



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

INCOME TAX RETURN OF TAXABLE CORPORATIONS AND PARTNERSHIPS

MESSAGE FROM THE SECRETARY OF THE TREASURY

Dear taxpayer:

At the Department of the Treasury, we are committed to working responsibly and effectively to contribute to the well-being of the people of Puerto Rico. However, we must all be part of this commitment so that we can strengthen the socioeconomic development of our country, which will contribute to the achievement of a better quality of life for all.

This year, a series of measures were approved which provide several tax benefits. Among them, we can point out the prepayment of a 10% special tax over part or the entire increase in accumulated value in certain long-term capital assets during the period of July 1 to December 31, 2006.

We urge you to read this booklet carefully, since the information it contains will help you prepare the return appropriately.

If you have any questions regarding the preparation of this return, you can contact our consulting personnel at (787) 721-2020 extension 3611 or call toll free at (1) (800) 981-9236. To request information regarding the status of the return, refunds, or payments, you can call 1-877-684-3422. You can also contact our Taxpayer's Service Centers located in Ponce, Mayagüez, Caguas, and Bayamón; their telephone directory is included in this booklet.

File your return on time and do your part to contribute to the development of the Puerto Rico that we all want! By doing this, we all win.

Juan C. Méndez Torres

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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 315. For assistance, please call **(787)977-6622**, **(787)977-6638**, or **(787)721-2020**, extensions **3303**, **3304** and **3305**.

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*".

RELEVANT FACTS

NEW LEGISLATION

↵ Act No. 48 of January 30, 2006 expands the definition of eligible interests under Section 1013A of the Code to include the shares in trusts representing an interest over mortgage loans on residential property located in Puerto Rico which interests are not exempt under Section 1022(b)(4) of the Code.

↵ Act No. 89 of May 13, 2006 provides an additional 2% special tax on the net income subject to normal tax of every entity operating under Act No. 55 of May 12, 1933, as amended, known as the "Puerto Rico Banking Act".

This Act also increases to 41.5% the maximum tax for the application of the recapture tax provided by Section 1016(c) of the Code. In the cases where the additional special tax to entities operating under the Puerto Rico Banking Act is applicable, such limit will be 43.5%.

↵ Act No. 98 of May 16, 2006, as amended by Act No. 137 of July 31, 2006, provides a 5% extraordinary tax upon the taxable net income earned during the taxable year ended within the calendar year 2005, to every corporation or partnership whose gross income for such year had been more than \$10,000,000. Such tax, paid not later than July 31, 2006, may be claimed as a credit against the tax determined for taxable years beginning after July 31, 2006.

↵ Act No. 117 of July 4, 2006 allows every corporation or partnership, during the period of July 1 to December 31, 2006, to prepay a 10% special tax over part or the entire increase in accumulated value in certain long-term capital assets. Also, the 10% special tax rate is allowed on sale transactions made from December 14 to December 31, 2006.

SIGNIFICANT CHANGES ON THE RETURN

↵ Heading of the Return

A box is provided to indicate the Merchant's Registration Number assigned by the Department.

↵ Part III of the Return

Line 12 is added to determine the additional 2% special tax to entities operating under the Puerto Rico Banking Act.

↵ Schedule B Corporation and Partnership

Line 20 is included in **Part II** to claim the credit for the extraordinary tax paid.

↵ Schedule D Corporation and Partnership

This Schedule is restructured to reflect the changes related to the tax treatment of gains and losses on the sale or exchange of long-term capital assets.

A new column is added in **Parts II and III** to indicate if the property basis includes any adjustment for the prepayment of tax on the increase in accumulated value made during the period of July 1 to December 31, 2006.

↵ Schedule T Corporation and Partnership

Lines 16 and 17 are included to reflect the 2.5% special tax under Act No. 41 of August 1, 2005 and the 2% special tax to entities operating under the Puerto Rico Banking Act.

PAYMENTS FOR THE PREPARATION OF THE RETURN AND SANCTIONS TO RETURNS SPECIALISTS

Indicate if you paid for the preparation of your return and make sure that the specialist signs the return and includes his/her registration and employer identification number. THE CODE PROVIDES CIVIL AND CRIMINAL SANCTIONS TO THOSE INCOME TAX RETURN SPECIALISTS WHO FAIL TO SUBMIT THIS INFORMATION OR WHO DO NOT MEET ANY OTHER STATUTORY REQUIREMENTS.

The Tax Return Specialist must declare under penalty of perjury that he/she examined the return and to the best of his/her knowledge and belief, the return 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 identification number, the registration number and be signed by the authorized person.

AREA CODE

You must indicate the area code (**787** or **939**) in the parenthesis located in the spaces provided in the heading of the return to write the phone number.

RETURNED CHECKS

Every check drawn on behalf of the Secretary of the Treasury that is returned, will be subject to a \$25.00 minimum charge. This charge is in addition to any other interest, surcharges or penalties provided by the Code or any other fiscal law for omissions in fulfilling your tax responsibility. The Department will make the collection in a traditional or electronic manner.

FINANCIAL STATEMENTS REQUIREMENT

If the entity has a business volume from taxable operations of more than \$1 million, financial statements reporting the operations of the taxable year must be included with the return.

The financial statement must 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.

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

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, as applicable, have been paid.

In addition, in order to approve a contract or purchase order, the governmental entity must require the tax return filing (Form SC 6088) and debt (Form SC 6096) 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, 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 (Form 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 can not be issued in connection with the last taxable year since such return may have not been already processed. Because of this possibility, it is recommended to personally file 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 Orientation and Return Preparation Centers.

COUPONS BOOKLET FOR THE PAYMENT OF ESTIMATED TAX (FORM 480.E-2)

The four installments of estimated tax corresponding to the 2007 calendar year or to the 2007 - 2008 taxable period, will be made with the booklet reproduced on 08.06. Payments made with coupons revised on previous dates may have problems in their application.

TAXPAYER'S SERVICE FACILITIES

In the Taxpayer's Service Centers, besides **informing about the status of your refund**, other services are offered: Tax Return Filing Certifications, Return's Copies, Inheritance and Donations Cases, Individuals, Corporations or Partnerships and Professional Services Waivers. Following are the addresses and telephone numbers of our Centers:

- ↪ **San Juan**
Intendente Ramírez Building
10 Paseo Covadonga, Office 101
Telephone: **1-877-684-3422**
- ↪ **Bayamón**
Road #2
2nd Floor, Gutiérrez Building
Telephone: **(787)778-4949, (787)778-4973 or (787)778-4974**
- ↪ **Caguas**
Goyco Street, Acosta Corner
1st Floor, Governmental Building, Office 110
Telephone: **(787)258-5255 or (787)745-0666**
- ↪ **Mayagüez**
Governmental Center
50 Nenadich Street, Office 102
Telephone: **(787)265-5200**
- ↪ **Ponce**
Governmental Center
2440 Las Américas Ave., Office 409
Telephone: **(787)844-8800**

TECHNICAL ASSISTANCE

For additional information on the technical content of this booklet or to clarify any doubts, please call **(787)721-2020** extension 3611 or **1-800-981-9236**.

HACIENDA MAKING CONNECTION

Access the Department of the Treasury's webpage: **www.hacienda.gobierno.pr**. Here you can find information about the following services, among others:

- ↪ Electronic transfer of Individual Tax Returns using programs or applications certified by the Department
- ↪ 2006 W-2 & Informatives Returns Program
- ↪ Payments Online
- ↪ Puerto Rico Internal Revenue Code of 1994, as amended (Spanish only)





Forms, Returns and Informative Booklets, such as:

- Income Tax Return for Exempt Businesses under the Puerto Rico Incentives Programs
- Form AS 4809 - Information of Identification Number - Organizations (Employers)
- *Modelo SC 2800 - Planilla de Contribución sobre Caudal Relicto* (Spanish only)
- *Modelo SC 2800A - Planilla Corta de Contribución sobre Caudal Relicto* (Spanish only)
- *Modelo SC 2788 - Planilla de Contribución sobre Donaciones* (Spanish only)
- Informative Booklet to Provide Orientation about your Income Tax Return (Spanish and English)
- Informative Booklet to Provide Orientation on the Income Tax Responsibilities of Federal, Military and Other Employees
- Informative Booklet regarding the Withholding of Income Tax at Source in Case of Professional Services (Spanish and English)
- *Folleto Informativo Contribución sobre Ingresos de Sacerdotes o Ministros* (Spanish only)
- *Folleto Informativo para Aclarar sus Dudas sobre Aspectos Contributivos en la Venta de Ciertas Propiedades* (Spanish only)
- Employer's Quarterly Return of Income Tax Withheld (Spanish and English)
- Withholding of Income Tax at Source on Wages - Instructions to Employers (Spanish and English)
- *Carta Circular de Rentas Internas Núm. 06-11 de 14 de agosto de 2006 – Contribución Especial de Cinco por Ciento sobre Ciertas Transacciones Durante el Periodo del 1 de julio al 31 de diciembre de 2006* (Spanish only)
- *Carta Circular de Rentas Internas Núm. 06-20 de 30 de octubre de 2006 - Contribución Especial de Cinco (5) por Ciento, según Dispuesta en las Secciones 1165(b)(9) y 1169C del Código* (Spanish only)
- *Carta Circular de Rentas Internas Núm. 06-27 de 28 de diciembre de 2006 - Enmiendas a la Carta Circular de Rentas Internas Núm. 02-13 de 24 de julio de 2002 Relacionada a la Retención sobre Pagos Efectuados por Servicios Prestados a Ciertos Sectores o Categorías de Empresas o Negocios* (Spanish only)
- *Determinación Administrativa Núm. 05-02 de 10 de junio de 2005 - Tratamiento Contributivo sobre Pagos Realizados Mediante Acuerdos Transacciones* (Spanish only)
- *Determinación Administrativa Núm. 06-11 de 22 de diciembre de 2006 - Contribución Especial de Cinco (5) por Ciento, según Dispuesta en la Sección 1012D del Código* (Spanish only)



Circular Letters and Administrative Determinations, such as:

- Internal Revenue Circular Letter No. 02-09 of June 28, 2002 – Withholding on Payments for Services Rendered
- *Carta Circular de Rentas Internas Núm. 02-10 de 9 de julio de 2002 - Exclusión de la Retención del Siete por Ciento (7%) sobre los Pagos por Servicios Prestados a los Contratistas por Concepto de Construcción de Obras* (Spanish only)
- *Carta Circular de Rentas Internas Núm. 02-13 de 24 de julio de 2002 – Retención sobre Pagos Efectuados por Servicios Prestados a Ciertos Sectores o Categorías de Empresas o Negocios* (Spanish only)

INSTRUCTIONS TO COMPLETE THE CORPORATION AND PARTNERSHIP INCOME TAX RETURN

WHO MUST FILE THIS RETURN?

In general, every domestic or foreign corporation or partnership engaged in trade or business in Puerto Rico must file this return.

The following entities are not required to file this return: (1) entities covered by the Incentives Acts or Tourism Development Act; (2) entities with partially exempt income under the Puerto Rico Agricultural Tax Incentives Act, as amended, or under any other special acts; (3) entities with partially exempt income under the Tax Incentives Act to Hospital Facilities; (4) entities which have earned income from Film Projects or Infrastructure Projects; (5) non-profit organizations with a tax exemption grant issued by the Department of the Treasury which has not been rejected; (6) foreign or domestic life insurance companies; (7) corporations of individuals; (8) special partnerships; or (9) employees-owned special corporations and ordinary and extraordinary members. Nevertheless, these entities must file a return designed by the Department of the Treasury, in accordance to the laws under which they operate.

The term *corporation* includes limited companies, joint stock companies, limited liability joint stock companies, private corporations, insurance companies, and any other associations that receive income or taxable profits.

The term *partnership* includes general or limited, civil business, industrial, agricultural and professional partnerships or of any other kind, whether or not its constitution is set forth by public deed or private document. It shall include, furthermore, two or more persons, under a common name or not, engaged in a joint venture for profit, except those that meet the provisions related to special partnerships.

WHEN AND WHERE IT MUST BE FILED?

The income tax return of domestic or foreign corporations and partnerships engaged in trade or business in Puerto Rico, must be filed on or before the fifteenth 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 on or before the fifteenth day of the sixth month following the end of the taxable year.

The return must be filed in the Department of the Treasury, Returns Processing Bureau, located at 10 Paseo Covadonga, Intendente Ramirez Building in Old San Juan, or mailed to:

- (a) **Returns with Refund:**
DEPARTMENT OF THE TREASURY
PO BOX 50072
SAN JUAN PR 00902-6272

- (b) **Returns with Payment and Others:**
DEPARTMENT OF THE TREASURY
PO BOX 9022501
SAN JUAN PR 00902-2501

It may also be delivered to the Internal Revenue Collections Office of your municipality, the District Offices of the Department, or the Orientation and Return Preparation Centers.

AUTOMATIC EXTENSION OF TIME TO FILE THE RETURN

A 90 days automatic extension of time to file the return will be granted 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.

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

SCHEDULES TO COMPLETE THE CORPORATION AND PARTNERSHIP INCOME TAX RETURNS

The following schedules are used, when it is necessary, to file the income tax return of corporations and partnerships.

