



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

INCOME TAX RETURN FOR EXEMPT BUSINESSES UNDER THE PUERTO RICO INCENTIVES PROGRAMS

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*".



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 increases to 41.5% the maximum tax for the application of the recapture tax provided by Section 1016(c) of the Code.
- ↪ 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.
- ↪ Act No. 286 of December 26, 2006 amended the "Agricultural Tax Incentives Act of 1995" to grant matching investment incentives greater than the ones allowed to natural and/or juridical persons that invest in the stabilization or integration of different components of the agricultural sector.
- ↪ Act No. 287 of December 26, 2006 excludes from taxation interests received from securities issued by corporations who are benefiting from the provisions of the "1998 Tax Incentives Act" as amended, or any previous or subsequent analogous act. It is required that no less than 80% of the securities product be used solely and exclusively in the Puerto Rico business of such corporation within a period of no less than 36 months from the issuance of such security.

SIGNIFICANT CHANGES

↪ **Heading of the Return**

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

↪ **Schedule K Incentives**

Line 13(o) is included to claim the credit for the extraordinary tax paid.

↪ **Schedule T Incentives**

Line 16 is added to reflect the 2.5% special tax under Act No. 41 of August 1, 2005.

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 Specialist must declare under penalty of perjury that he/she examined the return and to the best of his/her knowledge and belief, it 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 FOR INSUFFICIENT FUNDS

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 had a business volume related to its fully taxable operations of more than \$1 million, financial statements reporting the operations of the taxable year must be included with the return. Such financial statements 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 (Form SC 2628) automatically by mail. **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 cannot be issued in connection with the return corresponding to the last taxable year, since such return may have not been already processed. Because of this possibility, it is recommended to personally hand in 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 Ramirez 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 previous to said date 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 is the addresses and telephone numbers of our Centers:

☞ **San Juan**
Intendente Ramirez 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 doubt, 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 Return Program
- ☞ Payments Online
- ☞ Puerto Rico Internal Revenue Code of 1994, as amended (Spanish only)
- ☞ Forms, Returns and Informative Booklets, such as:
 - Income Tax Return of Taxable Corporations and Partnerships
 - 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. 06-27 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)
- *Carta Circular de Rentas Internas Núm. 07-02 de 24 de enero de 2007 - Guías para Certificar los Costos Elegibles Incurridos en la Construcción o Mejoras de un Proyecto para la Revitalización de un Centro Urbano y la Procedencia de los Fondos Utilizados para la Construcción o Mejoras*
- *Determinación Administrativa Núm. 05-02 de 10 de junio de 2005 - Tratamiento Contributivo sobre Pagos Realizados Mediante Acuerdos Transaccionales* (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)
- *Determinación Administrativa Núm. 06-12 de 27 de diciembre de 2006 - Ley Núm. 270 de 14 de diciembre de 2006*
- *Determinación Administrativa Núm. 07-01 de 12 de enero de 2007 - Tratamiento Contributivo de Indemnización Recibida por Concepto de Daños y Prejuicios por Razón de Incapacidad Ocupacional y No Ocupacional; y Pagos por Terminación de Empleo*

↪ 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)
- *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 Período 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)

INSTRUCTIONS TO COMPLETE THE RETURN

WHO MUST FILE THIS RETURN?

Every corporation or partnership engaged in a trade or business in Puerto Rico which derives fully or partially exempt income under any of the following acts:

- ☞ Puerto Rico Industrial Incentives Act of 1963, as amended (*Act 57 of 1963*)
- ☞ Hospital Facilities Tax Incentives Act of 1968, as amended (*Act 168 of 1968*)
- ☞ Puerto Rico Industrial Incentives Act of 1978, as amended (*Act 26 of 1978*)
- ☞ Puerto Rico Tax Incentives Act of 1987, as amended (*Act 8 of 1987*)
- ☞ Tourism Incentives Act of 1983, as amended (*Act 52 of 1983*)
- ☞ Puerto Rico Tourism Development Act of 1993, as amended (*Act 78 of 1993*)
- ☞ Puerto Rico Agricultural Tax Incentives Act, as amended (*Act 225 of 1995*)
- ☞ Tax Incentives Act of 1998 (*Act 135 of 1997*)

Furthermore, this return must be filed by a corporation or partnership which has derived income from the sale of admission tickets for artistic and cultural shows that are performed according to the provisions of one of the following acts:

- ☞ Special Act for the Rehabilitation and Development of Santurce, as amended (*Act 148 of 1988*)
- ☞ Special Act for the Creation of the Theatrical District of Santurce (*Act 178 of 2000*)
- ☞ Special Act for the Rehabilitation and Development of Río Piedras (*Act 75 of 1995*)
- ☞ Special Act for the Rehabilitation and Development of Castañer (*Act 14 of 1996*)

Also, this return must be filed by every corporation or partnership which has derived income from a Film Entity engaged in a Film Project or an Infrastructure Project under the following act:

- ☞ Film Industry Development Act (*Act 362 of 1999*)

In case of corporations or partnerships operating under a tax exemption decree effective during any part of the taxable year, they will use this return to report all income received during the taxable year. The fully taxable income must be reported on Schedule P Incentives.

WHEN AND WHERE TO FILE?

This return must be filed not later than the 15th 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 not later than the 15th day of the sixth month following the close of the taxable year.

The return can be mailed to the following address:

- (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

The return can also be delivered at the Department of the Treasury, 10 Paseo Covadonga, Intendente Alejandro Ramirez Building in Old San Juan, 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 will be granted to file the return 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, the special surtax and the tollgate tax under Act 26 of 1978 or Act 8 of 1987, if applicable.

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



SPECIFIC INSTRUCTIONS FORM 480.30(II)

Every corporation or partnership that during the taxable year derives partially exempt income under one or more tax or industrial incentives acts, tourism or tourism development acts, and other special acts, must file Form 480.30(II), in addition to a separate schedule for each one of the acts under which it earned said partially exempt income.

In those cases where the corporation or partnership is tax exempt under two or more tax exemption decrees issued under the same industrial, tax, tourism incentives or tourism development act, only one schedule under the applicable act must be filed. Such schedule should include all the operations covered by the applicable act.

If the corporation or partnership also derives income from fully taxable operations, it must file Schedule P Incentives along with Schedules L, M, M1, N, N1, O, V, V1 and W Incentives, as applicable.

The following instructions are applicable to every corporation or partnership required to file any Schedule from L Incentives through W Incentives.

The schedules with the instructions are available in the Department of the Treasury, Paseo Covadonga No. 10, Intendente Alejandro Ramirez Building, in Old San Juan, Forms and Publications Division, 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. Only the corresponding year should be indicated. 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 in the corresponding box the name of the corporation or partnership. In case of a corporation, enter the registration number assigned by the Department of the State.

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

Corporations or partnerships that do not have an employer identification number, shall 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 32, in order to facilitate the description of the commercial activity and enter the corresponding code.**

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 report it using 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 at: www.hacienda.gobierno.pr

PART I - TAX LIABILITY

Line 2 - 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, you may elect to include such interest as part of your gross income and pay the tax determined according to the normal tax rates.

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 3 - Payments

Enter on lines 3(a) through 3(g) the tax paid for the specified concepts to be credited against the tax liability for the year.

Line 4 - Balance of tax due

If the amount on line 3(h) is larger than the sum of lines 1(e) and 2, there is an excess of tax withheld or paid. The excess must be credited against the addition to the tax for failure to pay estimated tax, if any. Any surplus may be credited against next year's estimated tax or refunded, as indicated on line 8 or 9. If you filed the return after the due date established by the Code to file it or requested an extension of time, but you did not pay the total amount due, you must compute the interest and surcharges that apply from the due date to file the return to the date on which the return was filed. Refer to section **Interest, Surcharges and Penalties** later on.

Line 5 - 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 Incentives. (See instructions to complete the Schedules).

Line 6 - Excess of tax withheld or paid

Enter on this line the difference between the sum of lines 1(e) and 2, and line 3(h) only in those cases where line 3(h) is more than the sum of lines 1(e) and 2.

If line 5 is zero, transfer the amount indicated on this line to line 8 or 9, whichever applies. Otherwise, enter the difference between lines 5 and 6 on line 7, 8 or 9, as applicable.

Line 7 - Amount paid with this return

Enter the amount paid for each concept, as applicable.

Make the check or money order payable to the Secretary of the Treasury. **Indicate the employer identification number and Form 480.30(II).**

If you decide to pay in cash, you can do it at any of our Internal Revenue Collections Offices. Make sure to keep the official payment receipt provided by the Collector.

Line 12 - Balance of tax due

If you filed the return after the due date established by the Code to file it or you requested an extension of time, but you did not pay the total amount due, you must compute the interest and surcharges that apply from the due date to file the return to the date on which the return was filed. Refer to section **Interest, Surcharges and Penalties** later on.

