

Kevane Grant Thornton Mailbag



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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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Audit



Companies



Financial
Statements

Audit Alert: Presentation of discontinued operations in a classified balance sheet

October 10, 2017



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Questions have arisen in practice regarding the presentation of current and noncurrent assets and liabilities of a discontinued operation in the statement of financial position. In particular, stakeholders have questioned whether there are circumstances in which it is appropriate to classify as current all assets and liabilities of the discontinued operation. For example, if the held-for-sale criteria are met at the current balance-sheet date and the sale is expected within one year, would all assets and liabilities of a discontinued operation now be presented as current, and, similarly, would the prior-period comparative balance sheet be recast to reflect previously noncurrent assets and liabilities as current?

The guidance in ASC 205-20-45-10, Presentation of Financial Statements: Discontinued Operations, states that:

“In the period(s) that a discontinued operation is classified as held for sale and for all prior periods presented, the assets and liabilities of the discontinued operation shall be presented separately in the asset and liability sections, respectively, of the statement of financial position.”

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However, the guidance in ASC 205-20 does not address:

- whether a reporting entity should present those assets and liabilities as current and noncurrent in a classified balance sheet

- how to determine which assets and liabilities should be classified as current
- whether there should be changes to the prior comparative-period classifications of assets and liabilities now that the held-for-sale criteria are met for a discontinued operation

When a discontinued operation is classified as held-for-sale, we believe that, subject to the following discussion, those existing classifications should continue but should be condensed into four balance-sheet line items: current assets held-for-sale, noncurrent assets held-for-sale, current liabilities held-for-sale, and noncurrent liabilities held-for-sale.

However, if it is probable that a sale will occur within one year of when the assets or liabilities meet the held-for-sale criteria and the sale is expected to qualify for recognition as a completed sale, we believe that it is appropriate to classify all assets and liabilities of a discontinued operation as current in the current-period balance sheet when the determination of held-for-sale is met, even though they were classified as noncurrent in prior periods.

In contrast, prior comparative periods would not be recast to reflect as current all of the assets and liabilities of a now discontinued operation. That is, we believe that current and noncurrent classification of the assets and liabilities in the prior comparative periods should not change. Those assets and liabilities did not meet the held-for-sale criteria in the prior periods, even though the held-for-sale criteria was subsequently met, and they are presented as current assets and liabilities in the current balance sheet.

Source: Grant Thornton, *On the Horizon*, September 14, 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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Tax



Business



Taxpayer

Tax Alert: Caguas' municipal business contribution is declared illegal

September 22, 2017

As noted on our June 23, 2017 Tax Alert, various municipalities in Puerto Rico – weighed down by the various administrative and fiscal maladies of the central government – have sought to increase their revenue collections through the increase of existing taxes - such as raising property tax rates - or the imposition of new ones, like the municipality of Caguas' municipal business contribution.

On August 23, 2017, the San Juan Superior Court (the “Court”) held that the municipal business contribution imposed by the municipality of Caguas, known in Spanish as the “Aportación Empresarial Municipal”, was illegal and/or ultra vires.

Background on Ordinances Nos. 28 and 37

On June 8, 2017 the municipality of Caguas instituted Municipal Ordinance No. 28, Series 2016-2017 (the “Ordinance”), to establish a temporary zero point thirty-five percent (0.35%) municipal business contribution, known as the “Aportación Empresarial Municipal” (the “AEM”), to both individuals and business that are subject to Municipal License Taxes in the municipality of Caguas and whose declared business volume is equal to, or exceeds, \$3MM for the calendar year ended on December 31, 2016.

The Ordinance – which was further amended on June 23, 2017 through Municipal Ordinance No. 37, Series 2016-2017 to limit the number of fiscal years to which the AEM would apply – established that the AEM would be effective on July 1, 2017, and would apply to fiscal years 2017-2018 and 2018-2019. Taxpayers subject to the AEM would be billed by the Municipality with the tax being due on August 15 of each applicable year. Nevertheless, the taxpayer would be allowed to pay for the AEM in four (4) installments: August 15, November 15, February 15 and May 15. If the taxpayer failed to comply with the payment of the AEM, the Ordinance allowed for

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the imposition of one percent (1%) monthly interest and surcharges of up to twenty-five percent (25%) on any unpaid amount.

