



COMMONWEALTH OF PUERTO RICO  
DEPARTMENT OF THE TREASURY  
PO BOX 9022501 SAN JUAN PR 00902-2501

# INCOME TAX RETURN FOR EXEMPT BUSINESSES UNDER THE PUERTO RICO INCENTIVES PROGRAMS

*MESSAGE FROM THE SECRETARY OF THE TREASURY*

## TABLE OF CONTENT

	Page
Relevant Facts .....	3
Taxpayer's Bill of Rights .....	5
Instructions to Complete the Return .....	6
Instructions to Complete the Schedules:	
Schedule E - Depreciation .....	11
Schedule K Incentives - Computation of Tax .....	11
General Instructions for Schedules L, M, N, P and V Incentives .....	15
Schedule L Incentives - Partially Exempt Income under Act 52 of 1983 or Act 78 of 1993 .....	16
Schedule M Incentives - Fully or Partially Exempt Income under Act 57 of 1963 or Act 26 of 1978 .....	17
Schedule N Incentives - Partially Exempt Income under Act 8 of 1987 .....	17
Schedule O Incentives - Optional Income Tax for Exempt Businesses pursuant to Section 3A of Act 8 of 1987 .....	19
Schedule P Incentives - Income from Fully Taxable Operations or Partially Exempt Income under Act 148 of 1988, Act 75 of 1995, Act 225 of 1995 and Act 14 of 1996 ..	19
Schedule V Incentives - Income Tax for Exempt Businesses under Act 135 of 1997..	21
Schedule V1 Incentives - Computation of the Special Deductions under Act 135 of 1997 ....	22
Form 480-E - Estimated Tax Declaration .....	23

## RELEVANT FACTS

### FINANCIAL STATEMENTS REQUIREMENT

If the entity had a business volume related to its fully taxable operations of more than \$1 million, the financial statements must be included with the return. Such financial statements should include a balance sheet, an income statement and a statement of cash flows. These statements should be submitted with an audit report issued by a certified public accountant (CPA) licensed in Puerto Rico.

**A report that includes consolidated financial statements, in which the operations in Puerto Rico are presented as supplementary information, is not acceptable. Also, compiled or reviewed statements are not acceptable. They must be audited.**

### SIGNATURE OF THE RETURN BY THE SPECIALISTS

**If you pay for the preparation of the return, make sure that it is signed by the Specialist and the registration number is included in a legible form.** The Puerto Rico Internal Revenue Code of 1994, as amended (Code), imposes civil and criminal sanctions to those Specialists who fail to submit this information.

The Specialist must declare under penalty of perjury that he/she examined the return, and to the best of his/her knowledge and belief, is correct and complete.

If the return is prepared by an accounting firm duly registered as a Tax Return Specialist, it must include the employer's identification number and be signed by the employee who prepared the return.

### CONTRACTS WITH GOVERNMENTAL ENTITIES

Every person, natural or juridical, contracted by a governmental entity, must comply with the Executive Order 91-24, as amended, and the provisions of the Circular Letters in force at the time of processing the contracts. According to said provisions, every contract subscribed by a governmental entity must include a clause to certify that the contracted party filed the income tax returns for the last five years, and that the income, property, unemployment, temporary disability and drivers social security taxes have been paid.

In addition, in order to approve a contract or purchase order, the governmental entity must require the Tax Return Filing and Debt Certifications from the Internal Revenue Area of this Department, the Property Tax Certification from the CRIM and the corresponding certification from the Department of Labor and Human Resources. These documents must be requested annually.

In order to expedite the process of issuing the certifications from this Department, the Computerized Debt Certification issued by the Internal Revenue Collections Offices will be accepted in lieu of the Debt Certification (*Modelo SC 6096*). In the case of the Tax Return Filing Certification (*Modelo SC 2888*), the Computerized Tax Return Filing Certification issued by the Tax Assistance Division and the District Offices of the Fiscal Audit Bureau will be accepted. The Computerized Certifications must have the Department's stamp. Also, the Computerized Debt Certification must be signed by the Collector or his/her duly authorized agent, and the Computerized Tax Return Filing Certification must be signed by the Tax Assistance Division Chief or the District Office Chief or any of their duly authorized agents.

Every person who has filed income tax returns for the last 5 years and who does not have tax debts, or if having debts, has formalized a payment plan, will receive the Tax Return Filing and Debt Certification automatically by mail (*Modelo SC 2628*). **For this purpose, it is necessary that if the corporation is contracted by a governmental entity, indicate so in the heading of the return, page 1.**

Sometimes, a certification cannot be issued in connection with the return corresponding to the last taxable year since such return may have not been already processed. Because of this possibility, it is recommended to personally hand in the original return along with a copy, in order to receive back said copy sealed with the Department's receipt stamp. This service will be offered at the Department of the Treasury, Intendente Ramírez Building in Old San Juan, at the District Offices, at the Internal Revenue Collections Offices and at the Tax Orientation Centers.



## NEW TAXPAYER'S SERVICES FACILITIES

The Department of the Treasury, in its effort to improve the services offered, opened new facilities of the Taxpayer's Services Office in Bayamón and Caguas.

In these offices, among others, the following services will be offered: Tax Return Filing Certifications, Return's Copies, Inheritance and Donations Cases, Corporations, Partnerships, Individuals, Professional Services Waivers and COLA Certificates. Following is the address and telephone number:

- **Taxpayer's Service Office Bayamón**  
**Road #2**  
**2nd Floor Gutiérrez Building**  
**Telephone: 778-4949 or 778-4950**
- **Taxpayer's Service Office Caguas**  
**Goyco Street**  
**1st Floor Governmental Building**  
**Telephone: 258-5272 or 258-5255**

## TAXPAYER'S ASSISTANCE

### Technical assistance:

For additional information on the technical contents of this pamphlet or to clarify any doubts, please call **721-2020** extension **3611** or toll free at **1-800-981-9236**.

### Claims and refunds:

For claims or to verify the status of your tax refund, please call the Taxpayer's Service Offices:

- San Juan: **721-2020** ext. **3610** or **1-800-981-7666**
- Ponce: **844-8800**
- Mayagüez: **265-5200**
- Bayamón: **778-4949** or **778-4950**
- Caguas: **258-5272** or **258-5255**

## HACIENDA MAKING CONNECTION

The Department of the Treasury has a site on the **INTERNET**. Here you can access information about the Total Quality Management Policy, our Vision, Mission and Organizational Values. Also, we include information about our Taxpayer's Bill of Rights and the Department's Organizational Structure. Also, it has the following services:

- Program for the preparation of the Individual Income Tax Return 1999
- TeleHacienda (Only available in Spanish)
- Income Tax Return of Taxable Corporations and Partnerships
- Puerto Rico Internal Revenue Code of 1994, as amended (Only available in Spanish)
- Form SC 2898 - Change of Address
- Form AS 4809 - Information of Identification Number - Organizations (Employers)
- Modelo SC 2800 - Planilla de Contribución Sobre Caudal Relicto (Only available in Spanish)
- Modelo SC 2800A - Planilla Corta de Contribución Sobre Caudal Relicto (Only available in Spanish)
- Modelo SC 2788 - Planilla de Contribución Sobre Donaciones (Only available in Spanish)
- Informative Booklet to Provide Orientation about your Income Tax Return
- Informative Booklet to Provide Orientation on the Income Tax Responsibilities of Federal, Military and Other Employees
- Informative Booklet Regarding the 7% Tax Withholding in Case of Professional Services

You can access our site at: **http://www.hacienda.prstar.net**. Also, you can let us know your opinion through our E-MAIL at: **support@hacienda.prstar.net**.



## TAXPAYER'S BILL OF RIGHTS

The Taxpayer's Bill of Rights grants the following rights under the Code:

To receive a proper, considerate and impartial treatment.

Confidentiality of the information submitted.

All interviews must be at a reasonable time and place for the taxpayer, in coordination with the employees of the Department of the Treasury (Department).

The interview or audit must not be used to harass or intimidate in any manner the person interviewed.

To receive an explanation of the process to which the taxpayer will be exposed and subject, and the rights that assist him.

Be assisted by an attorney, accountant, certified public accountant or any other authorized person at any moment during the interview.

Be informed prior to the interview, of the intention to tape the interview and to be able to obtain an exact copy of such recording prior to the payment of the cost thereof.

Be informed of the nature of your tax liability.

Be advised of your right against self-incrimination, to remain silent and that your silence should not be taken or commented against you, in case of a possible exposure to a criminal action.

Consult, and be advised by an attorney, accountant, certified public accountant, or authorized agent to represent you within the Department, or to be able to finish the interview even when it had commenced.

Be notified in writing of any adjustment made by the Department as a result of a tax audit when it involves the addition of interest, penalties and surcharges, as provided by the Code, as well as the exact amount of the adjustment and the reasons for such changes.

Waive the rights described in the preceding paragraphs, if such waiver is made knowingly and voluntarily.