- Schedule A Corp. and Part. - Alternative Minimum Tax
- Schedule B Corp. and Part. - Recapture of Credit Claimed in Excess, Tax Credits, and Other Payments and Withholdings
- Schedule B1 Corp. and Part. - Credits for Purchase of Products Manufactured in Puerto Rico and Puerto Rican Agricultural Products
- Schedule C Corp. and Part. - Credit for Taxes Paid to the United States, its Possessions and Foreign Countries
- Schedule D Corp. and Part. - Gains and Losses from Sale or Exchange of Property



- Schedule E - Depreciation
- Schedule Q - Credit for Investment, Losses and Amount to Carryover
- Schedule Q1 - Investment Funds-Determination of Adjusted Basis, Capital Gain, Ordinary Income and Special Tax
- Schedule R - Special Partnership
- Schedule S Corp. and Part. - Farming Business
- Schedule T Corp. and Part. - Addition to the Tax for Failure to Pay Estimated Tax in Case of Corporations and Partnerships
- Form AS 2879 - Foreign Corporations and Partnerships Tax on Dividend Equivalent Amount and Effectively Connected Interest (Branch Profits Tax)

The schedules and their instructions are available in the Department of the Treasury, 10 Paseo Covadonga, Intendente Ramírez Building, Old San Juan, Office 603. To contact said office, please call (787)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. You must only enter the corresponding year. If it is a fiscal year, you must enter the dates in the spaces provided on the return.

NAME, EMPLOYER IDENTIFICATION NUMBER AND ADDRESS

Enter the name and the registry number of the corporation in the space indicated on the return, as it appears in the Department of State records. In case of a partnership, enter its legal name.

Also, enter the employer identification number in the space indicated. **The employer identification number is required to process the return.**

If the corporation or partnership does not have an assigned employer identification number, you must request it from the Federal Internal Revenue Service and notify it to the Department of the Treasury using Form AS 4809.

Enter the Merchant's Registration Number assigned by the Department, the complete address where the business or principal office is located, and the telephone number.

Inform the type of industry or business (principal business activity). For example, if your principal activity is construction of furniture, enter **furniture manufacturing**; if it is retail sale of furniture, enter **furniture retail trade**. Use the **industrial code list provided on**

page 31, in order to facilitate the description of the commercial activity and enter the corresponding industrial code.

Check the applicable box if it is the first or last return you are filing.

If the corporation or partnership informs a change of address at the moment of filing the return, check the applicable box. Do not use the label and write the new address clearly and legible on the return. On the other hand, if the change of address is made at any other moment during the year, you must use Form SC 2898 (Change of Address). The same is available at the Forms and Publications Division, Office 603, of the Department of the Treasury in Old San Juan, or you may request it calling (787) 721-2020 exts. 2645 and 2646. Also you may obtain it accessing our webpage: www.hacienda.gobierno.pr.

PART I - NET INCOME

Line 2 - Net operating loss deduction from preceding year

Enter the carryover balance of any net operating loss from the preceding year. Submit with the return a schedule with the determination of the loss to be deducted in the current taxable year and the origination and expiration dates of the loss carried from previous years.

PART II - CREDITS

Line 4 - Dividends or profits received from domestic corporations or partnerships

Enter 85% of the amount received as dividends or profits from a domestic corporation or partnership taxable 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 No. 57 of June 13, 1963, as amended, the credit will be 82.70% of the amount received, but limited to 82.70% of the net taxable income.

The credit of 82.70% does not apply to dividends or profits distributions derived from operations covered under Act No. 78 of September 10, 1993, as amended, or Act No. 8 of January 24, 1987, as amended. Nevertheless, if the corporation or partnership receives dividends or benefits from a domestic corporation or partnership, it may use the 85% credit mentioned in the first paragraph of this part.

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 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) Subject to certain requirements imposed by the Code, a credit of 100% is allowed 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 the Commonwealth of Puerto Rico, that is the principal derived from industrial development income 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 general character pension or retirement system established by the Legislative Assembly of Puerto Rico, the municipalities and the agencies, entities or public corporations of the Commonwealth of Puerto Rico.
- 3) There shall be granted a 100% credit 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 the Commonwealth of Puerto Rico, that is the principal derived from industrial development income accrued during taxable years beginning prior to January 1, 1993 and 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 made after December 31, 1984.
- 4) A 100% credit will be granted against the net income from the total amount received as dividends or profits from a domestic controlled corporation or partnership.

Line 6 - Surtax net income credit

Enter \$25,000, except in case the corporation or partnership belongs to a controlled group of corporations or partnerships which are 80% or more owned, directly or indirectly, by the same person or persons. In those cases, the allowed credit will be only \$25,000 for the entire group of corporations or partnerships.

If a corporation or partnership is a component member of a controlled group of corporations or partnerships by December 31, the credit allowed to such corporation or partnership for the taxable year that includes such December 31, shall be an amount equal to \$25,000 distributed among the corporations or partnerships that are component members of the group or the applicable amount according to the apportionment plan.

If a corporation or partnership has a taxable year of less than twelve months that does not include December 31, and is a component member of a controlled group of corporations or partnerships with respect to such taxable year, the allowable credit for that taxable year will be \$25,000 distributed among the number of corporations or partnerships that are component members of the group as of the last day of said taxable year.

In case of a controlled group of corporations or partnerships, it is necessary to include with the return of each member a schedule detailing the apportionment plan, the name of each one of the corporations or partnerships that are members of

the group, the employer identification number and the signature of the person or persons responsible for preparing it.

PART III - COMPUTATION OF TAX

Line 9 - Surtax

Multiply line 7 by the applicable tax rate according to the following table, and enter the result.

Surtax Computation Table for taxable years beginning after June 30, 1995.

If the net income subject to surtax is:	The tax shall be:
Not over \$75,000	5%
Over \$75,000 but not over \$125,000	\$3,750 plus 15% of the excess over \$75,000
Over \$125,000 but not over \$175,000	\$11,250 plus 16% of the excess over \$125,000
Over \$175,000 but not over \$225,000	\$19,250 plus 17% of the excess over \$175,000
Over \$225,000 but not over \$275,000	\$27,750 plus 18% of the excess over \$225,000
Over \$275,000	\$36,750 plus 19% of the excess over \$275,000

Line 10 - Amount of recapture

If the net income subject to normal tax exceeds \$500,000, a 5% tax will be imposed, collected and paid over the excess. However, the total tax determined shall not exceed 41.5% (in the case of corporations and partnerships subject to the taxes provided in subsections (b)(1) and (d) of Section 1016 of the Code) or 43.5% (in the case that the tax provided in subsection (e) of Section 1016 of the Code is applicable). Nevertheless, for every taxable year beginning after December 31, 2006, the limit will be 39%.

Line 11 – Special tax

If the net income subject to normal tax (Part II, line 5 of the return) is \$20,000 or more, a 2.5% special tax will be imposed, collected and paid over such income. This tax will apply to every taxable year beginning after December 31, 2004 and before January 1, 2007.

Line 12 – Special tax to entities operating under the “Puerto Rico Banking Act”

A 2% special tax will be imposed, collected and paid over the net income subject to normal tax of every entity operating under Act No. 55 of May 12, 1933, as amended, known as the “Puerto Rico Banking Act”. This tax will apply to every taxable year beginning after December 31, 2005 and before January 1, 2007.



Line 14 - Alternative Tax - Capital Gains

Enter the amount determined on Schedule D Corporation and Partnership, Part V, line 38.

If the net long-term capital gains exceed the net short-term capital losses, the corporation or partnership may elect to pay an alternative tax. The alternative tax is determined by applying the normal tax rates to the net income without including the net long-term capital gains, plus 20% over such gains.

Compute the alternative tax using Schedule D Corporation and Partnership - Gains and Losses from Sale or Exchange of Property. Include said schedule with your return.

Line 19 - Alternative minimum tax

Enter the excess of tentative minimum tax over adjusted regular tax from Schedule A Corporation and Partnership, Part V, line 33.

Every corporation or partnership (except those not engaged in trade or business in Puerto Rico) will be subject, in addition to any other tax imposed by the Code, to a tax equal to the excess, if any, of:

- 1) the tentative minimum tax for the taxable year, over
- 2) the adjusted regular tax for the taxable year.

The Tentative Minimum Tax for the taxable year will be 22% of the amount by which the Alternative Minimum Net Income for the taxable year exceeds the Exempt Amount. The Tentative Minimum Tax will be reduced by the Alternative Minimum Credit for taxes paid to a foreign country.

To compute the excess of the alternative minimum tax over the adjusted regular tax, you must complete Schedule A Corporation and Partnership and include it with your return.

Line 20 - Branch profits tax

In addition to any other tax imposed by the Code, those foreign corporations and partnerships engaged in trade or business in Puerto Rico that operate 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 in which the foreign corporations or partnerships engaged in a trade or business in Puerto Rico derived at least 80% of its gross income from sources within Puerto Rico or from income effectively connected or treated as effectively connected to operations from a trade or business in Puerto Rico, during the 3 taxable years period ended at the closing of said taxable year.

The corporations and partnerships subject to said additional tax, must complete the Branch Profits Tax (Form AS 2879), and include it with their return.

Line 21 - Tax on eligible interest

Enter the tax determined on eligible interest **only** if you elected to pay the special tax rate of 10%.

Any corporation or partnership may elect to pay the special tax rate of 10% on the total eligible interest earned from corporations and partnerships' obligations, engaged in industry or business in Puerto Rico, upon new mortgages on residential property located in Puerto Rico. On the other hand, if you elect to include such interest as part of your gross income and pay the tax determined according to the normal tax rates, do not complete this line and include the total of such interest in Part IV, line 12 of the return.

The term **eligible interest** means any interest in bonds, notes or other obligations issued by a corporation or partnership engaged in a trade or business in Puerto Rico, including shares in trusts representing an interest in such bonds, notes or other obligations, provided that the proceeds from these obligations are used only in the industry or business in Puerto Rico of such corporation or partnership within a period no longer than 24 months from the issuance date of such obligations.

Also, any interest on mortgage loans on residential property located in Puerto Rico issued after July 31, 1997, secured or guaranteed under the provisions of the National Housing Act of June 27, 1934, as amended, or under the provisions of the Servicemen's Readjustment Act of 1944, will qualify for the aforementioned special tax rate of 10%.

You must also include any interest in mortgage loans on residential property located in Puerto Rico which interest are not exempt under Section 1022(b)(4) of the Code, and shares in trusts representing an interest over such loans (or any other instrument representing an interest in such loans), provided the interest recipient is not a financial institution as such term is defined in Section 1024(f)(4) of the Code.

Line 24 - Balance of tax due

Subtract line 23 from line 22 and enter the difference on this line. Otherwise, if line 23 is larger than line 22, there is an excess of tax paid or withheld that you must enter on line 26.

INTEREST, SURCHARGES AND PENALTIES**Interest**

The Code provides for the assessment of interest at a 10% annual rate over any tax balance 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.

Also, any person required under the Code to file a return, declaration, certification or report, who voluntarily fails to file such return, declaration, certification or report, within the term or terms required by the Code or regulations, in addition to other penalties, shall be guilty of a misdemeanor.

If any person voluntarily fails to file the above mentioned return, declaration, certification or report (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 third degree felony.

Line 25 - Addition to the Tax for Failure to Pay Estimated Tax

Enter the addition to the tax for failure to pay the minimum estimated tax required, previously determined on Schedule T Corporation and Partnership. (See instructions to complete the Schedules).

Line 26 - Excess of tax paid or withheld

Enter on this line the difference between lines 22 and 23 only in those cases where line 23 is larger than line 22.

If line 25 is zero, transfer the amount entered on this line to line 28. Otherwise, enter the difference between lines 25 and 26 on line 27 or 28, as applicable.

Line 27 - Amount paid with this return

Make the check or money order payable to the Secretary of the Treasury. **Indicate the employer identification number and Form 480.20 or 480.10, as applicable, on the check or money order.**

If you decide to pay in cash, you can do it at any of our Internal Revenue Collections Offices. Make sure to obtain an official receipt from the Collector at the time of payment.

If you filed the return after the filing due date or you requested an extension of time but did not pay the total amount due, you must compute the applicable interest and surcharges, from the filing due date to the date on which the return was filed.

Line 28 - Amount overpaid

If the sum of lines 22 and 25 is less than line 23, enter the distribution of line 26 on line 28A or 28B.

PART IV - GROSS PROFIT ON SALES, MANUFACTURE AND OTHER INCOME

Enter manufacturing and sales costs, as well as the gross profit from sales. Check the applicable box to indicate your inventory appraisal method at the beginning and end of the year.

Itemize in Part VI of the return the other direct costs shown on line 5. Note that the flexible depreciation of assets used in manufacture will be included as other direct costs in Part IV, line 5 and Part VI, line 10. The flexible depreciation of assets other than the ones used in manufacture, must be entered in Part V, line 39.

Enter on line 12 the eligible interest that you elected to pay taxes at the regular tax rates, among others.

Enter on line 16 the distributable share on the net loss from special partnerships. To claim this loss, Schedule R - Special Partnership must be completed and included with the return.

The losses of a partner in one or more special partnerships are allowable as a reduction against other income, but only up to the amount of the adjusted basis of the partner's interest in the corresponding partnership and limited to 50% of the taxpayer's net taxable income, determined without taking into consideration such loss.

The adjusted basis limitation will be computed for each special partnership in which you invested.

If the deduction allowed to the partner for any taxable year is less than the distributable share on the partnership's net loss, the partner may claim such excess as a deduction in any following taxable year, subject to the lowest of the limitations previously mentioned.

Enter on line 17 the amount determined on **Schedule S Corporation and Partnership - Farming Business**. In case that the agricultural activity is not the principal source of income, any loss incurred may only be carried against any income derived from the agricultural activity.

