

Tax update: Permanent and Temporary Tax Provisions contained in the “Ley Especial Declarando Estado de Emergencia Fiscal y Estableciendo Plan Integral de Estabilización Fiscal para Salvar el Crédito de Puerto Rico”.

As part of the integrated plan to stabilize the Puerto Rico economy presented by Governor Luis Fortuño recently, several permanent and temporary tax provisions will take effect once this plan is approved.

Permanent provisions

- new definition of income subject to the alternative income tax in the case of individuals: income not previously included in the definition will now be taxed for alternative income tax purposes including dividends and capital gains taxed at the alternative reduced rates. Effective date: Taxable years commencing after January 1, 2009.
- an increase on the base amount of the gradual tax adjustment for the recapture of the benefit of the lower tax brackets to \$8,490 from \$7,310 (\$4,245 (\$3,655) in the case of married taxpayers filing a separate return). Effective date: Taxable years commencing after January 1, 2009.
- the tax credit for purchase of articles manufactured in Puerto Rico to be exported will not offset the sales and use tax. It will only offset income tax. Effective date: April 1, 2009
- increase in the excise tax applicable to cigarettes from \$6.15 per 100 cigarettes to \$11.15 per 100 cigarettes. Effective date: April 1, 2009
- motorcycles are now included in the definition of automobiles for excise tax purposes. Effective date: April 1, 2009
- the exemption certificate for wholesalers for the sales and use tax purposes is eliminated. These merchants will claim a credit on their monthly returns for the sales and use tax paid when acquiring the merchandise. Effective date: April 1, 2009
- the monthly sales and use tax return will be due on the 10th day of the following month instead of the 20th day. This change will also apply to the deposit with the Secretary of the Treasury of the sales and use tax. Effective date: April 1, 2009.
- increase in the excise taxes applicable to wine and beer. Effective date: 10th day of the following month in which the Law is approved.



Temporary provisions

- a surtax of 5% of the tax responsibility will be imposed to corporations, partnerships, estates and trust and individuals with adjusted gross income in excess of \$100,000 (\$150,000 if married filing a joint return). Effective date: Taxable years commencing after December 31, 2008 and before January 1, 2012.
- a moratorium to the use of certain granted tax credits until tax years commencing after December 31, 2011 (including credits granted under Law 212, Solid Waste Authority, Venture Capital Funds, among others). This moratorium does not apply to Tourism credits or Credits granted pursuant to Law 73 (Industrial Development).
- a three year moratorium to the granting of new credits pursuant to several laws (including credits granted under Law 212, Solid Waste Authority, Venture Capital Funds, among others). This moratorium does not apply to Tourism credits or Credits granted pursuant to Law 73 (Industrial Development).
- a special property tax applicable only to real estate equal to 100% of the tax actually paid to CRIM will be in effect for four fiscal years commencing with 2009-10. This special tax will be collected by the Secretary of the Treasury.
- Savings and Loan Associations (Cooperatives) and International Banking Entities will pay a special 5% tax during taxable years commencing after December 31, 2008 and before January 1, 2012.