Grant a written power to authorize any person to represent you during a tax interview or process. Such person shall receive, for purposes of the interview, equal treatment as you, unless you are notified that such person is responsible for an unreasonable delay or interference with the audit.

Not to be discriminated because of race, color, sex, birth, origin or social condition, or political, religious ideas or association of any taxpayer or his representative. No records will be kept containing tax information for these purposes.

The Department's employees will explain and protect your rights during all phases of the process. If you believe that your rights have been violated, you should discuss this matter with the supervisor of the employee. If you do not agree with the action taken by the supervisor, you may file a complaint with the Office for the Protection of Taxpayer's Rights.

### OFFICE FOR THE PROTECTION OF TAXPAYER'S RIGHTS

The Office for the Protection of Taxpayer's Rights (Ombudsman of the Taxpayer) was created to assure the compliance of the provisions of the Taxpayer's Bill of Rights. Said office is located at the Department of the Treasury in Old San Juan, Office 800. For assistance, please call **723-1080** or **721-1532**.

The Ombudsman of the Taxpayer is responsible for attending to the problems and claims of the taxpayers and to facilitate the process between the taxpayers and the Department of the Treasury. Also, the Ombudsman of the Taxpayer has authority to prevent or correct any infringement, by any employee of the Department, of the rights of the taxpayer.

For additional information, you can request the booklet: "*Carta de Derechos del Contribuyente*".



# INSTRUCTIONS TO COMPLETE THE RETURN

## WHO MUST FILE THIS RETURN?

Every corporation or partnership engaged in a trade or business in Puerto Rico which derives fully or partially exempt income under any of the following acts:

- Puerto Rico's Industrial Incentives Act of 1963, as amended (Act 57 of 1963)
- Puerto Rico's Industrial Incentives Act of 1978, as amended (Act 26 of 1978)
- Puerto Rico's Tax Incentives Act of 1987, as amended (Act 8 of 1987)
- Tourism Incentives Act of 1983, as amended (Act 52 of 1983)
- Puerto Rico's Tourism Development Act of 1993, as amended (Act 78 of 1993)
- Agricultural Tax Incentives Act of Puerto Rico, as amended (Act 225 of 1995)
- Tax Incentives Act of 1998 (Act 135 of December 2, 1997)

Furthermore, this return must be filed by a corporation or partnership which derives income from the sale of entrance tickets for artistic and cultural spectacles that are performed according to the provisions of one of the following acts:

- Special Act for the Rehabilitation and Development of Santurce, as amended (Act 148 of 1988)
- Special Act for the Rehabilitation and Development of Río Piedras (Act 75 of 1995)
- Special Act for the Rehabilitation and Development of Castañer (Act 14 of 1996)

## WHEN AND WHERE TO FILE?

This return must be filed not later than the 15th day of the fourth month following the end of the taxable year. In case of a foreign corporation or partnership not having any office or place of business in Puerto Rico, the return must be filed not later than the 15th day of the sixth month following the close of the taxable year.

The return can be mailed to the following address:

- Returns with Refund:**  
DEPARTMENT OF THE TREASURY  
PO BOX 50072  
SAN JUAN PR 00902-6272
- Returns with Payment and Others:**  
DEPARTMENT OF THE TREASURY  
PO BOX 9022501  
SAN JUAN PR 00902-2501

The return can also be delivered at the Department of the Treasury, Intendente Alejandro Ramírez Building, in Old San Juan, the Internal Revenue Collections Office of your municipality, the District Offices of the Department, or the Tax Orientation Centers.

## AUTOMATIC EXTENSION OF TIME TO FILE THE RETURN

A 90 days automatic extension of time will be granted for filing the return if it is requested not later than the due date to file the return. This will be done using Form AS 2644.

In case of corporations under the provisions of Section 936 of the Federal Internal Revenue Code, the extension of time will be up to the fifteenth day of the ninth month following the end of the taxable year (five months after the prescribed date to file the return).

Every corporation or partnership must pay with the request for an automatic extension of time, the entire amount of tax determined, the special surtax and the tollgate tax under Act 8 of 1987, if applicable.

An extension of time to file the return does not extend the time for the payment of tax or any installment of the same.

## SPECIFIC INSTRUCTIONS FORM 480.30(II)

Every corporation or partnership that during the taxable year derives partially exempt income under one or more tax or industrial incentives acts, tourism or tourism development acts, or any special act, must file Form 480.30(II), in addition to a separate schedule for each one of the acts under which it earned said partially exempt income.



In those cases where the corporation or partnership is tax exempt under two or more tax exemption decrees issued under the same industrial, tax, tourism incentives or tourism development act, only one schedule under the applicable act must be filed. Such schedule should include all the operations covered by the applicable act.

If the corporation or partnership also derives income from fully taxable operations, it must file Schedule P Incentives along with Schedules L, M, N, O and V Incentives, as applicable.

The following instructions are applicable to every corporation or partnership required to file any Schedule from L Incentives through V Incentives.

The schedules with the instructions are available in the Department of the Treasury in Old San Juan, Forms and Publications Division, Office **603**. To contact said office, please call **721-2020** extension **2645** or **2646**.

## HEADING OF THE RETURN

If the taxable year of the corporation or partnership is a calendar year, there is no need to enter the dates on which the taxable year begins and ends. Only the corresponding year should be indicated. If it is a fiscal year, you must enter the dates in the spaces provided in the return.

## NAME, EMPLOYER'S IDENTIFICATION NUMBER AND ADDRESS

Enter the name of the corporation and the registration number assigned by the Department of State. In case of a partnership, enter its legal name.

In addition, enter the employer's identification number in the space indicated. **The employer's identification number is necessary to process the return.**

Corporations or partnerships that do not have an employer's identification number, shall request it from the Federal Internal Revenue Service and notify it to the Department of the Treasury on Form AS 4809.

Enter the complete physical address where the principal office of the business is located, and its telephone number.

Inform the type of industry or business (principal business activity). For example, if the source of income is agriculture and the main business activity

is sugar cane growing, enter **sugar cane**; if coffee growing, enter **coffee**. If the source of income is a trading business and the main business activity is hardware, enter **hardware**. If the source of income is sale of furniture, write **furniture**. If the source of income is manufacturing and the main activity is the manufacturing of shoes, enter **shoes**.

## PART I - TAX LIABILITY

### Line 1 - Tax liability

Enter your total tax liability, as determined on Schedules K, O and V Incentives of the return.

### Line 2 - Payments

Enter on lines 2(a) through 2(f) the tax paid for the specified concepts to be credited against the tax liability for the year.

### Line 3 - Balance of tax due

If the amount on line 2(g) is larger than the amount on line 1(d), there is a tax overpayment. The overpayment may be credited against next year's estimated tax or refunded, as indicated on line 5 or 6. If you filed the return after its due date or requested an extension of time, but you did not pay the total amount due, you must compute the interest and surcharges that apply since the due date to file the return through the date on which the return is filed. Refer to section **Interest, Surcharges and Penalties**.

### Line 4 - Amount paid with this return

Enter the amount paid for each concept, as applicable.

Make the check or money order payable to the Secretary of the Treasury. **Indicate the employer's identification number and Form 480.30(II).**

If you decide to pay in cash, you can do it at any of our Collections Offices. Make sure to keep the official receipt of the amount paid.

### Line 9 - Balance of tax due

If you file the return after its due date or you requested an extension of time, but you did not pay the total amount due, you must compute the interest and surcharges that apply since the due date to file the return through the date on which the return is filed. Refer to section **Interest, Surcharges and Penalties**.



**Line 10 - Amount paid with this return**

The payments made by check or money order must be made payable to the Secretary of the Treasury. Indicate the employer's identification number and Form 480.30(II).

If you decide to pay in cash, you can do it at any of our Collections Offices. Make sure to keep the official payment receipt provided by the Collector.

**The Special Surtax must be paid to the Secretary in a separate check attached to the Income Tax Return.**

**Line 12 - Prepayment of tollgate tax**

This tax shall be paid to the Secretary of the Treasury **in a separate check** attached to the Income Tax Return.

**Every corporation or partnership that requests an extension of time to file the income tax return, must include the payment of the Prepayment of Tollgate Tax with said request, in a separate check.**

Any payment made after the due date, is subject to interest and surcharges. If you filed the return after its due date or you requested an extension of time, but you did not pay the total amount due, you must compute the interest and surcharges that apply since the due date to file the return through the date on which the return is filed. Refer to section **Interest, Surcharges and Penalties**.

**Line 13 - Tollgate tax applied against tax withheld attributable to current year distribution**

Enter the prepaid amount during the year on which you elected to apply the total tax paid in advance, if the tax determined over the distributed industrial development income (IDI) is equal to or larger than the prepaid amount.

**Line 17 - Amount paid with this return**

Enter the amount paid for each concept, as applicable (See instructions for line 12).

**Line 18 - Amount overpaid to be credited to estimated prepayment of tollgate tax for next year**

Any overpayment of this tax will be credited only against the estimated prepayment of tollgate tax for the following year.

