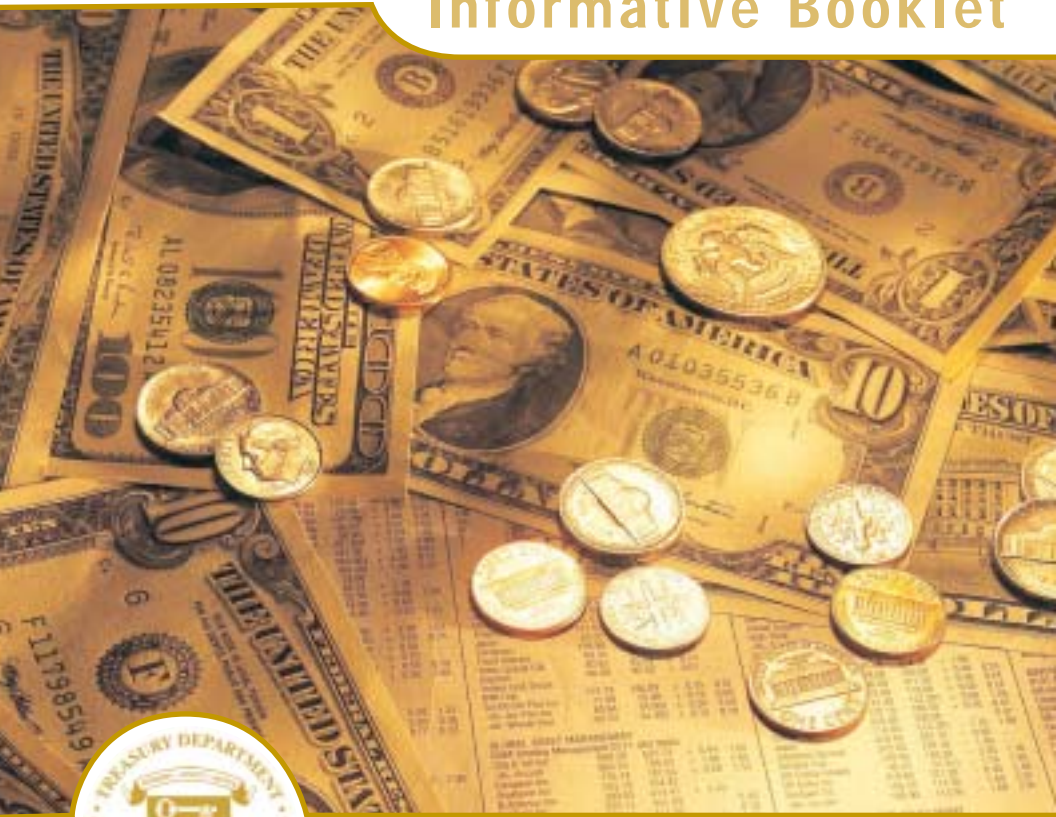


Informative Booklet



to provide orientation about your

Income Tax Return

Message from the Secretary

Dear taxpayer:

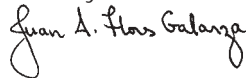
In this informative booklet, the Department of the Treasury has compiled the most common questions asked by our taxpayers when filing their Income Tax Return to inform and facilitate the process of fulfilling their fiscal responsibility.

Remember that the Income Tax Return can be delivered at any of the Internal Revenue Collection Offices and Tax Orientation Centers, conveniently located in San Juan, Bayamón, Caguas, Ponce, and Mayagüez or can be send by mail.

At the Department of the Treasury, we reiterate all taxpayers our unwavering commitment with a courteous and expeditious service. We invite you to read the information herein contained very carefully and to file your income tax return on time.

For additional information or to clarify any doubts, do not hesitate to call 787-721-2000, extension 3611 or 1-800-981-9236. Also, for inquiries concerning the status of your refund or for any claims, you can call TeleHacienda at 787-721-0510 or toll free at 1-800-981-0675. In addition, you can access our site on the Internet at <http://hacienda.gobierno.pr>.

Cordially,



Juan A. Flores Galarza

Secretary

Department of the Treasury

We recommend you to read carefully the return's instructions and complete all of its parts, so you can receive your refund on time.

1. Who must file an income tax return in Puerto Rico?

Puerto Rico residents individuals who has a gross income from any source must file an income tax return if such income exceeds the following amounts:

Married filing jointly	\$6,000
Single or married not living with spouse	\$3,300
Married filing separately	\$1,500

United State citizens individuals, nonresidents of Puerto Rico, whose gross income have not been subject to withholding of tax at source, must file an income tax return, if such income exceeds the following amounts:

Married filing jointly	\$3,000
Single or married not living with spouse	\$1,300
Married filing separately	\$1,500

Nonresident aliens individuals with gross income from sources within Puerto Rico during the taxable year must file an income tax return, unless such income has been subject to withholding of tax at source.