Line 13 - Amount paid with this return

The payments made by check or money order must be made payable to the Secretary of the Treasury. Indicate the employer identification number and Form 480.30(II).

If you decide to pay in cash, you can do it at any of our Internal Revenue Collections Offices. Make sure to keep the official payment receipt provided by the Collector.

The Special Surtax must be paid to the Secretary of the Treasury in a separate check attached to the Income Tax Return.

Line 15 - Prepayment of tollgate tax

This tax shall be paid to the Secretary of the Treasury in a **separate check** attached to the Income Tax Return.

Every corporation or partnership that requests an extension of time to file the income tax return, must include the payment of the Prepayment of Tollgate Tax with said request, in a separate check.

Any payment made after the due date, is subject to interest and surcharges. If you filed the return after the due date established by the Code to file it or you requested an extension of time, but you did not pay the total amount due, you must compute the interest and surcharges that apply from the due date to file the return to the date on which the return was filed. Refer to section **Interest, Surcharges and Penalties** later on.

Line 16 - Tollgate tax applied against tax withheld attributable to current year distribution

Enter the prepaid amount during the year on which you elected to apply the total tax paid in advance, if the tax determined over the distributed industrial development income (IDI) is equal to or larger than the prepaid amount.

Line 19 - Balance of tax due

If you filed the return after the due date established by the Code to file it or you requested an extension of time, but you did not pay the total amount due, you must compute the interest and surcharges that apply from the due date to file the return to the date on which the return was filed. Refer to section **Interest, Surcharges and Penalties** later on.

Line 20 - Amount paid with this return

Enter the amount paid for each concept, as applicable (See instructions for line 15).

Line 21 - Amount overpaid to be credited to estimated prepayment of tollgate tax for next year

Any overpayment of this tax will be credited only against the estimated prepayment of tollgate tax of the following year.

INTEREST, SURCHARGES AND PENALTIES**Interest**

The Code provides for the assessment of interest at a 10% annual rate over any tax 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 when the return is filed after the due date established by the Code 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.

PART III - CONDITIONS THAT EXONERATE FROM THE PREPAYMENT OF TOLLGATE TAX

Complete this questionnaire if the entity derives income from partially exempt activities under Act 8 of 1987 or Act 26 of 1978. Generally, every entity operating under these acts, must make a tollgate tax prepayment of 5% on the industrial development income (IDI).

If the entity is not subject to the tollgate tax prepayment, please check the applicable box. In case that the tax exemption decree provides and establishes special rules for the distribution and taxation of the IDI, you must attach to the return a schedule indicating such rules.

PART IV - COMPUTATION OF PREPAYMENT OF TOLLGATE TAX

Line 2 - Adjustments

Enter on line 2(a) the interest income from eligible investments (Section 2(j)) derived from obligations issued by the Government of Puerto Rico, its instrumentalities or political subdivisions.

Enter on line 2(b) any adjustments required to determine the amount of IDI that constitutes income and profits available for dividend distribution. **You must submit a detailed schedule.** For example:

- 1) Expenses incurred but not deductible (i.e. meal and entertainment, charitable contributions, etc.)
- 2) Income earned but not taxed on the return (i.e. proceeds from life insurance when the beneficiary of the policy is the corporation, etc.)
- 3) Special deductions granted by Law which do not represent a cash disbursement (i.e. deduction of \$400 for each severely handicapped employee, etc.)

Line 4(c) - Other taxes

Enter on line 4(c) any tax paid to the United States, its possessions and foreign countries attributable to the IDI. **You must submit with the return evidence of the tax paid and claimed as a credit, such as a copy of the federal income tax return.**

Line 6 - Determination of prepayment of tollgate tax

Enter in the corresponding box the 5% tax rate, unless the entity's decree provides for special distribution rules and it has been convened through a Closing Agreement with the Secretary to pay 50% of the applicable rate. Multiply line 5 by the applicable tax rate and enter the amount on this line.

Line 7 - Dividends declared from current earnings

Enter the amount of dividends declared and paid related to earnings accrued during the current year.

Line 8 - Prepayment of tollgate tax attributable to current earnings

Enter 5% of line 7. If the entity is subject to a tollgate tax rate lower than 10% because its decree provides special distribution rules, and it has been convened through a Closing Agreement with the Secretary to prepay 50% of the aforementioned tollgate tax, you must enter 50% of your tax rate in the space indicated and determine the applicable tollgate tax prepayment.

Line 10(b) - Other credits

Any business exempt under Act 8 of 1987, including those covered under previous laws, that invests in Puerto Rico part of its IDI for a particular taxable year in plant expansion, purchases of products manufactured in Puerto Rico, research and development of new products or industrial processes and in eligible activities under Section 2(j), is entitled to a credit against the tax, but subject to certain terms and conditions. For additional details, refer to Section 4(b) and (d) of said act.

Also, if the parent company of an exempt business is under Federal Bankruptcy proceedings, the exempt business is



entitled to claim a credit against the income tax payment and the prepayment of tollgate tax, subject to compliance with certain conditions. For additional information, refer to Section 3(a)(3) of Act 8 of 1987.

For the credits under Act 26 of 1978, refer to Section 4(h) of said act.

Any exempt business that has a converted decree under Section 3(i)(2a) of Act 26 of 1978, is entitled to carryforward as a credit for future taxable years, an amount equal to two thirds of the net income tax paid as a result of the conversion, against any taxes paid or withheld at source on current dividend distributions and in liquidation.

PARTS V AND VI - COMPARATIVE BALANCE SHEET AND RECONCILIATION OF NET INCOME (OR LOSS) PER BOOKS WITH NET TAXABLE INCOME (OR LOSS) PER RETURN

The financial statements and reconciliation must be totally completed in order to consider the return as filed. Therefore, do not submit this information in loose sheets to substitute the statements or the reconciliation. **Returns that do not comply with these requirements, will be returned to the taxpayer.**

PART VIII – QUESTIONNAIRE

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

SIGNATURE AND OATH OF THE RETURN

The return must be signed and sworn before a notary public by the president, vice president or other principal officer and by the treasurer or assistant treasurer or agent of the exempt business.

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 Unappropriated Retained Earnings per Books must be detailed. **Returns that do not comply with this requirement will be considered as not filed.**

INSTRUCTIONS TO COMPLETE THE SCHEDULES

SCHEDULE B INCENTIVES - RECAPTURE OF CREDIT CLAIMED IN EXCESS

Use this schedule to determine the recapture of investment credit and for the donation of a conservation easement claimed in excess and the detail of the purchase of tax credits.

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 Credit 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 No. 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:

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

In case of owners of a levied 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 of 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 Schedule K Incentives, Part I, line 12, to Schedule O Incentives, Part II, line 8, to Schedule V Incentives, Part IV, line 3, or to Schedule W Incentives, Part II, line 6, as applicable. If part of the excess was paid in the



previous year, enter the balance owed.

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.

SCHEDULE B1 INCENTIVES – CREDIT FOR PURCHASE OF PRODUCTS MANUFACTURED IN PUERTO RICO AND PUERTO RICAN AGRICULTURAL PRODUCTS

PART I – 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 II - 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 number of each contract with the Department of Agriculture; 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 E - DEPRECIATION

This schedule will be used to inform each 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 on 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 flexible depreciation instead of current depreciation, the Code requires to make the election through a sworn statement that must 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 Code and its regulations to determine who will qualify for the flexible and accelerated depreciation deduction, and the requirements that must be met in order to be entitled to said deduction.

Submit Schedule E with your return.

SCHEDULE K INCENTIVES - COMPUTATION OF TAX

PART I - NORMAL TAX AND SURTAX

Line 3 - Enter \$25,000 in the corresponding column. If you have more than one operation covered under an exemption decree or partially exempt under a special act, or totally taxable income, you may claim only up to \$25,000 in the aggregate.

Also, if the entity is a member of a controlled group, as defined in Section 1028 of the Code, the credit will apply only to the controlled group. If an entity is a member of a controlled group as of December 31, the credit allowed to said entity for the taxable year which includes such December 31, will be equal to \$25,000 divided among the number of entities that are component members of the controlled group. Nevertheless, the controlled group may elect, through an agreement, a different apportionment plan, as long as the sum of the amounts distributed among the members of the group does not exceed \$25,000.

If the entity is a member of a controlled group, it is necessary to include with the return of each member of the controlled group a schedule detailing the apportionment plan, the name and the employer identification number of each entity that is a member of the group.

Line 5 - If the entity is covered under the Industrial, Tax or Tourism Incentives Act, or Tourism Development Act, you must multiply line 2 by 22%.

If the entity has partially exempt income under Act 225 of 1995, Act 148 of 1988, Act 168 of 1968, Act 75 of 1995, Act 14 of 1996, Act 178 of 2000 or has fully taxable income, you must multiply line 2 by 20%.