PART V - DEDUCTIONS AND NET OPERATING INCOME (OR LOSS)

Enter the deductions related to your operations on lines 21 through 47. Immediately afterwards we provide information about some of those deductions.

Line 21 - Compensation to officers or partners

Enter the compensation paid or accrued to all officers or partners of the corporation or partnership and detail in Part X of the return.

Line 29 - Interest

Enter the interest paid or accrued during the year. In case of a financial institution, no deduction shall be allowed for that portion of

exempt interest expenses attributable to exempt obligations acquired after December 31, 1987.

Line 32 - Other taxes, patents and licenses

Submit a schedule detailing the excise taxes, licenses or other taxes paid.

Line 35 - Meal and entertainment expenses

You may deduct 50% of the expenses actually paid or incurred, up to a limit of 25% of the gross income for the taxable year, for meal and entertainment expenses directly related with your trade or business or with the production of income. You cannot include as part of such expenses, the items that do not constitute ordinary and necessary expenses of your trade or business.

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

Line 38 - Contributions to pension or other qualified plans

Enter the amount contributed to pension, stock bonus, 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 submit with the return certain information required by the Regulations under Section 1023(n) of the Code.

Line 39 - Flexible depreciation

Enter the amount of flexible depreciation you are entitled, and submit 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.

Line 40 - 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 may be exercised only with respect to property acquired during taxable years beginning after June 30, 1995. Once the option is exercised, it is irrevocable.

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

Also, Act No. 212 of August 29, 2002, as amended (Act No. 212), provides a type of accelerated depreciation, where the constructed structure, that constitutes housing, can be depreciated using the straight-line method over a 7 year period. However, this deduction is available to persons that invest in housing construction or improvement in a urban center and that had not benefited from the credit provided in

Article 4.03 E or 4.03 F of Act No. 212. For additional details, refer to Act No. 212 and the Internal Revenue Circular Letter No. 04-04 of October 27, 2004 or to Regulation No. 7182 of July 19, 2006, as applicable.

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

Line 41 - Current depreciation and amortization

Submit a detail of the current depreciation, improvement depreciation and amortization in Parts (a), (d) and (e), respectively, of Schedule E - Depreciation.

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

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

For depreciation purposes, the useful life of an automobile used exclusively in selling activities is 3 years, and 5 years for every other purpose.

The \$25,000 basis limitation and useful life term do not apply to those automobiles acquired by corporations or partnerships engaged in the leasing, 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. The deduction will be determined using the straight-line method and a useful life of 15 years.

Line 42 - Bad debts

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

Line 43 - Charitable contributions

A corporation or partnership may deduct an amount which does not exceed 5% of the net income, computed without the benefit of this deduction, for contributions made to:

- ↳ the Commonwealth of Puerto Rico, the United States or any state or territory, exclusively for public purposes;
- ↳ a corporation, trust or community fund, or foundation created or organized in Puerto Rico or in the United States that operates exclusively for religious, charitable, scientific, veteran rehabilitation services, literary or educational purposes or for the prevention of cruelty to children, as long as no part of its earnings inures to the benefit of any private shareholder or individual;

- ☞ posts or organizations of war veterans or auxiliary units organized in Puerto Rico or in the United States.

Charitable contributions in excess of 5% may be carried forward to the following 5 taxable years, in chronological order, but the deduction in each one of said following 5 taxable years shall not exceed 5% of the net income determined without the benefit of said deduction.

In case that a charitable contribution is made to the Educational Foundation for Free Selection of Schools, you may claim on this line the excess of \$500 not claimed as a credit against tax, subject to the limitations established by the Code.

The contributions made to a municipality that conducts an activity or event of cultural or historic value, as certified by the Institute of Puerto Rican Culture or the Cultural Center of each municipality, or that makes possible the realization of any cultural or historic work, may be claimed as charitable contributions. The contributed amount shall be \$50,000 or more, and must be made in connection with the celebration of the centennial foundation of the municipality. The total of said contributions is not subject to the limitations provided by the Code.

Line 44 - Repairs

On this line, claim the expenses which constitute repairs and not improvements to the assets of the corporation or partnership. Excessive repair expenses will be subject to investigation.

Line 45 - Deduction for employers who employ handicapped persons

Enter \$400 for each severely handicapped person employed for at least 20 hours per week during nine months of the taxable year. The deduction is allowed for a maximum of 5 severely handicapped persons. In force regulations of the Vocational Rehabilitation Program of the Department of the Family will be used to determine the severely handicapped condition.

To claim this deduction, you must submit with the return:

- 1) a certification indicating that the handicapped person has been employed at least during 9 months of the taxable year for which the deduction is claimed, and
- 2) a certification issued by the Secretary of the Department of the Family stating that, in accordance to its rules and procedures, the person for whom the deduction is claimed is a severely handicapped person.

Line 46 - Contributions to educational contribution accounts for the employees' beneficiaries

Enter the amount of contributions to educational contribution accounts for the employees' eligible beneficiaries up to the maximum amount of **\$500 for each beneficiary**, as provided by Section 1172 of the Code. Employer's contributions will be considered as ordinary and necessary expenses of the industry or business, and can be deducted as such in the year they are made. This contributions must be included as part of the employee's income by the employer in the year they are made, and can be claimed as a deduction by the employee in the same year. The trust's constitutive instrument must state that the participants will be those individuals that through a contract or application claim the benefits provided by such trust.

For additional details, refer to Act No. 409 of October 4, 2000.

Line 47 - Other deductions

Every employer may claim annually as an operating expense of the industry or business, an amount equal to a month of salary for each employee to whom you have granted the right to nurse their babies or express their maternal milk during one hour within each full time working day that can be divided in two periods of 30 minutes or three periods of 20 minutes. In the case of companies considered as small businesses by the Federal Small Business Administration, the period will be one half hour of each full time working day, that can be divided in two periods of 15 minutes.

Every business or industry established or to be established in the "Península de Cantera" within the next five (5) years beginning from December 25, 2002, will be entitled to claim an additional deduction for salaries paid, equal to 5% of the minimum salary applicable to each new employment created during this period (Act No. 20 of July 10, 1992, as amended).

Every person affiliated to an exempt business under the Tax Incentives Act of 1998 or under previous tax incentives acts, will be entitled to claim a special deduction equal to the total expenses incurred in Puerto Rico in activities related to investigation, experimentation, medical studies, health studies, clinical studies and basic sciences studies guided to the development of new products, new uses or indications for such products, to the improvements of the same, or to the study of diseases, in excess of the annual average of such expenses incurred during the 3 taxable years ended prior to January 1, 2004, or those parts of said period that may be applicable and which are deductible in the taxable year.

For these purposes "affiliated person" means any juridical entity that:

- (a) is controlled directly or indirectly in 50% or more of the total value of their stocks or shares by a corporation or partnership, and
- (b) at the same time, said corporation or partnership owns directly or indirectly 50% or more of the total value of the stocks or shares of an exempt business.

For additional details refer to Act No. 135 of December 2, 1999, as amended, and the Internal Revenue Circular Letter No. 04-05 of November 10, 2004.

Every industry or business that meets the requirements established in Act No. 212 of August 29, 2002, as amended (Act No. 212), that creates new employments as part of a urban center revitalization process, will be entitled to a special additional deduction equivalent to 5% of the minimum salary applicable to each new employment created. Also, the transfer of your business with a minimum of 5 employees to a urban center, will entitle you to an additional deduction equivalent to 15% of the payroll expenses related to the employees transferred during the year in which the business was transferred. This deduction will be limited to 50% of the net income according to the Code, adjusted by the special deductions provided by Act No. 212, without considering this deduction.

These deductions will be available for a term of 5 years from the taxable year in which the taxpayer applies for these benefits. You must keep for your records a certification issued by the Territorial Ordinance Office or from the City Planning Director indicating the name, social security number and minimum salary for each new employment created; or name and account number of the transferred business, its previous location, name and social security number of the transferred employees and the amount of payroll related to said employees. For both deductions you must also specify the taxable year in which you applied for these benefits and their due dates.

This act also grants other benefits like an exclusion for parking development, special exemption over income from loan interests and accelerated depreciation.

For additional details refer to Act No. 212 and Regulation No. 7182 of July 19, 2006.

Those expense items for which Part V does not provide specific lines, will be totalized and entered as Other Deductions. **Submit with the return a schedule itemizing those deductions.**

No deductions will be allowed for expenses connected with the ownership, use and maintenance of vessels, except for the expenses of vessels engaged in commercial fishing, transportation or commercial tourism.

PART VI - OTHER DIRECT COSTS

Those cost items for which Part VI does not provide specific lines, will be totalized and entered as Other Expenses on line 13 of this part. **Submit with the return a schedule itemizing those costs.**

The total of these costs should be entered on line 14 of this part and shall be equal to the amount in Part IV, line 5 of the return.

PART VII, VIII AND IX - COMPARATIVE BALANCE SHEET, RECONCILIATION OF NET INCOME (OR LOSS) PER BOOKS WITH NET TAXABLE INCOME (OR LOSS) PER RETURN AND ANALYSIS OF RETAINED EARNINGS PER BOOKS OR RECONCILIATION OF DISTRIBUTABLE PROFIT AMONG PARTNERS

These statements must be completed in all of its parts in order for the return to be considered filed. Therefore, you cannot submit these statements in loose sheets. **Any return that do not comply with these requirements will be returned.**

The amount in Part VIII, line 10 (Reconciliation of net income (or loss) per books with net taxable income (or loss) per return) must be the same amount as the one of Part II, line 5 of this return.

PART X - COMPENSATION TO OFFICERS OR PARTNERS

Include in this part the compensation received by the officers of the corporation or the partners of the partnership from salaries or other allowances. Enter the amount claimed in Part V, line 21 of the return.

PART XI - QUESTIONNAIRE

Enter all the information required in the questionnaire in order to process this return.

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 in case of corporations; and by the managing partner in case of partnerships.

INCOMPLETE RETURN

The return must be completed in all of its parts. All the information of the Income Statement, Balance Sheet, Reconciliation of Net Income (or Loss) per Books with Net Taxable Income (or Loss) per Return, and Analysis of Retained Earnings per Books or Reconciliation of Distributable Profit Among Partners must be detailed. **Returns that do not comply with this requirement will be considered as not filed.**

INSTRUCTIONS TO COMPLETE THE SCHEDULES

SCHEDULE A CORPORATION AND PARTNERSHIP - ALTERNATIVE MINIMUM TAX

WHAT IS THE ALTERNATIVE MINIMUM TAX?

The Alternative Minimum Tax is an additional tax which is imposed when the net income, adjusted by certain preferential items, exceeds the exempt amount of \$50,000. **The tax rate for this tax is 22% over said net income.**

WHICH ENTITIES ARE SUBJECT TO THE ALTERNATIVE MINIMUM TAX?

Every corporation or partnership engaged in trade or business in Puerto Rico, including insurance companies. It also applies to those corporations or partnerships operating under the Puerto Rico Tax Incentives Act or under any other similar act, with respect to that portion of income derived from taxable operations.

The following entities are not subject to the alternative minimum tax: (1) foreign corporations and partnerships not engaged in trade or business in Puerto Rico; (2) special partnerships; (3) registered investment companies taxable under the provisions of Subchapter L of the Code; (4) corporations or partnerships operating under Act No. 8 of January 24, 1987 or under any other similar act, but only on its income derived from its exempt operations; (5) exempt real estate investment trusts; (6) corporations of individuals; (7) corporations and partnerships under the provisions of Tourism Acts; (8) bona fide farmers; (9) employees-owned special corporations and ordinary and extraordinary members.

Prepare and file this schedule with the income tax return, **even though no amount may result subject to the imposition of the alternative minimum tax.**

PART I - ADJUSTMENTS IN THE COMPUTATION OF THE ALTERNATIVE MINIMUM NET INCOME BEFORE BOOKS ADJUSTMENTS AND OPERATING LOSSES

Line 1 - Enter the net income prior to any net operating loss, considering the credit allowed by the Code in relation to dividends received from domestic corporations or partnerships or from industrial development income and excluding the net capital gain that you elect to pay taxes at the special tax rate of 20%. Add lines 2 and 5 of Form 480.10 or 480.20, and subtract lines 24 and 25 of Schedule D Corporation and Partnership, as applicable. Another alternative for this computation is adding line 26 of Schedule D Corporation and Partnership and line 2 of Form 480.10 or 480.20.

Line 2 - Enter on lines 2(a) through 2(e) the adjustments to determine the Alternative Minimum Net Income prior to book adjustments and operating losses. If the adjustments to determine the Alternative Minimum Net Income in Part I exceed the amount used to determine the regular tax, the difference (negative) is considered a deduction. On the contrary, if the amount used to determine the regular

tax exceeds the adjustments, the difference (positive) will be reflected as an additional adjustment to the net income.

Line 2(a) - If you used the flexible depreciation method to compute your regular tax, determine the depreciation using the straight-line method and enter here the difference between both methods.

Line 2(b) - If you are a merchant in personal property and reported gains through a sales installment plan for the regular tax, you must recognize the gain (or loss) in its entirety for the year in which the personal property was sold. Enter on this line the difference between both methods.

Line 2(c) - If you used the completed contract accounting method to report the income (or loss) derived from construction of projects, and such activities exceeded one year, recompute your profit (or loss) under the percentage of completion method. Enter on this line the difference between both methods.