**INTEREST, SURCHARGES AND PENALTIES****Interest**

The Code provides for the assessment of interest at a 10% annual rate over any tax not paid by its due date.

**Surcharges**

In case that imposition of interest is applicable, a surcharge of 5% of the amount due will be assessed, if the delay in paying exceeds 30 days, but not over 60 days; or 10% of the amount due, if the delay exceeds 60 days.

**Penalties**

The Code imposes a progressive penalty from 5% to 25% of the total tax for late filing unless you can show reasonable cause for the delay.

Any person required under the Code to file a return or declaration, who voluntarily fails to file such return or declaration within the term or terms required by the Code or regulations, in addition to other penalties, shall be guilty of a misdemeanor and punished by a fine of not more than \$500 or imprisonment for a term of not more than 6 months, or both penalties, plus the costs of prosecution.

**If any person voluntarily fails to file the above mentioned return or declaration (within the terms required by the Code or regulations) with the intention to avoid or defeat any tax imposed by the Code, in addition to other penalties, shall be guilty of a felony and punished by a fine of not more than \$20,000 or imprisonment for a fixed term of 3 years, or both penalties, plus the costs of prosecution. If there were aggravating circumstances, the established fixed jail penalty may be increased to a maximum of 5 years; if there were extenuating circumstances, it may be reduced to a maximum of 2 years, or both penalties, at the discretion of the Court, plus the costs of prosecution.**

**PART II - APPLICABLE TAX EXEMPTION ACTS**

**Check the box corresponding to the act under which the operations are fully or partially exempt. If you checked the box of Act 26 of 1978 or Act 8 of 1987, you must complete Part III.**



### PART III - CONDITIONS THAT EXONERATE FROM THE PREPAYMENT OF TOLLGATE TAX

Complete this questionnaire if the entity derives income from partially exempt activities under Act 8 of 1987 or Act 26 of 1978. Every entity operating under these acts, must make a tollgate tax prepayment of 5% on the industrial development income (IDI).

If the entity is not subject to the tollgate tax prepayment, please check the applicable box. In case that the tax exemption decree provides and establishes special rules for the distribution and taxation of the IDI, you must attach to the return a schedule indicating such rules.

### PART IV - COMPUTATION OF PREPAYMENT OF TOLLGATE TAX

#### Line 1 - Net operating income for the year

Enter the amount shown in Schedule M Incentives or N Incentives, Part I, line 1, whichever applies.

#### Line 2 - Adjustments

Enter on line 2(a) the interest income from eligible investments (Section 2(j)) derived from obligations issued by the Government of Puerto Rico, its instrumentalities or political subdivisions.

Enter on line 2(b) any adjustments required to determine the amount of IDI that constitutes income and profits available for dividend distribution. **You must submit a detailed schedule.** For example:

- 1) Expenses incurred but not deductible (i.e. meal and entertainment, charitable contributions, etc.)
- 2) Income earned but not taxed on the return (i.e. proceeds from life insurance when the beneficiary of the policy is the corporation, etc.)
- 3) Special deductions granted by the Act which do not represent a cash disbursement (i.e. deduction of \$400 for each severely handicapped employee, etc.)

#### Line 4 - Tax paid on industrial development income

Enter on line 4(c) any tax paid to the United States, its possessions and foreign countries attributable to IDI. **You must submit with the the return evidence of the tax paid and claimed as a**

**credit, such as a copy of the federal income tax return.**

#### Line 6 - Determination of prepayment of tollgate tax

Enter in the corresponding box the 5% tax rate, unless the entity's decree provides for special distribution rules and it has been convened through a Closing Agreement with the Secretary to pay 50% of the applicable rate. Multiply line 5 by the applicable tax rate and enter the amount on this line.

#### Line 7 - Dividends declared from current earnings

Enter the amount of dividends declared and paid related to earnings accrued during the current year.

#### Line 8 - Prepayment of tollgate tax attributable to current earnings

Enter 5% of line 7. If the entity is subject to a tollgate tax rate lower than 10% because its decree provides special distribution rules, and it has been convened through a Closing Agreement with the Secretary to prepay 50% of the aforementioned tollgate tax, you must enter 50% of your tax rate in the space indicated and determine the applicable tollgate tax prepayment.

#### Line 10(b) - Other credits

Any business exempt under Act 8 of 1987, including those covered under previous laws, that invests in Puerto Rico part of its IDI for a particular taxable year in plant expansion, purchases of products manufactured in Puerto Rico, research and development of new products or industrial processes and in eligible activities under Section 2(j), is entitled to a credit against the tax, but subject to certain terms and conditions. For additional details, refer to Section 4(b) and (d) of said act.

Also, if the parent company of an exempt business is under Federal Bankruptcy proceedings, the exempt business is entitled to claim a credit against the income tax payment and the prepayment of tollgate tax, subject to compliance with certain conditions. For additional information, refer to Section 3(a)(3) of Act 8 of 1987.

For the credits under Act 26 of 1978, refer to Section 4(h) of said act.

Any exempt business that has a converted decree under Section 3(i)(2a) of Act 26 of 1978, is entitled to carryforward as a credit for future taxable years, an amount equal to two thirds of the net income



tax paid as a result of the conversion, against any taxes paid or withheld at source on current dividend distributions and in liquidation.

#### **PART V AND VI - COMPARATIVE BALANCE SHEET AND RECONCILIATION OF NET INCOME (OR LOSS) PER BOOKS WITH NET TAXABLE INCOME (OR LOSS) PER RETURN**

The financial statements and reconciliation must be totally completed in order to consider the return as filed. Do not submit this information in loose sheets to substitute the statements or the reconciliation. **Returns that do not comply with these requirements, will be returned to the taxpayer.**

#### **SIGNATURE AND OATH OF THE RETURN**

The return must be signed and sworn before a notary by the president, vice president or other principal officer and by the treasurer or assistant treasurer or agent of the exempt business.

#### **INCOMPLETE RETURN**

The return must be completed in all of its parts. All the information of the Income Statement, Balance Sheet and Reconciliation of Retained Earnings must be detailed. **Returns that do not comply with this requirement will be considered as not filed.**



# INSTRUCTIONS TO COMPLETE THE SCHEDULES

## SCHEDULE E - DEPRECIATION

This schedule will be used to inform each of the properties for which depreciation expense is claimed. Spaces are provided for current, flexible and accelerated depreciation, and for improvements amortization.

The following information must be provided on the schedule:

- \* property classification;
- \* date acquired;
- \* allowable cost or basis;
- \* depreciation claimed on previous years;
- \* estimated useful life to determine the depreciation;
- \* depreciation claimed this year.

### Part (b) - Flexible Depreciation

To be entitled to claim flexible depreciation instead of current depreciation, the Code requires to make the election through a sworn statement to be filed not later than 30 days after the close of the taxable year. Said option may be exercised only over property acquired by the taxpayer prior to June 30, 1995.

### Part (c) - Accelerated Depreciation

The election may be exercised only over property acquired by the taxpayer during taxable years beginning after June 30, 1995. The election, once made, is irrevocable.

**Refer to the Code and its regulations to determine who will qualify for the flexible and accelerated depreciation deduction, and the requirements that must be met in order to be entitled to said deduction.**

**Submit Schedule E with your return.**

## SCHEDULE K INCENTIVES - COMPUTATION OF TAX

### PART I - NORMAL TAX AND SURTAX

**Line 1** - Enter the net income subject to tax in the corresponding line as determined on Schedules L, M, N and P Incentives.

**Line 3** - Enter \$25,000 in the corresponding column. If you have more than one operation covered under an exemption decree or partially exempt under a special law, or totally taxable income, you may claim only up to \$25,000 in the aggregate.

Also, if the entity is a member of a controlled group, as defined in Section 1028 of the Code, the credit will apply only to the controlled group. If an entity is a member of a controlled group as of December 31, the credit allowed to said entity for the taxable year which includes such December 31, will be equal to \$25,000 divided among the number of entities that are component members of the controlled group. Nevertheless, the controlled group may elect, through an agreement, for a different apportionment plan, as long as the sum of the amounts prorated among the members of the group does not exceed \$25,000.

**If the entity is a member of a controlled group, it is necessary to include with the return of each member of the controlled group a schedule detailing the apportionment plan, the name and employer's identification number of each entity that is a member of the group.**

**Line 5** - If the entity is covered under the Industrial, Tax or Tourism Incentives Act, or Tourism Development Act, you must multiply line 2 by 22%.

If the entity has partially exempt income under Act 225 of 1995, Act 148 of 1988, Act 75 of 1995, Act 14 of 1996 or has fully taxable income, you must multiply line 2 by 20%.

