



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

INCOME TAX RETURN OF TAXABLE CORPORATIONS AND PARTNERSHIPS

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RELEVANT FACTS

NEW TAX BENEFITS

Act No. 362 of December 24, 1999 grants a tax credit to investors in a Film Entity engaged in a Film Project or Infrastructure Project.

- ✦ In the case of an investment in a Film Entity engaged in a **Film Project**, the credit will be equivalent to 40% of those amounts of the budget paid to residents of Puerto Rico, but cannot exceed 50% of the capital contributed in cash to the Film Entity in exchange for stocks or shares issued in a primary issuance (See instructions Schedule B Corporation and Partnership).
- ✦ In the case of an investment in a Film Entity engaged in a **Infrastructure Project**, the credit will be the smaller of: 40% of the investment contributed in cash to the Film Entity in exchange for stocks or shares issued in a primary issuance or 20% of the Infrastructure Project's budget (See instructions Schedule B Corporation and Partnership).

SIGNIFICANT CHANGES

✦ Schedule B Corporation and Partnership

A new line is added on Schedule B Corporation and Partnership, Part II: **line 9 - Credit for investment Act No. 362 of 1999: Film Project and/or Infrastructure Project**. This new line will be used to claim the credit for the investment in a Film Entity engaged in a Film Project or Infrastructure Project.

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. Such 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.

SIGNATURE OF THE RETURN BY THE SPECIALISTS

If you pay for the preparation of the return, make sure that the return is signed by the specialist and the registration number or social security number of the specialist is included in a legible form. The Puerto Rico Internal Revenue Code of 1994, as amended (Code), imposes civil and criminal sanctions to those Specialists who fail to submit this information.

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's identification number, the registration number and be signed by the authorized person.

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 have been paid.

In addition, in order to approve a contract or purchase order, the governmental entity must require the tax return filing (*Modelo SC 2888*) and debt (*Modelo 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 (*Modelo 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 Tax Orientation Centers.

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

The four installments of estimated tax corresponding to the 2001 calendar year or to the 2001-2002 taxable period, will be made with the booklet revised on 08.00. Payments made with coupons revised previous to said date could have problems in their application.

TAXPAYER'S SERVICE FACILITIES

In the Taxpayer's Service Offices, 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, Partnerships, Professional Services Waivers and COLA Certificates.

Following is the address and telephone number of our offices:

- ☞ **San Juan**
Intendente Ramírez Building
10 Paseo Covadonga Office 211
Telephone: **721-2020** extension **3610**
or **1-800-981-7666**
- ☞ **Bayamón**
Road #2
2nd Floor Gutiérrez Building
Telephone: **778-4949** or **778-4973**
- ☞ **Caguas**
Goyco Street
1st Floor Governmental Building Office 110
Telephone: **258-5272** or **258-5255**
- ☞ **Mayagüez**
Governmental Center
#50 Nenadich Street Office 102
Telephone: **265-5200**
- ☞ **Ponce**
Eurobank Building
#26 Hostos Ave.
Telephone: **844-8800**

TECHNICAL ASSISTANCE

For additional information on the technical contents of this pamphlet or to clarify any doubts, please call **721-2020** extension **3611** or **1-800-981-9236**. Also, you can use **TeleHacienda** service at **721-0510** or toll free at **1-800-981-0675**. This service is only available in Spanish.

HACIENDA MAKING CONNECTION

The Department of the Treasury has a site on the **INTERNET**. Here you can access information about the following services, among others:

- ☞ Electronic transfer Individual Tax Return (Only Short Form returns with refund)
- ☞ Program for the preparation of the Individual Income Tax Return 2000
- ☞ *TeleHacienda* (Spanish only)
- ☞ Income Tax Return of Taxable Corporations and Partnerships
- ☞ Puerto Rico Internal Revenue Code of 1994, as amended (Spanish only)
- ☞ Form SC 2898 - Change of Address
- ☞ 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 7% Tax Withholding 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)*

You can access at: **<http://www.hacienda.prstar.net>**
Also, you can let us know your opinion through our
E-MAIL at: **support@hacienda.prstar.net**

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 800. For assistance, please call **723-1080** or **721-1532**.

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*".