2. Who must file the Short Form?

The Short Form must be filed by every taxpayer that meets the following requirements:

- a. His/her gross income is less than \$75,000.

- b. Income consists only of salaries and wages subject to withholding in Puerto Rico, tips and wages from the Federal Government or payments from annuities and pensions.
- c. Have not received income from alimony, interests, dividends, and sole proprietorship business or from any other source.
- d. Claim the standard deduction (did not itemize).
- e. Do not claim credit for foreign taxes paid.

**When the return must be filed?
Not later than April 16, 2002.**

- f. Only claim credit for contributions to the Educational Foundation for Free Selection of Schools.
- g. Is not required to file an Estimated Tax Declaration.
- h. Is an american citizen or a resident alien.
- i. Do not file under the status of married filing separate returns.
- j. Do not claim credit for the withholding of income tax at source for services rendered.

If you do not meet all these requirements, then you must file the Long Form.

3. If I got married during the year, how must I file the return?

The taxpayer's personal status is determined at the end of the taxable year. Therefore, you must file a return as married living with spouse including both incomes. Notwithstanding, you can file a

return as married filing separately. In this case, each spouse must report income and deductions separately.

4. If I do not qualify to file the Short Form, can I claim the standard deduction?

Yes. You can file the Long Form and also claim the Standard Deduction. In this case you cannot claim as deduction such items that are itemized deductions.

5. Is it true that married persons living with spouse can file separate returns?

Yes. The Code provides that those individuals that at the end of the year are legally married and living together can file separately. Notwithstanding, both spouses must file the same kind of return and use the tax table provided to determine the tax under this option.

Remember that you must include your spouse's social security number and both spouses must sign the return.

6. I am divorced. Is the amount paid for children support deductible in my income tax return?

No. The amount paid for children support is not deductible in the payer's Income Tax Return.

7. May I deduct the periodic payments made for alimony to my former spouse?

Yes, as long as the payment is made to former spouse, the payer and the former spouse are not members of the same household on the date of payment, and there is no obligation to continue making any payments, after the death of the spouse receiving them. The one receiving the payment must include the alimony as income in the return. To claim this deduction, you must

provide with the Long Form copy of the divorce decree, evidence of the payments and former spouse's social security number.

8. I am legally divorced. My former spouse and I provide more than 50% of our three children support and she has their custody. Who can claim the dependent exemption?

In such cases that parents provide more than 50% of their children support, the exemption for dependents will be claimed by the parent who has the child custody. However, the parent with the right to custody can release the right to claim the exemption for dependents to the parent who does not have the right to custody. This release will be made in writing completing Schedule CH Individual (Release of Claim to Exemption for Child (Children) of Divorced or Separated Parents). The parent to whom the dependent's exemption has been released must submit such schedule with the return.

9. My two sons work in part - time jobs, but only one of them is a full time student; can I claim them as dependents in my income tax return?

If one of your sons works in a part - time job, is not a regular student and the gross income received exceeds \$1,300 for the year, you can not claim him as a dependent. Nevertheless, if the other son works, is a regular student and the gross income received by him is not over \$3,300, you can claim him in your return.

10. My son studies at an University outside of Puerto Rico. May I claim him as a dependent?

Yes, as long as your son has studied at least one school semester as a regular student and the university is recognized by the Puerto Rico educational authorities or by the country where he is studying. He must have not reached the age of 26 years at the closing of the taxable year; neither have earned income over \$3,300.

11. Is it true that the exemption for university student applies for those university students attending postsecondary studies in technical - professional institutions recognized by the educational authorities?

Yes, provided that your child had attended at least one semester as a regular student, had not reached the age of 26 at the end of the taxable year, and had not earned income over \$3,300.

12. If my father received social security, can I claim him as a dependant?

The social security income is not taxable in Puerto Rico. For that reason, if your father does not receive income from other sources (or such income does not exceed the limitations indicated in question 1) and you provide him over 50% of his support, you can claim him as a dependant in your Income Tax Return.

13. During this year I have provided more than 50% of my father's support who does not live in Puerto Rico. Can I claim him as a dependant in my return?

If your father does not live in Puerto Rico, but he is an american citizen, you can claim him as a dependant if you have provided him over 50% of his support for the taxable year and his gross income is \$1,300 or less. However, if the dependant is a nonresident alien in Puerto Rico you can not claim him.

14. Is it necessary to submit the social security number of each dependant claimed on my return?

Any taxpayer must indicate in the return, the social security number of any dependant claimed who is one year old or older at the end of the taxable year. If it's not included it, the dependant exemption will be rejected.

