's massive debt, have flexed their administrative muscle to ensure more economic resources. From the Municipality of San Lorenzo, who imposed a special “excise tax” that is equal to the greater amount between 50% of the municipal license tax paid for 2015 and 2016, to the Municipality of Barranquitas' recent increase of both real and personal property tax rates, the common theme amongst the diverse City Halls of Puerto Rico has been either the levying of new taxes or the raising of established ones in order to palliate their particular fiscal crises.

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Municipality	Ordinance	Ordinance Details
Aibonito	Municipal Ordinance No. 19 [Serie 2016-2017]	<ul style="list-style-type: none"> Raises both Personal and Real Property Tax rates for the Tax Year beginning in January 1, 2017: <ul style="list-style-type: none"> Personal Property: 6.08% → 7.33% Real Property: 8.08% → 9.33%
Barranquitas	Municipal Ordinance No. 21 [Serie 2016-2017]	<ul style="list-style-type: none"> Raises both Personal and Real Property Tax rates for the Tax Year beginning in January 1, 2017: <ul style="list-style-type: none"> Personal Property: 6.08% → 7.33% Real Property: 8.08% → 9.33%
Caguas	Municipal Ordinance No. 28 [Serie 2016-2017]	<ul style="list-style-type: none"> Establishes a temporary 0.35% municipal contribution known as “Aportación Empresarial Municipal” to individuals and business that are subject to the Municipal License Taxes and whose declared Business Volume is equal to, or exceeds, \$3MM for the calendar year ended on December 31, 2016.
Carolina	Municipal Ordinance No. 39 [Serie 2016-2017]	<ul style="list-style-type: none"> Raises both Personal and Real Property Tax rates for the Tax Year beginning in January 1, 2017: <ul style="list-style-type: none"> Personal Property: 8.33% → 9.33% Real Property: 10.33% → 11.33%
Cidra	Municipal Ordinance No. 20 [Serie 2016-2017]	<ul style="list-style-type: none"> Raises both Personal and Real Property Tax rates for the Tax Year beginning in January 1, 2017: <ul style="list-style-type: none"> Personal Property: 8.33% → 10.33% Real Property: 10.33% → 12.33%
Loíza	Municipal Ordinance No. 7 [Serie 2016-2017]	<ul style="list-style-type: none"> Raises both Personal and Real Property Tax rates for the Tax Year beginning in January 1, 2017: <ul style="list-style-type: none"> Personal Property: 8.23% → 9.73% Real Property: 10.23% → 11.73%
Ponce	Municipal Ordinance No. 32 [Serie 2016-2017]	<ul style="list-style-type: none"> Raises both Personal and Real Property Tax rates for the Tax Year beginning in January 1, 2017: <ul style="list-style-type: none"> Personal Property: 8.33% → 10.33% Real Property: 10.33% → 12.33%
Sabana Grande	Municipal Ordinance No. 30 [Serie 2016-2017]	<ul style="list-style-type: none"> Raises both Personal and Real Property Tax rates for the Tax Year beginning in January 1, 2017: <ul style="list-style-type: none"> Personal Property Tax: 7.33% → 8.33% Real Property Tax: 9.33% → 10.33%
San Lorenzo	Municipal Ordinance No. 16-OT [Serie 2016-2017]	<ul style="list-style-type: none"> Establishes a special excise tax which is equal to is equal to the greater amount between 50% of the municipal license tax paid for 2015 and for 2016.

Understandably, Taxpayers have not been amused. Both the San Lorenzo and Caguas taxes have proved controversial and are currently being challenged in the local courts as unconstitutional. Basically, under the Municipal License Tax Act of 1974, as amended, the municipalities can impose their corresponding municipal license tax on the business volume within their territorial limits but the tax cannot exceed the established 0.50% tax rate (1.50% in the case of a financial business). Though it is understandable for municipalities to seek additional revenue streams in these challenging times, to rename as an “excise tax” or as a “municipal business contribution” what is tantamount to an addition to the municipal license tax, will be troublesome to successfully defend before both the courts of law and of public opinion.

Note: As highlighted in our July 1, 2016 Tax Alert, the PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA), seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, among other things. Virtually every fiscal decision by the Government of Puerto Rico will be made or approved by the Oversight Board created by PROMESA. On this regard, the board has authority to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

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



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Advisory Article:

Populism vs. internationalism: Choose the path of optimistic growth

July 20, 2017

The current populist groundswell signals a belief that economic systems aren't serving the right groups, and scarce resources and attention are going elsewhere. Resentment directed at business already has implications in policy. Tax and regulatory reforms are on the legislative table, and momentum for trade restrictions is building.



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The surge of populism that Donald Trump rode to the presidency, plus the torrential buffeting of technological change, have coalesced to shake the foundations of business. Near- and long-term ramifications are not likely to be known anytime soon. Aware that waiting to see what happens is the surest way to lose ground, leading businesses are clearing paths through the uncertainties and moving forward.

