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Secretary

October 3, 2016

INTERNAL REVENUE CIRCULAR LETTER NO. 16-12-IR ("CC IR 16-12")

ATTENTION: ALL MERCHANTS

SUBJECT: INTERNAL REVENUE UNIFIED SYSTEM (SURI by its Spanish acronym) AND THE MERCHANTS' REGISTRATION CERTIFICATE UPDATE

I. Statement of Motives

Starting on October 31, 2016, the Department of the Treasury ("Department") will have a new electronic system, known as the Internal Revenue Unified System ("SURI," its Spanish acronym). SURI is the Department's new technological tool which will be used to integrate and streamline tax management. Once it is fully implemented, SURI will unify all the tax systems that the Department currently has, including the systems for managing the Sales and Use Tax ("SUT"), income tax, excise taxes, and licenses, among others.

As part of the transition to SURI, Merchants' Registration Certificates issued pursuant to the provisions of Section 4060.01 of the Puerto Rico Internal Revenue Code of 2011, as amended (hereinafter, the "Code") must be updated and new certificates will be issued through SURI with new features.

In addition, the Department will introduce a new Provisional Merchants' Registration Certificate (hereinafter, "Provisional Certificate") aimed at future merchants who would like to start business processes that require a Merchants' Registration Certificate, but who will not start formal commercial operations for a period of no less than thirty (30) days, but no more than six (6) months, from the date when they file their application.

The Department is issuing this Circular Letter for the purposes of: (1) providing information on SURI, the Department's new technological tool; (2) describing the changes to the Merchants' Registration Certificate; (3) establishing the process for updating the Merchant's Registry for merchants registered prior to October 15, 2016; (4) defining the registration process for new merchants; and (5) establishing the procedure for applying for the new Provisional Certificate.

II. Discussion

A. Internal Revenue Unified System (SURI)

The main objectives for the implementation of SURI are: (1) to improve the service experience for taxpayers, (2) to increase operational efficiency by integrating the main platforms and systems that manage the operations of the Department, and (3) to obtain an integrated view of the taxpayer as the main oversight tool. The implementation plan has been drawn based on tax types and is expected to be completed in the course of three years.

In the first phase, all functions related to the SUT will be implemented and the systems that currently interact for managing said tax, including the *Sales and Use Tax Monthly Return Filing and Payment System* (ivu.hacienda.gobierno.pr) and the *Integrated Merchants Portal-PICO* (comerciantes.hacienda.pr.gov) will be merged. SURI will allow citizens and merchants to report transactions related to the SUT from anywhere by using any intelligent electronic device with internet access (computer, Tablet, iPad, mobile phone, iPhone). Through SURI's website, they will be able to carry out, among others, the following transactions electronically:

- verify, update, modify their accounts;
- file or amend the Declaration of Imports, the Tax on Imports Monthly Return, and the Sales and Use Tax Monthly Return, including prior periods;
- make debt payments and payments associated to declarations and returns;
- new applications for Merchant's Registration, changes, ceased of locations;
- electronic applications for Exemption Certificate for Manufacturing Plants, Eligible Reseller Certificate, and the Reseller Certificate and Municipal SUT Exemption Certificate;
- claims, among others.

One of the most significant changes with the arrival of SURI is the introduction of a new Merchants' Registration Certificate, which includes an update of the codes of the North American Industry Classification System (NAICS) according to the latest list for the year 2012.

B. Changes in the Merchants' Registration Certificate

The new format of the Merchants' Registration Certificate (hereon, "Certificate" or "Merchants' Registration Certificate") contains several important changes listed below:

1. **Size and Issuance:** The Certificate will be on letter-size paper (8 1/2 x 11) with a graphic art background. The Certificate will be issued electronically and made available immediately in the merchant's account in SURI once the application for registration has been processed.
2. **Content:** The Certificate shall contain the merchant's basic information, such as the legal name and the commercial name of the location. The Merchants' Registration number assigned to the location will still be shown, but in a larger size for improved visibility.



3. **Security:** New security features are introduced to corroborate the validity of the document.
4. **NAICS Code and Description of Commercial Activity:** SURI has the capacity to handle multiple NAICS Codes associated to one location. With SURI, the merchant will be able to include all commercial activities carried out in a location, in which case they will be asked to identify the main activity among all reported. It will no longer be necessary to have multiple certificates for one location because different business activities are carried out there. Also, we have taken this opportunity to update and use the official list of the NAICS Codes for the year 2012 to five digits, offering a more accurate and current description of the different commercial activities.
5. **Effectiveness:** All Certificates issued to new or existing merchants will have a limited period of effectiveness in order to keep the merchants' data up to date. The new certificates will have a period of effectiveness of two (2) years. The determination of the expiration and renewal date will be the same as the formula used for the effectiveness of Internal Revenue licenses. After the period of two (2) years expires, the merchant must file an application for renewal in accordance with the procedures established by the Secretary of the Treasury.

The Certificate will continue to indicate whether the merchant is a withholding or non-withholding agent, pursuant to the provisions of Subtitle D of the Code and its Regulations. Every merchant considered as a withholding agent has the obligation to file the Sales and Use Tax Monthly Return through SURI and remit the corresponding payment to the Department in accordance with their tax liability.

C. Process for updating the Registry and obtaining the new Merchants' Registration Certificate- Registered Merchants

As of **October 15, 2016**, all merchants registered with the Department will have access to the process of updating their Merchants' Registration through SURI. The update process must be done **on or before November 20, 2016**, which is the deadline for filing the first Sales and Use Tax Monthly Return through SURI, for the month of October of 2016.