**Line 6** - Multiply line 4 by the applicable tax rate and enter the result on the corresponding column.

If the income is derived from operations covered under Act 52 of 1983, Act 57 of 1963, Act 26 of 1978 or Act 8 of 1987, the surtax is:

If the net income subject to surtax is:	The tax shall be:
\$0 - \$75,000	9%
\$75,001 - \$125,000	\$6,750 plus 19% of the excess over \$75,000
\$125,001 - \$175,000	\$16,250 plus 20% of the excess over \$125,000



\$175,001 - \$225,000	\$26,250 plus 21% of the excess over \$175,000
\$225,001 - \$275,000	\$36,750 plus 22% of the excess over \$225,000
\$275,001 - or more	\$47,750 plus 23% of the excess over \$275,000

\$175,001 - \$225,000	\$19,250 plus 17% of the excess over \$175,000
\$225,001 - \$275,000	\$27,750 plus 18% of the excess over \$225,000
\$275,001 - or more	\$36,750 plus 19% of the excess over \$275,000

If the income is derived from operations covered under Act 78 of 1993, the surtax rate will be computed as follows:

If the net income subject to surtax is:	The tax shall be:
\$0 - \$75,000	6%
\$75,001 - \$125,000	\$4,500 plus 16% of the excess over \$75,000
\$125,001 - \$175,000	\$12,500 plus 17% of the excess over \$125,000
\$175,001 - \$225,000	\$21,000 plus 18% of the excess over \$175,000
\$225,001 - \$275,000	\$30,000 plus 19% of the excess over \$225,000
\$275,001 - or more	\$39,500 plus 20% of the excess over \$275,000

If the income is derived from partially exempt activities under Act 148 of 1988, as amended, Act 75 of 1995, Act 225 of 1995 or Act 14 of 1996, or from fully taxable income, the surtax will be:

If the net income subject to surtax is:	The tax shall be:
\$0 - \$75,000	5%
\$75,001 - \$125,000	\$3,750 plus 15% of the excess over \$75,000
\$125,001 - \$175,000	\$11,250 plus 16% of the excess over \$125,000

**Line 7** - This tax shall apply to activities covered under Act 78 of 1993, Act 148 of 1988, Act 75 of 1995, Act 225 of 1995 or Act 14 of 1996, or to fully taxable income. If the net taxable income of the entity exceeds \$500,000, a 5% tax will be imposed on said excess. Nevertheless, the total tax determined shall not exceed 42% for operations covered under Act 78 of 1993; and 39% for operations covered under Act 148 of 1988, Act 75 of 1995, Act 14 of 1996 or Act 225 of 1995 or to fully taxable income.

**Line 9** - Enter the amount determined on line 26 of Schedule D Corporation and Partnership - Gains or Losses from Sale or Exchange of Property.

If during the taxable year the corporation's net long term capital gains exceeded the net short term capital losses, the corporation may elect to pay the alternative tax.

The alternative tax is determined on the net income at the normal tax rates, without including the long term capital gain, plus 25% of such gain.

**Line 11(a)** - Enter the amount determined on Schedule C Corporation and Partnership - Credit for Taxes Paid to the United States, its Possessions and Foreign Countries.

If the tax was paid in a foreign currency, you must determine the equivalent value in dollars at the date of payment. You must submit with the return a schedule indicating the conversion in dollars, and copy of the United States or foreign countries tax return and cancelled checks to show the tax paid or accrued in said country.

**Line 11(b)** - Enter the credit granted under Article 41 A-6 of the Regulations under the Puerto Rico Income Tax Act of 1954, as amended, as a result of an adjustment made by the Federal Internal Revenue Service under Sections 936, 61, 162 and 351, or any succeeding provision. Only foreign entities actively conducting a trade or business in Puerto Rico under Section 936 of the Federal Internal Revenue Code of 1986, as amended, are



eligible for this credit. This credit is limited to 50% of the tax determined for each year.

**Line 11(c)** - If the subsidiary of a parent company of an entity doing business in Puerto Rico and operating under Act 8 of 1987, is under bankruptcy proceedings, a credit against the Puerto Rico income tax payment can be claimed, subject to compliance with certain requirements. To qualify for this credit, the parent company must:

- be incorporated under the laws of any state of the United States,
- be under bankruptcy proceedings, and
- reflect a loss in the consolidated federal income tax return after including the income of the exempt entity.

This benefit will be granted as a credit, which is determined as follows:

Tax for the particular year of the loss	<b>X</b>	$\frac{\text{Average employment during the taxable year}}{\text{Employment required in the tax exemption decree}}$
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Nevertheless, said credit is limited to the total tax for the particular year in which the loss was incurred.

This credit shall be requested from the Secretary through a sworn statement and it will be subject to recapture at the time the parent company recovers said loss.

**Line 11(d)** - Enter the amount determined on Schedule Q.

To claim this credit you must submit the following:

- 1) Schedule Q and Q1 duly completed.
- 2) A document indicating or evidencing the credit generated by the investment on the different capital investment funds or direct investments, such as Solid Waste Disposal Facilities, Agricultural Incentives, Feature Films, as well as Tourism Development.
- 3) Copy of the certification issued by the pertinent agencies.
- 4) Copy of the notification made through a sworn statement issued by said agency, in which the distribution of the credit is informed.

**Line 11(e)** - Enter the tax credit acquired, if any, during the year through purchase, exchange or transfer made by a primary investor.

To claim this credit, the assignor and the cessionary must submit with the income tax return, a sworn statement notifying the Secretary the cession, in the year on which the same took place.

**Line 11(f)** - Enter the amount determined on Schedule Q.

**Line 11(g)** - In those cases in which the entity has paid an alternative minimum tax on the income derived from fully taxable operations from previous years, it may claim a credit against the regular tax from the taxable operations, as long as it complies with certain requirements. To be eligible to this credit, the regular tax of the year must exceed the alternative minimum tax for said year and have paid the alternative minimum tax for previous years. The credit will be determined as follows:

1. **Normal Tax** (Schedule K Incentives, Part I, Column C, line 5) \_\_\_\_\_
2. **Minus: Alternative Minimum Tax** (Schedule A Corporation and Partnership, Part V, line 30) \_\_\_\_\_
3. **Regular Tax Subject to Credit** (Subtract line 2 from line 1) \_\_\_\_\_
4. **Credit for Alternative Minimum Tax Paid on Previous Years** (Schedule K Incentives, Part I, Column C, line 13 of the return from previous years which has not been used. Submit schedule) \_\_\_\_\_
5. **Allowable Credit** (The smaller of line 3 or 4. \_\_\_\_\_

**If line 4 exceeds line 3, the balance will be carried forward to future years.**

**Line 11(h)** - Enter the credit attributable to dividends received from industrial development income corresponding to the 3% of the investment made by the branch in the acquisition, construction and enlargement of buildings and other structures used in manufacture, in excess of the investment in such properties possessed by the subsidiary as of March 31, 1997.



In those cases of corporations which have not enjoyed tax exemption under Act 57 of 1963, Act 26 of 1978 or Act 8 of 1987 for two taxable years, this credit will be granted to the parent company for the increase in investments made by the subsidiary after the end of its second year of tax exemption.

To be entitled to the credit, the investment should have been made prior to January 1, 1993.

This credit can be carried forward to the following taxable years. Nevertheless, investments made in real property to obtain the exemption indicated on paragraph 6, Subsection (a) of Section 4 of Act 8 of 1987, cannot be used for the purpose of this credit.

**Line 11(i)** - Enter the contribution made up to \$500 to the Educational Foundation for the Free Selection of Schools.

The contributions made in excess of the allowed credit can be claimed as a deduction under charitable contributions, up to the limit provided by the Code.

To claim this credit, you must submit a certification from the Educational Foundation for the Free Selection of Schools or copy of the cancelled check as evidence of the contribution made.

**Line 13** - This tax will apply only to income derived from taxable operations. Said tax will be equal to the excess, if any, of:

- 1) the Tentative Minimum Tax for the taxable year over,
- 2) the Regular Tax of the year.

The Tentative Minimum Tax for the taxable year will be 22% of the total for which the Alternative Minimum Net Income for the taxable year exceeds the exempt amount.

Enter the amount determined on Schedule A Corporation and Partnership, Part V, line 32.

**Line 14** - In addition to any other tax imposed by the Code, those foreign corporations and partnerships engaged in trade or business in Puerto Rico that operates as branches, **are subject to a 10% tax** of the amount equivalent to the dividend or profit distribution for the taxable year.

This provision shall not be applicable to any taxable

year on which the foreign corporations and partnerships engaged in trade or business in Puerto Rico derive at least 80% of its gross income during the 3 taxable years period ended at the closing of said taxable year, from sources within Puerto Rico or from income effectively connected or treated as effectively connected with the conduct of a trade or business in Puerto Rico.

**The corporations subject to this additional tax must file Form AS 2879 Branch Profits Tax and include it with your return.**

**Line 15** - Enter the sum of line 15 of Column A, B and C.

## **PART II - COMPENSATION TO OFFICERS**

Enter the total compensation paid or accrued to officers of the entity for salaries or other allowances. Also, you must include the name, social security number and the percentage of stocks or shares possessed, if any. The total amount reflected in this part as compensation, will be equal to the amount claimed on Schedules L, M, N, P and V Incentives. If the entity files more than one of these schedules, the amount entered in this part must be equal to the sum of the amounts reflected on each schedule for this concept.

