Executive summary


Although Act 257-2018 maintains some basic elements of its precursor, House Bill 1544, which was filed in April 2018\(^1\) Act 257-2018 introduces substantial changes. The most noteworthy features of Act 257-2018 are amendments to provisions applicable to individuals, corporations and sales and use taxes. In the case of individuals and corporations, Act 257-2018 places greater reliance on the use of the alternative basic tax and alternative minimum tax and the need to obtain external validation by Puerto Rico licensed Certified Public Accountants (CPAs). Act 257-2018 also introduces an optional computation that will allow certain individuals and corporations, whose main business activity is rendering services, to meet their tax compliance obligations by making an election to have their taxes withheld at source by the payor.

In the sales and use tax area, the number of Puerto Rico merchants that will be required to collect the 4% intermediate rate applicable to certain services will be substantially reduced with the increase in the existing threshold for collection from gross sales of US$50,000\(^2\) a year to $200,000 year. Act 257-2018 also reduces the rate applicable to prepared foods sold by restaurants from 11.5% to 7%, effective 1 October 2019.
Other amendments will affect deductions, the filing of returns and source of income rules, among other tax revenue and enforcement measures. A guiding tax policy principle embedded in Act 257-2018 is revenue neutrality. That is to say, Act 257-2018 should have no effect on the Government’s coffers.

The legislative evolution of Act 257-2018 resulted in tax rate reductions that are less ambitious than originally planned and increased focus on the use of technology and third-party validation to assist the Puerto Rico Treasury Department in its tax enforcement efforts. The statutory mandate of Act 257-2018 creates greater interdependencies among taxpayers and the information they are obligated to report, which is expected to enable greater oversight and verification of the information being reported to the government.

Below is a summary of the major tax provisions included in Act 257-2018.

**Detailed discussion**

**Individuals**

*Act 257-2018* reduces the effective income tax rate for individuals by allowing a reduction of 5% of tax obligation due by individuals for tax years beginning after 31 December 2018. It also establishes new thresholds for the Alternative Basic Tax (ABT) and new ABT rates, effective for tax years beginning after 31 December 2018.

**Regular tax on individuals for tax years commencing after 31 December 2018**

Commencing after 31 December 2018, the tax determined shall be 95% of the sum of the regular tax and the gradual adjustment.

**ABT**

*Act 257-2018* also modifies the current ABT structure by further breaking down the levels of taxable income and the applicable rates. It applies an ABT of 1%, up to a maximum of 24%. The ABT applies to individual taxpayers whose alternative minimum net taxable income exceeds $25,000.

<table>
<thead>
<tr>
<th>Current</th>
<th>Act 257-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the alternative minimum net taxable income is:</td>
<td>Tax will be:</td>
</tr>
<tr>
<td>$150,000 or more but not over $200,000</td>
<td>10%</td>
</tr>
<tr>
<td>Over $200,000 but not over $300,000</td>
<td>15%</td>
</tr>
<tr>
<td>Over $300,000</td>
<td>24%</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

In calculating ABT net taxable income, *Act 257-2018* establishes limits on deductions and expenses that may be claimed by individuals who engage in a trade or business. If an Agreed Upon Procedure (AUP) Report or Compliance Attestation (CA) Report, prepared by a CPA who is licensed in Puerto Rico, is filed with the Secretary of the Treasury, the limits will not apply. Filing one of these reports allows individuals to deduct all ordinary and necessary expenses related to their trade or business.

*Act 257-2018* allows individuals to claim a credit, subject to certain limitations, for ABT paid for tax years commencing after 31 December 2018.
Optional tax for self-employed individual taxpayers

For tax years beginning after 31 December 2018, Act 257-2018 provides that self-employed individuals, whose income originates substantially from rendering services, may opt to use a fixed tax rate schedule to determine their income tax liability as follows:

<table>
<thead>
<tr>
<th>Gross revenue:</th>
<th>Act 257-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $100,000</td>
<td>6%</td>
</tr>
<tr>
<td>Over $100,000, but not over $200,000</td>
<td>10%</td>
</tr>
<tr>
<td>Over $200,000, but not over $300,000</td>
<td>13%</td>
</tr>
<tr>
<td>Over $300,000, but not over $400,000</td>
<td>15%</td>
</tr>
<tr>
<td>Over $400,000, but not over $500,000</td>
<td>17%</td>
</tr>
<tr>
<td>Over $500,000</td>
<td>20%</td>
</tr>
</tbody>
</table>

To make this election, the self-employed individual: (i) must engage in a trade or business in which gross revenue is derived substantially from rendering services; and (ii) must report gross income in an information return. Additionally, the entirety of the gross income must be subject to withholding at source or estimated tax payments. Act 257-2018 provides that further guidance on the optional tax election will be forthcoming. Moreover, the Secretary may waive the annual tax return filing requirement for an individual who makes this election.

