



Foreign Corporations and Partnerships Tax on Dividend Equivalent Amount and Effectively Connected Interest (Branch Profits Tax)

20__

Taxpayer's Name

Employer Identification Number

<p>1. Enter regular income before any net operating loss deduction (Income Tax Return Form 480.20, Part III, line 3 or Form 480.30(II), Schedule P, Part I, line 1) (1)</p>		00
2. Additions:		
<p>a) Enter excess of flexible depreciation over straight-line depreciation (2a)</p>		00
<p>b) Exempt interest income under Section 10.31.02(a)(3) of the Puerto Rico Internal Revenue Code of 2011, as amended (Code), net of related expenses (2b)</p>		00
<p>c) Other additions (Itemize, use schedule if necessary): _____ _____ _____ (2c)</p>		00
3. Total additions (Add lines 2(a) through 2(c)) (3)		00
4. Deductions:		
<p>a) Taxes paid (Enter the sum of normal tax, surtax, and alternative minimum tax) (Form 480.20, Part IV, line 13 or the appropriate line of other returns) (4a)</p>		00
<p>b) Enter interest deduction attributable to interest derived from exempt obligations (Applicable to financial institutions only) (4b)</p>		00
<p>c) Meals and entertainment (Non-deductible) (4c)</p>		00
<p>d) Penalties (4d)</p>		00
<p>e) 51% of expenses incurred or paid to related persons (4e)</p>		00
<p>f) Other deductions (Itemize, use schedule if necessary) (4f)</p>		00
5. Total deductions (Add lines 4(a) through 4(f)) (5)		00
6. Effectively connected earnings and profits (Subtract line 5 from the sum of lines 1 and 3) (6)		00
7. Enter Puerto Rico net equity at the end of the current taxable year (See instructions) (7)		00
8. Enter Puerto Rico net equity at the end of the previous taxable year (8)		00
9. Increase/decrease in Puerto Rico net equity (Subtract line 8 from line 7. See instructions) (9)		00
10. Dividend equivalent amount (Subtract line 9 from line 6. See instructions) (10)		00
11. Branch profits tax liability (Multiply line 10 by 10%). Transfer to Form 480.20, Part IV, line 14 or the appropriate line of other returns (11)		00

Branch Profits Tax

WHO MUST FILE THIS FORM?

Any foreign corporation or partnership, taxed as a corporation, must file Form AS 2879 if it derived less than 80 percent of its total gross income from all sources, during the taxable year and the preceding two taxable years, from sources within Puerto Rico or from income treated as effectively connected with the operation of a trade or business in Puerto Rico.

If the foreign corporation derived 80 percent or more of its combined total gross income as described above, instead of filing Form AS 2879 it may be subject to the deemed dividend tax. For more information, see Form AS 2877 and its instructions.

Foreign corporations and partnerships, taxed as corporations, are subject, in addition to the normal tax and surtax, to a tax of 10% for income derived from their branches in Puerto Rico. The tax is imposed on the “dividend equivalent amount”. The dividend equivalent amount is defined as the effectively connected earnings and profits of the foreign corporation increased by any decrease in the Puerto Rico net equity or decreased (but not below zero) by any increase in the Puerto Rico net equity.

Effectively connected earnings and profits include income from sources within Puerto Rico, and income which is effectively connected with the active conduct of a trade or business in Puerto Rico. The following types of foreign source income may be treated as effectively connected, if the corporation has an office or other fixed business premises within Puerto Rico:

- 1) Rents or royalties for the use of intangible property derived from the active operation of a trade or business in Puerto Rico.
- 2) Dividends, interest, or gain or loss from the sale or exchange of stock or notes, bonds or other debt, derived from the active operation of a financial trade in Puerto Rico (banking, savings institutions, securities brokerage).
- 3) Sale or exchange outside Puerto Rico, through the office or other fixed place of business of the corporation within Puerto Rico, of personal property, unless the property is manufactured outside of Puerto Rico and is sold or exchanged for use, consumption or disposal outside of Puerto Rico.

