

February 7, 2000

INFORMATIVE BULLETIN NO. 2000-01

ATTENTION: 936 CORPORATIONS

On December 13, 1999, and pursuant to the authority granted to the Secretary under Section 1042(g) of the Puerto Rico Internal Revenue Code of 1994, as amended, this Department issued Informative Bulletin No. 99-08 (IB 99-08), setting forth the conditions and limitations for the allowance of a deduction for federal taxes paid or accrued by 936 corporations on Puerto Rico source income derived from the active conduct of a trade or business in Puerto Rico. Among others requirements, to be entitled to the deduction, the 936 corporation must submit a draft of a closing agreement not later than ninety (90) days after the effective date of the IB 99-08, that is, on or before March 13, 2000.

We must emphasize that the requirement of requesting the benefits of IB 99-08 within this 90-day period is an indispensable condition to claim the deduction for years not barred by the statute of limitation and for future years. A 936 corporation that wishes to obtain the benefits granted by IB 99-08 for current and/or future taxable years **must** submit a draft of closing agreement to that effect no later than March 13, 2000.

This Department will evaluate, in extreme cases, granting an extension to file the draft of closing agreement. To request said extension, a 936 corporation must file, **on or before February 29, 2000**, an intention-to-file letter (the Letter). Letters received after this date shall be deemed not filed on time. The Letter must contain the following information in connection with the 936 corporation:

- name and address
- tax identification number
- taxable years for which the 936 corporation wishes to qualify for the deduction
- if the deduction was claimed in the Puerto Rico income tax return filed for such years or not
- reason to request the extension
- any other relevant information

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Based on the analysis of the foregoing information, this Department will issue its determination. Affirmative determinations will grant an extension to file the closing agreement not later than April 18, 2000. No extension will be granted after April 18, 2000.

When two or more 936 corporations are members of the same affiliated group, only one closing agreement may be filed, on behalf of the affiliated group. However, the computation of the deduction to be claimed must be determined separately for each 936 corporation that is a member of the group.

The closing agreement will address only the deduction allowed in IB 99-08. Any corollary adjustments (e.g., changes to current or accumulated earnings and profits, dividends distributed or investment requirements) resulting from this deduction shall be considered in a separate closing agreement.

The Department of the Treasury will process the drafts of closing agreement submitted pursuant to IB 99-08 on a first-in-first-out basis, with a view to expedite the final execution thereof. If the Department requests additional information to process the draft, any 936 corporation that does not submit such additional information by the date prescribed will be deemed to have withdrawn its intention to avail itself to IB 99-08, and, therefore, the 936 corporation will not qualify for the benefits provided therein.

Any tax deficiency resulting from the application of IB 99-08 shall include interest, but not surcharges or penalties, from the date the tax was originally due, and shall be payable upon execution of the closing agreement.

For your convenience, we enclose a list of documents and information to be submitted with the draft of closing agreement.

This Bulletin complements Informative Bulletin 99-08 issued on December 13, 1999.

Remember, in Hacienda we are at your service.

Cordially,

Xenia Vélez Silva

Enclosure
IB-2000-01

DOCUMENTS AND INFORMATION TO BE SUBMITTED WITH CLOSING AGREEMENT

1. Copy of the following forms of the federal income tax returns for all years for which deduction is to be claimed:
 - a. Form 1120
 - b. Form 5735, including all Schedules P

2. Reconciliation statement from federal income tax returns showing the:
 - a. Allocation of income attributable to Puerto Rico operations (including effectively connected income) segregated by concept such as, manufacturing, services, eligible investments (2j investments),
 - b. Federal income tax paid or accrued attributable to the different types of income mentioned in a.,
 - c. Income attributable to non Puerto Rico sources,
 - d. Federal income tax paid or accrued attributable to non Puerto Rico sources.

3. Schedule(s) showing:
 - a. Computation of the 6% of the Puerto Rico Source Net Taxable Income as defined in Informative Bulletin No. 99-08.
 - b. Puerto Rico tax liability before the Deduction (as such term is defined in Informative Bulletin No. 99-08).
 - c. Puerto Rico tax liability after the Deduction.
 - d. Fifty percent (50%) of item b.
 - e. Carryover of unused deduction.
 - f. Carryover of income tax overpayments against future liability.

In order to expedite the execution of the closing agreement, we strongly encourage 936 corporations to submit a copy of the Puerto Rico income tax return for each taxable year in which the deduction will be claimed.