



TaxNewsFlash

United States

No. 2017-263
June 27, 2017

Puerto Rico: Municipal entrepreneur contribution in Caguas municipality

An ordinance in the Puerto Rican city of Caguas requires an additional “contribution” from certain individuals or entities having gross receipts exceeding a threshold amount. The “municipal entrepreneur contribution” will apply in Caguas (a city located approximately 20 miles from San Juan) beginning July 1, 2017.

Summary

The municipality of Caguas on June 13, 2017, approved the fiscal year (FY) 2016-17 municipal ordinance #28. This ordinance imposes an additional contribution on gross receipts, payable by those individuals or entities that are required to pay any type of municipal license in Caguas and that declare (or have an obligation to declare) that their gross receipts are U.S. \$3 million more. This additional contribution on gross receipts is known as the “municipal entrepreneur contribution.”

The “municipal entrepreneur contribution” (MEC) is effective for fiscal years 2017-2018 thru 2020-2021 and will be imposed at a rate of 0.35% over the “volume of business” declared or subject to be declared.

Beginning July 1, 2017, and for each tax year during the period in which the contribution is effective, the municipality will invoice each subject taxpayer for the municipal entrepreneur contribution. The contribution will be due on August 15 in each year, but can be paid in four installments as of August 15, November 15, February 15, and May 15 of the corresponding year(s).

The payment of the contribution will be made to the autonomous municipality of Caguas and is to be accompanied by the appropriate form as designated by the municipality. The payment can be made by certified mail with return receipt; in person; or by other to-be-determined methods of payment.

A monthly penalty at a rate of 1% will apply to any unpaid, outstanding amount, up to a maximum penalty rate of 25% for any remaining amount due as of June 30 of each year.

KPMG observation

In view of the current economic situation facing the central government of Puerto Rico, it appears that municipalities such as Caguas will turn toward additional municipal taxes in order to replenish lost revenues. Tax professionals believe more of this type of activity can be expected.

For more information, contact a KPMG tax professional in Puerto Rico:

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