Line 6 - Multiply line 4 by the applicable tax rate and enter the result in the corresponding column.

If the income is derived from operations covered under Act 52 of 1983, Act 57 of 1963, Act 26 of 1978 or Act 8 of 1987, the surtax is:

If the net income subject to surtax is:	The tax shall be:
\$0 - \$75,000	9%
\$75,001 - \$125,000	\$6,750 plus 19% of the excess over \$75,000
\$125,001 - \$175,000	\$16,250 plus 20% of the excess over \$125,000
\$175,001 - \$225,000	\$26,250 plus 21% of the excess over \$175,000
\$225,001 - \$275,000	\$36,750 plus 22% of the excess over \$225,000
\$275,001 - or more	\$47,750 plus 23% of the excess over \$275,000

If the income is derived from operations covered under Act 78 of 1993, the surtax rate will be computed as follows:

If the net income subject to surtax is:	The tax shall be:
\$0 - \$75,000	6%
\$75,001 - \$125,000	\$4,500 plus 16% of the excess over \$75,000
\$125,001 - \$175,000	\$12,500 plus 17% of the excess over \$125,000
\$175,001 - \$225,000	\$21,000 plus 18% of the excess over \$175,000
\$225,001 - \$275,000	\$30,000 plus 19% of the excess over \$225,000
\$275,001 - or more	\$39,500 plus 20% of the excess over \$275,000

If the income is derived from partially exempt activities under Act 168 of 1968, Act 148 of 1988, Act 75 of 1995, Act 225 of 1995, Act 14 of 1996 or Act 178 of 2000, or from fully taxable income, the surtax will be:



If the net income subject to surtax is:	The tax shall be:
\$0 - \$75,000	5%
\$75,001 - \$125,000	\$3,750 plus 15% of the excess over \$75,000
\$125,001 - \$175,000	\$11,250 plus 16% of the excess over \$125,000
\$175,001 - \$225,000	\$19,250 plus 17% of the excess over \$175,000
\$225,001 - \$275,000	\$27,750 plus 18% of the excess over \$225,000
\$275,001 - or more	\$36,750 plus 19% of the excess over \$275,000

Line 7 - This tax shall apply to activities covered under Act 168 of 1968, Act 78 of 1993, Act 148 of 1988, Act 75 of 1995, Act 225 of 1995, Act 14 of 1996 or Act 178 of 2000 or to fully taxable income. If the net taxable income of the entity exceeds \$500,000, a 5% tax will be imposed on said excess. Nevertheless, the total tax determined shall not exceed 42% for operations covered under Act 78 of 1993; and 41.5% for operations covered under Act 168 of 1968, Act 148 of 1988, Act 75 of 1995, Act 14 of 1996, Act 225 of 1995 or Act 178 of 2000 or to fully taxable income. Nevertheless, for every taxable year beginning after December 31, 2006, the limit will be 39%.

Linea 8 - If the net taxable income (line 1, as applicable) is \$20,000 or more and the entity is subject to the additional tax of previous line 6, a 2.5% special tax will be imposed, collected and paid on the net income subject to normal tax. This tax will apply to every taxable year beginning after December 31, 2004 and before January 1, 2007.

Line 10 - Enter the amount determined on line 38 of Schedule D Corporation and Partnership - Gains or Losses from Sale or Exchange of Property.

If during the taxable year the corporation's net long-term capital gains exceeded the net short-term capital losses, the corporation may elect to pay the alternative tax.

The alternative tax is determined on the net income at the normal tax rates, without including the long-term capital gain, plus the special rate on such gain, as applicable.

Line 13(a) - Enter the amount determined on Schedule C Corporation and Partnership - Credit for Taxes Paid to the United States, its Possessions and Foreign Countries.

If the tax was paid in a foreign currency, you must determine the equivalent value in dollars at the date of payment. You must submit with the return a schedule indicating the conversion in dollars, and copy of the United States or foreign countries tax return and cancelled checks as evidence of the tax paid or accrued in said country.

Line 13(b) - Enter the credit granted under Article 41 A-6 of the Regulations under the Puerto Rico Income Tax Act of 1954, as amended, as a result of an adjustment made by the Federal Internal Revenue Service under Sections 936, 61, 162 and 351, or any successor provision of the Federal Internal Revenue Code of 1986, as amended (Federal Code). Only foreign entities actively conducting a trade or business in Puerto Rico under Section 936 of the Federal Code are eligible for this credit. This credit is limited to 50% of the tax determined for each year.

Line 13(c) - If the subsidiary of a parent company of an entity doing business in Puerto Rico and operating under Act 8 of 1987, is under bankruptcy proceedings, a credit against the Puerto Rico income tax payment can be claimed, subject to compliance with certain requirements. To enjoy of this credit, the parent company must:

- ☞ be incorporated under the laws of any state of the United States,
- ☞ be under bankruptcy proceedings, and
- ☞ reflect a loss on the consolidated federal income tax return after including the income of the exempt entity.

This benefit will be granted as a credit, which is determined as follows:

$$\text{Tax for the particular year of the loss} \times \frac{\text{Average employment during the taxable year}}{\text{Employment required in the tax exemption decree}}$$

Nevertheless, said credit is limited to the total tax for the particular year in which the loss was incurred.

This credit shall be requested from the Secretary through a sworn statement and it will be subject to recapture at the time the parent company recovers said loss.

Line 13(d) - Enter the amount determined on Schedule Q.

To claim this credit you must submit the following:

- 1) Schedules Q and Q1 duly completed.
- 2) A document indicating or evidencing the credit generated by the investment on the different capital investment funds or direct investments, such as Solid Waste Disposal Facilities, Agricultural Incentives, Feature Films, as well as Tourism Development.
- 3) Copy of the certification issued by the pertinent agencies.
- 4) Copy of the notification made through a sworn statement issued by said agency, in which the distribution of the credit is informed.



Line 13(e) – The exempt business can claim a credit against the industrial development income fixed tax, for purchases of products manufactured in Puerto Rico including component parts and accessories, equal to 25% of the purchases of such products during the taxable year in which the credit is claimed (subject to certain limitations). For additional information, refer to Section 5(b) of Act 135 of 1997, as amended by Act No. 110 of August 17, 2001. **The business that claims this credit can not benefit simultaneously from the deduction provided on Schedule M or N Incentives, Part I, line 8, as applicable.**

Line 13(f) - Enter the tax credit acquired, if any, during the year through purchase, exchange or transfer made by a primary investor. See instructions of Schedule Q for the percentages and limitations to claim in the return.

To claim this credit, the assignor and the cessionary must submit with the income tax return, a sworn statement notifying the Secretary the cession, in the year on which the same took place and in every year in which a credit is claimed.

Line 13(h) - In those cases in which the entity has paid an alternative minimum tax on the income derived from fully taxable operations from previous years, it may claim a credit against the regular tax from taxable operations, as long as it complies with certain requirements. To be eligible to this credit, the regular tax of the year must exceed the alternative minimum tax for said year and must have paid the alternative minimum tax for previous years. The credit will be determined as follows:

1. **Normal Tax** (Schedule K Incentives, Part I, Column C, line 5) _____
2. **Less: Tentative Minimum Tax** (Schedule A Corporation and Partnership, Part V, line 31) _____
3. **Regular Tax Subject to Credit** (Subtract line 2 from line 1) _____
4. **Credit for Alternative Minimum Tax Paid in Previous Years** (Which had not been used. Submit schedule) _____
5. **Allowable Credit** (The smaller of line 3 or 4) _____

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

Line 13(i) - Enter the credit attributable to dividends received from industrial development income corresponding to 3% of the investment made by the branch in the acquisition, construction and enlargement of buildings and other structures used in manufacture, in excess of the investment in such properties possessed by the subsidiary as of March 31, 1997.

In those cases of corporations which have not benefited from tax exemption under Act 57 of 1963, Act 26 of 1978 or Act 8 of 1987 for two taxable years, this credit will be granted to the parent company for the increase in investments made by the subsidiary after the end of its second year of tax exemption.

To be entitled to the credit, the investment should have been made prior to January 1, 1993.

This credit can be carried forward to the following taxable years. Nevertheless, investments made in real property to obtain the exemption indicated on paragraph 6, Subsection (a) of Section 4 of Act 8 of 1987, cannot be used for the purpose of this credit.

Line 13(j) - Enter the contribution made, up to \$500, to the Educational Foundation for the Free Selection of Schools.

Line 13(l) – Enter the amount of credit for the establishment and donation of an eligible conservation easement, equal to 50% of the value of the eligible conservation easement.

In order to claim this credit you must include the certification issued by the Secretary of the Treasury.

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

Line 13(m) – 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 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, as well as the 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 13(n) – 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 of December 8, 2004.