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 Agricultural Tax Incentives Act of Puerto Rico, as amended, or under any other special act; (3) entities which have earned income from Film Projects or Infrastructure Projects; (4) non-profit organizations with a tax exemption grant issued by the Department of the Treasury which has not been rejected; (5) foreign or domestic life insurance companies; (6) corporations of individuals; (7) special partnerships; or (8) 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; and it shall include, furthermore, two or more persons, under a common name or not, engaged in a joint venture for profit except as provided with regard 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 Ramírez 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 Tax Orientation 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 Investment Credit Claimed in Excess, Tax Credits, and Other Payments and Withholdings
- Schedule C Corp. and Part. - Credit for Taxes Paid to the United States, its Possessions and Foreign Countries
- Schedule D Corp. and Part. - Gains or 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, Taxable Income and Special Tax
- Schedule R - Special Partnership
- Schedule S Corp. and Part. - Farming Business
- 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 **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 in the return.

NAME, EMPLOYER'S IDENTIFICATION NUMBER AND ADDRESS

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

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

If the corporation or partnership does not have an assigned employer's 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 complete address where the business or principal office is located, and its telephone number.

Inform the type of industry or business (principal business activity). For example, if the source of income is agriculture and the main business activity is sugar cane growing, enter **sugar cane**; if coffee growing, enter **coffee**. If the source of income is a trading business and the main business activity is hardware, enter **hardware**. If the source of income is sale of furniture, enter **furniture**. If the source of income is manufacturing and the main activity is the manufacturing of shoes, enter **shoes**.

Check the applicable box if it is the first or last return you are filing. If the address of the corporation or partnership has changed, check the applicable box. Complete Form AS 2898 (Change of Address) included in this pamphlet.

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.

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 may be 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 may be 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 at 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.

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's 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 39%.

Line 12 - Alternative Tax - Capital Gains

Enter the amount determined on Schedule D Corporation and Partnership, Part IV, line 26.

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 rate to the net income without including the net long term capital gains, plus 25% over said 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 17 - Alternative minimum tax

Enter the excess of tentative minimum tax over adjusted regular tax from Schedule A Corporation and Partnership, Part V, line 32.

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 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 18 - 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 Form AS 2879 Branch Profits Tax, and include it with their return.

Line 21 - Balance of tax due

Enter the difference between line 19 and line 20.

If line 20 is larger than line 19, you may elect to apply all or part of the tax paid in excess to your estimated tax for the following year or claim it as a refund. In order to do that, you must indicate so on line 23A or 23B of the return.

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.

Any person required under the Code to file a return or declaration, and who voluntarily fails to file such return or declaration within the term or terms required by the Code or regulations, in addition to other penalties, shall be guilty of a misdemeanor and punished by a fine of not more than \$500 or imprisonment for a term of not more than 6 months, or both penalties, plus the costs of prosecution.

If any person voluntarily fails to file the above mentioned return or declaration (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 felony and punished by a fine of not more than \$20,000 or imprisonment for a fixed term of 3 years. If there were aggravating circumstances, the established fixed jail penalty may be increased to a maximum of 5 years; if there were extenuating circumstances, it may be reduced to a maximum of 2 years, or both penalties, at the discretion of the Court, plus the costs of prosecution.

Line 22 - Amount paid with this return

Make the check or money order payable to the Secretary of the Treasury. **Indicate the employer's 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 file 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 through the date on which the return was filed.

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 manufacturing, must be entered in Part V, line 39.

Enter on line 15 the distributable share on the net income from special partnerships.

Enter on line 16 the distributable share on the net loss from special partnerships. To claim this loss, Schedule R 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 46. Following is information of 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 of 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 contributed amount to pension, 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 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 details 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 and 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.

The details 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 and amortization in Part (a) and Part (d) 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 automobile.

The \$25,000 basis limitation and useful life term do not apply to those automobiles acquired by corporations or partnerships engaged in the leasing, or 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 an 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, the 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 from 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 aforementioned limitations.

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 persons severely handicapped. 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, the following must be submitted with the return:

- 1) a certification indicating that the handicapped person has been employed at least during 9 months of the taxable year, 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 - Other deductions

The total amount of any expenses for which Part V of the return does not provide specific lines to include them, must be entered as Other Deductions. **Submit a schedule of those deductions with the return.**

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

Enter the Other Direct 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 that the return 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 the case of corporations; and by the managing partner in the 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. In addition, this 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. Add lines 2 and 5 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 the 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 must be audited by a certified public accountant licensed in Puerto Rico.

Line 5 - Enter 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 in 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 been included in the net income for regular tax purposes.

