About Baker Tilly

Baker Tilly Puerto Rico, CPAs, PSC (BTPR) is a local firm of independent Certified Public Accountants and Business Consultants established in 1982. Through the years, Baker Tilly Puerto Rico has become one of the leading CPA firms in Puerto Rico. At present, it is ranked among the top ten in the Island.

BTPR recognizes that its most important product is prompt and effective personalized service of the highest quality. All of the efforts are directed toward achieving these aims. The highest level of skill available in the Firm will be brought to bear on the serving of our clients' needs.

We have a broad and varied clientele including governmental units, single audits, nonprofit organizations, manufacturing, retailing, construction, insurance, credit unions, real estate, electronics, communication, colleges and universities, municipalities, agencies, health care and others.

It is a basic philosophy of the Firm that the services to each client be based on substantive knowledge of the industry of which it is part and believes that this understanding of the client and its industry is of vital importance in rendering constructive services and carrying out assignments in an effective manner.

Baker Tilly Puerto Rico is an independent member of Baker Tilly International, a network of high quality, independent accountancy and business services firms, all of whom are committed to providing the best possible services to their clients, in their own marketplaces, and across the world, wherever the client needs help.

Baker Tilly International is the world’s 8th largest accountancy and business advisory network by combined fee income of its independent members. It is represented by 147 independent firms in 114 countries with combined fee income of US$3.13bn and 26,000 people worldwide.

Baker Tilly International is a network of like-minded independent firms who all believe in providing exceptional client service to entrepreneurial, growing businesses. All firms within the network adhere to the same high quality standards and share skills, resources and expertise to create best practice.

Our firm is able to call upon member firms around the World when needed to provide our clients with local expertise in any overseas marketplace. All assignments will be led by the client's lead partner, who coordinates all work being carried out on the client's behalf overseas and ensures that the work is carried out to the highest standards, within budgets and deadlines.

We also have an active program of staff secondment as well as the sharing of ideas for various groups and committees worldwide (for example Healthcare, Tax, marketing, IT, etc). We also run annual conferences around the World where member firms are able to meet together, learn more about each others’ firms and share best practice and ideas.

In addition to broad geographical coverage, Baker Tilly International member firms are able to offer comprehensive services in accounting, auditing and tax, as well as, systems and business consulting to clients in virtually every industry. With Baker Tilly International's extensive network and continuous interchange of ideas and information, member firms are able to meet their paramount objectives to provide the finest service to clients, regardless of industry, whatever their needs, and wherever they arise locally, nationally or internationally.
Puerto Rico Profile

Geography and Population

Puerto Rico is the most eastern of the Greater Antilles between the Caribbean and North Atlantic Ocean, about 1,050 miles southeast of Miami. San Juan is one of the biggest and best natural harbors in the Caribbean. Puerto Rico also includes the Islands of Vieques and Culebra. Puerto Rico has a population of approximately 3.7 million people.

Climate

The climate is humid and tropical. Almost constant North-Easterly trade winds contribute to a very agreeable climate. The Southern part of the island is somewhat drier and warmer than the North. The period from mid-January to mid-April tends to be the driest time, with plentiful rainfall possible at most other times. Many small rivers and high central mountains ensure the land is well watered.

Language

The official languages are Spanish and English. Spanish remains the language of choice, except in a business context.

Political System

A self-governing Commonwealth within the United States of America constitutional system. The Island government is based on the separation of the Executive, Legislative and Judicial Power. General elections are held every four years. There are 78 municipalities on the Island, each with a locally elected Mayor and Assembly.
Puerto Rico Tax Code

Puerto Rico is a territory of the United States of America and as such is subject to the requirements of Federal legislation. With some limited exceptions, bona fide individual residents of Puerto Rico and Puerto Rico corporations are not subject to Federal individual or corporate income tax laws. Although the people who are born in Puerto Rico are U.S. citizens, residents pay no Federal income tax on their Puerto Rico source income, nor can they vote in presidential elections. As U.S. citizens, they are not required a visa to travel, live and/or work in the United States of America.