## **PART III - RECONCILIATION OF TAXABLE INCOME FROM PUERTO RICO (FORM 480.30(II)) AND UNITED STATES (FORM 1120)**

Enter in Column A the income and deductions as presented on Form 480.30(II). Enter in Column B the income and deductions reflected on Form 1120. Any difference among both income must be reflected in Column C, explaining the reason for such difference (i.e. Section 263A of the Federal Internal Revenue Code, depreciation adjustment, etc.).

## **PART IV - RECONCILIATION OF PASSIVE INCOME**

In the Reconciliation column of Form 1120, enter the passive income reflected in the financial statements and on line 2 enter any adjustment to reconcile the income reflected on Form 1120.

In the Reconciliation column of Form 480.30(II), enter the passive income reflected on the financial statements. Enter on line 2 any adjustment made to obtain the income reflected on Form 480.30(II) such as, income from sources of the United States.



## GENERAL INSTRUCTIONS FOR SCHEDULES L, M, N, P AND V INCENTIVES

If an entity made an election under Section 3(f) of Act 8 of 1987 or Section 6(f) of Act 135 of 1997, it must submit with the return a copy of the sworn statement through which such election was made.

### PART II - SCHEDULES L, M AND P INCENTIVES (SCHEDULE N INCENTIVES, PART III AND SCHEDULE V INCENTIVES, PART V) - GROSS PROFIT ON SALES AND OTHER INCOME

In this part you will determine your gross profit on sales, production or other income. Check the applicable box to indicate the appraisal method for the inventory at the beginning and end of the year.

Detail in Part IV of Schedules L, M and P Incentives the Other Direct Costs claimed on line 5 of Part II. If you are completing Schedule N Incentives, detail the Other Direct Costs in Part V and claim the same in Part III, line 5. If you are completing Schedule V Incentives, detail in Part VII and claim the same in Part V, line 5.

The flexible depreciation of assets used in manufacture will be claimed only on the Other Direct Costs item in Part IV, line 11 of Schedule P Incentives. The flexible depreciation of other assets will be entered in Part III, line 37 of said schedule.

The assets used in any activity that generates partially exempt income under Act 52 of 1983, or Act 57 of 1963, Act 26 of 1978, Act 8 of 1987 or Act 135 of 1997, or Act 78 of 1993 or Act 225 of 1995 **cannot be depreciated under the flexible or accelerated depreciation method.**

### PART III - SCHEDULES L, M AND P INCENTIVES (SCHEDULE N INCENTIVES, PART IV AND SCHEDULE V INCENTIVES, PART VI)- DEDUCTIONS AND NET OPERATING INCOME

In this part of Schedules L, M, N, P and V Incentives enter the deductions related to your operations. Following we present information related to some of these items:

#### a. Meal and entertainment expenses

You may deduct the 50% of the total expenses actually paid or incurred, up to 25% of the gross income for the taxable year for meal and entertainment expenses directly related with the conduct of a trade or business or with the production of income. Do not consider those that do not constitute ordinary and necessary expenses from the trade or business.

No deductions shall be allowed for meal and entertainment expenses considered sumptuous or extravagant.

#### b. Contributions to pension and other qualified plans

Enter the amount contributed to pension plans, profit sharing or other qualified plans approved by the Secretary of the Treasury. This deduction is subject to certain limitations.

To claim this deduction, you must include with your return a schedule showing the information required by the regulations under the Code.

#### c. Current depreciation and amortization

##### Submit detail of the current depreciation in Part (a) and improvements amortization in Part (d) of Schedule E - Depreciation.

The maximum basis to depreciate an automobile acquired and used in the trade or business, or for the production of income, is \$25,000. This rule also applies to those automobiles acquired through financial leases that are equivalent to a purchase.

In the case of an ordinary lease, the total amount of rent paid during the taxable year, excluding financial charges, shall be considered as current depreciation.

An automobile may be depreciated over a 3 years period if it is used exclusively in selling activities, and over a 5 years period if it is used for other purposes.

The basis limitation (\$25,000) and the useful life term do not apply to those automobiles acquired by corporations or partnerships engaged in the leasing, or transportation of passengers or freight businesses.

Also, a deduction for goodwill amortization is granted, as long as the goodwill is purchased from third parties during taxable years beginning after June 30, 1995. This deduction will be determined using the straight line method and an useful life of 15 years.

#### d. Flexible depreciation

Enter the amount of flexible depreciation you are entitled, and submit a copy of the authorization for the flexible depreciation option.

**The detail of the flexible depreciation will be included in Part (b) of Schedule E - Depreciation.**



This deduction is applicable only against the fully taxable income (Schedule P Incentives) and is limited to property used in the activities indicated in the Code.

Said option may be exercised only over property acquired prior to June 30, 1995.

#### e. Accelerated depreciation

In order to be entitled to this deduction, an election to use the Accelerated Depreciation Method must be exercised with the return. Said election can be exercised only for property acquired by purchase during taxable years beginning after June 30, 1995. Once the option is exercised, the same is irrevocable.

This depreciation method does not apply to automobiles, property used outside Puerto Rico, property used by exempt entities and property used totally or partially in activities under the Industrial, Tax and Tourism Incentives Acts or Tourism Development Act, Agricultural Tax Incentives Act or any other special act or to intangible property.

**The detail of the accelerated depreciation will be included in Part (c) of Schedule E - Depreciation.**

#### f. Bad debts

Enter the accounts receivable that are considered uncollectible. For taxable years beginning after June 30, 1995, the corporations and partnerships cannot use the reserve method to compute the deduction for bad debts. Instead, they may claim a deduction for debts that become uncollectible within the taxable year (direct write-off method).

If the corporation or partnership has used the reserve method, it shall include in its gross income 25% of the bad debts reserve balance determined at the close of the last taxable year beginning prior to July 1, 1995. In the following 3 years, you will recognize 25%, as determined in the first year.

#### g. Other deductions

Those expense items for which a specific space is not provided in Part III (Schedules L, M and P Incentives), Part IV (Schedule N Incentives) and Part VI (Schedule V Incentives) will be added and the total will be entered as Other Deductions. **Submit with the return a schedule detailing these deductions.**

## SCHEDULE L - PARTIALLY EXEMPT INCOME UNDER ACT 52 OF 1983 OR ACT 78 OF 1993

This schedule must be used by those entities that operate under Act 52 of 1983 or under Act 78 of 1993. Check the applicable box for the act under which the entity operates and indicate the period in force for income, and the actual and required number of jobs directly related with tourism development.

In the case of a corporation or partnership that operates under Act 52 of 1983 or Act 78 of 1993, and has made the election under Section 5(b) or 3(a)(1)(D) respectively, must submit with the return a copy of the notification addressed to the Secretary of the Treasury making such election.

Any exempt business under Act 78 of 1993, must include with the return a copy of the order issued by the Director of the Tourism Company indicating the date the exemption began.

### PART I - NET INCOME SUBJECT TO TAX

**Line 2** - Enter the carryover balance of net operating loss reflected at the end of the preceding year. The net operating losses under tourism incentives or tourism development acts can be deducted only against income derived from touristic activities. The net operating losses not covered under any of the previously mentioned acts, may be deducted only against the totally taxable income. **You must submit with the return a schedule supporting the deduction claimed.**

The excess of income loss from touristic activities from preceding years can only be carried over and claimed against income from touristic activities. Said loss will be deductible up to an amount equal to the percentage of income from touristic activities that would have been taxable. The losses will be carried over in the order in which they were incurred.

Any net loss incurred during the year on which the entity made the election under Section 3(a)(1)(D) of Act 78 of 1993, can be carried over and taken as a deduction only against the tourism development income derived by the exempt business in which the election was made under said Section.

In case of an entity that has renegotiated its decree under Act 78 of 1993, may take as a deduction the net operating losses incurred from operations under previous decrees (Industrial or Tourism Incentives Act).



Losses incurred on a year on which the election was made under Section 5(b) of Act 52 of 1983 or under Section 3(a)(1)(D) of Act 78 of 1993, may be claimed as a deduction against income from touristic or touristic development activities for which the election was made.

**Line 4** - Enter in the space provided the exemption percentage to which you are entitled in accordance to the Resolution under the Tourism Incentives or Tourism Development Act.

Multiply the net operating income from eligible tourism activities subject to the computation (Schedule L Incentives), by the applicable exemption percentage. Enter the amount on this line.

#### **SCHEDULE M INCENTIVES - FULLY OR PARTIALLY EXEMPT INCOME UNDER ACT 57 OF 1963 OR ACT 26 OF 1978**

This schedule must be used by those entities that derive fully or partially exempt income under Act 57 of 1963 or Act 26 of 1978. Check the applicable box for the act under which the entity operates and indicate the period in force for income, and the actual and required number of jobs directly related with manufacture or designated service. If the entity has partially exempt operations under both acts, a schedule for each activity must be used. If there are no specific instructions for a particular line under this section, refer to the General Instructions Section.

