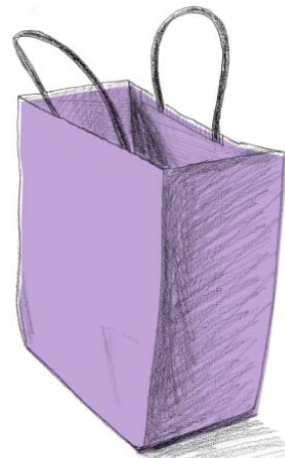


If you are planning on [doing business in Puerto Rico](#), knowledge of the investment environment and information on the legal, accounting and taxation framework are essential to keep you on the right track



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Grant Thornton in Puerto Rico

Established in 1975, **Kevane Grant Thornton** is a leading professional services firm in Puerto Rico. Throughout the years, our commitment to clients and our high professional standards helped us develop an outstanding reputation, and have enabled us to grow into a full service Certified Public Accounting and Business Advisory firm with more than 100 employees. We have been a member of Grant Thornton International since 1984.

We focus on dynamic organizations, companies with ambition and growth plans, just like us. These dynamic organizations vary from small proprietorships, to middle-market and listed companies. We have significant experience in serving a wide variety of business activities, including: advertising agencies, auto dealers, hotels, law firms, restaurants and fast food chains, manufacturers, wholesalers and retailers, shopping centers, construction firms, real estate developers, service companies, not-for-profit organizations and entities receiving federal aid and grants.

At **Kevane Grant Thornton**, we believe that our people are an important component of our organization and their knowledge, skills and abilities add value to our services. Our solid reputation achieved in Puerto Rico is due, in no small measure to our well-trained and educated personnel.

We have available the **first audit, tax and outsourcing application** for mobile devices in Puerto Rico. Throughout the application users will have access to up-to-the minute Alerts, Tax News and other related matters, plus a customized tax calendar for individuals, businesses and other entities, thus providing an excellent tool to manage filing and payment due dates with government agencies. Download this application for free from App Store and Android Market.

Foreword

Grant Thornton International is one of the world's leading organizations of independently owned and managed accounting and consulting firms. These firms provide assurance, tax and advisory services to privately held businesses and public interest entities. More than 2,500 partners provide clients with distinctive, high quality and personalized service in over 100 countries. Grant Thornton International strives to speak out on issues that matter to business and which are in the wider public interest and to be a bold and positive leader in its chosen markets and within the global accounting profession.

The strength of each local firm is reflected in the quality of the international organization. All Grant Thornton International member firms share a commitment to providing the same high quality service to their clients wherever they choose to do business.

If you require any further information, please do not hesitate to contact your nearest Grant Thornton member firm.

This guide is designed to give an insight into doing business in Puerto Rico, together with relevant background information, which will be of assistance to organizations considering establishing a business there. It is essential that advice should be obtained locally from qualified professional sources before any business is undertaken.

The most common way of doing business is through companies and branches of foreign companies and the information has been produced mainly with these entities in mind. Some entities such as banks and insurance companies are subject to special regulations, which are not dealt within this booklet.

When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Puerto Rico and to obtain appropriate accounting and legal advice. This guide contains only brief notes and includes legislation in force as of **July 4, 2011**.

Country 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. By air, it is just over 3 hours from New York. Puerto Rico has a population of 3.7 million people.

San Juan is one of the biggest and best natural harbours in the Caribbean. Many small rivers and high central mountains ensure the land is well watered. The south coast is relatively dry and there is a fertile coastal plain belt in the north.

Political and legal system

A self-governing Commonwealth within the United States constitutional system, island government consists of the Executive, Legislative and Judicial branches. General elections are held every four years. There are 78 municipalities on the island, each with a locally elected mayor and assembly.

Although Puerto Ricans are US citizens, residents pay no federal income tax on their Puerto Rico source income, nor can they vote in presidential elections. As citizens, Puerto Ricans do not require a visa to travel, live and/or work in the USA.