Puerto Rico’s income tax code is modeled after the US Internal Revenue Code (IRC). However, certain differences exist between the two systems. For example, consolidated income tax returns or affiliated corporations are not allowed under the Puerto Rico Tax Code.

This guide was designed to provide an insight into doing business in Puerto Rico, taking into consideration the provisions of the Internal Revenue Code for a New Puerto Rico, approved in January 31, 2011, which brings some changes in the way some entities will be treated for income tax purposes.
Selecting the Type of Entity

Once an entity decides to do business in Puerto Rico, its management must decide which type of entity will better serve their purposes. The following constitutes a summary of the options available:

**Sole Proprietorships**

A sole proprietorship business is owned by an individual who is personally liable for the entity’s debts. Income and deductions related to the business’s operations are included on the income tax return of its owner.

**Corporations**

*Domestic Corporations*

A domestic corporation means a corporation organized under the Laws of the Commonwealth of Puerto Rico. In determining taxable income, the corporation must take into consideration all its worldwide income regardless of whether or not the income is effectively connected with the conduct of a trade or business in Puerto Rico. It is allowed to deduct its ordinary and necessary expenses related to its operations and would be entitled to deduct a reasonable allocation of overhead expense incurred and charged by the Parent company or any affiliate in United States or a foreign country to the extent they are directly related to the entity’s operations. Please note that payments for services rendered outside Puerto Rico by a related person are disallowed when computing the alternative minimum tax applicable to domestic corporations.

If a US corporation decides to establish its operation in Puerto Rico through a domestic subsidiary, the latter will not constitute part of the consolidated group for purposes of the filing of US income tax return, since a Puerto Rico corporation is considered a foreign corporation for US purposes.

A domestic corporation is subject to regular income taxes at a maximum rate of 30%; a normal tax rate of 20% on taxable income and a surtax of 10% on taxable income in excess of $1,750,000. Those corporations with taxable income in excess of $750,000 and less than 1,750,000 are subject to a surtax of 5%. If tax is paid to a foreign jurisdiction, then a foreign tax credit may be claimed, subject to certain limitations. Dividends are generally subject to a 10% withholding tax upon distribution.

*Foreign Corporations*

A foreign corporation, organized under the Laws of any country but Puerto Rico, can conduct businesses in Puerto Rico provided they obtain and receive authorization from the Department of State of Puerto Rico. In order to obtain such authorization, certified copies of the corporation’s charter and certificate of incorporation and an Authorization to do Business in Puerto Rico must be filed with the Department of State. The fees required by the State Department to process and issue the certificate of registration are US$110.

A foreign corporation may be engaged in trade or business in Puerto Rico as a division or branch of that foreign corporation or as a separate corporation or subsidiary. Resident foreign corporations are taxed in Puerto Rico on their Puerto Rico source income and on any effectively connected income at the graduated tax rates as any domestic corporation.

*Subsidiary*

Under this alternative, the parent company organizes a wholly owned foreign corporation through which Puerto Rico business will be conducted. Any actual repatriation of dividends will be subject to a 10% income tax withholding at source. If a US subsidiary is used, it must be included in the US consolidated tax return with its parent.
Branch

The taxation of a US branch is the same as for a US subsidiary. The only difference will be that a deemed dividend distribution tax (branch profit tax or BPT) will be assessed on the branch upon any advances made to its home office.

The BPT generally represents a 10% tax upon the “dividend equivalent amount” and would be imposed if the earnings and profits derived by the branch were not reinvested in Puerto Rico as of the end of the taxable year. Generally, comparing the net equity at the end of the taxable year and the net equity at the beginning of the year makes the determination whether the amount was invested or reinvested.

Professional Services Corporations

It is a corporation whose principal activity is the performance of a service (any services of a professional nature for which a license or other legal authorization is required). The license must be issued by the Commonwealth of Puerto Rico.