Line 2(d) - If the corporation or partnership is a financial institution, determine the amount of interest expense not allowable as a deduction attributable to interest income derived from exempt obligations, irrespective of the date of its acquisition.

This will be made based on the average balance ratio of assets of the institution. The adjustment does not apply to exempt obligations related to mortgage loans granted or guaranteed prior to September 1, 1987 by the Commonwealth of Puerto Rico, its agencies, municipalities and instrumentalities, which interest would have been deductible from the gross income to determine the tax imposed by Act No. 34 of June 4, 1975, as amended.

Line 2(e) - If you used the accelerated depreciation method to determine the regular tax, compute the depreciation using the straight-line method. Enter on this line the difference between both methods.

PART II - ADJUSTMENT FOR THE EXCESS OF THE NET INCOME PER BOOKS OVER THE ALTERNATIVE MINIMUM NET INCOME BEFORE ADJUSTMENTS

Line 4 - Enter your net income (or loss) as per your Income Statement. For this purpose, **Income Statement means** a financial statement that reflects the results of the operations of the corporation or partnership for the taxable year, accompanied by a Balance Sheet and a Statement of Cash Flows. The statements must be prepared in accordance with the generally accepted accounting principles, and if the company had a business volume of more than \$1 million, such statements must be audited by a certified public accountant licensed in Puerto Rico.

Line 5 - Determine the amortization expense as reported in your financial statements for goodwill acquired prior to June 30, 1995 or after July 1, 1995 purchased from affiliates. Enter the difference between the goodwill amortization expense as determined from your net income per books, and the goodwill claimed as a deduction on the return.

Line 6 - Enter the Puerto Rico income taxes and any other taxes on income or excessive profits imposed by the United States or any of its possessions or foreign countries, considered directly or indirectly in your Income Statement. Do not include the amount of any tax you may have elected to deduct and not claim as credit as provided in the Code.

Line 8 - Enter the total of interest from exempt obligations, but exclude the exempt interest expense or any other expenses incurred in the acquisition or withholding of such obligations.

Line 9 - Enter the total amount received as dividends or profits from domestic corporations and partnerships or from industrial development income, or tourism development income, as defined under the Tourism Incentives Act of 1983 or the Puerto Rico Tourism Development Act of 1993, as amended, up to the amount in which the dividends or profits have not been included in the net income for regular tax purposes.

Line 10 - Enter the net income amount per books from industrial development, or derived from exempt income of tourism development, as defined on the Puerto Rico Tourism Incentives Act of 1983 or the Puerto Rico Tourism Development Act of 1993. Enter also the amount of the deduction for income derived by a bona fide agricultural business.

Line 11 - Enter any book income (or loss) from the operations of a subsidiary included in the Income Statement recognized under the equity method, for accountability of the investment in the subsidiary.

Line 12 - Enter the amount of the reserve for the payment of catastrophic losses required by Chapter XXV of Act No. 77 of June 19, 1957, as amended.

Line 13 - Enter the net long-term capital gain that you elected to pay taxes at the special tax rate 20% (lines 24 and 25 of Schedule D Corporation and Partnership, as applicable).

Line 16 - Subtract line 3 from line 15 (but not less than zero). This is the excess of the Adjusted Net Income per books over the Alternative Minimum Net Income.

PART III - COMPUTATION OF THE ALTERNATIVE MINIMUM NET INCOME

Line 19 - Enter your net operating loss deduction to be used in the determination of the alternative minimum tax. The amount of this deduction cannot exceed 90% of the alternative minimum net income determined without considering this deduction. **Any excess of net loss may be carried over to each one of the following 7 taxable years.** The net operating loss will be adjusted as established by the Code.

Line 21 - The alternative minimum tax allows an exemption of \$50,000 if the alternative minimum net income is \$500,000 or less. That exempt amount is reduced by 25% (but not less than zero)

of the excess of the alternative minimum net income over said amount. If your alternative minimum net income is \$700,000 or more, you are not entitled to claim any exemption.

To determine the exempt amount follow the instructions below:

A. Maximum exempt amount	\$50,000
B. Total line 20	_____
C. Less:	\$500,000
D. Excess of line B over line C	(_____)
E. Multiply line D by 25%	_____
F. This is your exempt amount (Subtract line A from line E)	_____

PART IV - COMPUTATION OF THE ALTERNATIVE MINIMUM CREDIT FOR FOREIGN TAXES PAID

Line 25 - If line 18 is less than \$500,000, the exempt amount is \$50,000. If line 18 exceeds \$500,000, but less than \$700,000, the exempt amount will be \$50,000 less 25% of the excess over \$500,000.

Line 30 - Compute your credit for foreign taxes paid according to the Code. Use the formula indicated and adjust the net income by the adjustment items specified in the Code. The formula is as follows:

Alternative Minimum Net Income from sources outside Puerto Rico divided by Total Alternative Minimum Net Income and multiplied by the Tentative Minimum Tax.

Any increase to the Alternative Minimum Net Income due to the adjustment for the excess of net income as per the Income Statement, will have the same proportion and character of the Alternative Minimum Income determined without considering such increase.

The determined credit is subject to an additional limitation. It may be reduced up to 90% of the Tentative Minimum Tax (line 23) without considering the deduction for net operating loss used in the determination of the alternative minimum tax. Determine the credit limitation amount on lines 23 through 30. **Any credit amount not claimed in the taxable year can be carried over to the following 7 years.** No part of the credit may be carried back.

PART V - COMPUTATION OF THE ALTERNATIVE MINIMUM TAX

Line 32 - The adjusted regular tax is the same as the regular tax (Form 480.10 or 480.20, Part III, line 13 or Schedule D Corporation and Partnership, Part V, line 35, whichever is smaller) less the creditable proportion of tax paid to the United States, its possessions and foreign countries (Schedule B Corporation and Partnership, Part II, Line 1).



SCHEDULE B CORPORATION AND PARTNERSHIP-RECAPTURE OF THE CREDIT CLAIMED IN EXCESS, TAX CREDITS, AND OTHER PAYMENTS AND WITHHOLDINGS

Use this schedule to determine the recapture of investment credit and for the donation of a conservation easement claimed in excess, the tax credits, and other payments and withholdings.

PART I - RECAPTURE OF INVESTMENT AND CONSERVATION EASEMENT CREDIT CLAIMED IN EXCESS

In Columns A, B and C you must enter the name and the employer identification number of the entity to which the investment credit or the donation of a conservation easement claimed in excess belongs, and check the box that identifies the act that regulates the investment or donation made.

Enter the credit claimed in excess in previous years as a result of the intervention of the Secretary or Director of the Agency or Department, or the Board who regulates each of the following acts: Puerto Rico Tourism Development Act (Act No. 78 of September 10, 1993, as amended), Solid Waste Authority Act (Act No. 70 of June 23, 1978, as amended), Agricultural Incentives Act (Act No. 225 of December 1, 1995, as amended), Capital Investment Fund Act (Act No. 3 of October 6, 1987, as amended), Act for the Creation of the Theatrical District of Santurce (Act No. 178 of August 18, 2000), Act for the Development of the Film Industry (Act No. 362 of December 24, 1999), Act for Tax Credits from Investment in Housing Infrastructure (Act No. 98 of August 10, 2001), Act for Tax Credits for Investment in the Construction or Rehabilitation of Rental Housing Projects for Low or Moderate Income Families (Act No. 140 of October 4, 2001), Act for Credit to Investors in an exempt business that is in the process of closing its operations in Puerto Rico (Act No. 109 of August 17, 2001) and Conservation Easement Act (Act No. 183 of December 27, 2001, as amended).

The total investment carried out by the exempt business in the project is subject to the revision of the Secretary or Director of each Agency or Department, or the Special Work Board (Board) in case of the Theatrical District of Santurce. If the investment credit claimed by the investors exceeds the investment credit computed by the Secretary, the Director or the Board, this excess shall be due as income tax. In some cases this debt must be paid by the investors in one installment, and in other cases in two installments beginning with the first taxable year following the date in which the unfulfillment or revocation of the credits is determined or any other date provided by law. The Director, the Secretaries or the Board will notify the Secretary of the Treasury the excess of credit claimed by the investors.

The provisions of credit recapture previously mentioned will not apply to participants and investors that are not developers in a project under the Tourism Development Act or the Solid Waste Authority Act.

On the other hand, the provisions of credit recapture under the Agricultural Tax Incentives Act will apply to participants or investors in agricultural businesses.

In case of condohotels, the integrated leasing program operator must file an annual report to the Director and to the Secretary identifying the participant units in the integrated leasing program. Said report must indicate the participation beginning date of the participant units, as well as the date or dates in which one or more units were withdrawn from the program.

In case of Act No. 178 of 2000 (theatrical business), Act 140 of 2001 (rental housing), and Act No. 109 of 2001 (business closing operations), if any unit or business is withdrawn from the program, cease its operations or do not comply with any of the requirements provided by the corresponding law before the expiration of the 10 year period or other period provided by law, the investor will owe as income tax an amount to be computed as provided by law or as follows, as applicable:

$$\begin{array}{rcl} \text{Income Tax} & & \text{Total investment} \\ \text{owed} & = & \text{credit claimed} \\ & & \text{per unit or business} \end{array} \times \frac{\text{Balance of the}}{\text{10 year period}} \div 10$$

In case of owners of a lieved property or donors of a conservation easement in case of an eligible land, they shall be subject to the recapture of the tax credits granted, in the event that the obligations included in the constitution deed for the conservation easement or donation of an eligible land are not fulfilled, as applicable, but only in those cases in which it is impossible to return the land to its original condition and said unfulfillment occurs within the 10 years of having constituted the conservation easement.

These dispositions will also apply when the redemption of the easement is stipulated, within the 10 years of having constituted the conservation easement, by the owners and the titular of the easement.

The income tax amount owed must be paid in one or two installments, whichever applies, beginning with the first taxable year following the date of the withdrawal of the unit, the first taxable year following the cease of operations or any other date provided by law.

Line 1 - Enter the total excess of credit notified by the Director, the Secretary or the Board, or in the case of condohotels, theatrical business, business closing operations or rental housing projects for low income families, the total of income tax debt according to the formula previously mentioned or established by law.

Line 3 - Multiply line 1 by 50% and enter the result. Transfer the resulting amount to Part III, line 16 of the return. If part of the excess was paid in the previous year, enter the balance owed.

On this line you must also include the recapture of investment credit claimed in excess related to any of the following laws: housing infrastructure act and rental housing act for low or moderate income families.

Line 4 - If this is the first year that you make the recapture, subtract line 3 from line 1 and enter the difference. This will be the tax debt to be paid for next year. If this is the second year of recapture, subtract lines 2 and 3 from line 1.



PART II - TAX CREDITS

Line 2 - Enter the credit portion attributable to dividends received from industrial development income, corresponding to the 3% of the investment made by the subsidiary in the acquisition, construction and expansion of buildings and other structures used in manufacture, which exceeds the investment in such properties possessed by the subsidiary as of March 31, 1977.

If the corporation has not enjoyed a tax exemption under Act 57 of 1963, Act 26 of 1978 or Act 8 of 1987 for two taxable years, the credit will be granted to the parent corporation for the increase in investment made by the subsidiary after the end of the second year of the tax exemption.

In order to be entitled to such credit, the investment must be made prior to January 1, 1993.

This credit may be carried over to subsequent taxable years. However, investments made in real property to obtain the waiver established on paragraph 6(a) of Section 4 of Act 8 of 1987, cannot be used for purposes of this credit.

Line 3 - Enter the amount determined on Schedule Q.

To claim this credit you must submit with the return the following:

- 1) Schedules Q and Q1 duly completed.
- 2) A document indicating or showing the credit earned for the investment in the different capital investment funds or direct investments, such as Solid Waste Facilities, Tax Incentives, Agricultural Incentives, Theatrical District of Santurce, Feature Films, as well as the Tourism Development Fund.
- 3) Copy of the certification issued by the regulatory agencies.
- 4) Copy of the notification or sworn statement issued by the regulatory agency to inform the credit distribution.

Line 5 - Enter the contributions made, up to \$500, to the Educational Foundation for the Free Selection of Schools.

The contributions made in excess of the allowed credit will be granted as a deduction under charitable contributions, up to the limitations established in the Code.

To claim this credit, a certification from the Educational Foundation or copy of the canceled check must be submitted as evidence of the contribution made.

Line 6 - Enter as credit the alternative minimum tax paid and not used in previous years. To be entitled to this credit, the regular tax for the year must exceed the alternative minimum tax for such year, and the alternative minimum tax for previous years must have been paid. The credit must be determined as follows:

1. **Regular Tax** (Part III, line 13 of the return or Schedule D Corporation and Partnership, Part V, line 35, whichever is smaller, less Part II, line 1 of Schedule B Corp. and Part.) _____
2. **Less: Tentative Minimum Tax** (Part V, line 31 of Schedule A Corporation and Partnership) _____
3. **Regular Tax Subject to the Credit** (Subtract line 2 from line 1) _____
4. **Alternative Minimum Tax Credit Paid in Previous Years** (Line 17 or 18, whichever applies, of the return from previous years, which has not been used) _____
5. **Credit to be Granted** (The smaller of line 3 or line 4) _____

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

Submit with the return a schedule detailing the alternative minimum tax paid in previous years, origination date and amounts used, including the taxable year in which it was claimed as credit.

Line 7 - Enter the tax credit acquired during the year through the purchase, exchange or transfer made by the investor or participant of the primary investor. See instructions of Schedule Q for the percentages and limitations to claim on the return.