#### **PART I - NET INCOME SUBJECT TO TAX**

**Line 2** - Enter the income derived from qualified investments under Section 2(j) of Act 57 of 1963 and Act 26 of 1978, whichever applies.

**Line 4** - Enter the larger of the following amounts:

**Line 4(a)** - 5% of your total production payroll up to an amount that does not exceed 50% of the net industrial development income, or

**Line 4(b)** - \$100,000 if the net industrial development income is smaller than \$500,000.

For purposes of line 4(a), the production payroll shall be for wages paid by the exempt business to personnel directly related with the manufacture of the exempt product, excluding the salaries of executives, supervisors and administrative personnel, and any payment for professional services rendered under contract by independent firms not related to the exempt business, as long as the above is not in

conflict with the definition of production employee adopted by the Labor Statistics Bureau of the Department of Labor and Human Resources of Puerto Rico.

For purposes of line 4(b), if the exempt business engaged in manufacturing is a member of a controlled group of corporations and partnerships that are exempt businesses, or is controlled in more than 50% by one or more persons who directly or indirectly own an exempt business, the business may elect, with the consent of the Secretary, the manner in which the total amount or part of the \$100,000 deduction will be apportioned among one or more of the controlled exempt businesses.

#### **These deductions do not apply to corporations under Section 3(n) of Act 26 of 1978.**

**Line 6** - Enter the carryover balance of net operating loss reflected at the end of the preceding year. The net operating losses under the industrial incentives acts may only be deducted against the IDI. The net operating losses derived from operations that are not covered under any of the previously mentioned incentives acts, may only be deducted against fully taxable income.

The loss excess of IDI from the preceding years, may only be carried over and claimed as a deduction against the IDI. Said loss will be deducted up to an amount equal to the IDI percentage that would have been taxable. Losses will be carried over in the order in which they were incurred.

**Line 9(a)** - Enter in the space provided the exemption percentage to which you are entitled, according to your decree under Act 57 of 1963 or Act 26 of 1978.

Multiply the net operating industrial development income after the adjustments by the applicable exemption percentage. Enter the amount on this line.

#### **SCHEDULE N INCENTIVES - PARTIALLY EXEMPT INCOME UNDER ACT 8 OF 1987**

This schedule must be used by those entities that derive partially exempt income under Act 8 of 1987. Indicate in the corresponding box the period in force for income, and the actual and required number of jobs directly related with manufacture or designated service.

#### **PART I - NET INCOME SUBJECT TO TAX**

**Line 2** - Enter the income derived from qualified investments under Section 2(j) of Act 8 of 1987.



**Line 4** - Enter the larger of the following amounts, as applicable:

**Line 4(a)** - 5% of its total production payroll up to 50% of the net industrial development income (line1), if the eligible business:

- 1) enjoyed industrial tax exemption under any of the previously mentioned industrial incentives acts and said tax exemption was authorized prior to January 1, 1985, and then converted its decree to the dispositions of Act 8 of 1987 for the remaining part of its exemption period; or
- 2) was operating in Puerto Rico under a decree as of January 1, 1985 and subsequently obtained a new decree covering previously exempt operations based on negotiations in view to special conditions, and then requests to convert its new decree under Act 8 of 1987.

**Line 4(b)** - 15% of the production payroll up to 50% of your net industrial development income, if in any taxable year you generate a net income from the exempt operations of less than \$30,000 per production job and said eligible business:

- 1) enjoys tax exemption under a new decree issued under Act 8 of 1987; or
- 2) has a tax exemption decree issued after December 31, 1984, but has not enjoyed tax exemption prior to that date, and converted said decree under Act 8 of 1987 for the remaining part of the exemption period originally granted. For these purposes, the production payroll shall include the salaries of personnel directly related to the manufacture of the exempt product, excluding executive salaries and any payment for professional services rendered through contract to the exempt business by independent firms.

The net income per production job will be obtained dividing the net industrial development income derived from the exempt operation, by the number of production jobs reflected on the production payroll.

**Line 4(c)** - Enter the first \$100,000 if the net industrial development income is smaller than \$500,000 and the business has kept an employment average of 15 persons or more during said taxable year.

The exempt business that claims this deduction, will not be able to enjoy the deductions previously indicated in items 1 and 2.

If the exempt business is controlled in more than 50% by stockholders or corporations in common, with the consent of the Secretary, it may decide the manner in which all or part of the \$100,000 deduction shall be assigned among one or more of the controlled exempt businesses.

**Line 6** - Enter the carried over balance of the net operating loss reflected at the end of the preceding year. The net operating losses covered under the Tax Incentives Act may only be deducted against the IDI. The loss excess of IDI from previous years can only be carried over and claimed as a deduction against the IDI. Said loss will be deductible up to an amount equal to the IDI percentage that would have been taxable.

Any loss incurred in the year in which the entity made the election under Section 3(f) of Act 8 of 1987, can be carried over and taken as total deduction against the IDI derived by the exempt business under the decree in which the election was made under Section 3(f) or against the IDI percentage that would have been taxable in case that the entity has not made the election.

## **PART II - SPECIAL SURTAX SECTION 3(a) OF ACT 8 OF 1987**

This special surtax applies to every entity that has derived a total gross income from industrial development larger than \$1,000,000 during the taxable year.

For purposes of this computation, the **term gross income from industrial development includes** the following:

- 1) Income derived from certain investment activities eligible under Section 2(j).
- 2) Net income derived from patent sales, royalties or any other entitlement to receive income, related to activities or intangible property resulting from exempt operations under Act 8 of 1987.
- 3) Income derived from insurance policies for business interruption, as long as there is no reduction on the job employment level of the exempt business as a result of the action that motivated the collection of such income.

The tax will be .00075 of the sales volume of the exempt business, but never more than half of one percent (.005) of the net industrial development income.



**SCHEDULE O INCENTIVES - OPTIONAL  
INCOME TAX FOR EXEMPT BUSINESSES  
PURSUANT TO SECTION 3A OF ACT 8 OF 1987**

If the corporation elected the computation of the Optional Income Tax under Section 3A of Act 8 of 1987, please complete this schedule.

**PART II - COMPUTATION OF OPTIONAL TAX**

**Line 2** - Include the income from interest of eligible investments (Section 2(j)), except exempt interest from obligations issued by the Government of Puerto Rico, its instrumentalities or political subdivisions.

**Line 4** - Check the box corresponding to the applicable tax rate. If the entity has a decree that has another tax rate, enter the same on line 4(d).

**Line 8(b)** - Any exempt business with a converted decree under Section 3(i)(2a) of Act 26 of 1978, is entitled to carry forward as a credit for future taxable years an amount equal to two thirds of the net income tax paid as a result of the conversion, against any income tax payment or withholding at source on current dividend and liquidation distributions.

If the entity is exempt under Act 8 and the parent company is under Federal Bankruptcy proceedings, the exempt business is entitled to claim a credit against the income tax and tollgate tax payment, subject to compliance with certain conditions. For additional information, refer to Section 3(a)(3) of Act 8 of 1987.

**SCHEDULE P INCENTIVES - INCOME FROM  
FULLY TAXABLE OPERATIONS OR PARTIALLY  
EXEMPT INCOME UNDER ACT 148 OF 1988, ACT  
75 OF 1995, ACT 225 OF 1995 AND ACT 14 OF  
1996**

This schedule must be used by those entities that in addition to enjoy exemption under a decree, derive income from fully taxable activities. Those entities that derived partially exempt income under Act 148 of 1988, Act 75 of 1995, Act 225 of 1995 or Act 14 of 1996 must also use this schedule. Check the corresponding box if your activities are fully taxable or if they are partially exempt under one of these acts.

If you have fully taxable operations, and at the same you have partially exempt operations under one of these special acts, a schedule for each activity must be used and check the corresponding box. If

there are no specific instructions for a particular line on this section, refer to General Instructions - Schedules L through V Incentives.

**Those industries or businesses established in a special planning zone that do not derive exempt income under Act 148 of 1988, Act 75 of 1995 or Act 14 of 1996, must use Form 480.20 or 480.10.**

**PART I - NET INCOME SUBJECT TO TAX**

**Line 2** - Enter the carried over balance from the net operating loss reflected on the return of previous years.

**Line 4** - This line must be completed only by those entities that derived exempt income under one or more of the following acts:

- Act 148 of 1988, as amended
- Act 75 of 1995, as amended
- Act 225 of 1995, as amended
- Act 14 of 1996, as amended

If the operations are partially covered by Act 148 of 1988, and/or Act 75 of 1995, enter the 50% exemption of net income derived from the sale of admission tickets for artistic and cultural shows performed in new structures, substantially rehabilitated or subject to improvements for a 5 years period, beginning on the date the construction, substantial rehabilitation or improvement is completed. In order to be entitled to those benefits, said construction, rehabilitation or improvement must be performed within 5 years beginning on the date of the designation of the zone in which the business will be located.