Businesses' response to AEM

Arguing that the imposition of the AEM on the same tax base used for the computation of the Municipal License Tax was unlawful since it exceeds the powers granted to the municipalities by the Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991, as amended ("AMA"), and the Puerto Rico Constitution, during the month of July 2017 various business with operations within the municipality of Caguas, such as *Caguas Expressway Motors, Inc.*, *Costco Wholesale Corporation*, *AT&T Mobility Puerto Rico Inc.* and *DirecTV Puerto Rico LTD* (the "Plaintiffs"), sought a declaratory judgment to nullify and declare its illegality.

Determination of the San Juan Superior Court

Given the similarity of the complaints, the Court consolidated the aforementioned businesses' actions against the municipality of Caguas and on August 23, 2017 granted summary judgment in favor of the Plaintiffs. The Court found that:

1. AEM exceeds the powers granted by the AMA
 2. the AEM is inconsistent with the Municipal License Tax Act of 1974, as amended (the "MLTA")
 3. the Ordinance levies a double taxation which is not expressly authorized by law.
- Furthermore, it ordered the municipality to refund Plaintiffs for any AEM collected.

The Court explains that since the power to tax lies within Puerto Rico Legislature, and municipalities are creatures of said Legislature, any addition to the established maximum tax rate (i.e. 1.50% for financial businesses; 0.50% for non-financial businesses) under the MLTA lies within its province.

Therefore, even though the municipality of Caguas described the AEM as a contribution, the Court counters that it is an additional 0.35% tax on the top of the maximum 0.50% municipal license tax rate allowed under the MLTA, thus raising the effective tax rate a 0.85% that is not allowed under law.

Is there any recourse for the Municipality of Caguas?

Since the Court's holding was not final, pursuant to Puerto Rico Rules of Civil Procedure, the Municipality may file (i) a *Motion for Reconsideration* with the Court within fifteen (15) days after judgment is entered in the docket or (ii) a *Motion to Appeal* to the Puerto Rico Court of Appeals within sixty (60) days after the judgment is entered in the docket. If the latter is not filed within the aforesaid 60-day period, the Court's decision will be final.

It is important to note that although the Court's decision is not yet final, it could serve as a general deterrent to other municipalities that are vigorously exploring ingenious revenue-increasing methods that could run counter to the definite intent of the legislator, as expressed in the MLTA and the Constitution. Conscious that many municipalities are struggling with their revenue influx and added burdens that were brought upon by the central government's fiscal crisis, the Puerto Rico Legislature is currently evaluating various measures that would expand the municipalities' powers within their territorial confines.

Note: As highlighted in our Tax Alert dated July 1, 2016, 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 Alert: Design for revenue recognition success, not just compliance

October 12, 2017

Many private and public companies are struggling to implement the ASC 606 revenue recognition standard. Progress is slow, while the deadline — at least for public companies — is approaching quickly. The new standard will be effective in the first quarter of 2018 for calendar-year public companies and in 2019 for nonpublic entities.



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So far, while implementing the standard, companies have focused on understanding and becoming compliant with all the required accounting changes to ensure that their policies and accounting assumptions are in line with company, auditor and investor expectations. While this is absolutely necessary, it is not enough. It can prove to be a missed opportunity to tap into the advantages of changing revenue recognition, which presents an opportunity for an enhanced revenue stream.

The truth is that the disruption caused by the new accounting standard continues even after a company has implemented the new standard and reached compliance. To make the new changes effective, the accounting updates will need to be integrated into all processes and systems. Organizations will also need to implement downstream training and communication. Proactive companies must think beyond implementation about solutions for these updates.

Speaking with our clients, we have identified the remaining operating model changes and have designed a platform to help companies come up with a design for revenue recognition success — not just compliance. The recommendations presented below summarize our findings from work where we helped clients minimize the disruptive impact of the new accounting standard on their organization and maximize readiness and efficiency.

