



## PUERTO RICO – 2009 BUSINESS ENVIRONMENT

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**Currency:** U.S. Dollar (USD)

**Foreign exchange control:** No

**Accounting principles/financial statements:**  
U.S. GAAP. Financial statements must be prepared annually.

**Principal business entities:** These are the share corporation, partnership, joint venture, limited liability corporation, cooperative, closely held corporation and branch of a foreign company.

### **Corporate taxation:**

**Residence** – A company is resident in Puerto Rico if it is created or organized in Puerto Rico.

**Basis** – Domestic corporations are taxed on their worldwide income. For tax purposes, the U.S. is considered a foreign jurisdiction.

**Taxable income** – Corporate tax is imposed on a company's profits, which consist of all income, less certain exclusions, with a provision for the deduction of ordinary and necessary business expenses.

**Taxation of dividends** – Corporate dividends paid to shareholders are taxed at a rate of 10%. Additionally, because Puerto Rico taxes partnerships in a manner similar to corporations, partnership distributions are subject to the same treatment.

**Capital gains** – Capital gains are taxed at 15%.

**Losses** – A net operating loss may be carried forward 7 years. Losses may not be carried back.

**Rate** – The corporate tax rate in Puerto Rico is comprised of a base rate of 20% plus a graduated surcharge (see below).

**Surtax** – A graduated surcharge is levied in addition to the corporate income tax, at rates that range from 15% to 19%. The maximum surcharge rate is reached at levels exceeding USD 275,000 of surtax net income. The first USD 25,000 of net income is not subject to the surcharge. If a corporation is under common control, the surcharge exclusion is granted to 1 entity or can be allocated among the controlled group.

**Alternative minimum tax** – The alternative minimum tax (AMT) is applicable at a flat rate of 22% on net alternative minimum income above USD 50,000.

**Foreign tax credit** – Domestic corporations and partnerships may credit taxes paid to foreign governments, as well as the U.S. other U.S. possessions, against the corresponding Puerto Rico tax.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Various incentives are available, such as tax rate reductions for manufacturing services and export services. A new incentives act was enacted in July 2008 that broadens the scope of activities covered.

### **Withholding tax:**

**Dividends** – Dividend paid to foreign corporations or partnerships are subject to a 10% withholding tax.

**Interest** – Interest paid to nonresidents is subject to a 29% withholding tax.

**Royalties** – Royalties paid to nonresidents is subject to a 29% withholding tax.

**Branch remittance tax** – A foreign corporation is subject to branch profits tax at a rate of 10%.

**Other taxes on corporations:**



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### Capital duty – No

**Payroll tax** – Payroll tax consists of social security contributions and unemployment and disability insurance.

**Real property tax** – The tax rate varies by location, but most municipalities assess a tax of approximately 8% of the 1958 market value of the property.

**Social security** – Social security taxes are comprised of old age/survivor/disability taxes (OASDI) and Medicare/hospitalization insurance, both borne equally by the employer and the employee as a percentage of the employee's wages, with the employer responsible for remitting the tax to the federal government. The combined OASDI rate is 12.4% (i.e. 6.2% each) and the combined Medicare rate is 2.9%. OASDI is levied on the first USD 106,000 of wages for 2009. Medicare is levied on total wages. The portion of social security taxes borne by the employer is tax deductible.

### Stamp duty – No

**Transfer tax** – The transfer of real property is subject to a 1.5% tax.

### Other – No

### Anti-avoidance rules:

**Transfer pricing** – Puerto Rico's transfer pricing regulations are substantially similar to those in the U.S.

**Thin capitalisation** – While there are no specific thin capitalisation rules in Puerto Rico, it is believed that the judiciary system would follow the U.S. rules.

### Controlled foreign companies – No

### Other – No

### Disclosure requirements – No

### Administration and compliance:

**Tax year** – Taxpayers may elect to use a fiscal or calendar tax year.

**Consolidated returns** – Consolidated returns are not permitted. Each company must file a separate return.

**Filing requirements** – All domestic corporations and partnerships are required to file a tax return by the 15<sup>th</sup> day of the fourth month after the close of the previous tax year. Additionally, corporations in existence for any part of a fiscal year must file a tax return.

**Penalties** – Penalties may be imposed at rates of up to 25% in addition to a 10% surcharge.

**Rulings** – Private rulings are available by the Treasury Department for pending transactions.

### Value added tax:

**Taxable transactions** – Puerto Rico levies a sales and use tax.

**Rates** – The rate is 5.5% at the Commonwealth level and 1.5% at the municipal level, resulting in a combined rate of 7%.

**Registration** – Taxpayers must register with the Commonwealth of Puerto Rico and the municipality where the business activity is carried out.

**Filing and payment** – Monthly filings are required for sales and use tax purposes.

**Source of tax law:** Internal Revenue Code of Puerto Rico



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relationships, and for no other. The information presented here was gathered from sources deemed reliable, but is no way guaranteed, and CREDIT REPORT LATIN AMERICAN SAC. cannot ensure the accuracy thereof, and shall not be liable for any loss or injury from any cause whatsoever.

**Tax treaties:** Puerto Rico does not maintain any tax treaties nor is it a party to any agreement signed by the U.S.

**Tax authorities:** Puerto Rico Treasury Department

**International organisations:** None

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For further information about this issue, please contact: [info@crlacorp.com](mailto:info@crlacorp.com)

✚ CREDIT REPORT through the years:



1964



1994



2004



2007

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