



November 10, 2010

www.mcvpr.com

TAX ALERT

Technical Amendments to New Puerto Rico Taxes on Certain Foreign Corporations

On October 28, 2010, Governor Luis G. Fortuño signed into law Act 157, which consists of technical amendments to the recently enacted Act 154 that modifies the source of income rules and impose a new excise tax (on certain foreign corporations (see our Tax Alert of October 25, 2010).

A. Source of Income Rule

Act 157 clarifies that for the office or fixed place of business of a person in Puerto Rico, who is a member of the same controlled group, to be treated as the office of a nonresident individual or foreign corporation, the person in Puerto Rico must be considered to maintain an office or other fixed place of business in Puerto Rico, or be treated as maintaining an office or other fixed place of business in Puerto Rico without regard to the new source of income rules.

As a result of Act 157, a corporation located outside of Puerto Rico will not be treated as if it had an office or fixed place of business in Puerto Rico that will generate Puerto Rico source income if the person in Puerto Rico does not, otherwise, maintain or be treated as maintaining such office or fixed place of business **without regard to the new source of income rules.**

The effect of this amendment is to limit the effect of the new source of income provisions when personal property manufactured in Puerto Rico flows upwards through the distribution chain. The income or the excise tax, as applicable, will generally apply to the sale from the affiliate with a Puerto Rico office to the nonresident affiliate, but not on subsequent sales by nonresident affiliates up the distribution chain.

B. Other Amendments

Act 157 amends the Spanish version of Act 154 to conform to the English version. It also amends Act 154 to make syntax and other minor corrections.

If you have any questions or would like our assistance, you may call any of the following members of our Tax and Tax Exemption groups:

Carlos E. Serrano	787-250-5698	ces@mcvpr.com
Roberto L. Cabañas	787-250-5611	rlc@mcvpr.com
Jorge R. González	787-250-5633	jrg@mcvpr.com
Esteban R. Bengoa	787-250-5626	erb@mcvpr.com
Isis Carballo	787-250-5691	ici@mcvpr.com
Rafael Fernández Suarez	787-250-5629	rf@mcvpr.com
Antonio J. Rodríguez	787-250-5663	ajr@mcvpr.com

The content of this McV Alert has been prepared for information purposes only. It is not intended as, and does not constitute, either legal advice or solicitation of any prospective client. An attorney-client relationship with McConnell Valdés LLC cannot be formed by reading or responding to this McV Alert. Such a relationship may be formed only by express agreement with McConnell Valdes LLC.