15. What is the Optional Standard Deduction?

This deduction is a fixed amount that the Code provides as an alternative to the itemized deductions. The total of the Optional Standard Deduction depends on the filing status:

- a. Married living with spouse and filing jointly . . . \$3,000
- b. Single or married not living with spouse \$2,000
- c. Head of household \$2,600
- d. Married living with spouse and filing separately \$1,500

16. The additional deductions are in the Short Form and Long Form. Which are these deductions?

The additional deductions are the following:

- a. Contributions to governmental pension or retirement systems.
- b. Contributions to an Individual Retirement Account (IRA).
- c. Deduction when both spouses work, receive earned income and file a joint return.
- d. Deduction for veterans.
- e. Ordinary and necessary expenses.
- f. Automobile loan interest.
- g. Young people who work.
- h. Educational Contribution Account

These deductions are available independently that you claim the Optional Standard Deduction or the Itemized Deductions.

17. To claim the admissible deductions in the income tax return, is it necessary to submit the evidences?

No. From taxable year 2001 you do not have to include with the return the evidences corresponding to the additional and itemized deductions. Notwithstanding, you must keep such evidences during at least 10 years, in case that they may be required as part of an investigation or audit procedure. In such cases, if you do not present the evidences, your return may be adjusted and the corresponding interest and surcharges will be assessed.

18. Which is the amount of annual exemption on my pension from the Puerto Rico Government Retirement System?

In the case of pensions granted by the Puerto Rico Government, United States Government and by the instrumentalities or political subdivisions of both governments, are exempt of taxes the first annual \$8,000 if the pensioner is younger than 60. For pensioners of 60 years or older, the exclusion is \$11,000. If the taxpayer receives more than one annuity or pension, the exclusion will apply to each annuity or pension separately. After claiming this exemption, the rule that allows recovering the cost of the annuity or pension exempt of income tax is applied. To claim this exemption you must file Schedule H Individual.

19. I am receiving a private business retirement pension. Is there any exemption for such a pension?

Yes. You can exclude the first \$8,000 if you are younger than 60 or \$11,000 if you are 60 or older. After claiming this exemption, the rule that allows recovering the cost of the annuity or pension exempt of income tax is applied.

20. As a public employee, is it true that upon retirement, contributions made to the Retirement System are taxable?

Contributions (cost of pension or annuity) made by the public employee to the Retirement System of the Government of Puerto Rico are not taxable once you start receiving them. Notwithstanding, the interest earned for those contributions are taxable.

21. I am married and filing jointly. Can I deduct up to \$6,000 in my return for contributions made to an Individual Retirement Account (IRA)?

Yes. In the case of married persons filing jointly, the deduction for contributions made to an IRA will not exceed \$6,000 or the aggregated adjusted gross income from salaries or the earnings attributable to professions or business, whichever is smaller. To claim the maximum contribution, you must open an IRA for \$3,000, under the name of each one of the spouses.

If you only receive income from annuities or pensions, you can not claim the contribution made to an IRA.

22. I understand that there are some limitations regarding the ordinary and necessary expenses in the case of employees. Which are they?

The ordinary and necessary expenses deduction, related to the exercise of a profession or occupation as employee that have not been reimbursed by the employer, is limited to the amount paid, \$1,500 or 3% of the adjusted gross income from salaries, whichever is smaller.

23. I use uniforms in my job as a secretary of a company. Can I claim as part of my ordinary and necessary expenses the cost and maintenance of the uniforms?

In order to claim a deduction for the use of uniforms, it is required to comply with the following requirements:

- a. The uniform must be of a specific kind required as a job condition, such as policemen, firemen and nurses.

- b. It can not be used in substitution of the general use clothing.

24. Is it true that I can deduct the interest expenses from an automobile loan?

Yes, it is true. You can deduct up to \$1,200 for interest paid or accrued from a loan for the acquisition of an automobile. The deduction is allowed for one automobile per taxpayer.

25. I have a leasing contract for one car. Can I claim as a deduction the interest paid?

Yes, provided that the leasing contract is one with a purchase option. This deduction is limited to \$1,200.

26. I am a young university student who works. Am I entitled to a special deduction?

Yes. An additional deduction of \$1,000 is granted if you are a young person who, at any moment of the taxable year, are between 16 and 25 years old and work.

27. What is an Educational Contribution Account?

In general terms, is a trust created or organized under the laws of the Commonwealth of Puerto Rico by an individual for the exclusive benefit of his/her children or relatives up to the third degree of blood relationship or second degree by affinity. The same can be established only by the person who has the custody and the rights and obligations conferred by Law of the beneficiary. This trust must comply with the investment requirements provided in Section 1169(a)(3) of the Puerto Rico Internal Revenue Code. The balance of the trust should be distributed to the beneficiary with the purpose of paying for the cost of post-secondary studies, after graduating from high school and not later than the taxable year in which he/she attains 30 years of age.

28. In addition to save money to pay for the studies, which other benefit may I obtain establishing an Educational Contribution Account?