Language

The primary language is Spanish. English is spoken by about a quarter of the population and in all major tourist areas. Road signs are in Spanish and kilometres.

Economy

Puerto Rico's economy is strong compared to many other Caribbean nations and the diversification of the economy of Puerto Rico, coupled with investment and funding from the United States, has created an economic environment that does not rely solely on tourism for financial prosperity. A diverse industrial sector has surpassed agriculture as the primary source of economic activity and income. Encouraged by duty-free access to the US and by tax incentives, US firms have invested heavily in Puerto Rico since the 1950s. Both coffee and tobacco are an important agricultural products produced in Puerto Rico. Additional resources produced in limited quantities in Puerto Rico are dairy products, vegetables, fruits, beef and poultry. Tourism has traditionally been an important source of income.

Living standards

US minimum wage laws apply.

Business entities

Once a group of investors or an entity decides to come to Puerto Rico to do business, its management must decide which type of entity will better serve their purposes. Puerto Rico Corporate and Tax Laws allow several options. The following constitutes a brief summary of these:

Corporations

Foreign

Qualifying to do business in Puerto Rico

A foreign corporation may not conduct business in Puerto Rico prior to receiving authorization from the Secretary of State. In order to obtain such authorization, certified copies of the corporation's charter and certificate of incorporation and of the Certificate Required 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. Legal process against the corporation may be served on its authorized resident agent, who must be either a natural or judicial person residing in Puerto Rico, but cannot be a stockholder, officer or director of the corporation.

A foreign corporation (one that is organized under the laws of any country but Puerto Rico) 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

Any actual repatriation of dividends will be subject to a 10% income tax withholding at source. If a US subsidiary is used, it may be included in the US consolidated tax return with its parent.

Branch

Income 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 rate is 10%.

Domestic

A domestic corporation (one organized under the laws of Puerto Rico) is taxed on all its worldwide income. If tax is paid to a foreign jurisdiction, then a foreign tax credit or deduction may be claimed, subject to certain limitations. If a US corporation decides to establish its operations 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 PR corporation is considered a foreign corporation for US purposes. Dividends are generally subject to a 10% income tax withholding.

Partnerships

Under the provisions of the Internal Revenue Code for a New Puerto Rico (approved in January 31, 2011) partnerships are flow through entities. Rules similar to those applying to partnerships in the US were adopted.

Special partnerships (Referred to in Spanish as a Sociedad Especial)

A partnership or a corporation that meets certain requirements may elect to be treated as a special partnership for income tax purposes. This treatment allows for a pass through of income and losses to the owners of the entity, eliminating the double taxation applicable to regular corporations. In order to qualify, at least 70% of the gross income of the entity must be from Puerto Rico sources and 70% must be from the performance of one or more of the qualifying activities (i.e. land development, tourism, building and structures lease, sale or rehabilitation, construction, agriculture, film production.) The special partnerships election is not available for years commencing after December 31, 2010. Those elections for prior years are still effective.

Corporation of individuals (Referred to as N Corporation)

Domestic corporations and partnerships which are owned by 75 or less individuals may elect to be treated as a corporation of individuals for tax purposes if certain requirements are met: at least 90% of the gross income is derived from an **active** trade or business in Puerto Rico (certain activities do not qualify). The term domestic corporation or partnership includes for these purposes, a US entity which is solely engaged in a trade or business in Puerto Rico. Like special partnerships, a corporation of individuals allows the flow through of income and losses to the owners, eliminating the double taxation of income.

Limited Liability Companies

Any natural or judicial person may organize a limited liability company in Puerto Rico. The articles of organization are required to be filed with the Department of State, where it becomes available for public inspection. Every limited liability company is required to maintain in the Commonwealth of Puerto Rico a registered office and a resident agent, whom shall be an individual resident in the Commonwealth of Puerto Rico, a domestic corporation (which may be the LLC itself), 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, limited liability companies are by default treated as corporations. Nevertheless, LLC's may elect to be treated as partnerships. However, if the LLC is treated as a flow through entity for US or other foreign country income tax purposes, it must be treated as such for Puerto Rico income tax purposes. This exception does not apply to those LLC that were operating under a tax grant as of the date of effectiveness of the New Code (January 1, 2011).