Close Corporation

In a close corporation, the number of stockholders is limited to 35, and the stock of the corporation is subject to certain transfer restrictions stipulated by law. The stock of a close corporation may not be publicly traded, and the certificate of incorporation of a close corporation may limit the entrance of certain persons as stockholders.

Employees-Owned Special Corporations

In an employee-owned special corporation, all full-time employees may participate in the ownership of the corporation, and all owners must be employees of the corporation. Although certain restrictions and limitations apply to the formation of employee-owned corporations, they generally are subject to the same statutory provisions applicable to regular corporations.

Partnerships

A partnership is a syndicate, group, pool, joint venture, or other unincorporated organization by means of which any business, financial operation or venture is carried on, and which is not a trust or estate or a corporation. Under the provisions of the Internal Revenue Code for a New Puerto Rico, partnerships are flow through entities that are not subject to income instead the partners are responsible for the income taxes on their distributable share of the partnership’s items of income, even though the income is not distributed. A partner must compute the taxable income including his/her distributable share of partnership’s tax items for the year of the partnership ending with or within taxable year of the partner.

A Partnership computes its gross income and deductions, to arrive at taxable income, in the same manner an individual would, with certain exceptions. One exception is that partnerships are not allowed a deduction for carryover net operating losses. The use of a Partnership’s losses is limited by the partner’s basis in the partnership equity interest and can only be used against the distributable share of other partnerships’ income or the prorate share of Corporations of Individuals’ income.

Partners must determine their tax liabilities taking into account separately certain items, among them:

- Short and long term capital gains and losses
- Charitable deductions
- Dividends subject to the 10% withholding tax
- Income covered by industrial/development tax grants or tourism concessions
- Net income or loss of the partnership
If the partnership is engaged in a PR trade or business the partners will be deemed engaged in such trade or business with respect to their distributable share of tax items. Accordingly, non-resident partners will be deemed in a trade or business in Puerto Rico in regards to such distributable share of income and will have to file Puerto Rico income tax returns. Furthermore, foreign corporate partners may be subject to the branch profit tax.

The distributable share in the partnerships income, gains, losses and other tax items shall be determined by the partnership agreement unless otherwise provided in the Puerto Rico Internal Revenue Code of 2011. Such distributable share shall be determined according to the partners’ interest in the partnership if the agreement does not provide for distributable shares or if the allocation does not have a substantial economic effect. The character of the income, losses and other tax items included in the partner’s distributable share shall be determined as if such items were realized directly from the source realized by the partnerships (example: sourcing of income).

The managing partner must withhold at the source 33% of the distributable share in the net income of the partnership, if the partner is an individual, and 30% in the case of a corporation, less the 7% withholding tax on payment for services rendered in Puerto Rico and the 7% withholding tax for payments made under judicial or extra-judicial claims.

**Limited Liability Partnerships**

A limited liability for the obligation of the partnership (LLP) is a partnership formed by two or more individuals under the provisions of the Limited Liability Partnership Act. The category includes LLPs rendering professional services, related LLPs (LLPs that are related to the LLPs rendering professional services) and LLPs formed under the laws of a jurisdiction other than Puerto Rico. An LLP must register with the Puerto Rico Secretary of the State and must file a certified copy of its constitutional deed.

**Special Partnerships**

Partnerships and corporations that meet certain requirements may avoid taxation at the entity level by electing special partnership treatment. However its partners pay tax on their proportionate shares of the partnerships income, regardless of whether the corresponding income is distributed.

A special partnership computes its gross income and deductions, to arrive at taxable income, in the same manner a regular partnership or corporation would, with certain exceptions. One exception is that special partnerships are not allowed a deduction for carryover net operating losses because every year the partners pick up their share of income or loss in their income tax returns. The use of a Special partnerships' losses is limited by the partner’s basis in the special partnerships equity interest and can only be used against the distributable share of other special partnership's income or he prorate share of corporations of individual’s income.