In taxable terms you are entitled to an additional deduction that can not exceed from \$500 for each beneficiary for which you made the contributions. There is no limitation in the number of educational contribution accounts to which each individual can contribute, as long as such beneficiary is eligible. This deduction will not be allowed for a taxable year in which the beneficiary has reached the age of 26.

29. Is there a due date to make the contributions?

Yes. To claim this additional deduction, you have to make the contributions to the Educational Contribution Account not later than the last date provided by the Code to file the return, or until the due date of any extension of time granted by the Secretary to file the return.

30 In addition to my principal residence located in San Juan, I have a residence in Ponce that I use as a second residence during the year. Can I claim the mortgage interest of both residences?

Yes. You may deduct the home mortgage interest paid of your principal residence and the second residence. Notwithstanding, to claim the deduction for the second residence, it must be used by you or any member of your family as a residence for a number of days that exceeds the larger of 14 days or 10% of the number of days during the taxable year in which the property has been rented at the prevailing market value.

31. Are the financing charges of my home mortgage loan allowed as a tax deduction? Where can I claim them in the return?

The financing charges known as loan origination fees and loan discounts financed through a home mortgage loan to acquire the principal residence, are allowed as a deduction during the term of

the loan. If the charges were paid totally during the year, you can claim the total amount in such year.

It is important that in both situations you keep for your records the Uniform Settlement Statement or the informative Return - Mortgage Interest (Form 480-7A). The amount determined as financial charges will be claimed on Schedule A Individual (Itemized and Additional Deductions), Part 1, line 1 of the Long Form.

32. Is it true that I can deduct the interest paid over my personal loan for home improvements as mortgage interests?

Yes, provided that you had used the personal loan to acquire, construct or improve a qualified residence which is not accepted by a banking or financing institution as a mortgage guarantee or equity (i.e. wood residence). You must keep for your records copy of the property tax exemption application or of the appraised revision of the property.

33. I own a residence located in the United States, which is my principal residence, and I paid property tax. Can I claim such deduction in my return?

Yes, as long as such residence constitutes your principal residence, subject to certain limitations provided by the Code. A deduction for taxes paid for the second residence is not allowed.

34. I live in a rented house. Can I claim the rent payment?

Yes. You can claim as a deduction 10% of the total rent paid during the year or \$500, whichever is smaller. In order to claim this deduction, you must indicate the social security number of the person to whom the payment was made. In the case of a married person filing separately, you can claim \$250 or 10% of the total rent paid, whichever is smaller.

35. Can I claim a loss as a result of a hurricane?

The Code provides certain deductions that you can claim in your return for losses as a result of casualties, such as a hurricane. This deduction is allowed for:

- a. Loss on the principal residence as a result of fire, hurricane and others casualties.

If you have a loss in the real property which constitutes your principal residence, you can claim as a deduction the amount not compensated by insurance or otherwise in the year of such loss. You must keep for your records the following documents:

- 1) Copy of the Civil Defense Certification describing the type of damage; and
- 2) Any document, public deed or appraisal, which reflect the value of the property subject to the loss.

- b. Loss of personal property as a result of certain casualties.

If you had a loss of personal property such as automobiles, furniture and house goods (excluding the value of jewelry or cash), you can claim a deduction for the amount not compensated by insurance or otherwise limited to \$5,000. The amount of such \$5,000 not used during the year on which it occurred, may be carried over to the following two taxable years. In order to be entitle to this deduction is necessary that:

- 1) The affected area must be declared as disaster area by the Governor of Puerto Rico;
- 2) Taxpayer claim the applicable benefits from the assistance programs qualified by state and federal agencies; and
- 3) You must keep for your records a copy of the claim filed stating the damages suffered approved by any of the assistance programs qualified by the state or federal agencies.

36. Which amount can claim for childcare expenses?

You can deduct up to a maximum of \$800 for one dependent and \$1,600 for two or more dependents as an itemized deduction. You must keep for your records receipts or cancelled checks.

37. Can I claim as medical expenses deduction the amount paid to a health house where my mother is intern?

No, these expenses are not deductible. The deduction allowable for medical expenses includes amounts paid for the diagnose, healing, treatment or prevention of diseases. Also, the amounts paid for an insurance against sickness or accidents and the applicable deductibles.

38. My neighborhood is collecting funds to pay a neighbor's medical expenses. Can I claim as a charitable contribution my contribution to that fund?

No. Only charitable contributions made to nonprofit entities qualified by the Department of the Treasury are deductible.

39. To which kind of organization can I contribute and at the same time claim such contributions as a deduction in the income tax return?

You can claim as charitable contributions, subject to certain limitations, the contributions made to the Commonwealth of Puerto Rico or to the United States Government. Also you may deduct the contributions paid during the year to religious, charitable, scientific, literary or educational organizations, or to organizations for the prevention of cruelty to children or animals, or to organizations of war veterans in the United States or Puerto Rico. It will be allowed only if no part of the net earnings of any organization to which you contribute, may benefit any private shareholder or individual, and if the organization have confirmed its non profit status with the Department of the Treasury.

