

GMS Flash Alert

2019-013 | January 25, 2019



Puerto Rico - New Tax Rules Offer Some Relief for Individuals

House Bill 1544 was signed by Puerto Rico's governor last month and enacted as Act 257-2018. The Act introduces various amendments to the 2011 Puerto Rico Internal Revenue Code, as amended, with several of the amendments related to individuals: i.e., tax rates, loans, indemnity payments, distributions from retirement accounts, and interest.¹

WHY THIS MATTERS

Several of the measures aim to put more money back in people's pockets, especially for lower-to-middle-income earners and business owners, with the overall effect of potentially increasing their disposable income. However, the impact for each individual needs to be determined in light of his or her particular situation.

In cases of assignments to Puerto Rico where assignees are subject to Puerto Rico's tax rules, and for assignees working outside Puerto Rico but still subject to Puerto Rico's tax rules, international assignment cost projections and budgeting should reflect the changes described in this newsletter. Where appropriate, adjustments to gross-up packages and withholding taxes need to be considered.

Key Changes

Exclusions from Gross Income

Effective for taxable years after December 31, 2018, the following will be excluded from an individual's taxable gross income:

- **Earned Income Tax Credit (EITC).**

- **Loans to employees** or independent contractors and qualified payments to help with managing disasters declared by the governor of Puerto Rico.
- Payments as **compensation for injury or disease** (this includes mental suffering). Payments for mental suffering were previously included in gross income.
- **Distributions from an employees' trust or individual retirement account** in connection with a declared disaster.

Exemptions

There are changes to the rules regarding exemptions from gross income:

- The exemption allowable for **interest earned on deposits held at cooperatives, savings associations, commercial banks, and mutual funds** is reduced to \$100 from \$2,000. The exemption for **interest on certain securities and mortgages** was eliminated.

Other Provisions

- A **New Earned Income Tax Credit** has been introduced that ranges from \$300 to \$2,000, which will be granted to qualifying Puerto Rico resident taxpayers with earned income. Generally, the credit varies depending on marital status, number of dependents, and adjusted gross income.
- Adjustment to regular **tax rates for tax year 2019 and going forward**: the tax is 95 percent of the total tax at current rates; thus a 5-percent relief is granted. The tax tables remain the same as in 2018, and one's tax liability is calculated as it would normally be, but in effect a credit of 5 percent is allowed, reducing the 100-percent liability to an actual 95-percent liability that is owed. (For additional information on Adjusted Alternative Basic Income Tax (ABT) rates and self-employed income rates, see Table 1 at the end of this newsletter.)
- Certain **Individual Retirement Accounts ("IRA") distributions** after December 31, 2018, will be subject to a 10-percent withholding at source, a reduction from the current rate of 17 percent.
- The **filing requirement for the income tax return** will be triggered when gross income exceeds the exemptions allowed under the Code (gross income after exemptions more than \$0) or if the net income subject to alternative basic tax is \$25,000 or more.
- A **foreign tax credit for income taxes paid** to states of the United States is allowed.
- Individuals with a **net loss in a trade or business** for three consecutive taxable years will be allowed 100-percent net operating loss carryover instead of the current 50-percent limitation.
- The **automatic extension of time to file income tax returns** was extended from a three-month period to six months.
- **Contributions to Health Savings Account** will not be allowed as deductions.

TABLE 1

Adjusted Alternative Basic Income Tax (ABT) rates are adjusted as shown below.

Net income subject to ABT Tax

In excess of \$25,000 but not more than \$50,000:	1%
In excess of \$50,000 but not more than \$75,000:	3%
In excess of \$75,000 but not more than \$150,000:	5%
In excess of \$150,000 but not more than \$250,000:	10%
In excess of \$250,000:	24%

Self-employed individuals whose income is derived substantially from rendering services may elect to pay an optional tax on gross income instead of the income tax otherwise imposed by the Code on net income, as follows:

Not greater than \$100,000:	6%
In excess of \$100,000 but not more than \$200,000:	10%
In excess of \$200,000 but not more than \$300,000:	13%
In excess of \$300,000 but not more than \$400,000:	15%
In excess of \$400,000 but not more than \$500,000:	17%
In excess of \$500,000:	20%

* The Secretary of Treasury has discretion to postpone its effective date for taxable years after December 31, 2019.

FOOTNOTE:

1 Find *Ley Núm. 257 10 de diciembre de 2018 (P. de la C. 1544)* on the website of the *Oficina de Servicios Legislativos* by clicking [here](#).

Or search under "2018" at this [link](#).

* * * *

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Puerto Rico:



Rolando Lopez

Tel. +1 787-756-6020
rlopez@kpmg.com

Raquel Vazques Cordero

Tel. +1 787-622-2492
rvasquezcordero@kpmg.com

The information contained in this newsletter was submitted by the KPMG International member firm in Puerto Rico.

www.kpmg.com

kpmg.com/socialmedia



© 2019 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. NDPPS 530159

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The KPMG logo and name are trademarks of KPMG International. KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever. The information contained in herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Flash Alert is a GMS publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click [here](#). To learn more about our GMS practice, please visit us on the Internet: click [here](#) or go to <http://www.kpmg.com>.