In order to qualify, at least 70% of its gross income must be from Puerto Rico sources and at least 70% of its gross income must be derived from one or more of the following activities:

- Construction;
- Land Development;
- Substantial rehabilitation of buildings and structures;
- Sale or rental of building and structures;
- Manufacturing that generates substantial employment;
- Tourism
- Agriculture;
- Export of goods or services to foreign countries;
- Production of feature films; and
- Construction, operation or maintenance of public roads.
The special partnership election is not available for years commencing after December 31, 2010. Those elections from prior years are still effective.

**Corporation of Individuals**

Corporation of individuals are generally treated as nontaxable conduit entities, and are similar to S corporations under the U.S Internal Revenue Code. The corporation of individuals is not subject to the corporate income tax, it is merely a pass-through entity. The income, deductions, gains, losses and credits flow through to its shareholders with the same characteristics as in the hands of the corporation. The shareholders must determine their income tax liability taking into account such items. The use of losses by the shareholders is subject to certain limitations.

A domestic corporation, including corporations organized under US state laws that are engaged in trade or business solely in Puerto Rico, may qualify as an N corporation if its shareholders elect this status if the following requirements are met:

- Have not more than 35 eligible shareholders: individuals, certain trust or estates
- Have only one class of stock
- At least 90% of its gross income must be derived from a trade or business in Puerto Rico and, therefore, it must not have passive income in excess of 10%.
- An election has to be filed with the Secretary of the Puerto Rico Treasury during the preceding taxable year or on or before the fifteenth day of the fourth month of the taxable year for which the election would be effective.

An “eligible” corporation generally means any corporation that is not one of the following types: insurance company, investment company, special corporations, corporations that enjoys certain tax exemptions, financial institutions, or an investment capital fund entity.

**Limited Liability Companies**

Any natural or judicial person may organize a limited liability company in Puerto Rico. It is required to obtain authorization to do business in Puerto Rico and to maintain a registered office and a resident agent, whom shall be an individual resident in Puerto Rico, a domestic corporation, or a foreign corporation authorized to do business in Puerto Rico. The fees required by the State Department are $50 for a certificate of authorization and $50 for a certificate to designate a resident agent.

For income tax purposes, LLCs are treated as corporation. Accordingly if a LLC is organized under the laws of Puerto Rico it is taxed as a domestic corporation and if organized under the laws of any other country, it is taxed as a foreign corporation.

Under the provision of the new code of January 2011, LLCs may elect to be taxed as partnerships even if they have a single member. Partnership classification is mandatory when a LLC is treated as a flow through entity for US or other foreign country.
Registering the New Business

In addition to the legal and organizational work a newly organized or registered business in Puerto Rico must comply with, it should also complete several forms in order to comply with the requirements of the different governmental agencies.

Employer Identification Number

Form SS-4 should be filed with the US Internal Revenue Service. If the business already has a number assigned, that will be the ID number to be used in Puerto Rico too.

Department of State Registry

A certificate of incorporation or a certificate of Authorization to do business of a foreign corporation along with certified copies of the corporation's charter must be filed with the Department of State. The fees required to process and issue the certificate of registration are US$110.

Information of Identification Number

Form SC-4809 must be filed with the PR Department of Treasury, as soon as you obtain your federal social security number. This form should be accompanied with a copy of the certificate of incorporation and a copy of Form SS-4.

Merchants' Registry Certificate

Form AS 2914 must be filed with the PR Treasury Department 30 days before the business starts operations. In case of those merchants who are eligible to request the certificate of exemption, the same should also be requested using Form AS 2914.
Filing Requirements

Entities registered to do business in Puerto Rico or engaged in a trade or business in Puerto Rico, are required to prepare and file various forms with the different governmental agencies. The basic returns that apply to almost every entity are:

**Income Tax Return**

Every domestic corporation and foreign corporation (including a branch) engaged in business in Puerto Rico or with effectively connected income is required to file a corporation income tax return on or before the fifteenth day of the fourth month following the close of its taxable year. In the case of entities treated as flow through, the return is due by the 15th day of the third month following the end of the taxable year. An extension of time for filing the return may be obtained if requested on or before the due date for filing the return. Such extension will not be granted for more than 90 days. Any tax due must be paid in full together with the request for extension.

