



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

# INDIVIDUAL INCOME TAX RETURN 2009

## MESSAGE FROM THE SECRETARY OF THE TREASURY

Dear taxpayer:

We at the Department of the Treasury are committed to the realization of effective and responsible work that contributes to the general well-being of the Commonwealth and each one of our citizens. It is our duty and responsibility to play our part in the socioeconomic development of Puerto Rico.

We in Hacienda acknowledge the difficult situation that Puerto Rico is going through. I accepted the Secretary of the Treasury position aware of the responsibility with a great will and desire to serve. I am confident that, together with the excellent employees of the Department of the Treasury, we will reach all the goals we have set for ourselves.

This year, when filing your income tax return, you will find changes in both booklets that will make it easier for you to prepare your return. The Short Form stays basically the same, with the exception that it contains one copy of the return and its schedules. On the other hand, in the Long Form booklet you will find the return and the most frequently used schedules.

I would like to emphasize some of the advantages of filing the return electronically. For example, it reduces the possibility of mathematical errors, expedites the processing of the return and the receipt of refunds. The preparation and electronic transfer of the return will be free of charge to every taxpayer who files a Short Form and to salaried taxpayers whose adjusted gross income is \$50,000 or less and file a Long Form using only Schedules A, A1, B (Part II, lines 6 and 15), H, I and J. Remember you can use any software or application that has been certified by the Department of the Treasury, which can be accessed through our site on the Internet. For more information, visit [www.hacienda.gobierno.pr](http://www.hacienda.gobierno.pr).

It is important to point out that the revenue received by the government from income taxes is used mainly to provide essential collective goods and services, such as education, health, security, housing, transportation, infrastructure, and others to our people. For these reasons, when you comply with your tax responsibility you are contributing to the improvement of the quality of life for all our people.

To clarify questions related to the preparation of the return or request information regarding the status of the same, you can call (787) 722-0216. In addition, you can contact our Taxpayer's Service Centers located in Ponce, Mayagüez, Caguas and Bayamón. Their telephone numbers are included in this booklet.

File your return on time. With your contribution we will achieve the development of the Puerto Rico we all want! By doing this, we all win!

Juan Carlos Puig

## LONG FORM

If you file on a calendar year basis or if you do not keep accounting records, you must file your return on or before April 15, 2010.

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## FILING REQUIREMENTS

### WHO MUST FILE THE INCOME TAX RETURN?



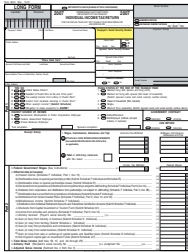
- Every individual resident of Puerto Rico who is single (or married not living with spouse), that during the taxable year has gross income of over \$3,300;
- Every individual resident of Puerto Rico who is married living with spouse, that during the taxable year has individually or jointly, gross income of over \$6,000;
- Every individual not resident of Puerto Rico, citizen of the United States, who is single (or married not living with spouse), that during the taxable year has gross income of over \$1,300, unless the taxes have been totally paid at source;
- Every individual not resident of Puerto Rico, citizen of the United States, who is married living with spouse, that during the taxable year has individually or jointly, gross income of over \$3,000, unless the taxes have been totally paid at source;
- Every nonresident alien who has gross income from sources within Puerto Rico, unless the taxes have been totally paid at source; or
- Every individual who has net income subject to alternate basic tax of \$75,000 or more.



### WHO MUST FILE THE LONG FORM?

Every individual who meets one or more of the following requirements must file the **Long Form**:

- Your gross income is over \$75,000.
- You received income from alimony, interest, dividends, sole proprietorship business or from any other source.
- You claimed any tax credit, including the American Opportunity Tax Credit.
- You elected to itemize deductions instead of claiming the standard deduction (Note: If you are married living with your spouse and elected to file separate returns, and your spouse itemized deductions, you must file the **Long Form** and itemize deductions too).
- You are required to pay estimated tax.
- You are a United States citizen or a resident alien, who participated in Major League Baseball Games or U.S. National Basketball Association Games celebrated in Puerto Rico.
- You elected to file under the status of married filing separate returns.
- Your net income subject to alternate basic tax is \$75,000 or more.
- If you choose the optional computation of tax for married individuals living together, filing a joint return and both working, and the net taxable income or the net income subject to alternate basic tax of any of the spouses is \$37,500 or more.



If you do not meet all these requirements, you must file the **Short Form**.

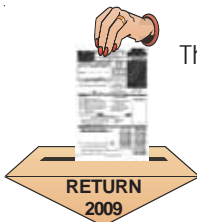
### WHEN THE RETURN MUST BE FILED?