Tax on individuals, estates and trusts with respect to interest paid or credited on deposits in interest-bearing accounts

Under prior law, financial institutions were required to deduct and withhold 10% or 17%, as applicable, on the amount paid or credited as interest, over the first $500 accumulated in each quarter. Act 257-2018 requires financial institutions to deduct and withhold those same amounts, but in excess of a lower threshold of the first $25 accumulated in each quarter for tax years commencing after 31 December 2018.

Special tax on variable annuities in separate accounts

For tax years commencing after 31 December 2018, Act 257-2018 allows taxpayers to elect, subject to certain requirements, to apply a 15% flat income tax rate, instead of the regular tax rates, on the total amount paid during the tax year under a variable annuity contract.

Additional proposed changes applicable to individuals

In the case of individuals who reflect a net loss in their industry or trade for three consecutive tax years, Act 257-2018 allows taxpayers to carry forward 50% of the loss incurred in the third tax year that begins after 31 December 2014, and any subsequent tax year. Act 257-2018 provides this provision will not be applicable for years beginning after 31 December 2018.

Under Act 257-2018, losses claimed by a shareholder of a corporation of individuals or a partner in a partnership or special partnership are limited to 90% of the distributable share for tax years commencing after 31 December 2018 (losses incurred for tax years commencing after 31 December 2014 and before 1 January 2019, will continue to be limited to 80% of the distributable share).

An individual, citizen of the United States who is a resident of Puerto Rico will be able to claim as a credit the amount of any tax on income paid during the tax year to the United States, any possession of the United States, or any foreign country. Act 257-2018 also allows a credit for a tax on income paid to any state of the United States.

In addition, the exclusions from gross income include compensation received in judicial proceedings or extrajudicial settlements due to physical or personal injuries. Under Act 257-2018, compensation received for mental anguish will also be excluded from gross income.

Additionally, Act 257-2018 reinstates the earned income credit. The earned income credit is effective for tax years commencing after 31 December 2018, and is available only to individuals who are residents of Puerto Rico for the full year and who generate earned gross income. The credit is 5%, 7.5%, 10% or 12.5% of the earned gross income, depending on the number of dependents and the level of income. The statute establishes new requirements for married taxpayers to be able to claim the credit. Also, in line with other amendments, Act 257-2018 requires earned gross income, which gives rise to the eligibility for the credit, to be properly reported in an information return or wage withholding statement.
Corporations

*Act 257-2018* reduces the maximum corporate income tax rates for tax years commencing after 31 December 2018. The reduction is made to the normal tax rate by reducing it from 20% to 18.5%. As such, the surtax rates as shown in the table below remain intact.

<table>
<thead>
<tr>
<th>Current rates</th>
<th>Act 257-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal tax rate</td>
<td>20%</td>
</tr>
<tr>
<td>Surtax rate</td>
<td>5%-19%</td>
</tr>
<tr>
<td>Maximum tax rate</td>
<td>39%</td>
</tr>
</tbody>
</table>

*Act 257-2018* reduces the alternative minimum tax (AMT) rate from 30% to 18.5% for taxpayers with a volume of business of less than $3 million. If a taxpayer’s volume of business is $3 million or more, the applicable AMT rate is 23%. The AMT will be the higher of $500 or the tax resulting from imposing the applicable rate (18.5% or 23%) to the alternative minimum net taxable income.

For purposes of calculating the alternative minimum net taxable income, *Act 257-2018* establishes limits on deductions and expenses to be claimed by corporate taxpayers.