Line 10 - Enter the net income amount from industrial development, or derived from exempt income from tourism development, as defined on the Tourism Incentives Act of Puerto Rico of 1983 or the Tourism Development Act of Puerto Rico 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 15 - Subtract line 3 from line 14 (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 18 - 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 forward to each one of the following 7 taxable years.** The net operating loss will be adjusted as established by the Code.

Line 20 - 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 19 _____
- 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 24 - If line 17 is less than \$500,000, the exempt amount is \$50,000. If line 17 exceeds \$500,000, but less than \$700,000, the exempt amount will be \$50,000 less 25% of the excess over \$500,000.

Line 29 - Compute your credit for foreign taxes paid according to the Code. Use the formula indicated and adjust the net income by the adjusted 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 22) without considering the deduction for net operating loss used in the determination of the alternative minimum tax. Determine the credit limitation amount on lines 22 through 29. **Any credit amount not claimed in the taxable year can be carried forward to the following 5 years.** No part of the credit may be carried back.

PART V - COMPUTATION OF THE ALTERNATIVE MINIMUM TAX

Line 31 - The adjusted regular tax is the same as the regular tax (Form 480.10 or 480.20, Part III, line 13) less the creditable proportion of tax paid to the United States, its possessions and foreign countries (Schedule B Corporation and Partnership, Part II, line1).

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

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

PART I - RECAPTURE OF INVESTMENT CREDIT CLAIMED IN EXCESS

Enter the credit claimed in excess on previous years as a result of an audit performed by the Director of the Agency (the Director) that regulates each one of the following acts: Tourism Development Act, Solid Waste Authority Act, Agricultural Incentives Act and Capital Investment Fund Act.

The amount invested in the project by the exempt business is subject to verification by the Director of each agency within the 3 years following the notification of the credit distribution among the investors. If the investment credit claimed by the investors exceeds the investment credit determined by the Director, said excess will constitute an income tax debt. Such debt must be paid by the investors in two installments beginning on the first taxable year following the expiration date of the 3 years period previously mentioned. The Director will notify the Secretary of the Treasury the credit claimed in excess by the investors.

The 3 years period can be postponed by the Director through an order issued by him, but never for an additional period over 2 years.

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.

If any unit is withdrawn from the program prior to the expiration of the 10 year period, the investor will have as an income tax debt an amount computed as follows:

$$\text{Tax Debt} = \frac{\text{Total tourism investment credit claimed for the unit}}{10} \times \frac{\text{Balance of the 10 years period}}{10}$$

The income tax debt will be paid in two installments, beginning on the first taxable year following the date of the retirement of the unit from the integrated leasing program.

Line 1 - Enter the amount of the excess credit notified by the Director, or in case of condohotels, the amount of tax debt as determined by the previously mentioned formula.

You must enter the name of the entity and the employer's identification number, and check the corresponding box for the investment credit claimed in excess, according to the classification and the Act under which it was claimed.

Line 3 - Multiply line 1 by 50% and enter the result. Transfer the resulting amount to Part III, line 14 of the return.

If part of the excess was paid in the previous year, enter the balance owed.

Line 4 - 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 forward 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, Feature films, as well as 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 11 of the return less Part II, line 1 of Schedule B Corp. and Part.) _____
- 2. **Less: Tentative Minimum Tax** (Part V, line 30 of Schedule A Corp. and Part.) _____
- 3. **Regular Tax Subject to the Credit** (Subtract line 2 from line 1) _____
- 4. **Alternative Minimum Tax Credit Paid in Previous Years** (Line 16 or 17, 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.

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 in 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 9 - 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 of 1999.

In the case of an investment in a Film Entity engaged in a Film Project, the credit will be 40% of those amounts of the budget paid to residents of Puerto Rico, but this amount cannot exceed 50% of the capital contributed in cash to the Film Entity in exchange of stocks or shares issued in a primary issuance.

In the case of an investment in a Film Entity engaged in an Infrastructure Project, the credit will be the smaller between: 40% of the investment contributed in cash to the Film Entity in exchange of stocks or shares issued in a primary issuance or 20% of the Infrastructure Project budget.

All tax credit not used in the taxable year can be carried over to following years until it is completely used.

To claim said credits you must submit the following evidence:

- 1) the license of the Film Entity where you invested;
- 2) notification made to the Puerto Rico Commissioner of Financial Institutions (Commissioner), to the Secretary of the Treasury and to the investors of the credits distribution;
- 3) certificate from the Accountant regarding the expenses disbursed of the Budget or indicating that the bond was placed, according to the case; and
- 4) in the case of cessionaries, notification made to the Secretary of the Treasury and to the Commissioner.