To claim this credit, the transferor and the transferee must submit a sworn statement notifying the transfer to the Secretary. The sworn statement must be submitted with their income tax returns in the year in which the transaction takes place.

Line 8 - Enter the amount of the credit to be claimed for the investment in a Film Entity engaged in a Film Project and/or Infrastructure Project under Act No. 362 of December 24, 1999, as amended.

The concession of this credit is subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination under Act No. 362 and its regulations. You must include with the return copy of the determination, along with the information required in the determination letter.

For additional details refer to Act No. 362 of December 24, 1999, as amended.

Line 9 - Enter the amount of the credit for infrastructure investment to developers of housing projects, recommended by the designated officials of the Housing Department and the Department of the Treasury. It will be subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination under Act No. 98 of August 10, 2001 and the applicable regulations. You must include with the return copy of such determination, along with the



information required in the determination letter.

For additional details refer to Act No. 98 of August 10, 2001 and its regulations, and Act No. 212 of August 29, 2002, as amended, and the corresponding regulations.

Line 10 – Enter the amount of credit for investment in the construction or rehabilitation of rental housing projects for low or moderate income families.

Every owner of a rental housing project for low or moderate income families may qualify for a tax credit.

The petitioner must file an application with the Housing Finance Authority.

The tax credit will be subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination. You must include with the return copy of such determination, along with the information required in the determination letter.

For additional details refer to Act No. 140 of October 4, 2001 and its regulations.

Line 11 – Enter the amount of the credit for investment in a exempt business that is in the process of closing its operations in Puerto Rico. Every investor may claim an industrial investment credit equal to 50% of its eligible investment.

The credit must be claimed in two installments: the first half in the year that the eligible investment was made, and the balance in subsequent years.

Every investor must request an administrative determination to the Secretary of the Treasury before claiming the industrial investment credit.

Every industrial investment credit not used in the taxable year may be carried over to subsequent years, until totally used.

For additional details refer to a Act No. 109 of August 17, 2001.

Line 13 - Enter 50% of contributions made to the Santa Catalina's Palace Patronage (Patronage). However, such credit cannot exceed \$50,000 for taxable year 2006.

To claim this tax credit you must submit the certification issued by the Patronage evidencing that the contribution was made and accepted.

Such part of the credit not used in the taxable year in which the contribution was made, may be carried over to subsequent years, until totally used.

Remember that contributions to the Patronage generate a tax credit. Therefore, such contribution cannot be claimed as part of the deduction for charitable contributions.

Line 14 – Enter the amount of credit for the establishment and donation of a conservation easement, equal to 50% of the value of the eligible conservation easement.

To claim this credit you must include the certification issued by Secretary of the Treasury.

For additional details refer to Act No. 183 of December 27, 2001, as amended, and the corresponding regulation.

Line 15 – Enter the amount of credit for construction investment in urban centers. Every person that carries out a construction or improvement project in a urban center, as provided by law, may qualify to claim a credit against the tax.

The concession of the credit is subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination. You must include with the return copy of such determination, along with the information required in the determination letter.

The taxpayer must include with the return for every year in which the credit is claimed, a schedule detailing the date in which the credit was granted, the taxable years in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

For additional details refer to Act No. 212 of August 29, 2002, as amended, and the corresponding regulations.

Line 16 – Enter the amount of credit for merchants affected by Urban Center revitalization. Every commercial entity established in the area affected by the construction of the revitalization projects in urban centers, will be entitled to claim an 8% tax credit of the 50% from the gross sales generated during the construction period.

The amount of this credit can not exceed the tax responsibility reported on previous year return. To claim this credit, you must include with the return a certification issued by the Puerto Rico Commerce and Exportation Company in which the taxpayer is identified as a merchant affected by the construction work.

For additional details refer to the Internal Revenue Circular Letter No. 04-06.

Line 17 – Enter 50% or 10%, as applicable, of the taxes paid attributable to the net income earned from the sale or publication of books.

The concession of this benefit will be subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination under Act No. 516 of September 29, 2004, as provided by the Internal Revenue Circular Letter No. 05-05. You must include with the return copy of such determination, along with the information required in the determination letter.

This benefit will be available for a period of 10 years beginning on taxable year 2004.

For additional details refer to Act No. 516 of September 29, 2004.

Line 18 – Enter 10% of taxes paid attributable to the income earned from the book printing in Puerto Rico.

The concession of this benefit will be subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination under Act No. 516 of September 29, 2004, as provided by the Internal Revenue Circular Letter No. 05-05. You must include with the return copy of such determination, along with the information required in the determination letter.

This benefit will be available for a period of 10 years beginning on taxable year 2004.

For additional details refer to Act No. 516 of September 29, 2004.

Line 19 – Enter 15% of the total income tax attributable to the income earned from the sale of books printed in Puerto Rico or from Puerto Rican authors.

The concession of this benefit will be subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination under Act No. 516 of September 29, 2004, as provided by the Internal Revenue Circular Letter No. 05-05. You must include with the return copy of such determination, along with the information required in the determination letter.

This benefit will be available for a period of 10 years beginning on taxable year 2004.

Line 20 – Enter the amount of credit for the 2006 extraordinary tax determined and paid, as established by Act No. 98 of May 16, 2006.

The amount paid for the extraordinary tax may be claimed as credit for taxable years beginning after July 31, 2006. The amount claimed as credit for each one of such years shall not exceed 25% of the total extraordinary tax.

Line 22 - Enter the total amount of other income tax credits not included on the preceding lines. If this line includes credits from different concepts, you must submit a schedule showing a breakdown of such credits. You must also submit documents or evidences to support such credits.

PART III - OTHER PAYMENTS AND WITHHOLDINGS

Enter on lines 1 through 7, the amount of tax paid or withheld regarding the types of income described on these lines.

Line 2 - Enter the tax paid in excess in previous years that you had elected to claim against the payment of any estimated tax installment.

Line 3 - Do not include the tax paid in excess in previous years that you had elected to claim against the payment of any estimated tax installment.

Line 5 - Enter the amount withheld over payments for services rendered. In order to claim this credit, you must submit Form 480.6B. Otherwise, you must submit a sworn statement indicating the name, address, employer identification number and telephone number of the person who made the deposit or payment, the total amount of the deposits and the tax withheld.

Line 7 - Enter the tax withheld at source on eligible interest if you exercised the option to pay the special tax rate of 10%. You must submit with your return Form 480.6B.

SCHEDULE B1 CORPORATION AND PARTNERSHIP – CREDITS FOR PURCHASE OF PRODUCTS MANUFACTURED IN PUERTO RICO AND PUERTO RICAN AGRICULTURAL PRODUCTS

PART I – CREDIT FOR PURCHASE OF PRODUCTS MANUFACTURED IN PUERTO RICO (SECTION 1040C)

Section 1040C of the Code provides a credit against the income tax to those manufacturing businesses (except those with a tax exemption decree) that purchase products manufactured in Puerto Rico, including component parts and accessories. The credit will be equal to 25% of the increase in the purchases of such products during the taxable year in which the credit is claimed, over the average of the purchases of such products during the previous 3 taxable years, or that part of such period that may be applicable.

The credit may be used to reduce up to 10% the tax of the manufacturing business.

Enter in the spaces provided for each manufacturing business from which the products were acquired the name, employer identification number, manufacturing business identification number and the value (cost) of each purchase. In case of manufacturing businesses with a tax exemption decree, the manufacturing business identification number will be the decree number. If the business does not have a decree, enter the number assigned by the Industrial Development Company. The eligible business must keep the necessary records evidencing the value of the purchases for which the credit is claimed. Do not include purchases of products that have been manufactured in Puerto Rico by businesses related with the business claiming the credit.

Line 6 – Enter the amount of the credit carried from previous years not used due to the 10% limitation. Submit a detailed schedule showing the breakdown of said carry forward.

PART II – CREDIT FOR PURCHASE OF PRODUCTS MANUFACTURED IN PUERTO RICO FOR EXPORTATION (SECTION 1040D)

Section 1040D of the Code provides a credit to every **eligible business** that buys, directly or through related persons, products manufactured in Puerto Rico to be exported and sold outside of

Puerto Rico for their use and consumption in the exterior.

Eligible businesses are those engaged in trade or business in Puerto Rico which are not under any tax incentives act or similar acts.

The amount of the credit is based on the purchase value of products manufactured in Puerto Rico realized during the particular taxable year and which are exported to be sold outside of Puerto Rico for their use or consumption in the exterior, according to the following table:

Value of purchases for the year	Amount of credit
Not over \$50 millions	10%
Over \$50 millions but not over \$100 millions	\$5 millions plus 8% of the excess over \$50 millions
Over \$100 millions but not over \$150 millions	\$9 millions plus 6% of the excess over \$100 millions
Over \$150 millions but not over \$200 millions	\$12 millions plus 4% of the excess over \$150 millions
Over \$200 millions	\$14 millions

Enter in the spaces provided, for each manufacturing business from which you acquired the products, the name, employer identification number, manufacturing business identification number and the value (cost) of each purchase. In case of manufacturing businesses with a tax exemption decree, the manufacturing business identification number will be the decree number. If the business does not have a decree, enter the number assigned by the Industrial Development Company. The eligible business must keep the necessary records evidencing the value of the purchases for which the credit is claimed. Do not include purchases of products which have been manufactured in Puerto Rico by **persons related** to the eligible business and by manufacturing businesses which have directly or through related persons, an investment in the exterior in excess of **\$10,000,000**. This exclusion will not apply in case of purchases of products that have been manufactured in Puerto Rico by businesses engaged in tuna processing.

Line 3 – Enter the amount of the credit carried from previous years not used. Submit a detailed schedule showing the breakdown of said carry forward.

According to Section 1040D of the Code, as amended by Act No. 117 of July 4, 2006, the credit for purchase of products manufactured in Puerto Rico for exportation will be claimed, in the first place, against the sales tax collected by the eligible business.

For additional details about how to claim the credit against the sales tax, see Section 1040D of the Code and its corresponding regulation.

PART III – CREDIT FOR PURCHASE OF PRODUCTS MANUFACTURED IN PUERTO RICO FOR LOCAL SALE AND CONSUMPTION (SECTION 1040E)

Section 1040E of the Code provides a credit to every **eligible business** that buys products manufactured in Puerto Rico and which are sold locally for their use or consumption in Puerto Rico. The credit is 10% of the increase in the purchases of products manufactured in Puerto Rico during the taxable year in which the credit is claimed, over the average of the purchases of such products made during the previous 3 taxable years, or that part of such period that may be applicable.

Eligible business is every enterprise engaged in trade or business in Puerto Rico whose annual sales volume does not exceed **\$5,000,000**.

This credit may be used to reduce up to 25% the tax of the eligible business.

Enter in the spaces provided for each manufacturing business from which you acquired the products, the name, employer identification number, manufacturing business identification number and the value (cost) of each purchase. In case of manufacturing businesses with a tax exemption decree, the manufacturing business identification number will be the decree number. If the business does not have a decree, enter the number assigned by the Industrial Development Company. The eligible business must keep the necessary records evidencing the value of the purchases for which the credit is claimed. Do not include purchases of products which have been manufactured in Puerto Rico by persons related to the eligible business.

Line 6 - Enter the amount of credit carried from previous years due to the 25% limitation. Submit a detailed schedule showing the breakdown of said carry forward.

PART IV - CREDIT FOR INCREASE IN PURCHASES OF PUERTO RICAN AGRICULTURAL PRODUCTS (SECTION 1040F)

Section 1040F of the Code provides a credit to every **eligible business** that increases the purchases of Puerto Rican agricultural products in substitution of imported products for local sale.

The credit will be not less than 5% and up to a maximum of 20% of the increase in the purchase value of agricultural products harvested, produced and elaborated in Puerto Rico during the taxable year in which the credit is claimed, over the average of the purchases of such products during the previous 3 taxable years, or that part of such period that may be applicable.

Eligible business is the one that acquires Puerto Rican agricultural products through a contract between such business, the Secretary of Agriculture and an agricultural production group promoted by the Department of Agriculture or an Agricultural Sector organized under the Puerto Rico Agriculture and Livestock Industry Regulating Act or with a Qualified Farmer.



This credit may be used to reduce up to 25% the tax of the eligible business.

Enter in the spaces provided, the name of each Agricultural Production Group, Agricultural Sector or Qualified Farmer from which you made the purchases; the purchases increase; the percentage granted; and the amount of each credit according with the Tax Credit Certification issued by the Department of Agriculture.

Line 2 - Enter the amount of credit carried from previous years due to the 25% limitation. Submit a detailed schedule showing the breakdown of said carry forward.

SCHEDULE C CORPORATION AND PARTNERSHIP - CREDIT FOR TAXES PAID TO THE UNITED STATES, ITS POSSESSIONS AND FOREIGN COUNTRIES

Use this schedule to determine the portion of the taxes paid to the United States, its possessions and foreign countries allowable as a credit.

To claim a credit for taxes paid to the United States, its possessions and foreign countries, it is necessary that you:

- 1) paid or accrued income tax outside of Puerto Rico,
- 2) included taxable income from sources outside of Puerto Rico on your Puerto Rico income tax return, and
- 3) submit evidence of the tax paid outside Puerto Rico (copy of canceled checks and copy of the return filed to the IRS or foreign countries). If the payment receipt or the tax return is written in a foreign language, you must provide a certified translation of the same.