*Act 257-2018* only allows the following deductions to determine net income subject to the AMT for tax years beginning after 31 December 2018:

- A 125% deduction for salaries paid and reported on Forms PR W-2
- A deduction for payments for services directly related to the trade or business reported on information returns (with or without withholding), includes payments for:
  - Rent
  - Telecom
  - Internet access
- A deduction for contributions to health or accident plans
- A deduction for payments for water and electricity services directly related to the operation of the trade or business
- A deduction for amounts paid in the tax year directly related to the operation of the trade or business, and properly reported in information returns, includes payments for:
  - Advertising
  - Promotion
  - Marketing

- A deduction for amounts paid in the tax year for property, contingency and public liability (responsibility) insurance and properly reported in information returns
- A depreciation deduction under the straight-line method
- A deduction for interest, other taxes, bad debts, contributions to an employee trust, annuity or compensation under a deferred payment plan, charitable contributions, agricultural income, but only if those items are directly related to the operation of the trade or business

A corporate taxpayer that files an AUP Report, CA Report, or audited financial statements with the Secretary will not be subject to the limitations. Filing one of these reports will allow the corporate taxpayer to deduct all ordinary and necessary expenses related to its trade or business in order to arrive at its alternative minimum net taxable income. The report must be prepared by a CPA who is licensed in Puerto Rico.

Optional tax for corporate taxpayers carrying out a trade or business as service providers

*Act 257-2018* allows corporate taxpayers engaged in a trade or business in which income is derived substantially from services, and subject to withholding at source, to elect to use a fixed tax rate to determine their income tax liability. The fixed rate will apply to the gross income derived from the rendering of services as follows:

<table>
<thead>
<tr>
<th>Gross revenue</th>
<th>Act 257-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $100,000</td>
<td>6%</td>
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<tr>
<td>Over $100,000, but not over $200,000</td>
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<td>15%</td>
</tr>
<tr>
<td>Over $400,000, but not over $500,000</td>
<td>17%</td>
</tr>
<tr>
<td>Over $500,000</td>
<td>20%</td>
</tr>
</tbody>
</table>

To make this election, the corporation will have to: (i) be engaged in a trade or business in which gross revenue is derived substantially from the rendering of services; and (ii) include the gross income on an information return. Additionally, the entirety of the gross income will have to be subject to withholding at source, or the taxpayer must have paid estimated taxes. The taxpayer will not be able to claim any expenses or deductions. Additionally, the taxpayer will not have to submit audited financial statements, an AUP Report, or a CA Report.
The optional tax is effective for tax years beginning after 31 December 2018. However, Act 257-2018 grants the Secretary the authority to postpone the effective date of this provision to tax years commencing after 31 December 2019.

Large taxpayers
Act 257-2018 establishes a new rule for related entities of a controlled group in order to determine if those entities are considered large taxpayers. Under the amended rule, the aggregate volume of all related entities will be considered for purposes of the $50 million volume test.

The PR Code provides that once an entity meets one of the requirements to be considered a large taxpayer, it would be considered as such for purposes of all pertinent provisions thereunder. Act 257-2018 now allows the taxpayer to request an administrative decision from the Secretary, requesting that it be removed from the large taxpayer category for subsequent tax years. The petition must be made through the filing of a formal ruling request. These amendments are effective 10 December 2018, which is the date of enactment.

Additional changes
Act 257-2018 also includes the following provisions:

- For tax years commencing after 31 December 2018, a business with $3 million or less in volume of business may elect to depreciate, amortize or deplete certain machinery, equipment, personal property, appliances or any other fixed asset over a useful life of 2 years; currently, the useful life of assets ranges from 3 to 20 years.
- For expenses after 31 December 2017, taxpayers may deduct actual expenses incurred for the use and maintenance of automobiles, subject to a limit that the Secretary will establish.
- For tax years beginning after 31 December 2018, a deduction for charitable contributions made by corporations will only be allowed if the contributions are made to nonprofit entities certified by the Secretary that provide services to Puerto Rico residents.
- For tax years commencing after 31 December 2018, the deduction for net operating losses (NOLs) is limited to 90% (rather than 80% currently) of net income.
- For tax years commencing after 31 December 2018, the deduction for capital losses is limited to 90% (rather than the 80% currently) of the net capital gain.
- The 51% disallowance for related-party transactions no longer applies for tax years commencing after 31 December 2018, provided a transfer pricing study prepared under Section 482 of the United States (US) tax code is provided; if none of the affiliates operate in the United States, the Secretary should accept a study prepared in conformity with the Organisation for Economic Co-operation and Development.
- For tax years commencing after 31 December 2018, the 50% disallowance for deductions related to meals and entertainment expenses increases to 75% and is further limited to a maximum of 25% of gross income for the tax year.
- For tax years commencing after 31 December 2018, travel and lodging expenses are now limited to 50% of the amount paid or incurred.
- Effective with the approval of Act 257-2018, a 50% or more partner in a partnership or special partnership will not be allowed to claim the NOL deduction against the distributable share in the income of the partnership.
- For tax years commencing after 31 December 2018, a deduction is not allowed for settlement payments made on account of sexual harassment cases that include a non-disclosure clause.
- For tax years commencing after 31 December 2017, an employer may claim a 150% – 200% deduction for salaries paid to each college student and recently graduated individual who is hired to work at least 20 hours per week for nine months or a minimum of 800 hours and makes at least $10 per hour; to claim the deduction, the employer must report the salaries in the annual wage statement.