Industrial development income will not be taken into account when computing the effectively connected earnings and profits for purposes of this tax.

SPECIFIC INSTRUCTIONS

Line 4(a) - Only considers the amounts determined in the income tax return of the taxable year for which the branch profits tax is computed. Do not include foreign taxes in the deduction for taxes paid.

Line 7 - Act 77-2014 changed the definition of Puerto Rico net equity effective for taxable year 2014 and thereafter.

The Puerto Rico net equity is equal to Puerto Rico assets reduced by Puerto Rico liabilities. Puerto Rico net equity may be less than zero.

Puerto Rico assets are the money plus the aggregate adjusted basis (for computing earnings and profits) of the property of the foreign corporation treated as being connected with the conduct of a trade or business in Puerto Rico.

The term “Puerto Rico assets” excludes:

- (a) loans or credit transaction among offices or branches of the same entity, except in the case of banking entities or when they result from the sale or transfer of property.
- (b) cash deposited in a financial institution or brokerage firm located outside of Puerto Rico, other than for the exclusive use of the Puerto Rico branch.

Puerto Rico liabilities are liabilities that are treated as being connected with the conduct of a trade or business in Puerto Rico.

The term “Puerto Rico liabilities” excludes loans or credit transaction among offices or branches of the same entity, except in the case of banking entities or when they result from the sale or transfer of property.

Line 9 - Decreases in the Puerto Rico net equity only increase the amount subject to the Branch Profits Tax to the extent that the foreign corporation has net increase in the Puerto Rico net equity of previous years, that reduced the amount subject to the Branch Profits Tax.

Line 10 - In order to compute the “dividend equivalent amount”, the effectively connected earnings and profits must be increased by any decreases, during the year, of the Puerto Rico

net equity. The amount of the increase for a particular taxable year, is limited to the net decrease of the effectively connected earnings and profits from previous years beginning after December 31, 1986, caused by those previous years increases in the Puerto Rico net equity. On the other hand, the effectively connected earnings and profits must be decreased, but not below zero, by any increase in the Puerto Rico net equity.

Example 1 - In year 1, a foreign corporation has \$100 of effectively connected earnings and profits. The foreign corporation acquires an additional \$40 in Puerto Rico assets and has no change in its Puerto Rico liabilities. The foreign corporation had \$1,000 of Puerto Rico net equity at the end of the previous taxable year. Its Puerto Rico net equity has increased by \$40 to \$1,040. The foreign corporation’s dividend equivalent amount is \$60, i.e., its effectively connected earnings and profits of \$100 less the \$40 increase in Puerto Rico net equity during the year.

Example 2 - In year 2, the foreign corporation has \$100 of effectively connected earnings and profits, reduced by \$70 its Puerto Rico assets, and has a \$10 decrease in Puerto Rico liabilities. The foreign corporation’s Puerto Rico net equity at the end of year 2 has decreased by \$60 to \$980 (\$1,040 - \$70 + \$10). The foreign corporation has a dividend equivalent amount of \$140, i.e., its effectively connected earnings and profits of \$100 plus \$40 (the decrease of \$60 of Puerto Rico net equity is limited to \$40, i.e., increase in Puerto Rico net equity during year 1).

Example 3 - In year 3, the foreign corporation has \$100 of effectively connected earnings and profits. It reduced by \$30 its Puerto Rico assets, and its Puerto Rico liabilities increased by \$10. The foreign corporation’s Puerto Rico net equity at the end of year 3 has decreased by \$40 to \$940. The foreign corporation’s dividend equivalent amount is \$100. The decrease of \$40 in the Puerto Rico net equity does not increase the dividend equivalent amount since the \$40 increase in the Puerto Rico net equity in year 1 has already been taken into account in year 2.

For an investment or other increase in assets made during the taxable year to be included in the net equity at the end of the year, the investment must have been made at least two months before the close of the taxable year, otherwise, it must be maintained invested in Puerto Rico through the end of the second month following the close of the taxable year (See Regulations).