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## TAX ALERT

### ***Puerto Rico Treasury Department Issues New Income Tax Withholding Tables on Wages and Withholding Exemption Certificates under 2011 PR Code***

The Puerto Rico Treasury Department (the “PR Treasury”) recently issued an updated **Employer’s Guide – Withholding of Income at Source on Wages** (the “Guide”). The Guide includes the applicable rates and instructions for the withholding of Puerto Rico income taxes on wages paid after December 31, 2010, and before January 1, 2012. The Guide was issued pursuant to Section 1062.01 of the Internal Revenue Code for a New Puerto Rico, Act No. 1 of January 31, 2011 (the “2011 PR Code”), and supersedes PR Treasury Informative Bulletin No. 10-15, which provided transitory income tax withholding tables applicable for wages paid after December 31, 2010. See our **Tax Alert on Informative Bulletin No. 10-15**.

In the Guide, the PR Treasury confirms that every employee whose gross annual wages do not exceed \$20,000, will not be subject to Puerto Rico income tax withholding. However, it clarifies that any employee may elect to have an amount withheld in excess of the amount required by the 2011 PR Code by so indicating on Part D of the recently updated **Form 499R-4** (Spanish version) or Form 499 R-4.1 (English version), Withholding Exemption Certificate. The Guide further provides guidance to active service members electing coverage under the provisions of the Military Spouses Residency Relief Act (MSRRA),<sup>1</sup> earned wages within Puerto Rico would not be subject to Puerto Rico income tax withholding. For these purposes, the employee must select the option provided in the Withholding Exemption Certificate.

Employers should have all employees in Puerto Rico complete and sign updated Withholding Exemption Certificates in order for the Puerto Rico income tax withholdings for the remainder of calendar year 2011 be made in accordance with the 2011 PR Code tax withholding rates, personal and dependents exemptions and allowances.<sup>2</sup> Employers should also confirm with providers that their respective payroll systems have also been updated.

Before the end of 2011, the PR Treasury should be issuing an updated Guide for Puerto Rico income tax withholding on wages paid during calendar year 2012.

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<sup>1</sup> MSRRA provides that the spouse of an active service member that is transferred under military orders to a new military station in any of the states, possessions or territories of the United States or the District of Columbia, can keep his/her original residence or domicile for tax purposes.

<sup>2</sup> Employees who elect the optional method to determine allowances based on deductions must complete Part C, Lines 2, 3, and 4 in either Form 499R-4 or Form 499R-4.1. Note that Form 499 R-4A (Spanish) and Form 499 R-4B (English), Determination of Allowance based on Deductions under the Optional Method and Instructions, are no longer applicable.

If you have any questions or would like our assistance regarding this matter, you may contact:

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