However, those merchants who are importers must update their registration in SURI on or before November 10, 2016, which is the deadline for filing the first Tax on Imports Monthly Return. Any merchant who has merchandise to declare as of October 31, 2016, must update their registration in SURI on or before said date in order to be able to file their declaration.

As part of the updating process, the information that is currently registered in the systems of the Department will be automatically transferred to SURI when the merchant registers on the new platform. In cases where the merchant has multiple locations with the same physical address, they will be asked to consolidate them during the process of updating their Merchants' Registration; SURI will not allow the registration of multiple locations with the same physical address. On the other hand, SURI will allow the registration of multiple NAICS codes associated



with the same location, so that multiple commercial activities may be registered under the same location.

i. Registered merchants that have a PICO account

Merchants that hold an active Certificate and have a PICO account shall access SURI **on or after October 15, 2016**, through the Department's webpage, www.hacienda.pr.gov, by clicking on the SURI logo. Once they have accessed SURI, they must provide their PICO user information and password to facilitate the transfer of data related to their registration and validate or modify any information related to their account. As part of this update process, the merchant must answer additional questions to complete the new merchants' registration in SURI.

The authorized representatives or agents of a merchant that is active in PICO with administrator privileges will be able to complete the update process on behalf of their client in SURI. In these cases they must select the registration application type that describes them as an Authorized Representative or Agent.

ii. Registered merchants that do not have a PICO account

Merchants that have an active Certificate but do not have a PICO account will be able to access the SURI portal **as of October 15, 2016**, through the Department's webpage, www.hacienda.pr.gov, by clicking on the SURI logo. Once they have accessed the registry in SURI, they must provide their Merchants' Registration number for their base location and the access code (PIN) associated to such registration to facilitate the transfer of data related to their registration and validate or modify any information related to their account. As part of the upgrade process, the merchant must answer additional questions to complete the new merchants' registration in SURI. If the business has multiple locations, the merchant will have to identify each of these locations separately in their registration by following the rules described above regarding the physical location.

It should be noted that the process of updating the Merchant's Registration is compulsory and applies to all merchants, both those classified as withholding agents and those who are classified as non-withholding agents for the purposes of the SUT.

Upon completion of the process of updating the Merchant's Registration, they will be shown a message confirming their registration that will include a code. This code shall be provided to a representative from the Department in case they have questions or concerns about their registration. Once the application has been processed, they will receive an email with instructions to log into SURI.

Merchants will be able to access SURI after the conversion process has been completed on October 31, 2016. Once they have accessed SURI, the merchant will be able to print their new Merchants' Registration Certificate. The certificate must be placed somewhere visible to the general public, in accordance with Section 4060.02 of the Code.



Any merchant who fails to comply with the requirement to update the Merchant's Registry shall be subject to a penalty of \$500 pursuant to Section 6046.03(e) of the Code. Moreover, merchants who fail to comply with the update process will not be able to file a Declaration of Imports, the Tax on Imports Monthly Return, or the Sales and Use Tax Monthly Return, and so they could also be subject to the penalties imposed by Sections 6046.04 and 6046.05 of the Code.

D. Process for Registration in SURI - New Merchants

As of October 31, 2016, all new merchants will need to register and apply for their Merchants' Registration Certificate through SURI. Once registration is completed, the merchant will be able to print their new certificate. The certificate must be placed somewhere in the establishment where it is visible to the general public, according to Section 4060.02 of the Code. If the business has multiple locations, the merchant will have to identify each of these locations separately in their registration by following the rules described above regarding the physical location.

E. Provisional Merchants' Registration Certificate

The Department of the Treasury is aware that during the process of opening a new business, both financial institutions and government agencies require a Merchants' Registration Certificate as part of the documents required for opening bank accounts, applying for loans, applying for construction permits, among others. Given this situation, many merchants apply for the Certificate even though their commercial activity will not start in the near future. Even when they are not generating taxable economic activity, these merchants are required to file their Sales and Use Tax Monthly Return at zero (0) to comply with the filing requirements.

To address this situation and prevent these future merchants from being required to file the Sales and Use Tax Monthly Return despite not having had any commercial activity, **as of October 31, 2016**, a Provisional Certificate may be requested through SURI for those merchants who will not start their business activity within the thirty (30) days immediately following the application for the Certificate. This Provisional Certificate will be in effect for six (6) months from its issuance and it will not be subject to any extension.

Notwithstanding the foregoing, it is hereby clarified that possession of a Provisional Certificate does not liberate the merchant from collecting the SUT if they carry out any taxable transactions prior to the expiration period of said Certificate. Therefore, although as a general rule merchants with a Provisional Certificate will not have to file their Sales and Use Tax Monthly Return for the period of six (6) months of its effectiveness, SURI will give them the option of filing such return in case they do carry out a taxable transaction.

Finally, pursuant to Section 4060.01 of the Code and Article 4060.01-1 of its Regulation, any person who carries out or wishes to carry out business of any kind in Puerto Rico, must apply for registration in the Merchants' Registry for each commercial location, at least thirty (30) days before starting their operations. Therefore, if a merchant starts their commercial operations prior to the expiration of their Provisional Certificate, said merchant must apply through SURI for the Merchants' Registration Certificate at least thirty (30) days before starting operations.

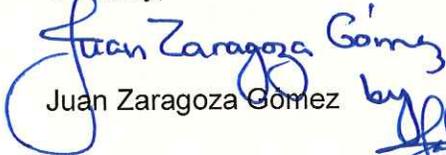


III. Effectiveness

The provisions of this Circular Letter are effective immediately.

For additional information on the provisions of this Circular Letter, you may call at (787) 622-0123).

Cordially,


Juan Zaragoza Gomez by 



Secretary of Treasury