Corporations operating under a Tax Incentives Act

There are several Acts that provide tax and business incentives to qualifying business operations that decide to establish in Puerto Rico. Please contact our Puerto Rico office for more details on these programs.

Statutory reporting 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 statutory reports with the different governmental agencies. There are four basic returns that apply to almost every entity. These are:

Income tax return

Entities engaged in a trade or business in Puerto Rico are subject to income taxes (ranging from 20% to 30% in the case of taxable entities and from 22% to 45% in the case of certain exempt corporations).

A return must be filed with the Secretary of the Treasury by corporations on or before the 15th day of the fourth month following the end of the 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. A 90-day extension to file such return is available.

A foreign entity (one not organized in Puerto Rico) is subject to Puerto Rico income taxes on its Puerto Rico sourced income and on its income effectively connected with the Puerto Rico operations. They are allowed to deduct expenses related to the Puerto Rico operations, such as depreciation, professional services, travel, supplies, etc. An allocation of home office expenses is also allowed. However, it is important to mention that 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 declaration

Business entities must file a declaration of estimated income tax on or before the 15th day of the fourth month following the close of their taxable year. Payment of the tax must be done in four installments on or before the 15th day of the fourth, sixth, ninth, and twelfth month of the fiscal year.

Personal property tax return

All personal property is subject to a tax that ranges from 5.80% to 8.33% depending on the municipality in which it is located at assessment date: January 1. The return and payment is due on or before May 15th of every year and must be filed with the CRIM. A 90-day extension to file is available. There is also the imposition of a real property tax for which no return needs to be filed. The CRIM issues the biannual receipts once the property is assessed. Tax rates range from 7.80% to 10.33%.

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 and the tax (if a 5% discount is taken) are 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. If the business decides not to take advantage of the 5% discount, then the full amount of the tax is payable in two installments: July 1 and January 1.

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.

Exempt corporations' annual report

Every business operating under a Tax Incentives Act must also file this report on or before 30 days after filing the Puerto Rico Income Tax Return with the Office of Industrial Tax Exemption at the Puerto Rico Industrial Development Company (PRIDCO). A filing fee of \$300.00 must accompany the report. In addition a copy of the same must be filed with the Department of the Treasury.

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

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.

Audited financial statements

Existing laws in Puerto Rico require that in the case of certain corporations and partnerships, the above listed reports must be accompanied by audited financial statements certified by a Puerto Rico licensed CPA.

A full set of audited financial statements (balance sheet, income statement and cash flows) must accompany all the statutory reports if the gross volume of business is three million dollars or more, except for the Annual Corporate Report, which must be accompanied by only an audited balance sheet.

Books and records

A foreign corporation engaged in trade or business in Puerto Rico must keep and maintain accounting records and supporting documents in Puerto Rico, which will clearly show the financial condition and results of operations within Puerto Rico.

Procedures to be followed by a new business

In addition to all the legal and organizational work a newly organized or registered business in Puerto Rico must comply with, it should also obtain several identification numbers and forms to be used with the different governmental agencies.

Employer identification number

Form SS-4 with the US Internal Revenue Service. Taxpayers may also obtain the number by phone. The person making the call should be someone authorized to sign Form SS-4. Fax Number 215-516-3990, Telephone Number 215-516-6999. If the business already has a number assigned, that will be the ID number to be used in Puerto Rico too.

Puerto Rican income tax withholding

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.

Withholding exemption certificate

Form 499-R-4 from each employee. The information provided therein will be the support and authorization for income tax withholding on payroll payments.

Workmen's compensation insurance

Form FSE-661 from the Corporation of the State Insurance Fund.