Line 13(o) – 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 13(p) – Act No. 168 of June 30, 1968, as amended (Hospital Units Tax Exemption Act), grants a tax credit up to 15% of the total expenses incurred for the payment of payroll to personnel who works rendering medical/hospital services. For purposes of the credit, subcontracted payroll expenses will not be considered as part of the payroll. The credit can be used to reduce, up to 50%, the income tax determined attributable to the net income from medical/hospital services rendered in a hospital unit.

It is important to clarify that every person that maintains a decree in force as of January 1, 2005 under Act No. 168 of June 30, 1968, as amended, may benefit from the credit for a period of 10 years, once the current exemption expires. The 10 year period will be in effect beginning from the date in which the application regarding this matter is presented to the Secretary of the Treasury.

On the other hand, those persons whose benefits expired before January 1, 2005, may benefit from the credit if an application was presented to the Secretary of the Treasury not later than December 31, 2006. In these cases, the 10 year period will be in effect for taxable years beginning after December 31, 2004.

Line 13(q) - Enter the total amount of other income tax credits not included on the preceding lines, like for example, but not limited to, **credit for extraordinary investment in housing infrastructure, credit for investment in new construction or substantial rehabilitation of rental housing units for low or moderate income families, credit for industrial investment in an exempt business that is in the process of closing its operations in Puerto Rico and credit for contributions made to the Santa Catalina's Palace Patronage.**

Act No. 98 of August 10, 2001 grants a tax 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 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, Act No. 212 of August 29, 2002, as amended and the corresponding regulations.

On the other hand, Act No. 140 of October 4, 2001 provides that every owner of a rental housing project for low or moderate income families may qualify for a tax credit for investment in a new construction or substantial rehabilitation of such housing units.

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

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.

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

Also, Act No. 109 of August 17, 2001 provides that every investor may claim an industrial investment credit for the investment in an exempt business that is in process of closing its operations in Puerto Rico, equal to 50% of its eligible investment to 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.

Section 1040H of the Code grants a tax credit for **contributions made to the Santa Catalina's Palace Patronage (Patronage)** equal to 50% of the contributions made. 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 contributions cannot be claimed as part of the deduction for charitable contributions.

If on this line you included credits from different concepts, you must submit a schedule showing a



breakdown of such credits. Also, you must submit documents or evidence to support such credits.

Line 15 - This tax will apply only to income derived from taxable operations. Said tax will be equal to the excess, if any, of:

- 1) the Tentative Minimum Tax for the taxable year over,
- 2) the Regular Tax of the year.

The Tentative Minimum Tax for the taxable year will be 22% of the total for which the Alternative Minimum Net Income for the taxable year exceeds the exempt amount.

Enter the amount determined on Schedule A Corporation and Partnership, Part V, line 33.

Line 16 - In addition to any other tax imposed by the Code, those foreign corporations and partnerships engaged in trade or business in Puerto Rico that operates 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 and partnerships engaged in trade or business in Puerto Rico derive at least 80% of its gross income, during the 3 taxable years period ended at the closing of said taxable year, from sources within Puerto Rico or from income effectively connected or treated as effectively connected with the conduct of a trade or business in Puerto Rico.

Corporations subject to this tax must file Form AS 2879 Branch Profits Tax and include it with your return.

PART II - COMPENSATION TO OFFICERS

Enter the total compensation paid or accrued to officers of the entity for salaries or other allowances. Also, you must include the name, social security number and the percentage of stocks or shares possessed, if any. The total amount reflected in this part as compensation must be equal to the amount claimed on Schedules L, M, N, P, V and W Incentives. If the entity files more than one of these schedules, the amount entered in this part must be equal to the sum of the amounts reflected on each schedule for this concept.

PART III - RECONCILIATION OF TAXABLE INCOME IN PUERTO RICO (FORM 480.30(II)) AND IN THE UNITED STATES (FORM 1120)

Enter in Column A the income and deductions as presented on Form 480.30(II). Enter in Column B the income and deductions reflected on the federal Form 1120. Any difference between both income must be reflected in Column C, explaining the reason for such difference (i.e. Section 263A of the Federal Internal Revenue Code, depreciation adjustment, etc.).

PART IV - RECONCILIATION OF PASSIVE INCOME

In the Reconciliation column of federal Form 1120, enter the passive income reflected on the financial statements and on line

2 enter any adjustment to reconcile the income reflected on Form 1120.

In the Reconciliation column of Form 480.30(II), enter the passive income reflected on the financial statements. Enter on line 2 any adjustment made to obtain the income reflected on Form 480.30(II), such as income from sources of the United States.

GENERAL INSTRUCTIONS FOR SCHEDULES L, M, N, P, V AND W INCENTIVES

If an entity made an election under Section 3(f) of Act 8 of 1987 or Section 6(f) of Act 135 of 1997, it must submit with the return a copy of the sworn statement through which such election was made.

PART II - SCHEDULES L, M AND P INCENTIVES; PART III - SCHEDULES N AND W INCENTIVES; AND PART V - SCHEDULE V INCENTIVES - GROSS PROFIT ON SALES AND OTHER INCOME

In this part you will determine your gross profit on sales, production or other income. Check the applicable box to indicate the appraisal method for the inventory at the beginning and end of the year.

Detail in Part IV of Schedules L, M and P Incentives the Other Direct Costs claimed on line 5 of Part II. If you are completing Schedule N Incentives, detail the Other Direct Costs in Part V and claim the same in Part III, line 5. If you are completing Schedule V Incentives, detail in Part VII and claim the same in Part V, line 5.

The flexible depreciation of assets used in manufacture will be claimed only on the Other Direct Costs item in Part IV, line 11 of Schedule P Incentives. The flexible depreciation of other assets will be entered in Part III, line 37 of said schedule.

The assets used in any activity that generates partially exempt income under Act 52 of 1983, Act 57 of 1963, Act 168 of 1968, Act 26 of 1978, Act 8 of 1987, Act 135 of 1997, Act 78 of 1993, Act 362 of 1999, Act 178 of 2000 or Act 225 of 1995 **cannot be depreciated under the flexible or accelerated depreciation method.**

PART III - SCHEDULES L, M AND P INCENTIVES; PART IV - SCHEDULES N AND W INCENTIVES; AND PART VI - SCHEDULE V INCENTIVES - DEDUCTIONS AND NET OPERATING INCOME

In this part of Schedules L, M, N, P, V and W Incentives enter the deductions related to your operations. Following we present information related to some of these items:

a. Meal and entertainment expenses

You may deduct 50% of the total expenses actually paid or incurred, up to 25% of the gross income for the taxable year for meal and entertainment expenses directly related with the conduct of a trade or business or with the production of income. Do not consider those that do not constitute ordinary and necessary expenses from the trade or business.



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

b. Contributions to pension and other qualified plans

Enter the amount contributed to pension plans, profit sharing or other qualified plans approved by the Secretary of the Treasury. This deduction is subject to certain limitations. See Section 1023(n) of the Code.

To claim this deduction, you must include with your return a schedule showing the information required by Regulation No. 5678 of September 3, 1997.

c. Current depreciation and amortization

Submit 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 the trade or business, or for the production of income, is \$25,000. This rule also applies to those automobiles acquired through financial leases that are equivalent to a purchase.

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

An automobile may be depreciated over a 3 year period if it is used exclusively in selling activities, and over a 5 year period if it is used for other purposes.

The basis limitation (\$25,000) and the 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. This deduction will be determined using the straight-line method and a useful life of 15 years.

d. Flexible depreciation

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

This deduction applies only against the fully taxable income (Schedule P Incentives) and is limited to property used in the activities indicated in the Code.

Said option may be exercised only over property acquired prior to June 30, 1995.

e. 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 can be exercised only for property acquired by purchase during taxable years beginning after June 30, 1995. Once the option is exercised, the same 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, Tax and Tourism Incentives Acts or Tourism Development Act, Agricultural Tax Incentives Act or any other special act or to intangible property. **The detail of the accelerated depreciation will be included in Part (c) of Schedule E - Depreciation.**

f. Bad debts

Enter the accounts receivable that are considered uncollectible. The reserve method cannot be used to compute de deduction for bad debts. Instead, a deduction may be claimed for debts that become uncollectible within the taxable year (direct write-off method).

g. Other deductions

Those expense items for which a specific line is not provided in Part III (Schedules L, M and P Incentives), Part IV (Schedules N and W Incentives) and Part VI (Schedule V Incentives) will be added and the total will be entered as Other Deductions. Among these deductions, include the amount of contributions to educational contribution accounts for the employee's eligible beneficiaries up to the maximum amount of **\$500 for each beneficiary**, as provided by law. 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 more information, refer to Act No. 409 of October 4, 2000.**

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.



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

For additional details refer to Act No. 212 and the corresponding regulations.

Submit with the return a schedule itemizing these deductions.