40. Once I made the contributions to any of the qualified organizations, what is the amount that I can claim as a deduction for charitable contributions?

The allowable deduction is the total amount of contributions or donations in excess of 3% of your adjusted gross income, or 33% of the contributions or donations paid during the taxable year, whichever is larger. However, the deduction allowed should not exceed 15% of your adjusted gross income, except for the additional deduction up to 15% of your adjusted gross income for contributions or donations paid to accredited educational institutions at university level established in Puerto Rico, to the José Jaime Pierluisi Foundation, to the National Fund for the Financing of Cultural Affairs of Puerto Rico or to the 98 Centennial Commission.

41. Is it true that the deduction for dependent's education expenses has increased?

Yes. From taxable year 2001, you can deduct up to \$300 (\$150 if married filing separately) for each dependent who is studying at an elementary school level, from pre-kinder to sixth grade, or \$400 (\$200 if married filing separately) for each dependent at secondary school level up to twelfth grade, or the amount actually paid, whichever is smaller.

42. I am a university student and I have a business. Can I deduct the interest paid in a student's loan?

Interest paid on students loans to cover expenses of the taxpayer for registration, tuition and text books at university level, as well as expenses for transportation, meals and lodging in those cases in which the taxpayer had to live outside his/her home in order to pursue such studies, are deductible as part of the itemized deductions. This deduction must be claimed on Schedule A Individual, Part I, line 14 of the Long Form. You can not deduct this amount as part of the operating expenses of your business.

43. I am a self-employer individual and a withholding was already made to the payments I received for services rendered. Can I claim this withholding as a credit when I file the income tax return?

Yes. Withheld amount will be credited against the income tax determined in the return for the calendar year. In order to claim the withholding in your return, you must include Form 480.6B. For additional information about this withholding refer to the Informative Booklet Regarding the Withholding of Income Tax at Source in Case of Services Rendered.

44. Can I claim the contributions made to the Educational Foundation for Free Selection of Schools?

Yes. Every resident individual can claim as a credit the contributions made to such foundation. The amount of credit allowed must not exceed \$250. The total of contributions made in excess of the credit will be allowed as charitable contributions, up to the limit allowed by the Code.

Also, you can claim the contributions made until April 16 or until the due date of any extension of time granted to file the income tax return.

45. When is an amended return filed?

The amended return is filed when you omit some income or did not claim certain deduction, exemption or credit you are entitled to claim, or when you claim a deduction, exemption or credit in your original return for which you do not qualify.

When the result of the amended return is a refund or additional credit, it must be filed within 4 years from the date the original return was filed, as long as this original return was filed on time. In the cases when the original return was filed late, you will have only 3 years from the due date the original return was supposed to be filed, to amend the return and claim a refund or additional credit.

In order to process the amended return you must obtain an income tax return corresponding to the taxable year that you are going to amend and check the box corresponding to amended return, which is located in the upper right corner of the return.

46. I am a Puerto Rico resident and I received dividends from investments in foreign corporations that are not engaged in trade or business in Puerto Rico. Do I have the right to pay 10% tax rate over it?

No, because the dividends are from a corporation that is not engaged in trade or business in Puerto Rico. This income must be informed as ordinary income and will pay taxes on the regular tax rates.

47. During the year my spouse died. How must I file my return?

You have the right to file one return with your spouse, including both spouse's income from January 1st to the date of death, claiming the total personal exemption. You will file another return with your income for the remaining months of the year including the income corresponding to such months and claiming the personal exemption that you are entitled to at the end of the taxable year.

48. Which of my dependents make me qualify for the head of household status?

In order to claim the head of household status the dependant who qualifies you must live with you and you must provide more than 50% of his/her support during the taxable year. This dependent must be closely related to the taxpayer by blood, marriage or adoption. A dependent, who qualifies you for the head of household status, can not be included in the computation of the total exemption for dependents.

A married individual living with his spouse is not a head of household for tax purposes; therefore, he should not include the wife's name in the box for head of household.

49. I am a retailer; my principal industry is a drugstore. During the year I had a loss. My wife receives salary income. Can I claim such loss against my wife's salary?

No. The loss of your industry or principal business can only be claimed against the income from sources other than salaries or pensions. Notwithstanding, if you were a salaried employee and also engaged in any trade or business as your principal activity, and had a loss in that year, you may deduct such loss from your or your spouse's salaries and wages only in the first year in which you began the business and in the following two years. This is a once in a lifetime benefit.

50. I was a salaried employee until June 2001 and from July 1, I established a business. At the end of the year I had a loss. Can I claim the same as a deduction against my salary?

Yes, you can claim the loss as a deduction against your salary and your wife's salary, since it is the first year of your business. The loss can be claimed on the first year it is incurred and carried over to any of the following two years. This benefit is only once in a lifetime.