Unemployment and Disability Insurance

Form PRUI-1

Chauffeur insurance plan

Form TSCH-7 and TSCH-7A, which must be filed within seven days of hiring a covered employee.

Sales and Use Tax

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.

Payroll and social security taxes

Payroll taxes

Employers in Puerto Rico are responsible for the following payroll taxes: income tax withholding, social security (FICA), state and federal unemployment, disability tax, chauffeurs' social security, and workmen's compensation.

Disability benefits act

This Act provides benefit payments 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. The tax rate is .003 on the first \$9,000 of wages to both the employer and the employees. With the prior approval of the Secretary of Labor and Human Resources, an employer may establish a private disability plan for his employees. The tax must be paid along with Form PR-UI-10 on or before the last day of the month following each calendar quarter. This payment must be made by a separate check from the payment of the unemployment tax.

Unemployment insurance tax

Every employer having one or more employees is liable for both the state and federal unemployment tax.

State (SUTA)

The tax is computed on the first \$7,000 of wages paid based on an experience system. In addition, a special tax of 1% of taxable wages must be paid. The total tax may not exceed 5.4%. This tax is totally the liability of the employer.

The tax must be paid on or before the last day of the month following each calendar quarter along with Form PR-UI-10. The payment, made to the Secretary of the Treasury, and return must be sent to Department of Labor and Human Resources, Employment Security Division, PO Box 191020, San Juan, PR 00919-1020.

The Puerto Rico Department of Labor requires every employer hiring 25 employees or more to file the quarterly payroll tax forms electronically. You can access the Department of Labor portal which provides electronic services for employers, claimants and public in general. Visit www.dtrh.gobierno.pr.

Federal (FUTA)

The tax for 2011 is based on the first \$7,000 of wages paid to each employee. Because employers are allowed credits against the 6.2% FUTA rate (6.0% effective on July 1, 2011) through participation in state unemployment insurance laws, the net FUTA rate actually paid by most employers is 0.8%.

The tax must be deposited on or before the last day of the month following each calendar quarter if the tax exceeds \$500. Payment should be made with Form 8109.

An annual return (Form 940-PR) must be filed on or before January 31. Any payment due and the return should be sent to the Internal Revenue Service, PO Box 105174 Atlanta, GA 30348-5174. If no payment is due, the annual return should be filed with the Internal Revenue Service, PO Box 409101 Ogden, UT 84409.

Chauffeurs' social security

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.

The tax is imposed on both the employer and the employee as follows:

- every employer must pay thirty cents (\$0.30) weekly, or fraction for each covered employee
- every employee must pay fifty cents (\$0.50) per week or fraction.

The tax withheld together with the employer's share should be paid not later than fifteen days after the last day of each calendar quarter with Form TSCH-1. The check, made to the Secretary of the Treasury, and the return must be sent to the Department of Labor and Human Resources, Chauffeurs' Social Security Program, PO Box 195540, San Juan, PR 00919-5540.

The Puerto Rico Department of Labor requires every employer hiring 25 employees or more to file the quarterly payroll tax forms electronically.

Income tax withholding on wages

Every employer making payment of wages shall deduct and withhold the corresponding tax according to the withholding tables. There is no wage limitation for the withholding.

The Puerto Rico Treasury Department issued rules for the deposit of the income tax withheld which are very similar to the rules applied by the IRS for the deposits of payroll taxes.

A quarterly return must also be filed, no later than the last day of the month following each calendar quarter, with the Returns Processing Bureau, Employer's Section, Box S-9022501, San Juan, PR 00902-2501.

An annual reconciliation statement (Form 499R-3) along with copy A of Form 499R-2/W-2PR, must be filed not later than January 31st at the same address. A 30-day extension to file is available. The above-mentioned forms will be sent to you once you apply for your employer account number. The Puerto Rico Department of Treasury requires that every person obliged to file 5 or more Forms 499R-2/W-2PR must do so electronically.

