PUERTO RICO

Tax Reform Part Deux heads to La Fortaleza

TOP STORY

P.R. Legislature Passes Tax Reform

Basic Alternate Tax Remains Unchanged but Individuals Who Only Yield Income from Salaries Would Be Exempted

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On the last day of the current legislative session, the two chambers approved a conference committee report on House Bill 1544, which amends the Internal Revenue Code for a New Puerto Rico to reduce corporate and individual income taxes.

At presstime, it was undetermined whether the Financial Oversight & Management Board (FOMB) would give the legislation its green light. "We are looking at it," said FOMB press officer José Luis Cedeno.

The committee report fails to make clear whether the $20 million in spending reduction requested by the FOMB is achieved. Although House Speaker Carlos "Johnny" Méndez stated publicly he was skeptical of a board that "agrees to measures, only to change their minds afterward."

The measure left out proposed changes to Acts 20 and 22 of 2012, income tax credit.

Individuals get a 5 percent decrease in their tax obligations. "That means that if you were paying a tax rate of 33 percent and earn $1 million, you were paying $330,000, but now you would pay $315,000 in taxes. This will start in 2019," he said.

The Basic Alternate Tax remains unchanged but individuals who only yield income from salaries would be exempted from its payment, the CofC president wrote in a summary.

The basic tax on corporations was reduced to 18.5 percent, from the current 20 percent. No more adjustments were made to corporate tax rates, so the maximum corporate tax rate is 37.5 percent, down from 39 percent, which begins in 2019.

The approved version of the legislation maintains the personal exemption and deductions for dependents but increases the withholding tax for services to 10 percent, from the current 7 percent.

Regarding the sales & use tax on prepared meals, the approved bill reduces the tax to 7 percent from 11.5 percent but repeals the requirement for payment to be completed electronically. This change goes into effect in October 2019.

Regarding provisions that legalize video-lottery machines outside of casinos, the bill would set aside part of the funds for police and municipalities, as had been proposed. The machines will have to pay a license and *marbete*.

The tax reform measure now goes to Gov. Ricardo Rosselló Nevares for his signature.

FOMB still out jury?

Last week, Rosselló said the tax reform would be approved "as we established it." This was his declaration after the fiscal control board rejected the tax measure last Friday in a letter sent by the executive director of the congressionally appointed panel, Natalie Jaresko.

In her letter, Jaresko said the proposed changes to the alternative minimum tax would not produce sufficient revenue to reduce the rest of the tax rates while taxpayers have the option to pay under the current system, and showed concerns about the bill itself.

"Many of our concerns come from the delay in the implementation and changes in the bill, which reduce our confidence in the ability of the Government of Puerto Rico to achieve revenue before we can reduce the costs of taxpayers and reductions. The Certified Tax Plan requires that any tax change be neutral for Treasury, that is, any tax reduction must be accompanied by equivalent income, elements that provide confidence, such as behavioral adjustments and capture rates. To ensure neutrality in the future, the implementation of any initiative has the form of ensuring security, the ability to ensure responsibilities," reads the missive.

"This new tax base, however, may not materialize as anticipated because most collections come from the top brackets of taxpayers, who are least likely to switch to the new tax regime because they can likely afford to pay tax professionals to certify the taxpayer's eligibility for deductions under the old regime," the press release added.

At this writing the FOMB was yet to make public their stance on this most recent version of reform.