51. We are a married couple and each one has his/her own principal business. In one of the business we had a loss. Can we claim such loss against the gain, if any, of the other principal business?

Yes. The loss incurred in your business or principal industry, or the principal business or industry of your spouse, can be claimed against other income, except salaries and pensions.

52. Are meals and entertainment expenses deductible?

Yes, meals and entertainment expenses can be deductible, as long as they are neither luxurious nor extravagant, be incurred while you are absent of your residence and have not been

reimbursed by your employer. Nevertheless, this deduction is limited to 50% of the total expenses, up to the limit of 25% of your gross income, in the case of self-employed people.

53. If a dependent dies on January 2001, can I claim him/her as a dependent when filing the return of 2001?

Yes, you can claim the exemption for a dependent that is born or dies during the taxable year. An example of this situation is when the dependent is born on December 2000 and dies on January 2001, where the exemption for dependent will be claimed complete in both taxable years.

54. I am receiving my IRA distribution as an annuity. Can I claim the exclusion of \$8,000 and \$11,000?

No. Such exclusion applies to those annuities granted by the Commonwealth of Puerto Rico, the Government of the United States of America or by employers of the private sector.

55. I withdrew from the IRA before the age of 60 and they withheld a 10% penalty. Can I claim such penalty as a deduction?

No, this penalty is not deductible. However it is part of the distribution, so you have to include it as an income on the year received.

56. Is it true that I can withdraw my contributions to an IRA for the acquisition of a computer without the 10% penalty?

Yes. You may withdraw up to the maximum amount of \$1,200 for the acquisition or purchase of a computer for the benefit of a dependent up to second degree of blood relationship who is attending studies up to university level. Such withdrawals can only be made once every six years.

Remember that once you withdraw the funds, they must be informed as part of your taxable income on Schedule F Individual (Other Income), Part V.

57. I work as an employee for an enterprise and I make contributions to a qualified retirement plan. Can I make contribution to an IRA?

Yes. The maximum limit of the contributions to an IRA can not exceed the difference, if any, between the contributions made to the retirement plan in cash or deferred (401K) and the maximum allowable as contribution to the plan, this is \$8,000.

58. During the year I won an automobile in a contest. Do I have to include this prize in the return?

Yes. If you participate in a contest and you are the winner, whatever you win constitutes an income and must be included in the return. The income to be informed is the fair market value that the article has in the year received. You must inform it on Schedule F Individual (Other Income), of the Long Form.

59. I am a married taxpayer and my wife and I file separate returns. We both receive interest income from financial institutions. Can we both claim the \$2,000 exclusion?

Yes. In the case of married persons filing separate returns, each one may claim the \$2,000 exclusion.

60. In the taxable year 2001, I finished my work with the prior employer and received my share in the qualified retirement plan of the company. Do I have to include this income in my return or can I postpone the taxation?

To postpone the taxation of this income, you must transfer the total of the amount received to other qualified retirement plan or to an IRA within 60 days following the distribution of the benefits under the plan. Otherwise, you must include the distribution in

your income tax return. In this case, you can pay tax for the income as a capital gain to a preferential tax rate of 20%, as long as the investment has been possessed for more than 6 months.

61. Is it true that the distributions of a qualified retirement plan are subject to a 20% withholding of tax at source?

Yes, the distributions of qualified retirement plans received in a lumpsum (one payment or several payments during one year) and that have resulted from a job termination, are subject to a 20% withholding of tax at source.

62. If I have not received my withholding statement by January 31, can I file the Income Tax Return without the withholding statement?

Every return in which a credit for income tax withheld at source from salaries is claimed, must be accompanied with a withholding statement. The fact that the employer has not provided the withholding statement to the employee does not exempt him/her of fulfilling with the requirement of filing the return.

The employee must request his/her withholding statement through the Human Resources Office of his/her place of work. If he/she is not able to obtain the withholding statement, he/she must inform the situation to the Employer Investigation Section of the Department of the Treasury at (787) 723-5808.

63. My withholding statement (pink paper) reflects an amount in Block 16, Contributions to Coda Plans. Can I claim this amount as a deduction in my return?

No. Notwithstanding, you can claim this deduction in your income tax return if this amount has not been deducted from your salary income (Block 12) and the Department of the Treasury qualifies the plan.

64. Are funeral expenses deductible?

Funeral expenses are not deductible for the purpose of the income tax return. However, these expenses are deductible up to a maximum of \$4,000 in the deceased estate return.

65. If I am a self employer, can I establish a retirement plan in addition to make contributions to an IRA?

Yes, in addition to the contributions made to an IRA, you can establish your own retirement plan. Those plans are known as Keogh Plans. Generally, the contributions will be limited to 25% of the net income without including the deductions.