Sales and use tax (SUT)
Act 257-2018 increases the SUT exclusion for business to business and designated professional services based on annual volume of business from $50,000 to $200,000 after 1 March 2019.

Act 257-2018 modifies the exemption on rental of real property so that it only applies if the lessee complies with fiscal terminal requirements, if applicable. It also includes e-books and digital books under the definition of books, which are exempt from the SUT.

Act 257-2018 modifies the rules for SUT enforcement by providing that information captured through fiscal terminals will be considered as part of the monthly SUT return.

Act 257-2018 also exempts from the SUT surcharge of 4.5% prepared foods sold by restaurants, making the applicable SUT rate 7%. For this exemption to apply, the restaurant will need to obtain a certification from the Secretary of Treasury.
Return filing obligations and due dates

*Act 257-2018* exempts corporations from the tax return filing requirement if the tax on the total gross income of the entity has been paid through withholding at source. *Act 257-2018* also requires only one signature on the return from an authorized official. In the case of an electronically filed return, a digital signature will be accepted as well.

For large taxpayers, *Act 257-2018* requires the corporate income tax return to be signed as prepared or revised by a Puerto Rico licensed CPA.

*Act 257-2018* increases the automatic extension of time to file the individual and corporate income tax returns from three months to six months for tax years beginning after 31 December 2016. For partnerships, special partnerships and corporations of individuals (conduit entities), *Act 257-2018* also extends the automatic extension of time from three months to six months, effective with tax years beginning after 31 December 2016.

**Audited financial statements (AFS) requirements**

*Act 257-2018* requires professional certifications to be included with the tax filings, which must be reviewed by a CPA licensed in Puerto Rico.

<table>
<thead>
<tr>
<th>AFS requirements</th>
<th>2011 PIRIC</th>
<th>Act 257-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume of Business</strong></td>
<td><strong>Tax Year 2018</strong></td>
<td><strong>Commencing after 31 December 2018</strong></td>
</tr>
<tr>
<td>Less than $1,000,000</td>
<td>No AFS required.</td>
<td>No AFS required.</td>
</tr>
<tr>
<td>Equal or greater than $1,000,000 but less than $3,000,000</td>
<td>No AFS required; optional to obtain 7% full waiver (corporations) or partial waiver (other).</td>
<td>No AFS required; optional to obtain 7% full waiver (entities) or partial waiver (other).</td>
</tr>
<tr>
<td>Equal or greater than $3,000,000</td>
<td>AFS required.</td>
<td>AFS required.</td>
</tr>
</tbody>
</table>

**AFS requirements for members of a consolidated or combined group**

<table>
<thead>
<tr>
<th>AFS requirements – Consolidated or combined</th>
<th>2011 PIRIC</th>
<th>Act 257-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume of Business</strong></td>
<td><strong>Tax Year 2018</strong></td>
<td><strong>Commencing after 31 December 2018</strong></td>
</tr>
<tr>
<td>Equal or greater than $3,000,000 (related entities and persons)</td>
<td>Members - less than $1,000,000, no AFS required.</td>
<td>Members - less than $1,000,000, no AFS required.</td>
</tr>
<tr>
<td>Members - equal or greater than $1,000,000, stand-alone AFS required listing in the notes all related entities engaged in a trade or business (ETB) in Puerto Rico.</td>
<td>Members - equal or greater than $1,000,000, stand-alone AFS required listing in the notes all related entities ETB in Puerto Rico.</td>
<td>Members - equal or greater than $1,000,000, stand-alone AFS required listing in the notes all related entities ETB in Puerto Rico.</td>
</tr>
</tbody>
</table>
Supplemental information (SI) schedules

*Act 257-2018* maintains the SI schedules requirement. *Act 257-2018* grants the Secretary of Treasury authority to issue guidance setting the deadline for filing the supplemental information after the deadline to file the income tax return, including extensions of time.