If you file on a calendar year basis or do not keep accounting records, you must file your return on or before **April 15, 2010**.

### WHERE THE RETURN MUST BE FILED?

The return can be mailed to the following address:



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

Make sure to indicate on the envelope the concept applicable to your return. You can also deliver your return to the Department of the Treasury at Intendente Alejandro Ramírez Building in Old San Juan, at the District Offices, at the Internal Revenue Collections Office of your Municipality or at the Orientation and Return Preparation Centers.

## 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 employee 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 maintained 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. 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 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 that goes against the rights of the taxpayer.

For additional information, you can request the booklet: "*Carta de Derechos del Contribuyente*".

## RELEVANT FACTS

### NEW TAX BENEFITS

- ↪ An additional deduction is allowed for contributions to Health Savings Accounts with a High Annual Deductible Medical Plan subject to the smaller of the annual deductible under the coverage or \$2,850 (\$5,650 in the cases of individuals who have a family coverage). In the case of individuals who are age 55 or older, an additional contribution of up to \$500 is allowed.
- ↪ The limitation for cash or deferred contributions made by an employee to a profit sharing plan or stock bonus plan is increased to \$9,000. Also, the contribution is no longer limited to 10% of the employee's compensation.
- ↪ Every individual engaged in a trade or business, is entitled to deduct from gross income 50% of the federal self employment tax paid to the Internal Revenue Service on the income reported for the same taxable year.
- ↪ Every individual engaged in a trade or business as self employed, whose gross income does not exceed \$500,000, can deduct as an industry or business expense, the cost of health insurance paid for himself/herself and his/her family, provided that such health insurance is extended to all employees, if any.
- ↪ The special property tax paid under the provisions of Act No. 7 of March 9, 2009, can be claimed as part of the itemized deduction for property tax paid on your principal residence.
- ↪ A reimbursable credit is granted, subject to certain limitations, for qualified post secondary education expenses. The amount of this American Opportunity Tax Credit is up to \$1,000 per eligible student and it is granted as part of the American Recovery and Reinvestment Act of 2009.

### SIGNIFICANT CHANGES ON THE RETURN

- ↪ **Part 4**
- Line 31F is added to claim the American Opportunity Tax Credit.
- Line 36 is provided to reflect the 5% special additional tax on the total tax determined applicable to individuals whose adjusted gross income exceeds \$100,000 or \$150,000, as applicable.
- Line 40B is designated to inform the contribution to the San Juan Bay Estuary Special Fund and line 40C for the amount to be refunded.
- ↪ **Schedule A Individual**
- Line 2 is added in Part II to reflect the deduction for contributions to Health Savings Accounts with a High Annual Deductible Medical Plan.

- ↪ **Schedule B2 Individual**

This new schedule is provided to determine the American Opportunity Tax Credit.

- ↪ **Schedule CO Individual**

Line 10B is added to reflect the deduction for contributions to Health Savings Accounts with a High Annual Deductible Medical Plan.

- ↪ **Schedules K, L, M and N Individual**

Line 22 is added to Schedules K, L and M Individual to include the deduction for the federal self employment tax. On Schedule N Individual, line 18 is designated for this purpose.

- ↪ **Schedule O Individual**

This Schedule is modified to include the new provisions regarding the computation of the Alternate Basic Tax.

- ↪ **Estimated Tax Declaration (Form 480-E)**

The requirement to file this form is eliminated, according to the provisions of approved legislation.

### EVIDENCES OF THE RETURN

You do not have to include with the return the evidences corresponding to the itemized and additional deductions, and to the exemption for dependents. However, you must keep such evidences for at least 6 years, in case that they may be required as part of an investigation or audit procedure. In such cases, if you do not present the evidences, your return may be adjusted and the corresponding interest and surcharges will be assessed over any balance of tax due.

### SOCIAL SECURITY NUMBER

Enter your social security number in the corresponding space of the return and schedules. This number is very important because it is necessary to process your return.

### 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.





### CHANGE OF ADDRESS

To notify a change of address **at the moment of filing the return, you will NOT have to complete Form SC 2898 (Change of Address)**. You must write the new address in a clear and legible way in the space provided for this purpose in the return's heading, therefore, **do not use** the label. Also, you must fill in completely the oval (○) beside "Yes" in the space to indicate if there was a change of address.

On the other hand, if you change your address **at any other moment during the taxable year, you must use Form SC 2898**. It 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 by calling (787) 722-0216. Also, you may obtain it accessing our site on the Internet: [www.hacienda.gobierno.pr](http://www.hacienda.gobierno.pr).