PART I - DETERMINATION OF NET INCOME FROM SOURCES OUTSIDE OF PUERTO RICO

Line 1 - Enter the gross income from sources outside of Puerto Rico. Gross income from sources outside of Puerto Rico is determined by subtracting from the gross income of the return, the income from sources within Puerto Rico not taxable in the United States, its possessions and foreign countries. Therefore, it is important to determine the source of income at the moment of filing the return.

The source of income is determined as follows:

- 1) Interest and dividends - It is determined by the residence or place of incorporation of the payer.
- 2) Services compensation - It is determined by the place where the services are rendered.
- 3) Rents and royalties - It is determined by the place where the property is located or by the place of use, or of the privilege of using patents, copyrights, trademarks, goodwill and other similar property.

- 4) Profit on the sale of inventory - It is determined by the place where the title of goods is transferred. There is an exemption for the acquisition of products manufactured outside of Puerto Rico.
- 5) Profit on the sale of personal property - It is determined by the place where the title of such property is transferred.
- 6) Profit on the sale of real property - It is determined by the place where such property is located.

PART II - DETERMINATION OF NET INCOME FROM ALL SOURCES

Determine the net income from all sources in accordance to the income tax return.

PART III - TAXES PAID OR ACCRUED TO THE UNITED STATES, ITS POSSESSIONS AND FOREIGN COUNTRIES

Indicate the payment date and the total tax paid or accrued.

If the tax was paid in a foreign currency, such tax must be translated to U.S. dollars at the date of the payment. A schedule indicating the translation to U.S. dollars must be submitted with the return.

PART IV - DETERMINATION OF CREDIT

Determine the credit to be claimed, and enter the amount to which you are entitled.

In case that the net income subject to normal tax is derived from two or more countries, the allowable credit with respect to each country or possession will be determined separately.

The amount of credit shall not exceed the same proportion of the tax against which such credit is taken, that the taxpayer's net income subject to normal tax from sources within such country bears to its entire net income subject to normal tax for the same taxable year.

The credit for taxes paid cannot exceed the amount paid to the United States, its possessions and foreign countries.

SCHEDULE D CORPORATION AND PARTNERSHIP- GAINS AND LOSSES FROM SALE OR EXCHANGE OF PROPERTY

Use this schedule to determine the gains or losses from the sale, exchange or disposal of the capital assets.

A capital asset may be defined as a property acquired for investment owned by the taxpayer (related or not to its industry or business), but does not include: (a) goods in hand of the taxpayer's business or other property of similar nature that can be properly included in the taxpayer's inventory, if it was in hand at the close of the

taxable year, or property owned by the taxpayer primarily for the sale to customers during the ordinary course of its trade or business, or (b) property used in its trade or business subject to the allowance for current depreciation, or real property used in its trade or business.

Capital gains or losses are classified as short or long-term, depending on the period held. If the assets were held for not more than 6 months, it is considered as **short-term** gain or loss. On the other hand, if the assets were held for more than 6 months, it is considered as **long-term** gain or loss.

To determine short and long-term capital gains or losses, you must provide the description and location of the property sold, indicate if the adjusted basis was increased by the prepayment of the tax and complete the information in Columns (A) through (F) of Parts I, II and III with respect to the properties.

The uniform tax rate in case of corporations and partnerships is 20%.

As a general rule, the adjusted basis of the property is its original cost plus the cost of the permanent improvements, less depreciation. Do not include lodging expenses (i.e. hotels) nor travel expenses (i.e. airline tickets).

Provisions applicable to the adjusted basis of certain capital assets:

The adjusted basis must include the increase in accumulated value of included capital assets on which the 10% special tax was prepaid during the period of **July 1 to December 31, 2006**, as provided in Section 1121A of the Code.

The term "included capital asset" comprises the real property located in Puerto Rico that has been **held for long-term**.

According to Act No. 270 of December 14, 2006, if you sold an included capital asset from December 14, 2006 to December 31, 2006 and you made the election and payment of the special tax on the increase in accumulated value of the asset on or before December 31, 2006, include as part of the adjusted basis the amount for which you made the payment.

Those taxpayers who benefited from the 10% special tax rate, must indicate it by filling in the oval in Parts II and III of this Schedule. **You must keep for your records Form AS 2731 with the corresponding Schedule.**

Any amount or increase in value of the included capital assets generated after the election herein provided, must be taxed according to the law provisions in force at the moment in which the sale, exchange or other disposal of such capital assets finally takes place.

Recognition of loss:

Losses generated in the sale of capital assets for which the 10% special tax was prepaid, shall be adjusted

according to the income tax rate in force applicable to this kind of transaction at the moment of the sale of such assets, before the use or carry over of said loss by the corporation or partnership. According to the above, such loss will be adjusted by a formula or fraction, where the numerator will be the 10% rate and the denominator will be the income tax rate in force at the date on which the sale of the asset took place.

Selling expenses include sales commissions, advertisements, legal fees, appraisal and other similar expenses. Do not include lodging expenses (i.e. hotels) nor travel expenses (i.e. airline tickets).

PART I - SHORT-TERM CAPITAL ASSETS GAINS AND LOSSES (HELD 6 MONTHS OR LESS)

Line 1 - Enter the sum of Column (F).

Line 3 - If you elected to pay taxes using the bracket method, enter the amount reported on Form 480.6 SE, regarding the distributable share on the net short-term capital gain (or loss) from special partnerships.

PART II - LONG-TERM CAPITAL ASSETS GAINS AND LOSSES (HELD MORE THAN 6 MONTHS)

Line 7 - Enter the sum of Column (F).

Line 8 - Enter the amount determined on Form 480.6 SE.

PART III - LONG-TERM CAPITAL ASSETS GAINS AND LOSSES (HELD MORE THAN 6 MONTHS) REALIZED UNDER SPECIAL LEGISLATION

You must inform in this part **only** the long-term capital gain and loss derived from the sale of shares or other property of a business that operates with a decree granted under any special act, or that operates and benefits from any special act, in which a special tax rate is provided in lieu of the tax imposed by the Code.

Line 11 - Enter the amount of Column (F). Indicate the act under which you received the benefit, and include the number of the decree that grants you the special treatment, if applicable.

PART IV - SUMMARY OF CAPITAL GAINS AND LOSSES

Line 12 - Enter here **only** the net capital gains determined on lines 6, 10 and 11.

Column A - Enter the net short-term capital gain, if any, determined in Part I, line 6.

Column B - Enter the net long-term capital gain, if any, determined in Part II, line 10, Column (F).

Column C - Enter the net long-term capital gain realized from the sale of shares or other property under the provisions of special legislation, if any, determined in Part III, line 11, Column (F).

Line 13 – Enter here **only** the net capital losses determined on lines 6, 10 and 11.

Column A – Enter the net short-term capital loss, if any, determined in Part I, line 6.

Column B – Enter the net long-term capital loss, if any, determined in Part II, line 10, Column (F).

Column C – Enter the net long-term capital loss realized from the sale of shares or other property under the provisions of special legislation, if any, determined in Part III, line 11, Column (F).

Line 14 - This line must be used **when any** of Columns B and C reflect a loss on line 13. Such loss will be applied against the gain, if any, reflected in the other Column of line 12, except Column A. If the other Column does not reflect a gain on line 12, enter zero.

Line 16 - If line 13, Column A reflects a loss, apply the same proportionally to the gains, if any, reflected on line 12. If no Column reflected gains on line 12, enter zero.

On this line, the net short-term capital loss reflected on line 13, Column A, is applied proportionally to the net long-term capital gains reflected on the line 12, Columns B and C, after having applied the net long-term capital loss.

Line 20 - The amount to be entered on this line will depend on each particular situation.

If line 12, Column A reflects a short-term capital gain, and at the same time line 18 reflects zero or a loss smaller than such gain, enter on this line the amount of line 19.

If line 18 reflects zero or a gain, and at the same time line 12, Column A reflects a short-term capital gain, enter on this line the amount of line 12, Column A.

If none of the previously described situations applies, enter zero on this line.

Line 21 - Enter on this line the gain reflected on line 18, if any. That is, if the amount reflected on line 18 is zero or a loss, enter zero.

Line 22 - Enter the sum of the excess of the net short-term and long-term capital gains over the short-term and long-term capital losses.

Losses not allowed - There will not be recognized any loss incurred in any sale or other disposition of stocks or securities if substantially identical stocks or securities were purchased, or if it was agreed through a contract or purchase option to acquire substantially identical stocks or securities within 30 days prior to or after the sale or disposition date, except in case of stock and security dealers with respect to operations made in the ordinary course of business.

No deduction shall be allowed with respect to losses from sale or exchange of property executed directly or indirectly (except in case of distributions in liquidation), between an individual and a corporation or partnership in which that individual possesses, directly or indirectly, more than 50% of the outstanding stocks or has more than 50% of a partnership equity; or (except in case of distributions in liquidation) between two corporations, between two partnerships or between a corporation and a partnership, with respect to any of these corporations outstanding stocks or partnership equity in which more than 50% is owned, directly or indirectly, by or for the same individual.

Gains and losses from involuntary conversions and from the sale or exchange of certain property used in the trade or business - The term property used in the trade or business means property that is used in the trade or business, held for more than 6 months and that is subject to the allowance for current depreciation, and real property used in the trade or business, held for more than 6 months, and which is property not included in the taxpayer's inventory if in hand at the close of the taxable year, or property held by the taxpayer primarily for the sale to customers in the ordinary course of its trade or business.

The Code provides for a special treatment for gains and losses derived from the sale or exchange of depreciable property used in the trade or business held for more than 6 months, and for gains and losses from a compulsory or involuntary conversion of such depreciable property and of capital assets, held for more than 6 months. Such gains could be treated as long-term capital gains and taxed at a rate of 20%, or the normal tax rates, whichever is lower.

PART V - DETERMINATION OF ALTERNATIVE TAX - CAPITAL GAIN

Lines 24 and 25 - The amounts to include on these lines, in the cases that you elect to pay taxes on such items at the special rates, come from Schedule D Corporation and Partnership, line 17, as applicable. The net short-term capital gains must be taxed at the regular rates and they can not be transferred to this line.

You must enter **zero** on any line in which you decide to pay taxes at the regular rates on the gain and do not elect the special rates. This is in the cases where you derived gains in the two concepts indicated on this line.

SCHEDULE E - DEPRECIATION

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

The following information must be provided on the schedule:

- ☞ property classification;
- ☞ date acquired;
- ☞ allowable cost or basis;
- ☞ depreciation claimed in previous years;
- ☞ estimated useful life to determine the depreciation; and
- ☞ depreciation claimed in the current year.

Part (b) - Flexible Depreciation

To be entitled to claim the flexible depreciation instead of current depreciation, the Code requires to make an 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 instructions of Part V of the return or to the Code and its regulations, for other requirements and provisions in connection with the deduction under the flexible and accelerated depreciation methods.

Submit Schedule E with your return.

SCHEDULE R - SPECIAL PARTNERSHIP

Part I of Schedule R is used every year to determine the taxpayer's basis in each special partnership. Part II of this schedule is used in those taxable years in which the taxpayer claims its distributable share on the special partnership's losses in the current year, as well as those losses carried over from previous years. Also, Part II provides for the reduction of the carryover losses by the distributable share on income and profits attributable to the partner during the year.

You must complete this schedule annually, whether the Special Partnership has derived gains (or losses) or not.

PART I - ADJUSTED BASIS DETERMINATION OF A PARTNER IN ONE OR MORE SPECIAL PARTNERSHIPS

Line 1 - Enter the amount from Part I, line 4 of previous year Schedule R.

The basis of a partner's share from a Special Partnership will be

the amount of cash, or the adjusted basis of any property that is not considered cash, contributed to said partnership.

This basis will be adjusted by entries or transactions made during the current taxable year and others included on previous year income tax return.

Line 2 - Basis increase

- (a) Enter the partner's distributable share on previous year's income and profits. For example, in case of a taxpayer with a calendar taxable year, enter the total distributable share on the special partnership's income or profit included on the income tax return filed on April 15 of previous year (or later if you requested an extension of time to file your return). This amount must be the same as the one shown on line 7, Part II of Schedule R included on previous year income tax return.
- (b) through (d) These entries are from the current taxable year.
- (e) Enter the proportion of income or gain attributable to your share on the income from agriculture earned by the special partnership, which is tax exempt under Section 1023(s) of the Code.
- (f) Enter other income or gains like for example, the distributable share on the dividends and interest received by the special partnership.

Line 3 - Basis decrease

- (a) Enter the distributable share on the loss attributable to the partner in previous year. For example, in case of a taxpayer with a calendar taxable year, enter the total distributable share on the special partnership's loss included on the income tax return filed on April 15 of previous year (or later if you requested an extension of time to file your return). To determine the total loss claimed on previous year return, add lines 5(c), 8 and 13 of Part II from Schedule R included on previous year return. In order to add lines 5(c), 8 and 13 use the parenthesis of line 8, if the excess is a loss. For example, if line 5(c) is \$12,000, line 8 (\$2,000) and line 13 \$1,000, the result will be \$11,000 (\$12,000 + (\$2,000) + \$1,000).
- (b) The distributable share on special partnership's capital assets loss.
- (c) Distributions made to the partner by the Special Partnership, whether in cash or in property, including tax exempt income.
- (d) The amount claimed as credit against the income tax in previous taxable year for investments made in special partnerships engaged in the production of feature films or under the Puerto Rico Tourism Development Act of 1993, the Puerto Rico Capital Investment Fund Act, the Puerto Rico Agricultural Tax Incentives Act, as amended, or any other credit admitted by law to the partners related to the Special Partnership's activities.

