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Puerto Rico Manufacturers Association

Act 72-2015 - Income tax changes

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actively communicate

take **Responsibility** for our
actions and demonstrate integrity

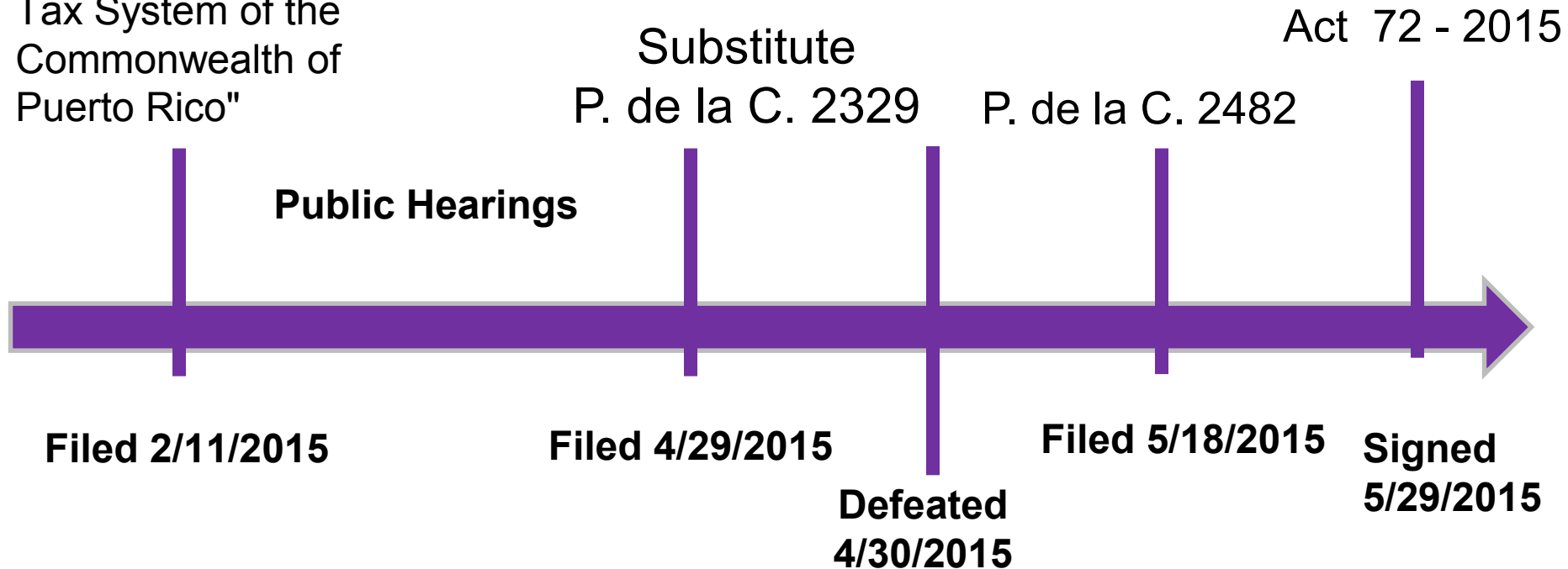
Agenda

- Summary of the tax reform process as of today:
 - P de la C 2329 “**Act to Transform the Tax System of the Commonwealth of Puerto Rico**”
 - Substitute P de la C 2329
 - Act 72 - 2015 (P de la C 2482)
 - Changes to Income Tax
- Questions

Changes Proposed to Puerto Rico's Tax System

P. de la C. 2329

"Act to Transform the
Tax System of the
Commonwealth of
Puerto Rico"



Income Tax

Individual Income Tax: Regular Tax

Tax tables effective for tax years beginning after 12/31/12, but before 1/1/14 will apply for tax years starting after 12/31/12:

Gross Income	Tax
Not over \$9,000	0%
Over \$9,000 but not over \$25,000	7% of the excess over \$9,000
Over \$25,000 but not over \$41,500	\$1,120 plus 14% of the excess over \$25,000
Over \$41,500 but not over \$61,500	\$3,430 plus 25% of the excess over \$41,500
Over \$61,500	\$8,430 plus 33% of the excess over \$61,500

Individual Income Tax: Gradual Adjustment

- Gradual Adjustment
 - for taxable years beginning after 12/31/13: the gradual adjustment will be applicable once again for all individuals with income subject to tax in excess of \$500,000.
 - such excess will be subject to an additional 5% tax.