66. When must I file an Estimated Tax Declaration?

You must file an Estimated Tax Declaration if you received income not subject to withholding such as interest, dividends, gifts, IRA withdrawal and others, and if your gross income not subject to withholding exceeds 50% of your total estimated gross income from all sources or \$5,000, whichever is smaller, if you are single or married not living with your spouse. In case that you are married living with your spouse, the limit is the excess of 50% of the total estimated gross income or \$10,000, whichever is smaller.

However, if the total amount of tax is \$200 or less, you are not required to file an Estimated Tax Declaration.

67. During the taxable year 2001, I sold my house and obtained a capital gain. Do I have to file an Estimated Tax Declaration?

Capital gain is one of the items subject to the estimated tax payment. To determine if you are required to file an Estimated Tax Declaration or not, see the rules established in question number 66.

68. I am the owner of a house, which I have rented under Plan 8. Do I have to include the income that I receive from such rent in the income tax return? If so, do I have the right to claim any deduction against such income?

The income received from the rent under Plan 8 is totally taxable and must be informed on Schedule N Individual (Rental Income) of the Long Form. You have the right to claim on said schedule the expense actually incurred related with the rental income.

69. During the year, I sold a property that was acquired by inheritance. Do I have to pay taxes for this sale?

Yes. When a property acquired by inheritance is sold, the gain or loss must be informed in the Income Tax Return. The determination of the property's basis (acquisition cost) will depend on the date it was acquired.

- If the property was acquired on or before June 30,1985 the basis will be the fair market value at the moment of the deceased.
- If the property was acquired after June 30,1985 the basis will be the same one applicable to the deceased.

70. I am a federal government employee. Do I have the obligation to file the Puerto Rico Income Tax Return?

Yes. Every federal government employee working in Puerto Rico has the obligation of filing an income tax return with the Government of Puerto Rico. For additional information, refer to the Informative Booklet to Provide Orientation on the Income Tax Responsibilities of Federal, Military and Other Employees.

71. Do I have to include in the Puerto Rico Income Tax Return the Cost of Living Allowance (COLA) that I receive as a federal government employee?

The COLA received as a federal government employee is excluded from the gross income up to the total exempt under the Internal Revenue Federal Code, as long as the following requirements are met:

- a. Have filed your income tax return for the last four taxable years, if you had the obligation to file it.
- b. Have paid the exigible tax determined therein, or in case of having debts in arrears, has an approved and up to date payment plan.

You must submit with the return evidence showing the amount received, Form W-2 and Form SC 2601 (Certificate of Compliance with Tax Responsibility for Employees of the Federal Government).

72. As a federal government employee, when do I have to send my income tax payment to the Department of the Treasury?

Federal government employees may elect to pay tax balance due in two equal installments, if they pay with the income tax return 50% or more of the balance of tax due. This year, the first installment is in April 16 and the second installment is in October 15.

If the federal government employee has other income in addition to the salary and has the obligation to file an Estimated Tax Declaration, he/she will not be entitled to this benefit.

73. Someone told me that individuals who sell their principal residence, who are 60 or older, can claim an exclusion of \$50,000 over the gain realized in the sale or exchange of such property. Is it true?

Yes. Individuals who are age 60 or older and have used the property as their principal residence for at least three years of the five year period previous to the sale, may claim such exclusion. This exclusion will be granted progressively as follows:

For taxable years commencing	Amount of the Exclusion
Before January 1, 2001	\$50,000
From January 1, 2001 to December 31, 2001 . . .	\$70,000
From January 1, 2002 to December 31, 2002 . . .	\$90,000
From January 1, 2003 to December 31, 2003 . . .	\$110,000
From January 1, 2004 to December 31, 2004 . . .	\$130,000
From January 1, 2005 to December 31, 2005 . . .	\$150,000

74. Which is the special tax rate applicable to capital gains?

Every individual, estate or trust shall pay, in lieu of any other tax imposed by the code, a special tax over the amount of the excess of any net long-term capital gain over any net short-term capital loss. Such special tax rate will be 10% for Property Located in Puerto Rico, you can refer to the instructions of the Individual Income Tax Return, Long Form.

In addition to the gain derived from the previously mentioned property, every eligible person may pay a 7% tax over the excess of any net long-term capital gain derived from the sale of shares of an eligible corporation or partnership.