Together with the economic instability and low growth of the past decade, populist fervor is increasing the volatility of markets and the environment in which companies operate. During Grant Thornton's recent The Future of Growth and Industries: Trends to Watch for 2020 webcast, Jeff French, national managing partner in Grant Thornton's Consumer and Industrial Products practice, said: "This instability is not considered a good thing for companies. Companies and markets typically like clarity and predictability. In this environment, companies need to take new and bold action to chart their future."

Renegotiate constituent relationships

There is a perceived gap between the America where things are working and the America where they're not. Eric Meade, futurist and founder of Whole Mind Strategy Group, advises businesses to address that gap. Dedicate the time to understand the wants and needs of customers and communities as a whole in order to effectively respond. "Expand what you consider a customer," Meade said. "If you are operating in an environment where many people have lost faith in the underlying economic system, expand your outreach and the sense of whom your company is serving."

Your response, he said, could include sourcing changes, creation of responsible/sustainability initiatives, and other efforts to strengthen your reputation and relationships. “Given the power businesses have economically and politically,” Meade said, “there’s a real opportunity to create a system that is not going to have the downsides of the current one. It’s an opportunity for the business community to have a voice in creating the type of country and system that could usher in a better future.”

Work through the uncertainties

While it might be tempting to put a hold on decision-making until populist policies are issued or the fervor dissipates, this approach would hinder growth.

The priority that companies have placed on establishing domiciles in international markets could find itself blocked by Trump’s populist stance, e.g., tax inversion strategies could be stymied. However, at least for now and likely in the long run, economic integration and cross-border trade will continue as a strategy despite the emotional energy around populism. “Because there isn’t a clear populist policy proposal,” said Meade, “I suspect there will continue to be opportunities to expand overseas. Many of the people responsible for making policy decisions related to that kind of economic activity are not the ones advocating the populist approaches.”

Take note of critical jobs, skills and character

If there is a furthering of the populist mentality after all, U.S.-based jobs will naturally benefit — especially those that involve gathering, analyzing, and reacting to data and trends. As for skills, proficiency in communications will be vital to articulating the organization’s positions, developing reliable networks to keep a pulse on trends and implications, and understanding the wants and needs of customers and societies as a whole in order to effectively respond.

Who will be the leaders making the greatest contributions to business growth? According to Meade, it will be those who are resilient and show agile thinking in their own lives. “Bring wisdom,” he said. “Rethink how we develop the leaders who’ll take the business forward in these tumultuous times.”

Keep an eye on populist leanings

While it’s possible that populist policies could take shape, there is an apparent shift from the original stridency, as noted by Grant Thornton’s Jeff French: “You’re seeing some of that trend in the Trump administration becoming more pragmatic and moving away from the populist leaning he showed in the campaign.” Regardless of any populist policies or attitudes that might prevail, there are specific actions companies can take to respond:

- critically define and constantly evaluate which variables you need to understand in order to grow your business
- ensure you’re getting good information — how reliable are your sources? Are you partnered with the right people to work through this instability?
- be attuned to and active with your constituents
- use multiple tools and data points
- continually perform analysis
- adapt and embrace change
- be sure of where you need to begin shifting, then move swiftly
- prepare for a contrarian shift in the 2020 election.

Source: <https://www.grantthornton.com/library/articles/growth/2017/trends-for-2020-populism-vs-internationalism.aspx>

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Outsourcing Alert: Employee's Social Security Number (SSN)

July 21, 2017

The Social Security Number (SSN) of an employee has nine digits, organized as follows: 000-00-0000. Employers are required to get each employee's name and SSN and enter them correctly on Form 499R-2/W-2PR.



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Applying for a social security card

Any employee who is legally eligible to work in the United States and does not have a social security card can get one by completing Form SS-5, Application for a Social Security Card, and submitting the necessary documentation.

Applying for a social security number

If you file a Form 499R-2/W-2PR on paper and your employee applied for an SSN but does not have one when you must file Form W-2, enter "Applied For" on the form. If you are filing electronically, enter all zeros (000-00-000) in the social security number field. When the employee receives the SSN, file Copy A of Form W-2PRc, Corrected Wage and Tax Statement, with the SSA to show the employee's SSN.

Correctly record the employee's name and SSN

Record the name and number of each employee as they are shown on the employee's social security card. If the employee's name is not correct as shown on the card, for example, because of marriage or divorce, the employee should request an updated card from the SSA. Continue to report the employee's wages under the old name until the employee shows you the updated social security card with the corrected name.

Verification of social security numbers

Employers and authorized reporting agents can use the Social Security Number Verification Service (SSNVS) to instantly verify up to 10 names and SSNs (per screen) at a time, or submit an electronic file of up to 250,000 names and SSNs and usually receive the results the next business day.

Call to action

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For more information, visit:

www.socialsecurity.gov/employer/ssnv.htm

<http://www.irs.gov/pub/irs-pdf/p179.pdf>

Application for a social security card - Form SS-5:

<http://www.socialsecurity.gov/forms/ss-5.pdf>

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