SCHEDULE L INCENTIVES - PARTIALLY EXEMPT INCOME OR SUBJECT TO TAX CREDIT UNDER ACT 168 OF 1968, ACT 52 OF 1983 OR ACT 78 OF 1993, AS APPLICABLE

This schedule must be used by those entities that operate under Act 168 of 1968, Act 52 of 1983 or under Act 78 of 1993. Check the applicable box for the act under which the entity operates and indicate the effective period for income, and the actual and required number of jobs directly related with tourism development.

Act 168 of 1968 exclude from the payment of income tax the 50% of income from medical/hospital services rendered in a "hospital unit".

"Hospital unit" means:

- (1) General hospitals, of tuberculosis, of mental illnesses or any other kind of hospital engaged in the treatment of human illnesses, as well as the facilities related with their normal operation.
- (2) Extensions or expansions in the existent institution that are constructed within the hospital grounds. In order to qualify an extension or expansion, it is necessary that it constitutes a substantial investment to improve the medical-hospital services and it must be notified to the Secretary of the Treasury and the concerning agencies. Under no circumstance a "hospital unit" will be considered as such if it is operating without a license issued by the Health Department.
- (3) Nursing, and resident and intern physicians homes, when this units are located within the grounds of the hospital to which they belong.
- (4) Clinics and convalescent homes for sick persons.

"Net income derived from medical/hospital services rendered in a hospital unit" means:

- (1) The gross income derived from, or related with the medical/hospital services provided to the general public in the different facilities which constitute such "hospital unit", reduced by those expenses, losses and any other deductions that can not be specifically assigned to an item or any kind of gross income. The proportional part will be based on the proportion between the gross income derived from the previous indicated source and the total gross income.

- (2) In case of extensions or expansions which constitute a "hospital unit", the net income derived from medical/hospital services rendered in a "hospital unit", for purposes of their tax exemption under this Act, will be the proportion between the services offered in the extension and the total of services offered in such hospital facilities, including the referred extension, with respect to the extensions total net operating income of the hospital facilities subject to the extension or expansion.

It is important to clarify that only persons that maintain a decree in force as of January 1, 2005 under Act 168 of 1968, may benefit from this exemption.

Those "hospital units" that, in lieu of the exemption, are entitled to claim the credit for eligible payroll, must claim the same on Schedule K Incentives, line 13(p).

The hospital unit income not derived from medical/hospital services rendered, as defined, is totally taxable and is reported on Schedule P Incentives.

In case of a corporation or partnership that operates under Act 52 of 1983 or Act 78 of 1993, and has made the election under Section 5(b) or 3(a)(1)(D) respectively, must submit with the return a copy of the notification addressed to the Secretary of the Treasury making such election.

Any exempt business under Act 78 of 1993, must include with the return a copy of the order issued by the Director of the Tourism Company indicating the date in which the exemption began.

PART I - NET INCOME SUBJECT TO TAX

Line 2 - Enter the carryover balance of net operating loss reflected at the end of the preceding year. The net operating losses under tourism incentives or tourism development acts can be deducted only against income derived from touristic activities. Likewise, net losses from operations under the hospital units act can be deducted only against the income derived from medical/hospital services rendered. The net operating losses not covered under any of the previously mentioned acts, may be deducted only against the totally taxable income. **You must submit with the return a schedule supporting the deduction claimed.**

The excess of income loss from touristic activities from preceding years can only be carried over and claimed against income from touristic activities. Also, the excess of income losses from medical/hospital services rendered can be carried over and claimed only against income from medical/hospital activities. Said loss will be deductible up to an amount equal to the percentage in which the income from touristic or medical/hospital activities would have been taxable. The losses will be carried over in the order in which they were incurred.



Any net loss incurred during the year in which the entity made the election under Section 3(a)(1)(D) of Act 78 of 1993, can be carried over and taken as a deduction only against the tourism development income derived by the exempt business in which the election was made under said Section. In case of an entity that has renegotiated its decree under Act 78 of 1993, it may take as a deduction the net operating losses incurred from operations under previous decrees (Industrial or Tourism Incentives Act).

Losses incurred on a year in which the election was made under Section 5(b) of Act 52 of 1983 or under Section 3(a)(1)(D) of Act 78 of 1993, may be claimed as a deduction against income from touristic or touristic development activities for which the election was made.

Line 4 - Enter in the space provided the exemption percentage to which you are entitled in accordance to the Resolution under the Hospital Units Incentives Act, Tourism Incentives Act or Tourism Development Act.

Multiply the net operating income from eligible activities subject to the computation, by the applicable exemption percentage. Enter the amount on this line.

SCHEDULE M INCENTIVES - FULLY OR PARTIALLY EXEMPT INCOME UNDER ACT 57 OF 1963 OR ACT 26 OF 1978

This schedule must be used by those entities that derive fully or partially exempt income under Act 57 of 1963 or Act 26 of 1978. Check the applicable box for the act under which the entity operates and indicate the period in force for income, and the current and required number of jobs directly related with manufacture or designated service. If the entity has partially exempt operations under both acts, a schedule for each activity must be used. If there are no specific instructions for a particular line under this section, refer to the General Instructions Section.

PART I - NET INCOME SUBJECT TO TAX

Line 2 - Enter the income derived from qualified investments under Section 2(j) of Act 57 of 1963 or Act 26 of 1978, whichever applies.

Line 4 - Enter the carryover balance of net operating loss reflected at the end of the preceding year. The net operating losses under the industrial incentives acts may only be deducted against the industrial development income (IDI). The net operating losses derived from operations that are not covered under any of the previously mentioned incentives acts, may only be deducted against fully taxable income.

The loss excess of IDI from the preceding years, may only be carried over and claimed as a deduction against the IDI. Said loss will be deducted up to an amount equal to the IDI percentage that would have been taxable. Losses will be carried over in the order in which they were incurred.

Line 8 - Enter the amount of the deduction for the purchase of products manufactured in Puerto Rico equal to 15% of the purchases of such products, reduced by the average of the purchases of such products made during the year 2000. This deduction is granted only for the purchases of products that had been manufactured by businesses not related with the exempt business. For purposes of the previous calculation, such purchases to non related businesses will be excluded from the total purchases of products manufactured in Puerto Rico realized by the exempt business.

This deduction will be used only in the taxable year in which you earn the industrial development income against which the deduction is claimed and it can not be carried forward to subsequent taxable years. **The business claiming this deduction can not benefit simultaneously from the credit provided on Schedule K Incentives, Part I, line 13(e).**

Line 11(a) - Enter in the space provided the exemption percentage you are entitled to claim, according to your decree under Act 57 of 1963 or Act 26 of 1978.

Multiply the net operating industrial development income after the adjustments by the applicable exemption percentage. Enter the amount on this line.

SCHEDULE N INCENTIVES - PARTIALLY EXEMPT INCOME UNDER ACT 8 OF 1987

This schedule must be used by those entities that derive partially exempt income under Act 8 of 1987. Indicate in the corresponding box the effective period for income, and the current and required number of jobs directly related with manufacture or designated service.

PART I - NET INCOME SUBJECT TO TAX

Line 2 - Enter the income derived from qualified investments under Section 2(j) of Act 8 of 1987.

Line 4 - Enter the carried over balance of the net operating loss reflected at the end of the preceding year. The net operating losses covered under the Tax Incentives Act may only be deducted against the industrial development income (IDI). The loss excess of IDI from previous years can only be carried over and claimed as a deduction against the IDI. Said loss will be deductible up to an amount equal to the IDI percentage that would have been taxable.

Any loss incurred in the year in which the entity made the election under Section 3(f) of Act 8 of 1987, can be carried over and claimed totally as a deduction against the IDI derived by the exempt business under the decree in which the election was made under Section 3(f) or against the IDI percentage that would have been taxable in case that the entity has not made the election.



Line 8 - Refer to the instructions of Schedule M Incentives, Part I, line 8.

Line 11(a) - Enter in the space provided the exemption percentage you are entitled to claim according to your decree under Act 8 of 1987.

PART II - SPECIAL SURTAX SECTION 3(a) OF ACT 8 OF 1987

This special surtax applies to every entity that has derived a total gross income from industrial development of more than \$1,000,000 during the taxable year. For purposes of this computation, the **term gross income from industrial development includes** the following:

- 1) Income derived from certain investment activities eligible under Section 2(j).
- 2) Net income derived from patent sales, royalties or any other entitlement to receive income, related to activities or intangible property resulting from exempt operations under Act 8 of 1987.
- 3) Income derived from insurance policies for business interruption, as long as there is no reduction on the job employment level of the exempt business as a result of the action that motivated the collection of such income.

The tax will be .00075 of the sales volume of the exempt business, but never more than half of one percent (.005) of the net industrial development income.

