

TAX NEWSLETTER

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JUNE 1, 2016 ISSUE 06

VETO OVERRIDE KILLS THE VALUE ADDED TAX

On May 31, 2016 the Puerto Rico Department of Treasury (the "Treasury") issued [Administrative Determination 16-09](#) ("AD 16-09") informing all taxpayers and merchants on: (1) the repeal of the Value Added Tax ("VAT") by Act No. 54 of May 26, 2016 ("Act 54"); and, (2) the repeal of guidance issued by the Treasury regarding the VAT. The tax hike to 10.5% (from 4%) on business-to-business ("B2B") transactions and designated professional services was also repealed.



SALES AND USE TAX RATE

Therefore, the current sales and use tax ("SUT") system will continue in effect with the general SUT rate of 10.5%, the 1.0% Municipal SUT rate and the special 4% SUT rate on B2B and designated professional services. Only those merchants that hold a Reseller's and Municipal Exemption Certificate will be able to claim a credit for SUT paid on tangible personal property imports for resale.

UNIFIED INTERNAL REVENUE SYSTEM

As previously reported, the Treasury is currently in process of implementing the Unified Internal Revenue System ("SURI" by its Spanish acronym), which is an electronic platform intended to streamline tax administration and phase out current tax administration programs and platforms. Once it is fully implemented, SURI will unify all tax systems that the Treasury currently operates, including those for income taxes, tax returns, government accounting, SUT and excise taxes among others.

SURI's implementation is intended to take place in various phases. The first phase of implementation was intended to go operational on June 1, 2016 for purposes of the VAT administration. Due to the repeal of the VAT, the Treasury has determined to postpone SURI's implementation until further notice. Therefore, merchants will continue to file the Monthly Sales and Use Tax Return through the Integrated Merchant Portal ("PICO" by its Spanish acronym).

- Administrative Determination No. 16-01 issued on February 25, 2016;
- Administrative Determination No. 16-04 issued on March 8, 2016;
- Administrative Determination No. 16-07 issued on April 18, 2016;
- Tax Policy Bulletin No. 16-11, issued on April 29 2016; and,
- Tax Policy Circular Letter No. 16-03, issued on May 3, 2016.

EXEMPTION CERTIFICATES

As part of the transition process to the VAT, the Treasury had extended the validity of the (1) Reseller and Municipal Exemption Certificate; and, (2) the Manufacturing Plants Certificate. Notwithstanding the repeal of the VAT, those certificates will continue to be valid. The Eligible Reseller Certificate, which validity was extended until June 30, 2016, will remain in effect until that date. The Treasury will soon issue guidance regarding the renewal process for said certificates.

REPEAL OF VAT RELATED GUIDANCE

As a result of the repeal of the VAT, the Secretary of Treasury has repealed the following VAT-related publications:

- Administrative Determination No. 15-26 issued on December 29, 2015;

For more information do not hesitate to contact any of the following professionals:

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