**If the operations are covered under Act 14 of 1996, enter 90% of the exemption from the net income derived from the sale of admission tickets to artisanal, agricultural, artistic and cultural fairs, and sport events, if you meet the following requirements:**

- 1) The activity or event must be celebrated within one of the special designated zones established by the Puerto Rico Planning Board in accordance to said Act;
- 2) At least 50% of the persons employed in the activity or event by the person claiming the exemption, must be bona fide residents of Castañer.

The Department of the Treasury established by regulations the procedures to be entitled to this exemption.



**If the operations are partially exempt under Act 225 of 1995, enter the 90% exemption, if you meet the following requirements:**

- 1) You have a certification issued by the Secretary of Agriculture of Puerto Rico, certifying that you are a bona fide farmer dedicated to an agricultural business;
- 2) You have derived at least 50% of your income from agricultural activities; and
- 3) You have not elected the provisions of Section 1023(s) of the Code.

This exemption of income tax payment applies to taxable years beginning on January 1, 1996. This exemption is not extensive to income from interest, dividends, royalties or gains derived from the sale of assets, including those assets used in the agricultural business, or any other income derived by bona fide agricultural businesses and that does not come directly from the agricultural activity.

To claim such exemption, you must include with the return a copy of the certification issued by the Secretary of Agriculture of Puerto Rico and a schedule showing the income percentage derived from agricultural activities over the total income of the entity.

For purposes of calculating 50% or more of the gross income, income from all sources will be considered, realized and recognized, adjusted or reduced by the following items:

- (i) The cost of raw material used, if any;
- (ii) In case of sale of real property, the capital restoration which is considered the adjusted basis of such real properties, and excluding:
  - (a) the total amount of exclusions from gross income under Section 1022(b) of the Code;
  - (b) the total amounts received for which credits are allowed under Section 1026(a) of the Code; and
  - (c) those amounts that by law do not constitute income.

**Line 6** - Enter 85% of the amount received as dividends or profits from a domestic corporation or partnership subject to taxation under the Code, but limited to 85% of the net income of the corporation or partnership.

If the dividend received is from industrial development income derived from operations covered by the provisions of Act 57 of 1963, the credit will be 82.70% of the amount received, but limited to 82.70% of the net taxable income.

This credit does not apply to dividends or profit distributions derived from operations covered under Act 78 of 1993 or Act 8 of 1987.

However, the Code provides the following exceptions:

- 1) In the case of a small business investment company operating in Puerto Rico under the "Small Business Investment Act of 1958", there shall be allowed as a credit an amount equal to 100% of the total amount received as dividends or profits from a domestic corporation or partnership taxable under the Code.
- 2) In accordance to certain requirements imposed by the Code, a credit of 100% is allowed against the net income from the total amount received as dividends from corporations organized under the laws of any state of the United States or of the Commonwealth of Puerto Rico, whose principal income is derived from IDI accrued during taxable years beginning prior to January 1, 1993 and invested in obligations of the Commonwealth of Puerto Rico, its instrumentalities or political subdivisions, or invested in mortgages secured by the Puerto Rico Housing Bank and Finance Agency or in loans or other securities guaranteed by mortgages granted under any pension or retirement system of a general character established by the Legislative Assembly of Puerto Rico, the municipalities and the agencies, entities or public corporations of the Commonwealth of Puerto Rico.
- 3) A 100% credit will be granted against the net income from the total amount received as dividends by corporations organized under the laws of any state of the United States or of the Commonwealth of Puerto Rico, whose principal income is derived from IDI accrued during taxable years beginning prior to January 1, 1993 invested in obligations of the Governmental Development Bank for Puerto Rico or any of its subsidiary corporations, for the financing through the purchase of mortgages, or the construction, purchase or housing improvements in Puerto Rico started after December 31, 1984.



- 4) A 100% credit will be granted against the net income of the total amount received as dividends or profits from a domestic controlled corporation or partnership.

### PART III - DEDUCTIONS AND NET OPERATING INCOME

If there are no specific instructions for a particular line in this section, refer to section of General Instructions for Schedules L, M, N, P and V Incentives.

Immediately afterwards we explain certain special deductions applicable to operations that qualify for benefits granted under Act 148 of 1988, Act 75 of 1995 and Act 14 of 1996.

Any industry or business established in a special zone in Santurce, Río Piedras or Castañer in the period beginning on the designation date of said zone, may claim a special deduction based on the following:

- 1) 10% of the lease paid for a period of 10 years in the zone of Santurce and Río Piedras, and 15% for a period of 5 years in the zone of Castañer.
- 2) 5% of the minimum wage applicable for every new job created. To be entitled to this deduction, it is necessary that the new job does not eliminate or substitute a job existing prior to the approval of this Act, be a complete working week of 40 hours (35 hours per week in case of the Castañer zone), and be occupied in a continuous basis by the same person for a period of not less than six months. This deduction is for a 5 years period beginning on the date the business is designated to that zone by the Planning Board.

Also, every person that owns an eligible property in Santurce or Río Piedras subject to the Reasonable Rents Act, that performs a substantial rehabilitation to such eligible property and afterwards it still be under the provisions of said act, will be entitled to a special deduction equivalent to the difference between the adjusted rent, as defined in each one of said special acts, and the basic rent.

To be entitled to this deduction, it is necessary that the rehabilitation of the eligible property begins and concludes within the period between the enforcement date in each one of such special acts and the fifth year after the effective date of each one of said special acts, and has a value that

exceeds \$12,000 per unit or represents 30% of the property's market value prior to the rehabilitation, excluding the value of the land in which it is located, whichever is larger.

To claim this deduction, you must include with the return a certification issued by the Secretary of Consumers Affairs indicating the basic rent established for the unit and the adjusted rent. Nevertheless, this deduction must not exceed \$4,800 per year per unit, and can only be claimed while the unit is rented by the tenant who did so prior to the rehabilitation of the unit, and for a 10 years period starting from the date the rehabilitation was completed.

For more detailed information, refer to Act 148 of 1988, Act 75 of 1995 and Act 14 of 1996.

### SCHEDULE V INCENTIVES - INCOME TAX FOR EXEMPT BUSINESSES UNDER ACT 135 OF 1997

This schedule must be used by those exempt businesses under Act 135 of 1997. Indicate in the corresponding boxes the enforcement period for income, and the actual and required number of jobs directly related with manufacture or designated service.

#### PART I - QUESTIONNAIRE

**Line 1** - Indicate if the exempt business exercised the option provided in Section 3A of Act 8 of 1987 or if it was subject to a fixed tax rate stipulated on the decree during **any** of the years included in the computation of the basis period income.

**Line 2** - If you answered "Yes", the 2(j) income, up to an amount not over the 2(j) income for the basis period, will also be subject for the remaining exempt period of the renegotiated preceding decree, to the rate applicable to the basis period income under the preceding act.

**Line 3** - Indicate if for any of the years included in the basis period you had 2(j) income tax exempt income and 2(j) taxable income. The 2(j) basis period income will be taxable or exempt in the same proportion that the 2(j) exempt income bears with the 2(j) total income subject to income tax earned during the basis period.

#### PART II - COMPUTATION OF THE BASIS PERIOD AVERAGE INCOME

**Line 4** - Enter the amount of Column (a) in Part III, line 8. If the 2(j) income was subject to the Optional



Tax or was taxable under special dispositions of your decree during all or part of the basis period, enter the amount of Column (b) on Schedule O Incentives, Part II, line 2.

### PART III - NET INCOME SUBJECT TO TAX

**Line 2** - Enter the income from qualified investments under Section 2(j) of Act 135 of 1997.

**Line 4** - Enter here the net operating losses from the preceding year, including the share on losses from special partnerships which own or operate tourism businesses under Act 78. You must submit a schedule with the case number, amount of the loss and carryover computation.

**Line 8** - Applies only to exempt businesses which renegotiated their decrees under Act 135 of 1997. Enter this amount on Schedule M or N Incentives, Part I, line 8.

**Line 9** - If line 9 is **smaller** than line 8, enter the net operating income of the year (Part III, line 1 of this schedule) on Schedule M Incentives, Part I, line 1, if the preceding renegotiated decree was issued under Act 57 of 1963 or Act 26 of 1978; or on Schedule N Incentives, Part I, line 1, if the preceding renegotiated decree was issued under Act 8 of 1987, and complete the corresponding schedule.

If when the decree was renegotiated under Act 135 of 1997, the exempt business had in force the option under Section 3A of Act 8 of 1987, Schedule M or N Incentives, whichever applies, and Schedule O Incentives must be completed.

If line 9 is **larger** than line 8, enter the basis period income on Schedule M Incentives, Part I, line 8, if the preceding renegotiated decree was issued under Act 57 of 1963 or Act 26 of 1978; or on Schedule N Incentives, Part I, line 8, if the preceding renegotiated decree was issued under Act 8 of 1987, and complete the corresponding schedule starting from said line 8.