SCHEDULE O INCENTIVES - OPTIONAL INCOME TAX FOR EXEMPT BUSINESSES PURSUANT TO SECTION 3A OF ACT 8 OF 1987

If the corporation elected the computation of the Optional Income Tax under Section 3A of Act 8 of 1987, please complete this schedule.

PART II - COMPUTATION OF OPTIONAL TAX

Line 2 - Include the income from interest of eligible investments (Section 2(j)), except exempt interest from obligations issued by the Government of Puerto Rico, its instrumentalities or political subdivisions.

Line 4 - Check the box corresponding to the applicable tax rate. If the entity has a decree that has another tax rate, enter the same on line 4(d).

Line 9(b) - The exempt business can claim a credit against the industrial development income fixed tax, for purchases of products manufactured in Puerto Rico including component parts and accessories, equal to a 25% of said products purchases during the taxable year in which the credit is claimed (subject to certain limitations). For additional information, refer to Sections 5(b) of Act 135 of 1997, as amended by Act No. 110 of August 17, 2001.

Line 9(c) - Refer to the instructions of Schedule K Incentives, Part I, line 13(l).

Line 9(d) - Refer to the instructions of Schedule K Incentives, Part I, line 13(m).

Line 9(e) - Refer to the instructions of Schedule K Incentives, Part I, line 13(n).

Line 9(f) - Include any other tax credit that you are entitled to claim. Submit a schedule showing a breakdown of such credits.

Any exempt business with a converted decree under Section 3(i)(2a) of Act 26 of 1978, is entitled to carry forward as a credit for future taxable years an amount equal to two thirds of the net income tax paid as a result of the conversion, against any income tax payment or withholding at source on current dividend and liquidation distributions.

If the entity is exempt under Act 8 of 1987 and the parent company is under Federal Bankruptcy proceedings, the exempt business is entitled to claim a credit against the income tax and tollgate tax payment, subject to compliance with certain conditions. For additional information, refer to Section 3(a)(3) of Act 8 of 1987.

Enter also on this line the credit claimed for contributions made to the Santa Catalina's Palace Patronage. For details, refer to the instructions of **Schedule K Incentives, Part I, line 13(o)**.

SCHEDULE P INCENTIVES - INCOME FROM FULLY TAXABLE OPERATIONS OR PARTIALLY EXEMPT INCOME UNDER ACT 148 OF 1988, ACT 75 OF 1995, ACT 225 OF 1995, ACT 14 OF 1996 OR ACT 178 OF 2000

This schedule must be used by those entities that in addition to enjoy exemption under a decree, derive income from fully taxable activities. Those entities that derived partially exempt income under Act 148 of 1988, Act 75 of 1995, Act 225 of 1995, Act 14 of 1996 or Act 178 of 2000 must also use this schedule. Check the corresponding box if your activities are fully taxable or if they are partially exempt under one of the acts described.

If you have fully taxable operations, and at the same time you have partially exempt operations under one of the special acts, a schedule for each activity must be used and check the corresponding box. If there are no specific instructions for a particular line on this section, refer to General Instructions - Schedules L through W Incentives.

Those industries or businesses established in a special planning zone or in a theatrical district that do not derive exempt income under Act 148 of 1988, Act 75 of 1995, Act 14 of 1996 or Act 178 of 2000, must use Form 480.20 or 480.10.



PART I - NET INCOME SUBJECT TO TAX

Line 2 - Enter the carried over balance from the net operating loss reflected on previous years' returns.

Line 4 - This line must be completed only by those entities that derived exempt income under one or more of the following acts:

- Act 148 of 1988, as amended
- Act 75 of 1995, as amended
- Act 225 of 1995, as amended
- Act 14 of 1996, as amended
- Act 178 of 2000

If the operations are partially covered by Act 148 of 1988, Act 75 of 1995 or Act 178 of 2000, enter the 50% exemption of net income derived from the sale of admission tickets for artistic and cultural shows performed in new structures, substantially rehabilitated or subject to improvements for a 5 years period, beginning on the date the construction, substantial rehabilitation or improvement is completed. In order to be entitled to those benefits, said construction, rehabilitation or improvement must be performed within 5 years beginning on the date of the designation of the zone in which the business will be located.

If the operations are covered under Act 14 of 1996, enter 90% of the exemption from the net income derived from the sale of admission tickets to artisanal, agricultural, artistic and cultural fairs, and sport events, if you meet the following requirements:

- 1) The activity or event must be celebrated within one of the special designated zones established by the Puerto Rico Planning Board in accordance to said Act;
- 2) At least 50% of the persons employed in the activity or event by the person claiming the exemption, must be bona fide residents of Castañer.

For additional details, see Regulation No. 5553 of February 14, 1997.

If the operations are partially exempt under Act 225 of 1995, enter the 90% exemption, if you meet the following requirements:

- 1) you have a certification issued by the Secretary of Agriculture of Puerto Rico, certifying that you are a bona fide farmer dedicated to an agricultural business;
- 2) you have derived at least 50% of your income from agricultural activities; and
- 3) you have not elected the provisions of Section 1023(s) of the Code.

This exemption of income tax payment applies to taxable years beginning on January 1, 1996. This exemption is not extensive

to income from interest, dividends, royalties or gains derived from the sale of assets, including those assets used in the agricultural business, or any other income derived by bona fide agricultural businesses and that does not come directly from the agricultural activity.

To claim such exemption, you must include with the return a copy of the certification issued by the Secretary of Agriculture of Puerto Rico and a schedule showing the income percentage derived from agricultural activities over the total income of the entity.

For purposes of calculating 50% or more of the gross income, the income from all sources will be considered, realized and recognized, adjusted or reduced by the following items:

- (i) The cost of raw material used, if any;
- (ii) In case of sale of real property, the capital restoration which is considered the adjusted basis of such real properties, and excluding:
 - (a) the total amount of exclusions from gross income under Section 1022(b) of the Code;
 - (b) the total amounts received for which credits are allowed under Section 1026(a) of the Code; and
 - (c) those amounts that by law do not constitute income.

Line 6 - Enter 85% of the amount received as dividends or profits from a domestic corporation or partnership subject to taxation 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 (IDI) derived from operations covered by the provisions of Act 57 of 1963, the credit will be 82.70% of the amount received, but limited to 82.70% of the net taxable income.

This credit does not apply to dividends or profit distributions derived from operations covered under Act 78 of 1993 or Act 8 of 1987.

However, the Code provides the following exceptions:

- (1) In case of a small business investment company operating in Puerto Rico under the Small Business Investment 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 is allowed against the net income, equal to 100% of the total amount received as dividends from corporations organized under the laws of any state of the United States or the Commonwealth of Puerto Rico, whose principal income is derived from IDI 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 pension or retirement system of a general character established by the Legislative Assembly of Puerto Rico, the municipalities and the agencies, entities or public corporations of the Commonwealth of Puerto Rico.

- (3) A 100% credit will be granted 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 of the Commonwealth of Puerto Rico, whose principal income is derived from IDI accrued during taxable years beginning prior to January 1, 1993 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 of the total amount received as dividends or profits from a domestic controlled corporation or partnership.

PART III - DEDUCTIONS AND NET OPERATING INCOME

If there are no specific instructions for a particular line in this section, refer to section of General Instructions for Schedules L, M, N, P, V and W Incentives.

Following we explain certain special deductions applicable to operations that qualify for benefits granted under Act 148 of 1988, Act 75 of 1995, Act 14 of 1996 and Act 178 of 2000.

Any industry or business established in a special planning zone in Santurce, Río Piedras or Castañer in the period beginning on the designation date of said zone or in a theatrical district, may claim a special deduction based on the following:

- 1) 10% of the lease paid for a period of 10 years in the zone of Santurce and Río Piedras, as well as in the theatrical district, and 15% for a period of 5 years in the Castañer zone.
- 2) 5% of the minimum wage applicable for every new job created. To be entitled to this deduction, it is necessary that the new job does not eliminate or substitute an existing job, be a complete working week of 40 hours per week (35 hours per week in case of the Castañer zone), and be occupied in a continuous basis by the same person for a period of not less than six months. This deduction is for a 5 years period beginning on the date the business is designated to that zone by the Planning Board.

SCHEDULE T INCENTIVES – ADDITION TO THE TAX FOR FAILURE TO PAY ESTIMATED TAX IN CASE OF EXEMPT BUSINESSES UNDER THE PUERTO RICO IS PROGRAMS

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 1 – Add lines 11 (Columns A, B and C), 12 (Columns A, B and C) and 15, Part I of Schedule K Incentives, lines 7 and 8, Part II of Schedule O Incentives, lines 2 and 3, Part IV of Schedule V Incentives, and lines 5 and 6, Part II of Schedule W Incentives, and line 2, Part I of the return.