- (e) The amount claimed as credit against the income tax for withholding of tax at source from the distributable share made to a resident partner (33%) or to a non-resident alien partner (29%).
- (f) Any expense from the Special Partnership not allowed as a deduction while determining your net income and that is not capitalized.
- (g) The distributable share on net losses from tax exempt operations under the Tourism Incentives Act of 1983 and the Tourism Development Act of 1993.

Line 4 - If the amount on this line is less than zero, enter zero.

PART II - DETERMINATION OF PARTNER'S ALLOWABLE LOSSES IN ONE OR MORE SPECIAL PARTNERSHIPS

If the Special Partnership derived losses, the partner may claim such losses as a deduction from the net income. Said loss will be limited to the adjusted basis of the partner's share in the partnership at the end of the taxable year in which the loss of the partnership occurred, or up to 50% of the taxpayer's net taxable income determined without considering said loss, whichever is smaller.

The adjusted basis limitation will be determined for each one of the Special Partnerships in which the partner invests.

If the deduction allowed to the partner for any taxable year is smaller than its distributable share in the partnership's net loss, the partner may claim said excess as a deduction in any subsequent taxable year, subject to the smaller of the previously mentioned limitations.

Line 5(a) - Enter the amount distributed from the partner's loss in accordance to its share percentage in the Special Partnership. This amount is informed to the partner on Form 480.6 SE.

Line 5(b) - Enter the carryover losses which were not claimed in previous years due to the limitation.

This amount must be the same as the one shown on line 14, Part II of Schedule R included on previous year income tax return.

If a partner possesses shares in losses from more than one Special Partnership, the balance subject to the loss carryover, as determined in the previous taxable year, will be proportionally attributed to the loss of each one of the partnerships. Said attribution will be done by using as factor the adjusted basis of the partner's share in each one of the partnerships at the end of the previous taxable year.

Line 6 - Enter on this line the amount determined in Part I, line 4. If the special partnership has an exemption decree under the Puerto Rico Tourism Incentives Act or the Puerto Rico Tourism Development Act, you may use the debts of the Special Partnership in proportion to your share to increase your adjusted basis, only to claim losses of the Special Partnership from this activity.

Line 7 - Enter the partner's distributable share on the income and profits derived from the Special Partnership during the year. This amount is reflected on Form 480.6 SE.

Line 8 - If the amount on this line is a loss, use the parenthesis.

Line 9 - Enter the smaller of the amounts on lines 6(c) and 8. This will be the maximum amount to which the partner is entitled to claim as a deduction for losses during this taxable year.

Line 10 - Enter the result of the computation from line 9. In cases in which the partner has losses in more than one partnership, enter the result of the sum from line 9, Columns A through C. This is the total amount of losses to claim for this taxable year.

Line 13 - Enter the smaller of line 10 or 12. This is the amount that you may deduct on your return this year.

SCHEDULE S CORPORATION AND PARTNERSHIP - FARMING BUSINESS

Use this schedule to determine the agricultural taxable benefit.

However, if you claimed benefits under the provisions of the Puerto Rico Agricultural Tax Incentives Act (Act No. 225 of December 1, 1995, as amended), refer to the Income Tax Return for Exempt Businesses under the Puerto Rico Incentives Programs (Form 480.30(II)).

SCHEDULE T CORPORATION AND PARTNERSHIP - ADDITION TO THE TAX FOR FAILURE TO PAY ESTIMATED TAX IN CASE OF CORPORATIONS AND PARTNERSHIPS

Use this Schedule to determine the addition to the tax for failure to pay the minimum estimated tax required.

PART I - ESTIMATED TAX REQUIRED

Line 2 - Enter the sum of credits corresponding to foreign taxes paid and to withholdings at source, and other similar credits provided by the Code or any other special act that may be applicable. Also include the amount of tax paid in excess in previous years that you elected to credit to the estimated tax for the taxable year. Do not include the excess that you had elected to credit to any payment of the installment of estimated tax. **Add line 23, Part II of Schedule B Corporation and Partnership, and lines 3 through 7, Part III of Schedule B Corporation and Partnership.**

Line 6 - Complete this line if an income tax return was filed for the immediate previous taxable year. Otherwise, go to line 8 and enter the amount from line 5.

If an income tax return was filed for the immediate previous taxable year, enter the tax to be paid without considering the estimated tax payments. Subtract lines 3 through 7, Part III of Schedule B Corporation and Partnership from line 21, Part III, page 1 of previous year return.

Line 7 – If an income tax return was filed for the immediate previous taxable year, determine the estimated tax based on the immediate previous taxable year income tax return. For purposes of this computation, you must use current year tax rates.

Example: The information of previous taxable year income tax return is:

2005 income tax return	
Net Income	\$380,000
Credits	5,800
Withholdings at source	1,000

The estimated tax for the current year, based on the information of previous taxable year income tax return but using the current tax rates would be:

Normal tax	\$76,000
Additional tax	51,950
Alternative Minimum Tax	<u>0</u>
Tax Liability	\$127,950
Less:	
Credits and Withholdings	<u>(6,800)</u>
Estimated Tax based on previous year income tax information	<u>\$121,150</u>

Section A – Estimated Tax to be Paid per Installment Placing the Net Income on an Annual Basis

Line 9 – Enter the months of the taxable year elapsed before the month for which the payment of the installment is required. For example, if the taxable year is a calendar year and operations began on January 1, in columns (a), (b), (c) and (d), you must enter 3, 5, 8 and 11.

Line 24 – Enter the total tax credits and withholdings at source for the taxable year.

Line 26 – In order to determine the amount to be entered in columns (b), (c) and (d), you must complete lines 30 through 33 of previous column of Section B (Estimated Tax Required).

PART II – FAILURE TO PAY

Line 34 – Check calendar year if your taxable year ended on December 31. Otherwise, check fiscal year. Enter in columns (a), (b), (c) and (d), the date corresponding to the 15th day of the fourth month, sixth month, ninth month and twelfth month of the taxable year, respectively.

If you filed an extension of time to file the Estimated Tax Declaration, enter in column (a) the date granted to file the same.

Line 35 – If you do not use the method of placing the net income on an annual basis to determine the minimum estimated tax required per installment, and the obligation to file the estimated tax declaration

was met **for the first time** before the first day of the fourth month of the taxable year or if you were required to file an Estimated Tax Declaration during the previous taxable year, enter in each one of the columns 25% of line 8. If the obligation was met **for the first time** after the last day of the third month and before the first day of the sixth month of the taxable year, enter 33% of line 8 in columns (b), (c) and (d). If the obligation was met **for the first time** after the last day of the fifth month and before the first day of the ninth month of the taxable year, enter 50% of line 8 in columns (c) and (d). If the obligation was met **for the first time** after the last day of the eighth month and before the first day of the twelfth month of the taxable year, enter 100% of line 8 in column (d).

Line 36 – Enter in column (a) the total estimated tax amount paid not later than April 15 of the taxable year (the 15th day of the fourth month of the taxable year if you have a fiscal year); in column (b), the total estimated tax amount paid after April 15 of the taxable year (the 15th day of the fourth month of the taxable year if you have a fiscal year) and not later than June 15 of the taxable year (the 15th day of the sixth month of the taxable year if you have a fiscal year); in column (c), the total estimated tax amount paid after June 15 of the taxable year (the 15th day of the sixth month of the taxable year if you have a fiscal year) and not later than September 15 of the taxable year (the 15th day of the ninth month of the taxable year if you have a fiscal year); and in column (d), the total estimated tax amount paid after September 15 of the taxable year (the 15th day of the ninth month of the taxable year if you have a fiscal year) and not later than December 15 of the taxable year (the 15th day of the twelfth month of the taxable year if you have a fiscal year).

Line 37 – If various payments were made in the periods described in the instructions for line 36, indicate the amount and date of the payments.

Line 38 – To determine the amount to be entered in columns (b), (c) and (d), you must complete lines 39 through 44 of previous column.

PART III – ADDITION TO THE TAX FOR FAILURE TO PAY

Line 45 – If the failure to pay on line 41 was covered in only one payment (overpayment) made after the due date, multiply line 41 by 20%. If the failure to pay on line 41 was covered in two or more payments (overpayments) made after the due date, **do not write anything on this line** and complete the table corresponding to the installment, located in Part IV, page 2 of this Schedule.

Line 46 – If the failure to pay on line 41 was covered in only one payment (overpayment) made after the due date, enter the number of days elapsed from the date in which the estimated tax payment must have been paid and the earliest between the date in which the payment (overpayment) was made, or the 15th day of the fourth month following the close of the taxable year.

Any overpayment, after covering the estimated tax payment of the corresponding installment, will be attributed first to the amount of estimated tax of previous installments due and not paid and then to the subsequent installments.



If the failure to pay on line 41 was covered with two or more payments (overpayments) made after the due date, **do not write anything on this line** and complete the table corresponding to the installment in Part IV, page 2 of this Schedule. Determine the days elapsed from the due date of the estimated tax installment and the earliest between the date of each one of the payments or overpayments applied, or the 15th day of the fourth month following the close of the taxable year.

The date of the overpayment applied, will be the date in which the payment that caused such overpayment was made.

Line 47 - If the failure to pay on line 41 was covered in only one payment (overpayment) made after the due date, divide the number of days entered on line 46 by 365 and multiply the result by line 45. If the failure to pay on line 41 was covered with two or more payments (overpayments) made after the due date, enter the total from the table corresponding to the installment, located in Part IV, page 2 of this Schedule.

PART IV - TABLES TO CALCULATE THE ADDITION TO THE TAX FOR FAILURE TO PAY THE INSTALLMENTS OF ESTIMATED TAX

Calculate the penalty for each one of the amounts due by the dates of their respective payments, using the tables in Part IV, page 2 of this Schedule.

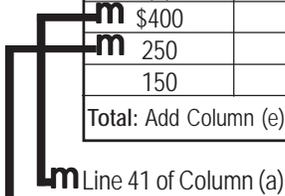
Example:

The minimum estimated tax for the current year was \$4,000. The net income was not placed on an annual basis to calculate the minimum estimated tax, thus, the taxpayer had to make four estimated tax installments for 4/15, 6/15, 9/15 and 12/15 of the current year of \$1,000, respectively. The following payments were made:

Date	Amount
4/15	600
5/30	150
6/15	1,000
9/15	1,100
12/15	1,000

The current year tax was totally met on the date prescribed by the Code to file the same, without considering any extension of time. Therefore, the taxpayer totally paid the current year tax by April 15 following the close of the taxable year. The computation of line 47 will be:

Amount due and not paid before the payment	Amount of payment or overpayment	Date of payment or overpayment	Days elapsed from the due date	Multiply (a) by 20% by (d) by 365
(a)	(b)	(c)	(d)	(e)
\$400	\$150	5/30	45	\$10
250	100	9/15	153	21
150	150	4/15	365	30
Total: Add Column (e) and transfer to Part III, line 47, Column (a)				\$ 61



Subtract the amount in Column (b) of the preceding line from the amount in Column (a) of the preceding line.

FORM 480-E-ESTIMATED TAX DECLARATION

Do not send this declaration with the return. The same is filed separately at the Internal Revenue Collections Office of the Municipality where you reside, at the Department of the Treasury in Old San Juan or you can mail it to:

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

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.

Every taxpayer required to file a Declaration, must write the name, address and the employer's identification number, and check the applicable box to indicate if the same is amended. In addition, you must indicate the taxable year for 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. The estimated tax to be paid may be determined using the current taxable rates and based on the data from the previous taxable year return.
- Line 2 -** Enter as estimated credit the amount withheld for services rendered by the entity, the amount withheld on distributable share of profits from Special Partnerships or any tax credit. 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 said amendment.
- Line 4 -** Enter as credit the tax paid in excess in the previous year applied to the estimated tax. 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 on 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 prior to 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 prior to the first day of the sixth month of the taxable year and you were not required to file it prior to the 15th day of the fourth month, 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 prior to the first day of the ninth month of the taxable year and you were not required to file it prior to the 15th day of the sixth month, 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 and you were not required to file it prior to 15th day of the ninth month, the total estimated tax will be paid on the 15th day of 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 in the previous year, will receive a booklet containing 4 coupons (Forms 480.E-2) preprinted with your name, address and employer identification number. Taxpayers who have not received the coupon booklet, must visit the Taxpayer's Service Center (Office 101) of the Department of the Treasury in Old San Juan, where a payment coupon booklet (Form 480.E-1) will be prepared. For additional information, call 1-877-684-3422.

Estimated tax payments must be made at participating 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 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.