Workmen's accident compensation insurance

The Workmen's Accident Compensation Act 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 rates per occupation or industrial classifications are summarized in a booklet prepared by the Corporation of the State Insurance Fund called "Manual of Classifications and Rates for Workmen's Compensation Insurance".

Every employer must file by July 20 of each year, a payroll statement (Form FSE 693) showing the number of employees, occupation or industry classification and the respective total amount of wages paid during the immediately preceding fiscal year ended June 30. At the end of each fiscal year the Manager of the Fund compares the payroll reported with that of the preceding fiscal year, upon which the current year's premium is based. He then adjusts the premium accordingly.

Although the insurance premium is assessed and levied on a fiscal year ended June 30, the tax is paid semi-annually on January 20 and July 20 upon notice mailed to the employer by the Manager of the Fund. The checks should be payable to the Corporation of the State Insurance Fund and mailed to Corporation of the State Insurance Fund, Call Box 42006, Minillas Station, San Juan PR 00940.

Social security taxes

For 2011 the employer combined tax rate is 7.65%, which consists of a 6.2% Social Security Tax and 1.45% Medicare Tax. The applicable employee combined tax rate for 2011 is 5.65%, which consists of 4.20% Social Security Tax and 1.45% Medicare Tax. For subsequent years, as applicable by law in effect. The Social Security Tax is computed on the first \$106,800 wages received and the Medicare tax is computed on the total wages, without ceiling.

If an employee works for more than one employer during a calendar year, the annual wage applies separately with respect to the wages paid by each employer.

The quarterly return (Form 941-PR) of combined employer's and employee's social security taxes (FICA) is due on April 30, July 31, October 31 and January 31. The return along with the payment should be filed with the Internal Revenue Service, PO Box 105273, Atlanta, GA 30348-5273. If no payment is due, the return should be filed with the Internal Revenue Service, PO Box 409101, Ogden, UT 84409.

There is an annual return (Form 944-PR) which is due on January 31 and applies only to certain small business or new employers. The IRS will send a notification to the employers eligible to file this return.

The employer must give the employee two copies of Form 499R-2/W-2 PR on or before January 31, following the end of the calendar year in which the tax was withheld.

Social security taxes deposit rules

Employers must determine how frequently they should deposit the social security taxes every year. Which category an employer is in for a calendar year will be dictated by the amount of employment taxes reported for a one year look back period ending the preceding June 30th. For calendar year

2011, the look back period is the period from July 1, 2009 to June 30, 2010. The different categories for deposit are the following:

- monthly depositors: \$50,000 or less.
- semi-weekly: more than \$50,000.
- one-day depositor: taxes of \$100,000 or more during a deposit period.
- quarterly deposit: \$2,500 or less on any quarter.

Withholding taxes

Withholding tax on payments for services rendered

The Government of Puerto Rico and every person that in the conduct of a trade or business or for the production of income in Puerto Rico makes payments to another person engaged in trade or business in Puerto Rico for services rendered in Puerto Rico must deduct and withhold 7%.

Corporations and partnerships may get a reduced withholding tax of 3% if they are in good standing with the PR Treasury Department. A “Partial Relief of Withholding Certificate” must be obtained and remitted to each customer. In addition, in the past, there was a “Total Waiver of Withholding Certificate” which provided a total exemption from the 7% income tax withholding to corporations and partnerships which meet certain requirements. The Secretary of the Treasury has not issued his determination pursuant to the Internal Revenue Code for a New Puerto Rico.

Individuals are no longer eligible for the partial relief withholding certificate. Therefore, all payments for services made to individuals are subject to a full 7% withholding.

The term services as defined in the law, does not include contracting for insurance, leasing or selling of tangible personal or real property, printing, sale of newspapers, magazines or other publications and the contracting of television or radio time.