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 that excess that you had elected to credit to any payment of the installment of estimated tax. **Add lines 3(a), 3(c), 3(d), 3(f) and 3(g), Part I of the return, line 13(q) (Columns A, B and C), Part I of Schedule K Incentives, line 9(g), Part II of Schedule O Incentives, line 4(i), Part IV of Schedule V Incentives, and line 7, Part II of Schedule W Incentives.**

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(a), 3(c), 3(d), 3(f) and 3(g), Part I of the return, from the sum of lines 1(e) and 2, Part I 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 and the current year tax rates.

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

2005 income tax return	
Net Income from exempt operations - Schedule N Incentives	\$380,000
Credits	5,800
Withholdings at source	1,000

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

Normal Tax	\$83,600
Additional Tax	66,150
Alternative Minimum Tax	<u>0</u>
Tax Liability	\$149,750
Less:	
Credits and Withholdings	<u>(6,800)</u>
Estimated Tax based on previous year income tax information	<u><u>\$142,950</u></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 column (a), (b), (c) and (d), you must enter 3, 5, 8 and 11.

For lines 10 through 18 submit a schedule breaking down the partially exempt and totally taxable operations.

Line 13 – Determine the normal tax on the net income from totally taxable operations and on the net income from partially exempt operations, according to normal rates or to the rates corresponding to the applicable tax incentives act.

Line 14 – Determine the additional tax on the net income from totally taxable operations and on the net income from partially exempt operations subject to additional tax, according to the additional tax corresponding to totally taxable operations or to the applicable tax incentives act.

Line 15 – Determine the recapture on the net income from totally taxable operations and on the net income from partially exempt operations, according to the rates corresponding to totally taxable operations or to operations under the applicable tax incentives act.

Line 23 – Enter the total tax credits and withholdings at source for the taxable year.

Line 25 – In order to determine the amount to be enter on columns (b), (c) and (d), you must complete lines 29 through 32 of previous colum of Section B (Estimated Tax Required).

PART II – FAILURE TO PAY

Line 33 – 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, sixth, ninth 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 34 – 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 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 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 twelfth month of the taxable year, enter 100% of line 8 in column (d).

Line 35 – 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 36 – If various payments were made in the periods described in the instructions for line 35, indicate the amount and date of the payments.

Line 37 – To determine the amount to be entered in columns (b), (c) and (d), you must complete lines 38 through 43 of previous column.

PART III – ADDITION TO THE TAX FOR FAILURE TO PAY

Line 44 – If the failure to pay on line 40 was covered in only one payment (overpayment) made after the due date, multiply line 40 by 20%. If the failure to pay on line 40 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 45 - If the failure to pay on line 40 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 nearest between the date in which the payment (overpayment) was made or the fifteenth 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 40 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, located in Part IV, page 2 of



this Schedule. Determine the days elapsed from the due date of the estimated tax installment and the nearest between the date of each one of the payments or overpayments applied or the fifteenth 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 46 - If the failure to pay on line 40 was covered in only one payment (overpayment) made after the due date, divide the number of days entered on line 45 by 365 and multiply the result by line 44. If the failure to pay on line 40 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.

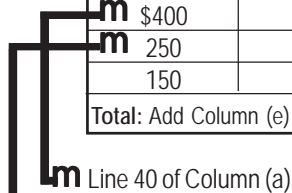
Example:

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 the line 46 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 $\frac{(d)}{365}$
(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 46, Column (a)				\$61



Line 40 of Column (a)

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



SCHEDULE V INCENTIVES - INCOME FOR EXEMPT BUSINESSES UNDER ACT 135 OF 1997

This schedule must be used by those exempt businesses under Act 135 of 1997. Indicate in the corresponding boxes the enforcement period for income, and the current and required number of jobs directly related with manufacture or designated service.

PART I - QUESTIONNAIRE

Line 1 - Indicate if the exempt business exercised the option provided in Section 3A of Act 8 of 1987 or if it was subject to a fixed tax rate stipulated on the decree during **any** of the years included in the computation of the basis period income.

Line 2 - If you answered "Yes", the 2(j) income, up to an amount not over the 2(j) income for the basis period, will also be subject for the remaining exempt period of the renegotiated preceding decree, to the rate applicable to the basis period income under the preceding act.

Line 3 - Indicate if for any of the years included in the basis period you had 2(j) tax exempt income and 2(j) taxable income. The 2(j) basis period income will be taxable or exempt in the same proportion that the 2(j) exempt income bears with the 2(j) total income subject to income tax earned during the basis period.

PART II - COMPUTATION OF THE BASIS PERIOD AVERAGE INCOME

Line 4 - Enter the amount of Column (a) in Part III, line 10. If the 2(j) income was subject to the Optional Tax or was taxable under special dispositions of your decree during all or part of the basis period, enter the amount of Column (b) on Schedule O Incentives, Part II, line 2.

PART III - NET INCOME SUBJECT TO TAX

Line 2 - Enter the income from qualified investments under Section 2(j) of Act 135 of 1997.

Line 4 - Enter here the net operating losses from the preceding year, including the share on losses from special partnerships that own or operate tourism businesses under Act 78. You must submit a schedule with the case number, amount of the loss and carryover computation.

Line 8 - Enter the amount of the deduction for the purchase of products manufactured in Puerto Rico equal to 15% of the purchases of such products, reduced by the average of the purchases of such products made during the year 2000. This deduction is granted only for the purchases of products that had been manufactured by businesses not related with the exempt business. For purposes of the previous calculation, such purchases to non related businesses will be excluded from the total purchases of products manufactured in Puerto Rico realized by the exempt business.

This deduction will be used only in the taxable year in which you earn the industrial development income against which the deduction is claimed and it can not be carried forward to subsequent taxable years. **The business claiming this deduction can not benefit simultaneously from the credit provided in Part IV, line 4(b) of this schedule.**

Line 10 - Applies only to exempt businesses which renegotiated their decrees under Act 135 of 1997. Enter this amount on Schedule M or N Incentives, Part I, line 10.

Line 11 - If line 11 is **smaller** than line 10, enter the net operating income of the year (Part III, line 1 of this schedule) on Schedule M Incentives, Part I, line 1, if the preceding renegotiated decree was issued under Act 57 of 1963 or Act 26 of 1978; or on Schedule N Incentives, Part I, line 1, if the preceding renegotiated decree was issued under Act 8 of 1987, and complete the corresponding schedule.

If when the decree was renegotiated under Act 135 of 1997, the exempt business had in force the option under Section 3A of Act 8 of 1987, Schedule M or N Incentives, whichever applies, and Schedule O Incentives must be completed.

If line 11 is **larger** than line 10, enter the basis period income on Schedule M Incentives, Part I, line 10, if the preceding renegotiated decree was issued under Act 57 of 1963 or Act 26 of 1978; or on Schedule N Incentives, Part I, line 10, if the preceding renegotiated decree was issued under Act 8 of 1987, and complete the corresponding schedule starting from said line 10.

If when the decree was renegotiated under Act 135 of 1997, the exempt business had in force the option under Section 3A of Act 8 of 1987, you must enter the basis period income on Schedule O Incentives, Part II, line 1 and complete said schedule.

PART IV - TAX COMPUTATION

Line 4 - In case of exempt businesses which renegotiated their decrees under Act 135 of 1997 and are entitled to claim the same credits against the basis period income tax and over the fixed rate under Act 135 of 1997, said credits can be claimed, at the exempt business option, up to the total amount allowed by law, against the basis period income tax or against the fixed rate; or allocated, up to the amount allowed by law, between the basis period income tax and the fixed tax rate. The sum of the allocated amounts cannot exceed the total amount of the credit.

Line 4(b) - The exempt business can claim a credit against the industrial development income (IDI) fixed tax, for purchases of products manufactured in Puerto Rico including component parts and accessories, equal to a 25% of the purchases of such products during the taxable year on which the credit is claimed (subject to certain limitations). For additional information, refer to Sections 5(b) of Act 135 of 1997, as amended by Act No. 110 of August 17, 2001. **The business claiming this credit can not benefit simultaneously from the deduction provided in Part III, line 8 of this schedule.**



Line 4(c) - Any exempt business with a decree granted under Act 135 of 1997, that is a subsidiary of a U.S. parent company, that reflects a loss in the consolidated federal return or is under bankruptcy proceedings under federal regulations, will be allowed to claim a credit against the fixed tax applicable to the IDI earned during the taxable year of the loss. For additional information, refer to Section 5(a) of Act 135 of 1997.

Line 4(d) - Some exempt businesses may request authorization to credit the excess of a hundred million dollars (\$100,000,000) of annual taxes withheld over royalties, rents, rates and license fees, with respect to certain high technology products, against the tax imposed by Section 3 of Act 135 of 1997 over such high technology products. In order to identify the exempt businesses which qualify for the credit and the definition of high technology products and additional information, refer to Act 143 of August 6, 2000.

