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Act to Transform the Tax System of the Commonwealth of Puerto Rico P de la C 2329

**CPA María de los A, Rivera
Tax Partner in Charge**

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promote a consistent culture of **Excellence**

act with **Agility**

ensure deep **Respect** for people and
actively communicate

take **Responsibility** for our
actions and demonstrate integrity

Agenda

- Summary of P de la C 2329 “***Act to Transform the Tax System of the Commonwealth of Puerto Rico***”

Sales and Use Tax – Value Added Tax

- Questions

Summary of P de la C 2329

**“Act to Transform the Tax System of the
Commonwealth of Puerto Rico”**

Value Added Tax ("VAT")

- A **VAT** or also **goods and services tax (GST)** is a form of consumption tax.
- For the buyer, it is a tax on the purchase price.
- For the seller, it is a tax only on the value added to a product, material, or service.
- The sellers remit to the government the difference between these two amounts, and retain the rest for themselves to offset the taxes they had previously paid on the inputs.



VAT

- The value added to a product by or with a business is the sale price charged to its customer, minus the cost of materials and other taxable inputs.
- A VAT is like a sales tax in that ultimately only the end consumer is taxed.
- It differs from the sales tax because collections, remittances to the government, and credits for taxes already paid occur each time a business in the supply chain purchases products.



VAT

- Effectiveness:

- For transactions before 1/1/16, taxable items pursuant to 2011 Code will be subject to 16% (instead of 7%).
 - Municipalities may collect
 - Treasury will make the payment to the eligible consumer

- Effectiveness:

- For transactions after 12/31/15
 - General rate is 16% on taxable transactions, except for the following which have a 0% rate:
 - goods and services for export
 - certain imports by manufacturers (Manufacturing Plant Certificate)

VAT

New terms

1. Value Added Tax (VAT or IVA)
2. Taxable transactions:
 1. import of goods into PR
 2. sale of goods and services;
 3. rendering of services by a nonresident person to a person in PR
 4. combined transactions

Old terms

1. Sales and Use Tax (SUT or IVU)
2. Taxable item:
 1. tangible personal property
 2. services
 3. admission rights
 4. combined transactions

VAT

New terms

- 3. Merchant
- 4. Place
- 5. Eligible consumer
- 6. Eligible merchant
- 7. Small merchant

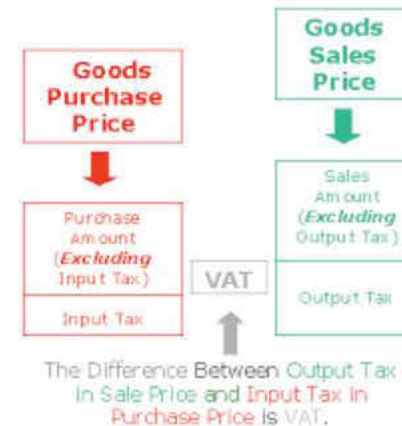
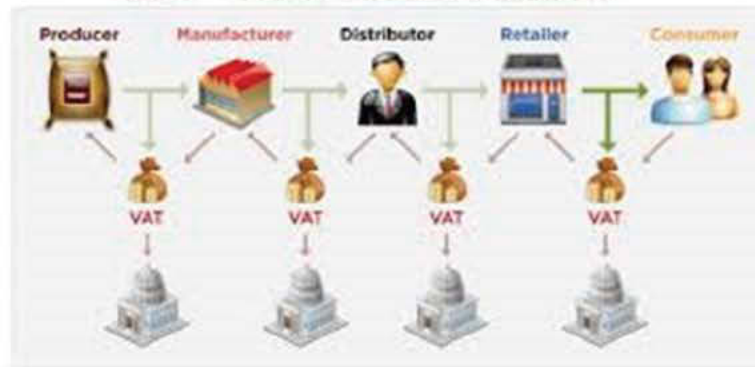
Old terms

- 3. Nexus
- 4. Source



VAT

VAT - How does it work?



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VAT

- Exclusions from IVA:
 - money, stocks, bonds, notes, life insurance, and other securities and obligations;
 - intangibles (except computer programs)
 - electricity
 - water supplied by the PR Aqueduct and Sewer Authority
 - any property of the Commonwealth of PR or of the U.S. Government
 - certain entertainment machines
 - sales by non-merchants
 - exempt transfers under Subtitle A of the Code
 - the delivery of donated goods
 - goods introduced into foreign trade zones

VAT

- Exclusions from IVA:
 - alcoholic beverages deposited in a bonded warehouse under certain conditions;
 - certain promotional materials introduced into PR
 - certain vessels acquired by non-residents of PR
 - services rendered between affiliated entities
 - services rendered by the PR Government and by the U.S. Government
 - services rendered as an employee.

- Taxable transactions exempt from IVA:
 - certain financial services (other than bank charges)
 - prescription medicines and articles for the treatment of health conditions
 - articles to correct physical deficiencies
 - sales and services that qualify for Medicare, Medicaid and the PR Government's Health Insurance Plan
 - sales to the U.S. Government and PR Government
 - import and sale of petroleum derivatives, except propane gas
 - certain hotel room charges

VAT

- Taxable transactions exempt from IVA:
 - import and sale of unprepared food and food ingredients
 - sales of goods acquired with PAN or WIC funds
 - sale of real property
 - real property leases by individuals for principal residence, students
 - gratuitous transfers of goods and services by non-profit entities
 - certain imports by and sales to hospitals
 - certain imports by and sales of agriculture products to bona fide farmers;
 - imports by and sales to hotels to be used in the exempt operation
 - import and sale of vehicles

VAT

- **certificates:**
 - exempt purchases
 - manufacturing plant
 - eligible merchant
- **transitory provisions**
 - current certificates valid until 12/31/15
 - bonds will be effective until expiration date
 - current credits – will carry forward but not reimbursable
- **Municipalities – cannot impose/collect after 12/31/15**

VAT

- Following exemptions available until March 31, 2015:
 - funeral services
 - solar equipment
 - school materials and text books

Questions



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