A flat rate of 20% applies to a domestic or resident corporation’s “normal-tax net income”. In addition to the tax surtax is imposed on a corporation's surtax net taxable income at the rates set out in the following table:

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<th>Exceeding $</th>
<th>Not Exceeding $</th>
<th>Surtax Rate %</th>
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<td>1,750,000</td>
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Surtax net taxable income is the normal-tax net income minus the amount of surtax credit. The surtax credit is generally equal $750,000, except for members of a controlled or affiliated group for which the credit amount may be distributed among the group members at the group’s discretion.

Corporations are subject to alternative minimum tax (AMT) to the extent that AMT exceeds their regular tax liability. AMT aims to prevent a corporation that has substantial economic income from using preferential deductions, exclusions and credits to significantly reduce or eliminate its Puerto Rico tax liability. To achieve this goal, AMT is structured as a separate tax system, with its own allowable deductions and credit limitations. For example, payments made to related persons for services not rendered in Puerto Rico not subject to taxation in Puerto Rico will not be allowed as a deduction for purposes of computing the Alternative Minimum Tax Income. For these purposes, the term “related persons” refers to non-resident aliens or foreign corporations or partnerships not engaged in trade or business in Puerto Rico if there is a 50% or more of ownership.

**Estimated Income Tax Payments**

A business operating in Puerto Rico may also be required to make the estimated tax payments. Payments of estimated tax are generally due on the 15th day of the fourth, sixth, ninth and twelfth month of the taxable year and penalties are imposed for underpayment of the estimated tax.

**Annual Reports**

In the case of corporations registered with the Department of State of Puerto Rico, an annual corporation report must be filed on or before April 15th of every year. A several extensions to file are available. The report must be filed by electronic means and a filing fee of $100 must be paid on or before April 15th.
Volume of Business Declaration

All businesses are required to pay a license tax based on gross revenues generated. The tax rate varies depending on the municipality but ranges from .002 to .005 in the case of non-financial businesses. For financial business the tax rate ranges from 1% to 1.50%. The return is due on or before five working days after April 15th of every year. Up to six months of extension are available but only to file the return.

The municipal license tax is payable by two installments due on July 15 and January 15, following the filing date. However, if the total amount of the tax is paid is made on or before the filing due date, a 5% discount is granted for prompt payment.

If the taxpayer operates in more than one municipality, a breakdown of the volume of business by municipality must be prepared and attached to the declarations and a separate declaration must be filed with each municipality in which business is conducted. A return filed without certified financial statements, may be considered incomplete and "not filed".

When a new business is established, the semester in which the company commences operations is generally exempt, provided that the business informs the Municipal Treasurer (within the first 30 days of operations) that it has established a business in the municipality. Certain complementary documents must be filed including the occupancy or used permit for the facility. A tax return must be filed for the following semester annualizing the volume of business realized during the commencing semester. Semesters run from July 1 through December 31 and from January 1 through June 30.

Personal Property Tax Return

Any person engaged in trade or business in Puerto Rico, who on January 1th of any given year owns personal property used in such trade or business is subject to the personal property tax in the municipality where it is located, unless otherwise exempt. The tax is computed on the net book value of taxable property, however, if the book value of the personal property does not reasonable reflects the fair market value then they must be appraised at fair market value. The maximum tax rate is 8.83% and varies depending on the municipality in which the taxable property is located. Taxable property normally includes cash on hand, inventories, materials and supplies, furniture and fixtures, and machinery and equipment used in the trade or business. A minimum residual value is assigned to items that are substantially depreciated. The assessment date is January 1st, although the value of the inventory should be determined on an annual average basis. Certain personal properties, including intangibles properties, are exempt. The tax authority, however, takes the position that computer software is not exempt as an intangible property.