Line 4(e) - Refer to the instructions of Schedule K Incentives, Part I, line 13(l).

Line 4(f) - Refer to the instructions of Schedule K Incentives, Part I, line 13(m).

Line 4(g) - Refer to the instructions of Schedule K Incentives, Part I, line 13(n).

Line 4(h) - Include any other credit that you are entitled to claim. Submit a schedule showing a breakdown of such credits.

An investor who buys an exempt business that is in the process of closing its operations in Puerto Rico may claim, with certain limitations, a credit equal to 50% of the eligible investment, in two installments: half in the year that the eligible investment is realized and the balance in subsequent years.

Enter also on this line the credit claimed for contributions made to the Santa Catalina's Palace Patronage. For details, refer to the instructions of **Schedule K Incentives, Part I, line 13(p)**.

GENERAL INSTRUCTIONS FOR SCHEDULES M1, N1 AND V1 INCENTIVES - COMPUTATION OF THE SPECIAL DEDUCTIONS

PART I - COMPUTATION OF THE SPECIAL DEDUCTIONS

Use these schedules to determine the special deductions allowed among: payroll deduction, human resources training and improvement expenses deduction, research and development expenses deduction, and special deduction for investment on buildings, structures, machinery and equipment.

PAYROLL DEDUCTION

Schedule M1 Incentives - Computation of the Special Deductions for Exempt Businesses under Act 57 of 1963 or Act 26 of 1978

Deduction under Act 26 of 1978 for exempt businesses engaged in manufacturing operations, except under Section 3(n) of such act.

Enter the larger of the following amounts:

- 1) 5% of your total production payroll up to an amount that does not exceed 50% of the net industrial development income, or
- 2) \$100,000 if the net industrial development income is smaller than \$500,000.

For purposes of item (1), the production payroll shall be for wages paid by the exempt business to personnel directly related with the manufacture of the exempt product, excluding the salaries of executives, supervisors and administrative personnel, and any payment for professional services rendered under contract by independent firms not related to the exempt business, as long as the above is not in conflict with the definition of production employee adopted by the Labor Statistics Bureau of the Department of Labor and Human Resources of Puerto Rico.

For purposes of item (2), if the exempt business engaged in manufacturing is a member of a controlled group of corporations and partnerships that are exempt businesses, or is controlled in more than 50% by one or more persons who directly or indirectly own an exempt business, the business may elect, with the consent of the Secretary, the manner in which the total amount or part of the \$100,000 deduction will be apportioned among one or more of the controlled exempt businesses.

These deductions do not apply to corporations under Section 3(n) of Act 26 of 1978.

Schedule N1 Incentives - Computation of the Special Deductions for Exempt Businesses under Act 8 of 1987

Enter the larger of the following amounts, as applicable:

- (1) 5% of its total production payroll up to 50% of the net industrial development income, if the eligible business:
 - a) enjoyed industrial tax exemption under any of the previously mentioned industrial incentives acts and said tax exemption was authorized prior to January 1, 1985, and then converted its decree to the provisions of Act 8 of 1987 for the remaining part of its exemption period; or
 - b) was operating in Puerto Rico under a decree as of



January 1, 1985 and subsequently obtained a new decree covering previously exempt operations based on negotiations in view to special conditions, and then requests to convert its new decree under Act 8 of 1987.

(2) 15% of the production payroll up to 50% of your net industrial development income, if in any taxable year you generate a net income from the exempt operations of less than \$30,000 per production job and said eligible business:

- a) enjoys tax exemption under a new decree issued under Act 8 of 1987; or
- b) has a tax exemption decree issued after December 31, 1984, but has not enjoyed tax exemption prior to that date, and converted said decree under Act 8 of 1987 for the remaining part of the exemption period originally granted. For these purposes, the production payroll shall include the salaries of personnel directly related to the manufacture of the exempt product, excluding executive salaries and any payment for professional services rendered through contract to the exempt business by independent firms.

The net income per production job will be obtained dividing the net industrial development income derived from the exempt operation, by the number of production jobs reflected on the production payroll.

(3) Enter the first \$100,000 if the net industrial development income is smaller than \$500,000 and the business has kept an employment average of 15 persons or more during said taxable year.

The exempt business that claims this deduction, will not be able to enjoy the deductions previously indicated in items (1) and (2).

If the exempt business is controlled in more than 50% by stockholders or corporations in common, with the consent of the Secretary, it may decide the manner in which all or part of the \$100,000 deduction shall be assigned among one or more of the controlled exempt businesses.

Schedule V1 Incentives - Computation of the Special Deductions for Exempt Businesses under Act 135 of 1997

In addition to other deduction provided by law, every exempt business with a decree under this act engaged in the manufacture and that generates a net income from its exempt operations (computed without taking into consideration the benefit of the special deductions provided in Section 4 of the law) smaller than \$30,000 per production job, will be allowed to claim a special payroll deduction equivalent to 15% of the production payroll of the exempt business, up to 50% of the IDI, computed without the benefit of the production payroll special deduction.

The exempt business that has a decree under this act engaged in manufacture, which IDI computed without the benefit of the

special deductions provided in Section 4 on any taxable year is smaller than \$500,000, and that has kept an average employment of 15 or more persons during said taxable year, is allowed to deduct the first \$100,000 of said income in order to be totally exempt from the payment of the IDI fixed tax rate provided in Section 3(a) of this act. For additional information, refer to Section 4(a) of Act 135 of 1997.

HUMAN RESOURCES TRAINING AND DEVELOPMENT EXPENSES DEDUCTION

A special deduction will be allowed for training expenses incurred to improve the productivity and quality control, to promote total quality management and to improve employees communication skills, incurred in excess of the annual average of said expenses during the 3 taxable years ended prior to January 1, 1998.

RESEARCH AND DEVELOPMENT EXPENSES DEDUCTION

A special deduction will be allowed equal to the expenses incurred in the research and development of new products or industrial processes, or the improvement of said products and processes, that are deductible in the taxable year under the Code (subject to certain limitations).

SPECIAL DEDUCTION FOR THE INVESTMENT ON BUILDINGS, STRUCTURES, MACHINERY AND EQUIPMENT

Every exempt business that has a decree under Act No. 135 of 1997, is allowed to elect to deduct on the taxable year incurred, instead of any expense capitalization required by the Code, the total expense incurred after the effective date of such act, in the purchase, acquisition or construction of buildings, structures, machinery and equipment, as long as said buildings, structures, machinery and equipment have not been used or depreciated previously by any other business or person in Puerto Rico, and are used in the manufacture of products or to render the services for which said benefits were provided under the act.

Line 9 - In those cases in which the exempt business is allowed to claim more than one of the special deductions mentioned before, and the sum of said deductions after determining the amount that is allowed before taking into consideration the limitation based on the IDI, results in an excess of the IDI for said year, or that the exempt business cannot claim the total benefit of said deduction for said year, it will determine the limitation of the special deductions following the order indicated in Part II.

SCHEDULE W INCENTIVES - INCOME TAX - FILM ENTITY UNDER ACT 362 OF 1999

This schedule must be used by those Film Entities that derive income directly from Film Projects or Infrastructure Projects under Act No. 362 of December 24, 1999.



The fixed income tax rate (7%) will be in force for a 10 year period starting on the day on which the Film Project or Infrastructure Project begins operations, but never before the filing date of a License request for the benefits of this Act.

PART I - NET INCOME SUBJECT TO TAX

Line 2 - Enter the carryover balance of the net operating loss at the end of the previous year. If the Film Entity incurs in a net operating loss from a Film Project or an Infrastructure Project, said loss will be deductible and will be used only against income from the Film Project or Infrastructure Project, whichever applies.

On the other hand, once the exemption period for income tax purposes is expired (10 years), the net losses incurred being carried over at the expiration date of said period, may be deducted from any taxable income in Puerto Rico, subject to the limitations provided by the Code.

PART II - COMPUTATION OF TAX

Line 4 - The Film Entity's income derived directly from Film Projects or Infrastructure Projects will be subject to a fixed income tax rate of 7%, instead of any other tax, if any, provided by law.

Line 7 - Include the tax credits that you are entitled to claim. Submit a schedule showing a breakdown of such credits.

For detailed information, refer to Act 362 of 1999.

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.

You must enter in the heading of the Declaration, the name, address and employer identification number, and check the applicable box to indicate if the same is amended. In addition, you must indicate the taxable year to 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 tax rates and based on the information of the immediate previous taxable year return.

Line 2 - Enter as estimated credit the amount withheld for services rendered by the entity, the amount withheld on distributable 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 this 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 before 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 before 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 before 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 the 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 on the previous year, will receive a booklet of 4 coupons (Form 480.E-2) preprinted with their 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 participant banks (if you have the preprinted coupon), at the Internal Revenue Collections Offices or send it by mail to 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



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