

April 1, 2015 www.mcvpr.com**EMPLOYEE BENEFITS ALERT*****Additional Period of Time to Pay or Prepay Income Taxes: Retirement Plans, Individual Retirement Accounts and Education Contribution Accounts***

On March 30, 2015, House Bill No. 2316 became Act No. 44 of March 30, 2015 ("Act No. 44-2015"), known as the "Incentives Act for the Payment of Taxes Prior to the Tax Transformation." Act 44-2015 provides a new period of time, until April 30, 2015, to elect to pay or prepay income taxes at reduced tax rates on certain benefits or distributions from qualified and non-qualified retirement plans, individual retirement accounts ("IRA") and education contribution accounts ("ECA"). The election period runs from July 1, 2014 until April 30, 2015.

The form and manner to make the election to pay or prepay income taxes remains the same, unless otherwise instructed by the Puerto Rico Treasury Department. For more information, please see our [August 11, 2014](#), [October 1, 2014](#) and [December 24, 2014](#) Employee Benefits Alerts. *Retirement Plans*

Participants or beneficiaries of retirement plans (whether or not qualified under Section 1081.01 of the Puerto Rico Internal Revenue Code of 2011, as amended) may elect to pay or prepay income taxes on all or part of the value of the benefits accrued under, or on all or part of the benefits paid or distributed (on account of separation from service or termination of the plan) from, such plans at the applicable reduced tax rate, as follows:

- i) 8%, if the election is made in connection with a qualified retirement plan, or
- ii) 15%, if the election is made in connection with a non-qualified retirement plan.

IRAs

Owners or beneficiaries of IRAs may elect to prepay income taxes on all or part of the accrued and undistributed balances under IRAs at the reduced tax rate of 8%. Act 44-2015 provides that the reduced tax rate of 8% shall not apply to funds contributed to IRAs regarding the taxable year 2015 and thereafter.

Taxpayers may elect to make rollovers from IRAs, which total accrued and undistributed balance was fully prepaid, to Non-Deductible Individual Retirement Accounts.

ECAs

Owners and beneficiaries of ECAs may now elect to prepay income taxes on all or part of the accrued and undistributed balances under ECAs at the reduced tax rate of 8%. Similar to IRAs, the reduced tax rate of 8% shall not apply to funds contributed to ECAs regarding the taxable year 2015 and thereafter.

To make the prepayment of income taxes, Act 44-2015 provides that the taxpayer may withdraw funds from the trust holding the ECA without triggering the penalties imposed under the PR Code for such type of withdrawal.

Act. No. 44-2015 further clarifies that the prepayment can be made in PR Treasury's Collection Offices and that it will be the taxpayer responsibility to keep as evidence a copy of the prepayment form and to submit a copy of such form to the financial institution holding the ECA.

If you have any questions or comments regarding the above, or would like to receive specific advice on this matter, you may contact any of the attorneys of our Employee Benefits Practice Group listed below:

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