New uncertain tax position (UTP) schedule

*Act 257-2018* requires every entity required to submit audited financial statements to include a statement with the tax return. The statement must include details about the UTPs as provided under accounting for income taxes guidance (US ASC 740). The new reporting requirement, which is similar to existing rules at the federal level, is effective for tax year 2019 and onwards. *Act 257-2018* provides the Secretary of Treasury will be issuing guidance with the contents of the UTP schedule.

Income tax withholding

Withholding on wages

The definition of salary was modified for tax years commencing after 31 December 2019, to include payments for: (i) services rendered in agricultural work; (ii) domestic services in the home, local collegiate club, or local chapter of a collegiate fraternity or sorority; (iii) services rendered by a minister of a church duly ordained, commissioned, or authorized, in the exercise of his ministry; and (iv) compensation or indemnities received by an employee due to dismissal, without it being necessary to determine just cause, up to a maximum amount equivalent to the compensation that the employee might receive under Law No. 80 of 30 May 1976, or under a discharge indemnity agreement between the employer and the employee.

*Act 257-2018* provides the Secretary of Treasury may change the manner in which the employer withholds income tax on wages. The potential modification may include having the employer estimate the annual salary. *Act 257-2018* provides a denial of the salaries paid deduction to the employer if proper remittance of withholding and reporting has not been effected. These changes are effective for tax year 2019.

Withholding on judicial and extrajudicial settlements

*Act 257-2018* increases the withholding at source from 7% to 10% for payments made after 3 December 2018, with respect to compensation payments received in judicial proceedings or in extrajudicial claims. *Act 257-2018* also considers the payment made to the legal representative who advises on these settlements as taxable income, and subject to withholding as services and reporting.

Withholding on services rendered

*Act 257-2018* increases the withholding rate on payments made after 31 December 2018, on account of services rendered from 7% to 10%. Also, *Act 257-2018* provides an option for the individual to increase the withholding rate to the maximum rate under the optional flat tax rate method. Additionally, *Act 257-2018* modifies certain definitions of items subject to the withholding, and lowers the $1,500 withholding threshold for payments made after 31 December 2018 to $500. *Act 257-2018* amends the existing rules to obtain a partial or full waiver from the withholding.

*Act 257-2018* also establishes a new quarterly reconciliation return requirement to report payments made, tax withholding withheld and deposited, and payments of any unpaid balances. The new return requirement is effective for tax year 2019 and onwards.

Withholding on non-Puerto Rico residents

*Act 257-2018* provides that if at the time of the filing of their income tax return the amount withheld on payments made to non-Puerto Rico residents has not been remitted and the corresponding informative returns filed with the Puerto Rico Treasury Department, then no deduction would be claimed by the payor on such payments even if they represent ordinary and necessary operating expenses.

Income from sources outside of Puerto Rico

As a general rule, compensation for work performed or personal services rendered outside of Puerto Rico are considered as income from sources outside of Puerto Rico. *Act 257-2018* provides an exception to this rule, whereby payments for services offered outside of Puerto Rico to any agency, dependency, or instrumentality of the government of Puerto Rico, a public corporation, as well as the legislature, the judiciary and municipalities, or any other entity, created by state or federal law, whose funds come, totally or partially, from the General Fund will be considered as income from sources within Puerto Rico and taxed accordingly.
Income tax withholding on the sale of interest in a partnership

In the case of sales of interest in partnerships occurring after 31 December 2018, any income derived from the sale of an interest in a partnership will be deemed income from sources within Puerto Rico, to the extent that the partnership would have generated income from Puerto Rico sources had it sold all of the assets of the partnership – regardless of the residence of the partner selling the interest. In cases in which the selling partner is a nonresident individual or an entity not engaged in industry or trade in Puerto Rico, the buyer will be required to withhold 15% of the portion of the profit that it is considered from Puerto Rico sources.

Partnerships

Act 257-2018 no longer treats a partnership as terminated within 12 months of a sale or exchange of 50% or more of the total interest in a partnership's profits and capital.

Act 257-2018 creates a new source-of-income rule for a sale of a partnership interest. The rule is effective for transactions taking place after 31 December 2018. This new provision replaces the current rule of place of organization or residency of the seller. Under the new rule, the sale of a partnership interest is considered from sources within Puerto Rico to the extent that the partnership would have generated Puerto Rico-source income had it sold the assets at fair market value. The purchaser must withhold 15% on the Puerto Rico-source income gain.