Individual Income Tax: Gradual Adjustment

- Limitations for taxable years beginning:
 - after 12/31/12, but before 1/1/14
 - \$8,895, plus 33% of the allowable personal and dependents exemptions.
 - after 12/31/13, but before 1/1/15
 - \$8,423, plus 33% of the allowable personal and dependents exemptions.
 - after 12/31/14 and thereafter
 - \$8,895, plus 33% of the allowable personal and dependents exemptions.

Individual Income Tax: Self-employed Individuals

- Self-employed Individuals
 - additional tax of 2% on self-employed individuals will only apply to tax years commenced after December 31, 2012 but before January 1, 2015.



Individual Income Tax: Net Operating Losses

- Net Operating Losses
 - individuals reporting net losses from a trade or business for **three consecutive tax years** can only carry forward the net operating loss attributable to the third taxable year and thereafter, beginning after December 31, 2014, **limited to a 50%** of such loss. The other 50% will not be allowed to be carried forward to future periods.

Individual Income Tax: Net Operating Losses

- Corporation of Individuals, Special Partnership & Partnerships
 - partners of a Corporation of Individuals, Special Partnerships and Partnerships will now have a limit on the deductibility of prior years net operating losses. For years commencing after December 31, 2014, the loss deduction will be **80%** of the current year's aggregate distributable share of net income.

Individual Income Tax: Deductions

– Charitable Contributions

- for taxable years commencing after December 31, 2014, deductions will only be allowed for charitable contributions made to non profit entities certified by the PR Department of Treasury.

–applicable to entities under the provisions of Section 1101.01(a)(2) of the PR Tax Code.

Corporate Income Tax: Alternative Minimum Tax (AMT)

- AMT will now be the higher of:
 - AMT income at the rate of 30%, or
 - The sum of:
 - Purchases of personal property to related parties at rates that fluctuate from 2.5% to 6.5%, plus
 - Expenses or charges from related parties not subject to withholding at the rate of 20%
 - » A waiver may be obtained to reduce 60% of the expenses subject to the charge.

Corporate Income Tax: Alternative Minimum Tax (AMT)

- Expenses incurred or paid to a related person
 - states limitations on the determination of expenses that may be excluded/waived from the application of the 20% tax for AMT purposes.
 - expenses that may be excluded from the 20% tax rate **cannot exceed the 60%** of the total amount of such expenses.

Corporate Income Tax: Alternative Minimum Tax (AMT)

- Value of purchases of personal property from a related person
 - changes in the applicable tax rate
 - **2%** for taxable years commenced **before January 1, 2015**.
 - for taxable years **commencing after December 31, 2014**, tax rate will vary according to purchaser's gross revenues derived from the trade or business in PR.

Corporate Income Tax: Alternative Minimum Tax (AMT) Value of purchases of personal property from a related person

For taxable years commencing after December 31, 2014:

If purchaser's gross revenues from the trade or business in PR is:	Tentative Minimum Tax Rate
Equal or more than \$10 Million, but less than \$500 Million	2.5%
Equal or more than \$500 Million, but less than \$1,500 Million	3.0%
Equal or more than \$1,500 Million, but less than \$2,000 Million	3.5%
Equal or more than \$2,000 Million, but less than \$2,750 Million	4.5%
Equal or more than \$2,750 Million	6.5%

Corporate Income Tax: Alternative Minimum Tax (AMT)

- Value of purchases of personal property from a related person
 - changes in the applicable tax rate
 - amends section to address **exceptions** applicable to purchases subject to the provisions of Section 3020.08 (Vehicles) of Subtitle C of the PR Tax Code.
 - » for taxable periods **ended before January 1, 2015**, such purchases will be subject to a 1.50%.
 - » for taxable periods **beginning after December 31, 2014**, such purchases will be subject to a 0.50%.