A personal property tax return must be filed on or before May 15 of each year. If payment is made in full by that time, a 5% discount is allowed. The law provides corporations a 90-day extension of time to file the return. The extension must be filed not later than the due of the return together with payment of the tax.

Merchants and Business Mandatory Registry

Any person or legal entity that sells goods, manufactures goods or provides services in Puerto Rico and/or has business operations in the Commonwealth of Puerto Rico has to register in the Merchants and Business Mandatory Registry of the Puerto Rico Trade and Export Office. This registry is obligatory, irrespective of the sales volume and it must be submitted on or before July 15.

Sales and Use Tax Monthly Return

Every merchant must file a Monthly Sales and Use Tax Return on or before the 10th day of the following month in which the tax is collected. Merchants with a volume of business of $200,000 or more must file the return along with the sales and use tax collected by electronic means. There is no extension available to file the monthly sales and use tax return.
**Payroll Taxes**

Employers in Puerto Rico are responsible for the following payroll taxes:

**Income Tax Withholding on Wages**

Every employer making payments of salary shall deduct and withhold the corresponding tax according to the withholding tables. The Puerto Rico Treasury Department issued rules for the deposits of the income tax withheld which are very similar to the rules applied by the IRS for the deposits of payroll taxes. There is wage limitation for the withholding.

**Federal Insurance Contribution Act (FICA)**

Employers and employees each pay 6.2% of the first $106,800 (2011) of an employee’s annual wages for Social Security Tax purposes. Self-employed individuals pay 12.4% of the first $106,800 (2011) of self-employment earnings. For Medicare Tax, employers and employees pay 1.45% each of an employee’s total annual wages without ceiling. Self-employed individuals pay 2.9%.

**Unemployment Tax**

**Federal (FUTA)**

The Federal Unemployment Tax Act (“FUTA”) is applicable in Puerto Rico in similar circumstances and to the same extent as it is in the United States. Generally, the FUTA tax is imposed on persons who employ one or more individuals for some portion of a day in each of 20 days in the current or preceding calendar year (each day being in a different calendar week), or who pay in the aggregate $1,500 or more of wages during any calendar quarter of the current or preceding calendar year. For 2011, the tax is based on the first $7,000 of an employee’s annual wages. An employer may take as a credit against the FUTA tax a portion of the tax paid in SUTA. The credit limitation is 6.2%; the net FUTA rate actually paid by most employers is 0.8%.

**State (SUTA)**

The tax is based on an experience rating system, on the first $7,000 of annual wages paid to each employee. It is totally the liability of the employer. Wages subject to the ESA tax consist of all compensation for services, including commissions, bonuses, and vacation or sick leave pay. The rate of Puerto Rico unemployment tax is based on an employer’s “reserve proportion” – a ratio of 1% to 5.4% – as of the computation date (June 30) and on the balance in the unemployment fund. The employer’s account, for purposes of determining the ratio, will take into consideration the employer’s contribution, paid benefit and taxable wages.

**Disability Benefits Tax**

The Disability Benefits Act (“DBA”) provides indemnification to employed workers who suffer the loss of wages as a result of inability to perform their customary work due to injury, illness or pregnancy. Every employer and employees is subject to an annual tax of 6/10 of 1% (0.6%) on the first $9,000 of wages during the calendar year. Taxable wages include all compensation for services rendered, including commissions and bonuses.
Workmen Accident Compensation Tax

The Workmen Accident Compensation Act ("WACA") establishes a compulsory insurance program covering employees who suffer injury, become disabled or lose their lives due to a job related accident or function. The employer is required to pay the premiums on the WACA policy based on the total payroll of its activities, by each separate occupation or industry classification covered. The WACA premium is assessed and levied on a fiscal year ended June 30 basis, and it is payable semi-annually. On July 20 of each year, employers must file Form FSE-693, entitled Payroll Statement, indicating the number of people employed their occupations and the wages paid during the preceding government fiscal year ended on June 30.