In addition there are several exemptions to the general rule, which will not be subject to withholding:

- the first \$1,500 paid during a calendar year
- payments made to hospitals, clinics, homes for the terminally ill patients and the elderly, and institutions for disabled persons
- payments to exempt organizations
- payments made to direct sales persons for consumer goods
- payments for construction work
- payments to non-residents subject to other withholdings
- payments of salaries subject to withholding
- payments to individuals, corporations and partnerships during the first three years of a service activity
- payments to a bonafide farmer
- payments for religious services
- payments to an eligible carrier.

The tax must be deposited, along with Form 480.9A, on or before the 10th day of the month following the month in which the tax was deducted and withheld. In addition, an informative return must be filed by February 28th of the following year covering such payments and withholdings during the calendar year (Form 480.6B). Form 480.5 should also be filed summarizing the number of informative returns filed.

An Annual Reconciliation Statement of Withholding at Source on Payments for Services Rendered (Form 480.6B.1) must be filed by the same date.

The Puerto Rico Department of Treasury requires that every person that is obliged to file 5 or more informative returns must do so electronically.

Withholding tax on interest, dividends, and other payments

Payments of fixed or determinable annual or periodic gains, profits and income from Puerto Rico sources to non-resident corporations or partnerships and to non-resident individuals are subject to income tax withholding at source. In general, payments to non-resident corporations and partnerships and aliens are subject to a 29% income tax withholding at source while payments to non-resident US citizens are subject to a 20% income tax withholding at source. Payments on which withholding is required include wages, salaries, and fees for services rendered in Puerto Rico, dividends and partnership profits (10%), rents, royalties and related parties interest.

Indirect taxes

Excise taxes and other licenses

Puerto Rico imposes an excise tax on cigarettes, vehicles, alcoholic beverages, gasoline, oil and end products derived from oil, cement and certain plastic products imported to Puerto Rico. There is a different tax rate for each of the products mentioned above. In addition, there are several exceptions to this general rule and some exemptions to the imposition of the tax. If you need more information please contact Kevane Grant Thornton.

Depending on the type of business you are proposing to start in Puerto Rico, you must be aware that you might be required to obtain certain licenses from the Puerto Rico Treasury Department or other agencies (i.e. alcoholic beverage, cigarettes, financial institutions and air, land and sea carriers, among others).

Sales and Use tax

Every merchant engaged in any business that sells taxable items is responsible to collect the Sales and Use Tax (“SUT”) as a withholding agent. The SUT rate is 7% and in general will apply to the following items:

- 1 tangible personal property
- 2 taxable services
- 3 admission rights
- 4 bundled transactions.

The law provides an exemption from the SUT to the resellers on every taxable item acquired for resale and to manufacturing plants on raw material and machinery and equipment for use in the manufacturing process. In order to claim this exemption, the merchant has to request the Certificate of Exemption to the Secretary of the Treasury using Form AS 2914.

Every registered merchant, who is a reseller, with a volume of business of \$500,000 or more may request an exemption certificate from the Secretary of the Treasury. Every registered merchant with a volume of business of less than \$500,000 may request the exemption certificate if:—there are no outstanding debts with the Department of Treasury;—all returns, including sales and use tax, have being filed, and—a copy of the volume of business tax declaration for all the municipalities in which they conduct business is provided.

The law also provides several exclusions and exemptions from the SUT, which depend on the taxable item purchased or the person who purchases the item.

When filing the monthly sales and use tax returns the merchants will remit the SUT as follows:

- 1 6% to the PR Department of Treasury (the Department) and 1% to the municipality where the business is located; or
- 2 7% to the PR Department of Treasury in those cases in which the municipality where the merchant is located has a collection agreement with the Department. The following municipalities have an agreement with the Department: Comerío, Dorado, Fajardo, Rincón, Trujillo Alto, Naranjito, Bayamón, Aguadilla, Peñuelas, Lajas, Hatillo, Maunabo, Juncos, Arroyo, Culebra, Aibonito, Naguabo, Ciales, Lares, Maricao, Patillas and Barranquitas.

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