Corporate Income Tax: Alternative Minimum Tax (AMT)

- Value of purchases of personal property from a related person
 - tax waiver provided under section 1022.03(d)(4) will not be applicable to tax years beginning after December 31, 2014.
 - Notwithstanding, waivers already approved by the Secretary of the Treasury will remain in effect for the periods originally granted.

Corporate Income Tax

Net Operating Losses

- Net Operating Losses
 - for taxable periods beginning after December 31, 2014:
 - limited to 80% of the net income for regular taxes.
 - for taxable periods ending after December 31, 2014:
 - limited to 70% of the alternative minimum net income for AMT purposes.

Corporate Income Tax

Net Operating Losses

– Net Operating Losses

- no deductions will be allowed for expenses incurred or paid to a related person that does not perform any trade or business in PR or a home office located outside of PR by a foreign entity engaged in trade or business in PR through a branch.
 - except for expenses excluded by the Secretary of the Treasury on Section 1033.17(a)(17)(D).
 - certain exceptions apply to exempt businesses under Act 73-2008, Act 74-2010, Act 83-2010 & Act 20-2012.

Income Tax

Net Operating Losses

Capital Gains and Losses

- Net Operating Losses
 - corporations
 - for tax years beginning after December 31, 2014:
 - » limited to 80% of capital gains from such sale.
 - for taxpayers other than corporations, 90% limitation is eliminated.
 - Such losses will be allowed up to the amount of gains generated during the taxable year.
Deduction for excess of loss over gains during the year will still be limited to \$1,000 or the taxpayer's net income, whichever is less.

Corporate Income Tax

Net Operating Losses

Capital Gains and Losses

– Net Operating Losses

- for tax years beginning after December 31, 2014, capital losses **carried forward** to subsequent years will be **limited to 80%** of the current year's net capital gain.
 - Amount of loss to be carried forward to a subsequent year will be considered as a short term loss in such year.

Corporate Income Tax: Non Deductible Expenses

- Non deductible expenses
 - 51% disallowance on expenses incurred or paid to a related person for tax year beginning after December 31, 2014.
 - states limitations on the determination of expenses that may be excluded/waived from this disallowance for regular tax purposes.
 - » expenses that may be excluded/waived **cannot exceed the 60%** of the total amount of such expenses.

Corporate Income Tax: Non Deductible Expenses

- Non deductible expenses
 - expenses paid or incurred for services rendered by a non resident, if such taxpayer has not paid the sales and use tax and value added tax stated on Subtitles D and DD respectively, will not be allowed as a deduction.
 - the cost or depreciation of any goods or taxable item, as per Subtitles D and DD, will not be deductible if the taxpayer has not paid the corresponding sales and use tax and value added tax for such item.

Income Tax: Other Dispositions

- Includes definition for "**Large Taxpayers**"
 - new rules applicable to the filing of tax returns for these taxpayers will be established by regulation or any other kind of publication to be issued by the Secretary of the Treasury.
 - must meet at least one of the following requirements:
 - Commercial bank or trust
 - Private bank
 - Brokerage firms
 - Insurance companies
 - Telecommunications companies
 - Entity whose volume of business was \$50,000,000 or more during the prior tax year.

Income Tax: Other Dispositions

– Tax Credits

- extends the moratorium on certain tax credits up to tax years commenced until January 1, 2018.
 - applicable to tax credits that were issued or purchased before June 30, 2013.



Income Tax: Other Dispositions

– Tax Credits

- extends the moratorium on certain tax credits up to tax years commenced until January 1, 2018.
 - tax credits issued during tax years 2016-2017 & 2017-2018, can only be claimed up to 50% of such credit during tax years beginning after December 31, 2016 or December 31, 2017 respectively, and before January 1, 2018 or 2019 respectively. Any remainder can be claimed in subsequent years.

Income Tax: Exemption from tax on corporations and non profit entities

- Establishes the requirement for entities exempt under Section 1101.01(a) (except cooperatives) to provide evidence that they provide services in Puerto Rico.
- Organizations subject to this requirement will be:
 - churches
 - organizations that provide service to the community
 - organizations for the exclusive benefit of its members
 - organizations providing benefits to employees
 - association of property owners
 - organizations providing homes for rent
 - organizations of labor, agricultural or horticultural
 - cemetery companies
 - organizations exempt under Act 120 of 1994

Questions



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