If when the decree was renegotiated under Act 135 of 1997, the exempt business had in force the option under Section 3A of Act 8 of 1987, you must enter the basis period income on Schedule O Incentives, Part II, line 1 and complete said schedule.

### PART IV - TAX COMPUTATION

**Line 3** - In case of exempt businesses which renegotiated their decrees under Act 135 of 1997 and are entitled to claim the same credits against the basis period income tax and over the fixed rate under Act 135 of 1997, said credits can be claimed,

at the exempt business option, up to the total amount allowed by law against the basis period income tax or against the fixed rate; or allocated, up to the amount allowed by law, between the basis period income tax and the fixed tax rate. The sum of the allocated amounts cannot exceed the total amount of the credit.

**Line 3(b)** - The exempt business can claim a credit against the IDI fixed tax, for purchases of products manufactured in Puerto Rico including components and accessories, equal to a 10% of said products purchases during the taxable year on which the credit is claimed (subject to certain limitations). For additional information, refer to Sections 3(a) and 3(b) of Act 135 of 1997.

**Line 3(c)** - Any exempt business with a decree granted under Act 135 of 1997, that is a subsidiary of an U.S. parent company, that reflects a loss in the consolidated federal return or is under bankruptcy proceedings under the federal regulations, will be allowed to claim a credit against the fixed tax applicable to the IDI earned during the taxable year of the loss. For additional information, refer to Section 5(a) of Act 135 of 1997.

## SCHEDULE V1 INCENTIVES-COMPUTATION OF THE SPECIAL DEDUCTIONS UNDER ACT 135 OF 1997

### PART I - COMPUTATION OF THE SPECIAL DEDUCTIONS

Use this schedule to determine the special deductions allowed among: payroll deduction, human resources training and improvement expenses deduction, research and development expenses deduction, and special deduction for investment on buildings, structures, machineries and equipment.

**Payroll deduction** - In addition to other deduction provided by law, every exempt business with a decree under this act engaged in the manufacture and that generates a net income from its exempt operations (computed without taking into consideration the benefit of the special deductions provided in Section 4 of the law) smaller than \$30,000 per production job, will be allowed to claim a special payroll deduction equivalent to a 15% of the production payroll of the exempt business, up to 50% of the IDI, computed without the benefit of the production payroll special deduction.

The exempt business that has a decree under this act engaged in manufacture, which IDI computed without the benefit of the special deductions provided in Section 4 on any taxable year is smaller



than \$500,000, and that has kept an average employment of 15 or more persons during said taxable year, is allowed to deduct the first \$100,000 of said income in order to be totally exempt from the payment of the IDI fixed tax rate provided in Section 3(a) of this act. For additional information, refer to Section 4(a) of Act 135 of 1997.

**Human resources training and development expenses deduction** - A special deduction will be allowed for training expenses incurred to improve the productivity and quality control, to promote total quality management and to improve employees communication skills, incurred in excess of the annual average of said expenses during the 3 taxable years ended prior to January 1, 1998.

**Research and development expense deduction** - A special deduction will be allowed equal to the expenses incurred in the research and development of new products or industrial processes, or the improvement of said products and processes, that are deductible in the taxable year under the Code (subject to certain limitations).

**Special deduction for the investment on buildings, structures, machinery and equipment** - Every exempt business that has a decree under this act, is allowed to elect to deduct on the taxable year incurred, instead of any expense capitalization required by the Code, the total expense incurred after the effective date of this act, in the purchase, acquisition or construction of buildings, structures, machinery and equipment, as long as said buildings, structures, machinery and equipment have not been used or depreciated previously by any other business or person in Puerto Rico, and are used in the manufacture of products or to render the services for which said benefits were provided under this act.

**Line 10** - In those cases in which the exempt business is allowed to claim more than one of the special deductions mentioned before, and the sum of said deductions after determining the amount that is allowed before taking into consideration the limitation based on the IDI, results in an excess of the IDI for said year, or that the exempt business cannot claim the total benefit of said deduction for said year, it will determine the limitation of the special deductions following the order indicated in Part II.

#### **FORM 480-E - ESTIMATED TAX DECLARATION**

The Estimated Tax Declaration (Form 480-E) must be filed not later than the 15th day of the fourth month of the taxable year, except when the

requirements to file are met for the first time:

- 1) After the last day of the third month and prior to the first day of the sixth month of the taxable year, the filing date will be not later than the 15th day of the sixth month of the taxable year; or
- 2) After the last day of the fifth month and prior to the first day of the ninth month of the taxable year, the filing date will be not later than the 15th day of the ninth month of the taxable year; or
- 3) After the last day of the eighth month and prior to the first day of the twelfth month of the taxable year, the filing date will be the 15th day of the twelfth month of the taxable year.

The Declaration must be filed with the Internal Revenue Collections Office of the Municipality where the taxpayer resides or sent to:

DEPARTMENT OF THE TREASURY  
RETURNS PROCESSING BUREAU  
PO BOX 9022501  
SAN JUAN PR 00902-2501

You must enter in the heading of the Declaration, the name, address and employer's identification number, and check the applicable box to indicate if it is original or amended. In addition, you must indicate the taxable year to which the estimated tax payments will be applied, and the type of taxpayer.

**Line 1** - Determine the estimated tax to be paid for the indicated taxable year. This amount cannot be less than the smaller of the following amounts:

- 90% of the tax to be paid at the end of the taxable year, or
- 100% of the tax paid in the previous taxable year.

**Line 2** - Enter as estimated credit the amount withheld for services rendered by the entity or the amount withheld on distributable profits from Special Partnerships. If you are filling out an Amended Estimated Tax Declaration, also enter on this line the total amount of the installments paid, if any, before this amendment.



**Line 4 -** Enter as credit the tax paid in excess in the previous year applied as estimated tax payment in the income tax return. If you choose to claim this credit against one of the determined installments, enter zero and go to line 5.

**Line 6 -** Divide the result on line 5 by the number of remaining installments.

**Line 7 -** Enter the tax paid in excess in the previous year applied as estimated tax payment in the income tax return that will be claimed against the amount of any installment. If such credit was already considered on line 4, it cannot be considered again.

### **PAYMENT OF ESTIMATED TAX**

If the Declaration is filed before the first day of the fourth month of the taxable year, the estimated tax will be paid in four installments:

1st installment: the 15th day of the fourth month

2nd installment: the 15th day of the sixth month

3rd installment: the 15th day of the ninth month

4th installment: the 15th day of the twelfth month

If the Declaration is filed after the last day of the third month and before the first day of the sixth month of the taxable year, the installments will be:

1st installment: the 15th day of the sixth month

2nd installment: the 15th day of the ninth month

3rd installment: the 15th day of the twelfth month

If the Declaration is filed after the last day of the fifth month and before the first day of the ninth month of the taxable year, the installments will be:

1st installment: the 15th day of the ninth month

2nd installment: the 15th day of the twelfth month

If the Declaration is filed after the last day of the eighth month and before the first day of the twelfth month of the taxable year, the total estimated tax will be paid on the 15th day of the twelfth month of the taxable year.

The estimated tax installments will be paid along with a payment coupon (Forms 480.E-1 or 480.E-2). Taxpayers who filed a Declaration on the previous

year, will receive a booklet of 4 coupons (Form 480.E-2) preprinted with their name, address and employer's identification number. Taxpayers who have not received the coupon booklet, must visit the Estimated and Employer Manual Coupons Section (Office 421-A) of the Department of the Treasury (Old San Juan), where a payment coupon booklet (Form 480.E-1) will be prepared. For additional information, call 722-1499 or 721-2020, extension 2446 or 2456.

Estimated tax payments must be made at participant banks (if you have the preprinted coupon), at the Internal Revenue Collections Offices or at the Returns Processing Bureau at the address previously indicated.

Payments with checks in the participating banks must be made payable to the order of such banks. Payments made at the Internal Revenue Collections Offices shall be made with manager's checks, personal checks or money orders payable to the Secretary of the Treasury.

### **EXTENSION OF TIME**

If for a reasonable cause, a taxpayer is unable to file the Declaration or pay the tax as indicated, an extension of time to file the Declaration may be requested to the Secretary. No extension of time will be granted for a period longer than 3 months. The extension shall be requested by using Form AS 2650.

### **AMENDED DECLARATION**

If after filing the Declaration it is determined that the estimated tax will be substantially increased or reduced as a result of a change in income, deductions or for any other reason, an amended Declaration must be filed. The Amended Declaration must be identified by checking the applicable box. The increase or reduction of the estimated tax will be proportionally distributed among the remaining installments. Any Amended Declaration filed after the 15th day of the ninth month following the beginning of the taxable year as a result of an increase in the previously estimated tax, must include the total amount of said increase. The Amended Declaration in this case will be unnecessary if on the date prescribed for its filing, the final income tax return has been filed and the balance of tax due has been paid.

### **PENALTIES**

The Code establishes penalties for not filing the Declaration and for not paying the estimated tax installments. Also, a penalty is imposed for determining a substantially lower amount of estimated tax.

