Form AS 2879
Rev. 12.96

Foreign Corporations and Partnerships Tax on Dividend Equivalent Amount and Effectively Connected Interest (Branch Profits Tax)

20___

Taxpayer's Name

Employer Identification Number

NOTE TO THE TAXPAYER: This schedule applies to foreign corporations and partnerships that derived less than 80 percent of their combined total gross income, during the taxable year and the preceding two taxable years, from sources within Puerto Rico or from income treated as effectively connected with the operation of a trade or business in Puerto Rico (see instructions). If the corporation or partnership derived 80 percent or more of its combined total gross income as described here, do not complete this schedule.

1. Enter regular income before any net operating loss deduction (Income Tax Return Forms 480.1, 480.10, 480.2, 480.20, Part 1, line 1 or Forms 480.3(II) and 480.30(II), Schedule P, line 17)	(1)		00
2. Additions:			
a) Enter excess of flexible depreciation over straight-line depreciation	(2a)	00	
b) Exempt interest income under Section 1022(b)(4) of the Puerto Rico Internal Revenue Code of 1994, as amended (Code), net of related expenses	(2b)	00	
c) Other additions (See Section 1119 of the Code): _____ _____ _____	(2c)	00	
3. Total additions (Add lines 2(a) through 2(c))	(3)		00
4. Deductions:			
a) Taxes paid (Enter the sum of normal tax, surtax, and alternative minimum tax)	(4a)	00	
b) Previous year Branch Profits Tax	(4b)	00	
c) Enter interest deduction attributable to interest derived from exempt obligations (Applicable to financial institutions only. See instructions)	(4c)	00	
d) Meals and entertainment (Non-deductible)	(4d)	00	
e) Penalties	(4e)	00	
f) Other deductions (See Section 1119 of the Code)	(4f)	00	
5. Total deductions (Add lines 4(a) through 4(f))	(5)		00
6. Effectively connected earnings and profits (Subtract line 5 from the sum of lines 1 and 3)	(6)		00
7. Enter Puerto Rico net equity at the end of the current taxable year	(7)		00
8. Enter Puerto Rico net equity at the end of the previous taxable year	(8)		00
9. Increase/decrease in Puerto Rico net equity (Subtract line 8 from line 7. See instructions)	(9)		00
10. Dividend equivalent amount (Subtract line 9 from line 6. See instructions)	(10)		00
11. Branch profits tax liability (Multiply line 10 by 10%)	(11)		00

INSTRUCTIONS TO COMPLETE FORM AS 2879

Branch Profits Tax

Foreign corporations and partnerships are subject, in addition to the normal tax and surtax, to a tax of 10% for income derived from their branches in Puerto Rico. The tax is imposed on the "dividend equivalent amount". The dividend equivalent amount is defined as the effectively connected earnings and profits of the foreign corporation increased by any decrease in the Puerto Rico net equity or decreased (but not below zero) by any increase in the Puerto Rico net equity.

Effectively connected earnings and profits include income from sources within Puerto Rico, and income which is effectively connected with the active conduct of a trade or business in Puerto Rico. The following types of foreign source income may be treated as effectively connected, if the corporation has an office or other fixed business premises within Puerto Rico:

1) Rents or royalties for the use of intangible property derived from the active operation of a trade or business in Puerto Rico.
2) Dividends or interest, or gain or loss from the sale or exchange of stocks or notes, bonds or other evidence of debt, derived from the active operation of a financial trade in Puerto Rico (banking, savings institutions, securities brokerage).
3) Sale or exchange outside Puerto Rico, through the office or other fixed place of business of the corporation within Puerto Rico, of personal property, unless the property is manufactured outside of Puerto Rico and is sold or exchanged for use, consumption or disposal outside of Puerto Rico.

Industrial development income will not be taken into account when computing the effectively connected earnings and profits for purposes of this tax.

Adjustments

In order to compute the "dividend equivalent amount", the effectively connected earnings and profits must be increased by any decreases, during the year, of the Puerto Rico net equity. The amount of the increase for a particular taxable year, is limited to the net decrease of the effectively connected earnings and profits from previous years beginning after December 31, 1986, caused by those previous years increases in the Puerto Rico net equity. On the other hand, the effectively connected earnings and profits must be decreased, but not below zero, by any increase in the Puerto Rico net equity.

Example 1- In year 1, a foreign corporation has $100 of effectively connected earnings and profits. The foreign corporation acquires an additional $40 in Puerto Rico assets and has no change in its Puerto Rico liabilities. The foreign corporation had $1,000 of Puerto Rico net equity at the end of the previous taxable year. Its Puerto Rico net equity has increased by $40 to $1,040. The foreign corporation's dividend equivalent amount is $60, i.e., its effectively connected earnings and profits of $100 less the $40 increase in Puerto Rico net equity during the year.

Example 2 - In year 2, the foreign corporation has $100 of effectively connected earnings and profits, sells $70 of its Puerto Rico assets, and has a $10 decrease in Puerto Rico liabilities. The foreign corporation's Puerto Rico net equity at the end of year 2 has decreased by $60 to $980 ($1,040-$70+$10). The foreign corporation has a dividend equivalent amount of $140, i.e., its effectively connected earnings and profits of $100 plus $40 (the decrease of $60 of Puerto Rico net equity is limited to $40, i.e., increase in Puerto Rico net equity during year 1).

Example 3 - In year 3, the foreign corporation has $100 of effectively connected earnings and profits. It sells $30 of its Puerto Rico assets, and its Puerto Rico liabilities increase by $10. The foreign corporation's Puerto Rico net equity at the end of year 3 has decreased by $40 to $940. The foreign corporation's dividend equivalent amount is $100. The decrease of $40 in the Puerto Rico net equity does not increase the dividend equivalent amount since the $40 increase in the Puerto Rico net equity in year 1 has already been taken into account in year 2.

For an investment or other increase in assets made during the taxable year to be included in the net equity at the end of the year, the investment must have been made at least two months before the close of the taxable year, otherwise, it must be maintained invested in Puerto Rico through the end of the second month following the close of the taxable year (See Regulations).

Line 4(a) - Do not include foreign taxes in the deduction for taxes paid.

Line 9 - Decreases in the Puerto Rico net equity only increase the amount subject to the Branch Profits Tax to the extent that the foreign corporation has net increase in the Puerto Rico net equity of previous years, that reduced the amount subject to the Branch Profits Tax.

Definitions

- Puerto Rico net equity is equal to Puerto Rico assets reduced by Puerto Rico liabilities. Puerto Rico net equity may be less than zero.

- Puerto Rico assets are the money plus the adjusted basis (for computing earnings and profits) of the property of the foreign corporation treated as being connected with the conduct of a trade or business in Puerto Rico.

- Puerto Rico liabilities are liabilities that are treated as being connected with the conduct of a trade or business in Puerto Rico.