Recommendations for implementing the ASC 606 revenue recognition standard

Our model has four key drivers that clients should consider as they undertake the design process of ASC 606:

- **Catalog processes and rank each process according to the level of effort required.**

The first step in designing an efficient ASC 606 change management process is to identify and review all processes affected by the accounting changes. These processes translate directly to any current-state process map, which should allow for easy identification. The second, and most important, step is to translate each impact to what specifically has to change for each process. This classification will allow you to prioritize the critical processes that are affected. For example, if the change relates to a new assumption or journal entry, the impact to this process step probably will be minimal. If the change requires a new interaction point with systems or dependencies on new data, it will require a lot more effort and change management. Prioritizing will allow you to get an accurate estimate of lead times and resources early in the planning process.

- **Communicate the impact of the new accounting changes to downstream departments.**

The new accounting changes will have an impact beyond your finance department, so it's important to plan for recurring and comprehensive communication, especially with the organizations that will suffer a trickle-down effect of your accounting updates. For example, the compensation organization you work with may need to understand any changes to revenue timing, and may have to adjust any sales-based commission agreements. Or, FP&A and investor relations organizations may need access to the updated assumption models from the technical accounting review.

- **Select your IT solution after the assessment phase by using the IT requirements captured during that phase.**

Every company that has completed the technical accounting assessment has the majority of technical requirements captured during this phase. These constitute the basis for determining the right IT solution. Organizations implementing ASC 606 often get stuck on the business requirements for the IT modules they need for revenue recognition compliance. Accommodating the new standards requires both building new IT modules and making changes to the existing ones. Yet, once requirements are gathered, determining the best IT solution for your needs might be easier than expected. New IT modules are essentially decision engines that structure revenue decisions based on assumptions that have been defined upfront during the technical accounting assessment phase. We recommend companies use an accelerator that translates the decisions and assumptions from the technical accounting assessment phase into system-ready requirements that IT partners can use to design a successful implementation.

- **Create value for your company by looking at your 'order-to-cash' wish list.**

While ASC 606 is required, companies can still create value from the implementation of this standard by coming up with an "order-to-cash" wish list and incorporating it into the process changes they are already implementing. Wish list items vary by organization, but often focus on automating manual billing and cash application processes. Your organization must have such a list — why not seize the opportunity to tackle these wish list items, while investing in updating processes and systems to become compliant with ASC 606? In this way, you can shift the outcome of your investment from compliance-only, to compliance with the added benefit of innovation.

Designing for success is a fundamental part of any finance transformation process. In the recommendations above, we have showed how your company can benefit by designing the changes required by an ASC 606 implementation, rather than implementing them for compliance-only. While the requirements of this standard are broad and require a significant investment from your company, you can transform this required compliance into improved ratios and efficiency across your order-to-cash process.

Source: <https://www.grantthornton.com/library/articles/advisory/2017/design-for-revenue-recognition-not-compliance.aspx>

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People



Checklist



Operational
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Outsourcing Alert: CFSE incentive plan for employers

September 27, 2017

On August 8, 2017, Law 92 of 2017 was approved to establish an incentive plan that grants to insured and uninsured employers to the Workmen's Compensation Insurance Fund Corporation (CFSE), which has outstanding and unpaid debts due to premiums, a discount of 50% of the accumulated debt.



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This incentive plan will have a validity of 120 days, from the approval and validity of the administrative order issued by the CFSE. This administrative order was enacted on September 1, 2017.

Limitations:

The employer must have filed the Payroll Statement for the fiscal year 2016-2017, within the period required by law.

The employer must have paid the fiscal year 2016-2017 policy and any other debt that corresponds to this fiscal year.

Any employer who owes premiums for being an uninsured employer (PNA), who takes advantage of the Incentive Plan and meet with the requirements contained in the Administrative Order may obtain the benefit of the discount of 50% of the outstanding balance, up to a maximum of 15 years.

Under the incentive plan, the CFSE will eliminate one hundred percent (100%) of debts over 15 years, excluding Fiscal Year 2016-2017.

For more information, visit:

<http://web.fondopr.com/es/transacciones-linea>

<http://www.lexjuris.com/lexlex/Leyes2017/lexl2017092.htm>

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