75. Which are the applicable income tax tables for the 2001 Income Tax Return?

For taxable year 2001, the income tax rates are as follows:

- a. For married person living with spouse and filing jointly, married person not living with spouse, single person, head of household, estate or trust:

If your net taxable income is:	Your tax will be:
Not over \$2,000	7%
Over \$2,000 but not over \$17,000	\$140 plus 10% of the excess over \$2,000
Over \$17,000 but not over \$30,000	\$1,640 plus 15% of the excess over \$17,000
Over \$30,000 but not over \$50,000	\$3,590 plus 28% of the excess over \$30,000
Over \$50,000	\$9,190 plus 33% of the excess over \$50,000

b. For married individual living with spouse and filing separately:

If your net taxable income is:	Your tax will be:
Not over \$1,000	7%
Over \$1,000 but not over \$8,500	\$70 plus 10% of the excess over \$1,000
Over \$8,500 but not over \$15,000	\$820 plus 15% of the excess over \$8,500
Over \$15,000 but not over \$25,000	\$1,795 plus 28% of the excess over \$15,000

Over \$25,000

\$4,595 plus 33% of
the excess over
\$25,000

76. If I paid for the preparation of my return, can I ask the specialist to sign the return in the corresponding box?

Yes. If you paid for the preparation of the return make sure that the Returns Specialist signs it and includes his/her social security or employer's identification number and the specialist registration number. Every person who receives remuneration for preparing a return must be registered at the Department of the Treasury as a Returns Declaration or Refund Claims Specialist.

77. I was informed that I can make my determined income tax payment through electronic transfer. Is it true?

Yes. You can make the income tax payment through electronic transfer. This includes the payment for the first and second installments or the total income tax determined. In order to make the payment you must contact the participant banking institutions and have the following information:

- Social security number
- Bank account number
- Form SC 2617 (Notification and Requirement of Income Tax Payment) sent by the Department of the Treasury, in case you are paying the second installment.

When you finish processing your transaction, you must write on line 31(b) of the Long Form or on line 18(b) of the Short Form, the amount paid and the transaction number.

For additional information, please call to the General Consulting Section at (787) 721-2020, ext. 3611 or 1-800-981-9236.

78. Which are the requirements to have the right to pay the income tax in two installments?

In order to have the right to pay in two installments, it is required to comply with the following requirements:

- a. You are not required to file an Estimated Tax Declaration;
- b. You file the Income Tax Return not later than the date provided by the Code;
- c. You paid with the Income Tax Return 50% or more of the tax balance due;
- d. If you requested an Automatic Extension of Time, you should pay with the request at least 50% of the tax balance due.

79. Is it true that I can request the deposit of my refund, to my bank account?

Yes. You have to indicate it in Part 5 of the income tax return and complete all the information requested. Otherwise, the financial institution and the Department of the Treasury can reject the transaction. If you file your return as married living with spouse and filing jointly, the bank account must be in the name of both spouses.

80. Which are the reasons for any delay in my refund or for not receiving it in a reasonable time?

Some reasons are the following:

- a. You did not inform the taxpayer or spouse's social security number.

- b. You did not submit document evidencing the income tax withholding claimed.
- c. You did not inform your personal status at the end of the taxable year.
- d. You did not complete Schedule A Individual or did not submit the information related with the dependents and for beneficiaries of Educational Contribution Accounts.
- e. You or your spouse did not sign the return.
- f. You omitted information related to the itemized or additional deductions.
- g. If you are a parent who has the obligation to provide child support payments through the Child Support Administration (ASUME) and owes such pension.

81. What other booklets or informative material does the Department of the Treasury have issued in order to provide additional information?

The Department of the Treasury is constantly issuing informative booklets and material, for orientation purpose. The following are available and can be requested in the Department:

- a. *Carta de Derechos del Contribuyente* (Spanish only).
- b. *Folleto Informativo para Aclarar Dudas en Caso de Sacerdotes o Ministros* (Spanish only).
- c. Informative Booklet Regarding the Withholding of Income Tax at Source in the Case of Professional Services (English and Spanish version).
- d. *Folleto Informativo para Aclarar sus Dudas sobre Aspectos Contributivos en la Venta de Ciertas Propiedades Inmuebles* (Spanish only).

- e. *Folleto Informativo sobre Herencias y Donaciones* (Spanish only).
- f. Informative Booklet to Provide Orientation on the Income Tax Responsibilities of Federal, Military and Other Employees.

For a fast and direct tax orientation, the Treasury Department has created a modern computerized system known as TeleHacienda. This is an automatic telephonic system, that through a recording, facilitates such orientation. For information on the topics, refer to *Folleto Informativo TeleHacienda*.

You can call TeleHacienda at (787) 721-0510 or toll free at 1-800-981-0675, any day of the week, 24 hours a day. Sorry, these services are available only in Spanish.

Also, the Department of the Treasury has a site in the internet. Here you can access information about our Vision, Mission and Organizational Values. We include information about our Taxpayer's Bill of Rights and the Department's Organizational Structure. In addition, you can use the program for the preparation of the 2001 Income Tax Return for Individuals, information about our tax orientation system TeleHacienda and many of the forms and informative booklets provided by the Department.

You can access our site at:
<http://www.hacienda.gobierno.pr>

Also you can let us know your opinion through our E-mail at:
support@hacienda.gobierno.pr

The Taxpayer's Service Offices are located in:

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