Chauffeurs' Social Security Tax

Every employer having one or more drivers is subject to the tax. It also applies to an employer whose employees are required or allowed to operate a motor vehicle usually or regularly as an inherent part of their work. Every employer must pay a tax of thirty cents ($0.30) weekly or fraction of a week, for each covered employee. The covered employee is subject to a weekly, or fraction of a week, tax of fifty cents ($0.50). The employer must withhold this tax from the salary or compensation paid by him to the employee and must be remitted by the employer together with the employer’s tax.

Christmas Bonus Act

The Christmas Bonus Act ("CBA") requires employers to pay mandatory additional remuneration to employees, including professionals, executives, and administrators. Every employer that employs more than fifteen employees will be required to pay a bonus to each employee that works seven hundred (700) hours or more during the twelve month period between October 1st and September 30. The amount paid should not exceed 15% of the net income of the employer for the 12-month period ending on September 30 of the corresponding year. As under current law, employers with no earnings may request an exemption to the Secretary of the Department of Labor on or before November 30 and submit a profit and loss statement for the 12-month period ended on September 30, certified by a CPA, that supports the economic condition of the employer.
Other Taxes

Withholding Tax on Payments for Services Rendered

This is not an additional tax; it is an advance payment of the regular income tax that the taxpayer can claim as a credit in determining his income tax liability. A required 7% withholding at source on the amount paid in excess of $1,500 is required on every payment made by a person (including a corporation or partnership), who is engaged in a trade or business or in the production of income in Puerto Rico, to a corporation, partnership or individual for services rendered in Puerto Rico. However, some services are exempted from the withholding requirements.

Corporations and partnerships may obtain a “partial waiver certificate”, if they are in good standing with the PR Treasury Department, in order to get a reduced withholding tax of 3%.

Excise Taxes

Certain articles are subject to the excise tax, at a different tax rate, imposed by the PRIRC when they are imported into, or sold, consumed, used or acquired in Puerto Rico. Once a tax incident exists, giving rise to the tax, no tax is generally due on the article on the occurrence of a subsequent tax incident regarding that article. That is, if taxed when imported into Puerto Rico, an article may not, as a general rule, be again taxed when later sold, consumed, used, transferred, or acquired in Puerto Rico.

Sales and Use Tax

A sale and use taxes (SUT) regimen operates in Puerto Rico and has replaced, with few exceptions, the excise tax system that existed for many decades. SUT apply to the following items:

- tangible personal property
- taxable services
- admissions rights
- combined transactions

The law provides some exclusion and exemptions like the SUT rate is 7% out of which 6.0% rate is payable to Puerto Rico Treasury Department and 1% to the municipality where the business is located. In those cases when the corresponding municipality has entered into a collection agreement with the Puerto Rico Treasury Department, the entire 7% SUT must be remitted to such department.

The responsibility for the payment of SUT falls on the person that buys, consumes, uses, or warehouses for use or consumption a taxable item. However, if the transaction is subject to SUT and the merchant is required to collect said tax from the buyer as a withholding agent, the merchant is responsible for the payment of the sales and use tax. If the merchant is so required but fails to collect the SUT from the buyer, the Puerto Rico Treasury Department may collect it from either the merchant or the buyer.

Some of the tax exemptions from SUT provided by the law are: on personal tangible property acquired for resale (reseller exemption), raw material and machinery and equipment for use in the manufacturing process (manufacturing exemption), business to business services, as well as equipment and other items temporarily introduced into Puerto Rico that are directly related to the production of films, constructions, trade shows and seminars conducted in Puerto Rico provided such equipment and items are exported. Certain documentation requirements apply to enjoy these exemptions.