INDUSTRIAL CODES

11 Agriculture, forestry, fishing and hunting

- 1111 Oilseed and Grain Farming
- 1112 Vegetable and Melon Farming
- 1113 Fruit and Tree Nut Farming
- 1114 Greenhouse, Nursery, and Floriculture Production
- 1119 Other Crop Farming
- 1121 Cattle Ranching and Farming
- 1122 Hog and Pig Farming
- 1123 Poultry and Egg Production
- 1124 Sheep and Goat Farming
- 1125 Animal Aquaculture
- 1132 Forest Nurseries and Gathering of Forest Products
- 1133 Logging
- 1141 Fishing
- 1142 Hunting and Trapping
- 1151 Support Activities for Crop Production
- 1152 Support Activities for Animal Production
- 1153 Support Activities for Forestry

21 Mining

- 2121 Coal Mining
- 2122 Metal Ore Mining
- 2123 Nonmetallic Mineral Mining and Quarrying
- 2131 Support Activities for Mining

22 Utilities

- 2211 Electric Power Generation, Transmission and Distribution
- 2212 Natural Gas Distribution
- 2222 Water Distribution

23 Construction

- 2331 Land Subdivision and Land Development
- 2333 Nonresidential Building Construction
- 2341 Highway, Street, Bridge, and Tunnel Construction
- 2349 Other Heavy Construction
- 2351 Plumbing, Heating, and Air-Conditioning Contractors
- 2352 Painting and Wall Covering Contractors
- 2353 Electrical Contractors
- 2355 Carpentry and Floor Contractors
- 2356 Roofing, Siding, and Sheet Metal Contractors
- 2357 Concrete Contractors
- 2358 Water Well Drilling Contractors

- 2359 Other Special Trade Contractors

31-33 Manufacturing

- 3111 Animal Food Manufacturing
- 3112 Grain and Oilseed Milling
- 3113 Sugar and Confectionery Product Manufacturing
- 3115 Dairy Product Manufacturing
- 3116 Animal Slaughtering and Processing
- 3117 Seafood Product Preparation and Packaging
- 3118 Bakeries and Tortilla Manufacturing
- 3119 Other Food Manufacturing
- 3121 Beverage Manufacturing
- 3122 Tobacco Manufacturing
- 3132 Fabric Mills
- 3133 Textile and Fabric Finishing and Fabric Coating Mills
- 3141 Textile Furnishings Mills
- 3149 Other Textile Product Mills
- 3151 Apparel Knitting Mills
- 3152 Cut and Sew Apparel Manufacturing
- 3159 Apparel Accessories and Other Apparel Manufacturing
- 3161 Leather and Hide Tanning and Finishing
- 3162 Footwear Manufacturing
- 3169 Other Leather and Allied Product Manufacturing
- 3211 Sawmills and Wood Preservation
- 3212 Veneer, Plywood, and Engineered Wood Product Manufacturing
- 3222 Converted Paper Product Manufacturing
- 3231 Printing and Related Support Activities
- 3241 Petroleum and Coal Products Manufacturing
- 3251 Basic Chemical Manufacturing
- 3252 Resin, Synthetic Rubber, and Artificial and Synthetic Fibers
- 3253 Pesticide, Fertilizer, and Other Agricultural Chemical Manufacturing
- 3254 Pharmaceutical and Medicine Manufacturing
- 3255 Paint, Coating, and Adhesive Manufacturing
- 3256 Soap, Cleaning Compound, and Toilet Preparation Manufacturing
- 3259 Other Chemical Product and Preparation Manufacturing
- 3261 Plastics Product Manufacturing
- 3262 Rubber Product Manufacturing
- 3271 Clay Product and Refractory Manufacturing
- 3272 Glass and Glass Product Manufacturing
- 3273 Cement and Concrete Product Manufacturing

3274 Lime and Gypsum Product Manufacturing
3279 Other Nonmetallic Mineral Product Manufacturing
3311 Iron and Steel Mills and Ferroalloy Manufacturing
3312 Steel Product Manufacturing from Purchased Steel
3313 Alumina and Aluminum Production and Processing
3314 Nonferrous Metal (except Aluminum) Production and Processing
3315 Foundries
3321 Forging and Stamping
3322 Cutlery and Hand tool Manufacturing
3323 Architectural and Structural Metals Manufacturing
3324 Boiler, Tank, and Shipping Container Manufacturing
3325 Hardware Manufacturing
3326 Spring and Wire Product Manufacturing
3327 Machine Shops; Turned Product; and Screw, Nut, and Bolt Manufacturing
3328 Coating, Engraving, Heat Treating, and Allied Activities
3329 Other Fabricated Metal Product Manufacturing
3331 Agriculture, Construction, and Mining Machinery Manufacturing
3332 Industrial Machinery Manufacturing
3333 Commercial and Service Industry Machinery Manufacturing
3334 Ventilation, Heating, Air-Conditioning, and Commercial Refrigeration Equipment Manufacturing
3335 Metalworking Machinery Manufacturing
3336 Engine, Turbine, and Power Transmission Equipment Manufacturing
3339 Other General Purpose Machinery Manufacturing
3341 Computer and Peripheral Equipment Manufacturing
3342 Communications Equipment Manufacturing
3343 Audio and Video Equipment Manufacturing
3344 Semiconductor and Other Electronic Component Manufacturing
3345 Navigational, Measuring, Electro medical, and Control Instruments Manufacturing
3346 Manufacturing and Reproducing Magnetic and Optical Media
3351 Electric Lighting Equipment Manufacturing
3352 Household Appliance Manufacturing
3353 Electrical Equipment Manufacturing
3359 Other Electrical Equipment and Component Manufacturing
3361 Motor Vehicle Manufacturing
3362 Motor Vehicle Body and Trailer Manufacturing
3363 Motor Vehicle Parts Manufacturing
3364 Aerospace Product and Parts Manufacturing
3365 Railroad Rolling Stock Manufacturing
3366 Ship and Boat Building
3369 Other Transportation Equipment Manufacturing
3371 Household and Institutional Furniture and Kitchen Cabinet
3372 Office Furniture (including Fixtures) Manufacturing
3379 Other Furniture Related Product Manufacturing
3391 Medical Equipment and Supplies Manufacturing
3399 Other Miscellaneous Manufacturing

42 Wholesale Trade

4211 Motor Vehicle and Motor Vehicle Parts and Supplies
4212 Furniture and Home Furnishing
4213 Lumber and Other Construction Materials
4214 Professional and Commercial Equipment and Supplies
4215 Metal and Mineral (except Petroleum)
4216 Electrical Goods
4217 Hardware, and Plumbing and Heating Equipment and Supplies
4218 Machinery, Equipment, and Supplies
4219 Miscellaneous Durable Goods
4221 Paper and Paper Product
4222 Drugs and Druggists' Sundries
4223 Apparel, Piece Goods, and Notion
4224 Grocery and Related Product
4225 Farm Product Raw Material
4226 Chemical and Allied Products
4227 Petroleum and Petroleum Products
4228 Beer, Wine, and Distilled Alcoholic Beverage
4229 Miscellaneous No durable Goods

44-45 Retail Trade

4411 Automobile Dealers
4412 Other Motor Vehicle Dealers
4413 Automotive Parts, Accessories, and Tire Stores
4421 Furniture Stores
4422 Home Furnishings Stores
4431 Electronics and Appliance Stores
4441 Building Material and Supplies Dealers
4442 Lawn and Garden Equipment and Supplies Stores
4451 Grocery Stores
4452 Specialty Food Stores
4453 Beer, Wine, and Liquor Stores
4461 Health and Personal Care Stores

4471 Gasoline Stations
4481 Clothing Stores
4483 Jewelry, Luggage, and Leather Goods Stores
4511 Sporting Goods, Hobby, and Musical Instrument Stores
4512 Book, Periodical, and Music Stores
4521 Department Stores
4529 Other General Merchandise Stores
4531 Florists
4532 Office Supplies, Stationery, and Gift Stores
4533 Used Merchandise Stores
4539 Other Miscellaneous Store Retailers
4541 Electronic Shopping and Mail-Order Houses
4542 Vending Machine Operators
4543 Direct Selling Establishments
48-49 Transportation and Warehousing
4811 Scheduled Air Transportation
4812 Nonscheduled Air Transportation
4821 Rail Transportation
4831 Deep Sea, Coastal, and Great Lakes Water Transportation
4832 Inland Water Transportation
4841 General Freight Trucking
4842 Specialized Freight Trucking
4851 Urban Transit Systems
4852 Interurban and Rural Bus Transportation
4853 Taxi and Limousine Service
4855 Charter Bus Industry
4859 Other Transit and Ground Passenger Transportation
4861 Pipeline Transportation of Crude Oil
4862 Pipeline Transportation of Natural Gas
4871 Scenic and Sightseeing Transportation, Land
4872 Scenic and Sightseeing Transportation, Water
4881 Support Activities for Air Transportation
4882 Support Activities for Rail Transportation
4883 Support Activities for Water Transportation
4884 Support Activities for Road Transportation
4885 Freight Transportation Arrangement
4889 Other Support Activities for Transportation
4911 Postal Service
4921 Couriers

4922 Local Messengers and Local Delivery
51 Information
5111 Newspaper, Periodical, Book, and others Publishers
5112 Software Publishers
5121 Motion Picture and Video Industries
5122 Sound Recording Industries
5131 Radio and Television Broadcasting
5132 Cable Networks and Program Distribution
5133 Telecommunications
5141 Information Services
5142 Data Processing Services
52 Finance and Insurance
5221 Depository Credit Intermediation
5222 No depository Credit Intermediation
5223 Activities Related to Credit Intermediation
5231 Securities and Commodity Contracts Intermediation and Brokerage
5239 Other Financial Investment Activities
5241 Insurance Carriers
5242 Agencies, Brokerages, and Other Insurance Related Activities
5251 Insurance and Employee Benefit Funds
5259 Other Investment Pools and Funds
53 Real Estate and Rental and Leasing
5311 Lessors of Real Estate
5312 Offices of Real Estate Agents and Brokers
5313 Activities Related to Real Estate
5321 Automotive Equipment Rental and Leasing
5322 Consumer Goods Rental
5323 General Rental Centers
5324 Commercial and Industrial Machinery and Equipment Rental and Leasing
5331 Lessors of Non financial Intangible Assets (except Copyrighted Works)
54 Professional, Scientific, and Technical Services
5411 Legal Services
5412 Accounting, Tax Preparation, Bookkeeping, and Payroll Services
5413 Architectural, Engineering, and Related Services
5414 Specialized Design Services
5415 Computer Systems Design and Related Services
5416 Management, Scientific, and Technical Consulting Services
5417 Scientific Research and Development Services
5418 Advertising and Related Services

5419 Other Professional, Scientific, and Technical Services

55 Management of Companies and Enterprises

5511 Management of Companies and Enterprises

56 Administrative and Support and Waste Management and Remediation Services

5611 Office Administrative Services

5612 Facilities Support Services

5614 Business Support Services

5615 Travel Arrangement and Reservation Services

5616 Investigation and Security Services

5617 Services to Buildings and Dwellings

5619 Other Support Services

5621 Waste Collection

5629 Remediation and Other Waste Management Services

61 Educational Services

6111 Elementary and Secondary Schools

6112 Junior Colleges

6113 Colleges, Universities, and Professional Schools

6114 Business Schools and Computer and Management Training

6115 Technical and Trade Schools

6116 Other Schools and Instruction

6117 Educational Support Services

62 Health Care and Social Assistance

6211 Offices of Physicians

6212 Offices of Dentists

6213 Offices of Other Health Practitioners

6214 Outpatient Care Centers

6215 Medical and Diagnostic Laboratories

6216 Home Health Care Services

6219 Other Ambulatory Health Care Services

6221 General Medical and Surgical Hospitals

6222 Psychiatric and Substance Abuse Hospitals

6231 Nursing Care Facilities

6232 Residential Mental Retardation, Mental Health and Substance Abuse Facilities

6233 Community Care Facilities for the Elderly

6239 Other Residential Care Facilities

6242 Community Food and Housing, and Emergency and Other Relief Services

6243 Vocational Rehabilitation Services

6244 Child Day Care Services

71 Arts, Entertainment, and Recreation

7111 Performing Arts Companies

7112 Spectator Sports

7113 Promoters of Performing Arts, Sports, and Similar Events

7114 Agents and Managers for Artists, Athletes, Entertainers, and Other Public Figures

7115 Independent Artists, Writers, and Performers

7121 Museums, Historical Sites, and Similar Institutions

7131 Amusement Parks and Arcades

7132 Gambling Industries

7139 Other Amusement and Recreation Industries

72 Accommodation and Food Services

7211 Traveler Accommodation

7212 Recreational Vehicle Parks and Camps

7213 Rooming and Boarding Houses

7221 Full-Service Restaurants

7222 Limited-Service Eating Places

7223 Special Food Services

7224 Drinking Places (Alcoholic Beverages)

81 Other Services (except Public Administration)

8111 Automotive Repair and Maintenance

8112 Electronic and Precision Equipment Repair and Maintenance

8113 Commercial and Industrial Machinery and Equipment Repair

8114 Personal and Household Goods Repair and Maintenance

8121 Personal Care Services

8122 Death Care Services

8123 Dry-cleaning and Laundry Services

8129 Other Personal Services

8131 Religious Organizations

8132 Grant making and Giving Services

8133 Social Advocacy Organizations

8134 Civic and Social Organizations

8139 Business, Professional, Labor, Political, and Similar Organizations

8141 Private Households



COMMONWEALTH OF PUERTO RICO
DEPARTMENT OF THE TREASURY
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IMPORTANT NOTICE:

DO NOT FORGET TO WRITE YOUR EMPLOYER IDENTIFICACION NUMBER IN THE CORRESPONDING BOX ON THE RETURN AND SCHEDULES. THIS NUMBER IS NECESSARY TO PROCESS YOUR RETURN.

IMPORTANT:

TAKE OFF AND USE THIS LABEL ON YOUR RETURN IF THE DATA IS CORRECT. IF THERE IS ANY INCORRECT INFORMATION ON THE LABEL, DISREGARD IT AND WRITE YOUR PERSONAL INFORMATION CORRECTLY ON YOUR TAX RETURN.