

House Bill 1645: Important Provisions Applicable to Individuals, Sales and Use Tax and Municipal License Taxes

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Tax Alert

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This is the second Tax Alerts discussing some of the most important provisions in the tax reform project introduced in the Puerto Rico Legislature last week as House Bill 1645 (the “Bill”). This Alert discusses some of the most important tax provisions applicable to individuals, Sales and Use Tax and municipal license taxes.

Individuals

- **Normal Income Tax** – Effective for taxable years beginning after December 31, 2022, the rates for taxpayers with net income greater than \$41,500 but less than \$81,500 (increased from \$61,500) would be reduced from 25% to 24%. The rate for taxpayers with net income greater than \$81,500 would be reduced from 33% to 30%. The rates for taxpayers with net income of \$41,500 or less would remain the same. The Bill also would provide that for tax years that start after December 31, 2022 and for individuals whose adjusted gross income does not exceed \$100,000, the income tax would be 92% of the normal income tax plus the gradual adjustment.
- **Cost of Living Adjustment** – For taxable years that start after December 31, 2022, the tax brackets would be adjusted to reflect the cost of living adjustment. The minimum and maximum thresholds for each tax bracket would increase each year in the percentage by which the Consumer Price Index (“CPI”) for the prior calendar year exceeds the CPI for the preceding year. The amount of tax applicable to each bracket also may be adjusted if necessary.

For every individual taxpayer that files an income tax return for a taxable year that starts in 2022, the Secretary of the P.R. Treasury Department (the “PR Treasury”) will determine the amount of the tax reduction for the cost of living adjustment and will remit the amount to the individual taxpayer without the need to file a return or form. This payment must be issued by June 30, 2023.

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- **Alternative Minimum Tax (“AMT”)** – Taxpayers would no longer be required to submit reconciliation statements for operational expenses, marketing expenses, or insurance expenses along with returns in order to claim deductions for said expenses. The reconciliation statements must still be prepared and kept for the taxpayer’s records.

Distributions from tax exempt retirement plans to participants or beneficiaries subject to 10% withholding would be an allowable deduction from gross income subject to the alternative minimum tax.

- **Personal Deductions** – The maximum deduction amounts for mortgage interest paid during the taxable year for a primary residence, IRA contributions, and *Mi Futuro* accounts (under Section 2026.01 of Act 60-2019) would be calculated annually taking into consideration the corresponding cost of living adjustment, replacing the current thresholds.
- **Personal Exemptions** – Personal exemptions would be increased annually in accordance with the corresponding cost of living adjustment for each year, as opposed to the standard \$3,500 personal exemption and the \$2,500 dependent exemption.
- **Earned Income Credit** – Inflation adjustment would be replaced by the cost of living adjustment. Gross income thresholds and maximum applicable credit percentages will increase accordingly each year.
- **Credit for Low-Income Persons 65 Years or Older** – For taxable years commencing after December 31, 2022, the credit would be increased from \$200 to \$400.

Sales and Use Tax

- Effective July 1, 2024, the Bill would simplify the Sales and Use Tax (“SUT”) provisions by eliminating the prepayment of the SUT on tangible personal property imported for re-sale. To achieve this, various sections of the Puerto Rico Internal Revenue Code of 2011, as amended, would be amended to limit their effectiveness as of June 30, 2024, such as:
 - the provisions related to bonded merchants; and
 - the provisions related to the re-seller credit control account.
- Beginning July 1, 2024, every re-seller merchant would be able to obtain, subject to certain requirements, a SUT exemption certificate to waive the

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payment of the SUT in connection with taxable items for re-sale or for export. In addition, the PR Treasury will no longer issue Eligible Re-Seller Certificates commencing on said date and such certificates will be substituted by an exemption certificate.

Municipal SUT

- Beginning July 1, 2023, the Municipalities would be able to voluntarily enter into collaboration agreements with the PR Treasury to use SURI for the administration and filing of the Monthly SUT Municipal Return and the collection of the Municipal SUT.
- After the Municipality enters into the agreement, the PR Treasury could initiate collection efforts of Municipal SUT debts for periods after the agreement, and such debts could be reflected in Debt Certificates issued by the PR Treasury.
- The Municipality would have access to certain information included in the PR Treasury's records. Any adjustments or revisions to the income tax return or Monthly SUT Return that affects taxable sales would be notified to the Municipality.

Municipal License Tax

- The Bill would create a voluntary program for the PR Treasury to manage the municipal license tax. Municipalities could enter into collaboration agreements with the PR Treasury for filing the Volume of Business declarations through SURI, as well as for the collection of the tax and other administrative duties.

The Bill must now navigate Puerto Rico's politically divided legislature. We will keep you informed as to further developments.

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