For more details refer to Act No. 362 of December 24 of 1999.

PART III - OTHER PAYMENTS AND WITHHOLDINGS

Enter on lines 1 through 6, the amount of tax paid or withheld concerning the types of income described on these lines.

Line 5 - Enter the amount withheld over payments for services rendered. In order to claim this credit, you must submit Form 480.6B. If you cannot submit it, you must submit a sworn statement indicating the name, address, employer's identification number and telephone number of the person who made the deposit or payment, as well as the total amount of the deposits and the tax withheld.

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 in your Puerto Rico income tax return.
- 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) Royalties - It is determined by the place of payment for the use of, or the privilege of using, patents, copyrights, trademarks, goodwill and property, among others.

- 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 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, which the taxpayer's normal tax net income from sources within such country bears to its entire normal tax net income 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 or disposition of capital assets. A capital asset may be defined as a property acquired for investment.

The term *capital asset* means property possessed 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 possessed 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 not more than 6 months, it is considered as **short term** gains or losses. If the assets were held for more than 6 months, it is considered as **long term** gains or losses.

To determine short and long term capital gains or losses, you must describe the property sold and complete the information in columns (A) through (F), Parts I and II, with respect to the properties.

The adjusted basis of the property is its original cost, plus the permanent improvements, less the accumulated depreciation.

Sale expenses include sales commissions, advertisements, legal, 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) of Part II.

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

PART III - SUMMARY OF CAPITAL GAINS AND LOSSES

Line 14 - 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 - It 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, of which any of these corporations or partnerships outstanding stocks or partnership equity is more than 50% 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 25% rate, or the normal tax rates, whichever is lower.

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, and for improvements amortization.

The following information must be provided on the schedule:

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

Part (b) - Flexible Depreciation

To be entitled to claim flexible 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 his/her 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 last year's 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 the following entries or transactions made during the current taxable year and others included in previous year's income tax return.

Line 2 - Basis increase

- (a) Enter the partner's distributable share on previous year's income and profits. For example, in the case of a taxpayer with a calendar taxable year, enter the total distributable share on the special partnership's income or profit included in 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 in previous year's 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 the case of a taxpayer with a calendar taxable year, enter the total distributable share on the special partnership's loss included in 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 in previous year's return, add lines 5(c), 8 and 13 of Part II from Schedule R included in previous year's 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 taken as credit against the income tax on previous taxable year for investments made in special partnerships engaged in the production of feature films or under the Tourism Development Act of Puerto Rico of 1993, the Capital Investment Fund Act of Puerto Rico, the Agricultural Tax Incentives Act of Puerto Rico, as amended, or any other credit admitted by law to the partners related to the Special Partnership's activities.
- (e) The amount taken 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 take 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 in previous year's 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 on 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 Tourism Incentives Act of Puerto Rico or the Tourism Development Act of Puerto Rico, 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 take 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 11 - Subtract the Adjusted Gross Income without considering the losses from Special Partnerships. This will be the net income subject to the computation of line 12.

Line 12 - Enter 50% of line 11. This limitation determines which amount of the total of losses on line 10 you will claim on this year's return.

Line 13 - Enter the smaller of line 10 or 12. This is the amount that you may deduct in 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 Agricultural Tax Incentives Act of Puerto Rico (Act 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)).

FORM 480-E-ESTIMATED TAX DECLARATION

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.

The Declaration may be filed in the Internal Revenue Collections Office of the Municipality where the taxpayer resides or sent to:

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

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 original or 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. This amount cannot be less than the smaller of the following amounts:

- 90% of the tax to be paid at the end of the taxable year, or
- 100% of the tax paid in the previous taxable year.

Line 2 - Enter as estimated credit the amount withheld for services rendered by the entity or the amount withheld on distributable share of profits from Special Partnerships. 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 this amendment.

Line 4 - Enter as credit the tax paid in excess in the previous year applied as estimated tax payment in the income tax return. 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 in 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, 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, 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, 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's identification number. Taxpayers who have not received the coupon booklet, must visit the Estimated and Employer Manual Coupons Section (Office 421-A) of the Department of the Treasury (Old San Juan), where a payment coupon booklet (Form 480.E-1) will be prepared. For additional information, call 722-1499 or 721-2020, extension 2446 or 2456.

Estimated tax payments must be made at participant 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. Also, a penalty is imposed for determining a substantially lower amount of estimated tax.