Other relevant provisions

Act 257-2018 also incorporates the rules and restrictions promulgated and imposed under pertinent executive orders and resolutions issued by the Government and the committee named by the Fiscal Agency and Financial Advisory Authority (AAFAF), with respect to the use of granted credits and the approval of credits in process as of 7 March 2017 with respect to tax year 2017. However, Act 257-2018 eliminates the restrictions imposed by the AAFAF committee for tax years commencing after 31 December 2017, and the credits will be subject to the rules under the pertinent incentives or special laws under which the credits were issued, or under the PR Code as applicable.

Additionally, Act 257-2018:

• Authorizes the Secretary to enter into agreements with government suppliers that have pending invoices with the government to credit such amounts to tax debts (except SUT debts) or convert them into tax credits for future periods
• Prevents taxpayers that do not comply with the filing of required information returns from claiming related deductions (e.g., interest)
• Requires a new annual information return on transactions that occur on or after 1 January 2019, from entities dedicated to processing payments through electronic methods, including payment processing of credit and debit cards through a network (the information return must include the total amount of processed payments credited to the participating merchant)
• Amends the provisions related to qualified retirement plans and IRA distributions to reflect guidance issued by the Secretary through administrative guidance related to disasters
• Incorporates special income exclusion rules related to qualified disaster aid payments
• Authorizes the Secretary to request an AUP Report or a CA Report that is certified by a local CPA and validates compliance with the eligibility requirements under the PR Code when nonprofit entities apply for exemption under the PR Code (if external validation is required, the exemption application will be deemed approved within 30 days of being filed unless the Secretary rejects the application before the expiration of that term)
• Imposes a new special tax on nonprofit entities that pay employees or officials salaries over $250,000 (tax would be determined using the maximum corporate rates)
• Establishes the term “successor taxpayer,” which provides for joint tax liability in certain cases in which operations or assets are transferred but only to the extent the operations are substantially the same, and there is continuity in the identity of the taxpayer, or in owners of the predecessor and successor entities

Act 257-2018 also establishes a new ordering rule for the assignment of voluntary partial tax payments made after 28 February 2019. Under the new rule, when the taxpayer has debts payable for one or various tax periods, the partial tax payment will apply to the oldest assessed debt. Act 257-2018 further provides that the partial payment must be applied to principal followed by interest, penalties and surcharges, until fully satisfied. The taxpayer is also allowed to designate the manner in which the voluntary partial payment must be applied.

Act 257-2018 allows the Secretary to establish taxpayer rehabilitation and voluntary disclosure programs for taxpayers with debts, or that have not reported items subject to taxation
under the PR Code. These programs have special conditions and requirements, but could allow taxpayers to pay tax liabilities without the imposition of interest or surcharges, as well as debt balances.

In addition, Act 257-2018:

- Provides expeditious process for the issuance of licenses required under the PR Code
- Amends the definition of a limited liability company (LLC) to add a series LLC, and also to exclude an LLC organized in Puerto Rico from the statutory obligation of being considered a partnership if it is disregarded in the US, or treated as a passthrough in other foreign jurisdictions
- Authorizes the Secretary to require electronic filing of many of the tax filings

Implications

The summary presented in this Tax Alert is intended to highlight certain key provisions and rules introduced by Act 257-2018. However, it is not intended to fully capture every change or detail of the various amendments made, such as changes to administrative procedures. Also, most of the provisions in Act 257-2018 are effective for tax years that commence after 31 December 2018. In the case of the new or modified informative reporting requirements, taxpayers and paying agents should closely evaluate the effect of the new requirements so that they may modify their systems and procedures to capture items that were not required to be reported previously.

Many of the amendments call for the Secretary to issue administrative guidance or regulations to implement the provisions, particularly in the area of the new informative return compliance requirements and the submission of a transfer pricing study to be able to claim a 100% deduction of related party expenses. We will monitor the release of any guidance and issue subsequent updates about some of the key and relevant provisions.

The Fiscal and Oversight Board under PROMESA law requires the Government to submit with each law a cost estimate and certification of compliance with the fiscal plan. Submission of this certification was required by 19 December 2018.

Endnotes


2. Currency references in this Alert are to US$1.
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EYG no. 012556-18Gbl
1508-1600216 NY
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