### 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 of your residence and work.

### RETURNED CHECKS

Every returned check drawn on behalf of the Secretary of the Treasury 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.

### FILE THE TAX RETURN THROUGH THE INTERNET

To expedite the process of your Income Tax Return, you will be able to file it through the Internet using any program or application certified by the Department. **In order to facilitate the authentication process, you can use the personal identification number (PIN) located on the label placed on the back of this booklet.** This option is available for the individual returns (refund, with payment and without payment), **except those indicated later under the HACIENDA MAKING CONNECTION topic.** For additional information, visit our webpage: [www.hacienda.gobierno.pr](http://www.hacienda.gobierno.pr).

If you request the direct deposit of your refund into your checking or savings account, be sure that the correct information has been entered in the screen corresponding to Part 5 of the certified program or application used to file your return electronically.

### SCHEDULE A1 INDIVIDUAL

On this schedule you must include all the information related to the dependents claimed on the return. **If all the information requested on this schedule is not submitted or the schedule is not included, the exemption will be rejected.**

You must also include on this schedule the information of the beneficiaries, financial institution and the amounts contributed to an Educational Contribution Account.

### DIRECT DEPOSIT OF REFUND

You can receive your refund faster and safely. The Department of the Treasury can deposit your refund directly into your checking or savings account.

To authorize the Department of the Treasury to deposit your refund directly into your account, you must meet the following requirements:

#### ☞ Complete Part 5 - Authorization for Direct Deposit of Refund

**Type of Account** - Indicate if the deposit will be made into your checking or savings account, by filling in completely the oval corresponding to the type of account.

**Routing/Transit Number** - Enter the routing/transit number of your account. This information appears on the check (see Example A in the next page). In the case of a savings account, you must call the financial institution to obtain the routing/transit number. **Do not leave blank spaces. Do not use hyphens or other symbols.**

**Account Number** - Enter the checking or savings account number (see Example A). **Do not use hyphens or other symbols.** Do not fill out blank spaces with zeros. The account number may have less numbers than the spaces provided for this purpose in this part.

**Account in the name of** - Enter your name, as it appears on your account. In the case of married taxpayers filing jointly, the **account must be in the name of both spouses.**

☞ **In the case of married taxpayers filing jointly, the return must be signed by both spouses.**

☞ **All the information requested must be completed. Otherwise, the financial institution and the Department of the Treasury will reject the transaction.**

☞ **The account must be in a participating financial institution. You must verify this information directly with the financial institution.**

The Department of the Treasury is not responsible if the financial institution rejects the direct deposit of your refund. The financial institution will send a pre-notification to **confirm the information of the Direct Deposit of your Refund.**

If after processing the return, the refund is valid and the transaction was accepted, the Department of the Treasury will send you a Notification (Form SC 2716) to notify that your refund was deposited directly into your account.

EXAMPLE A

John Doe  
Jane Doe  
Calle Principal # 19  
Ponce PR 00731

0249

PAY TO THE ORDER OF \_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ DOLLARS

ANY BANK  
Any Place, Ponce PR 00731

FOR \_\_\_\_\_

Routing/ Transit Number: 021601244  
Account Number: 012 244400 0249

Do not include the check number

AUTHORIZATION FOR DIRECT DEPOSIT OF REFUND

Part 5

Type of account:  Checking  Savings

Routing/Transit Number: 021601244

Account Number: 0122444000249

Account in the name of: John Doe and Jane Doe

(Print complete name as it appears on your account. If married and filing jointly, include your spouse's name)

If the transaction is rejected by the financial institution or if the information submitted on your Income Tax Return is incomplete, a Notification (Form SC 2717) and a check for your refund will be sent by mail.

On the other hand, if after processing the return, no refund is due, a notification will be sent in relation to the adjustment.

**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, whichever applies, 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 automatically by mail the Tax Return Filing and Debt Certification (Form SC 2628). **For this purpose, it is necessary that if you or your spouse are contracted by a governmental organism, indicate so in Part 1, page 1 of the return.**

Since sometimes the tax return for the last filing year can not be certified because the return is not already processed, it is recommended to hand in personally the original return with a copy, in order to receive 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.

**ENVELOPE TO SEND THE RETURN**

In order to identify the return faster, you must indicate the applicable concept: return with refund, total payment, payment of the first installment (deferred payment), payment through electronic transfer, exempt and others. Make sure to fill in the corresponding oval.

**FEDERAL EMPLOYEES - Exclusion of Cost of Living Allowance (COLA)**

The COLA received by civilian employees of the Federal Government is excluded from the gross income up to the amount exempt under the Federal Internal Revenue Code. In order to claim this exclusion, the taxpayer must include with the tax return the evidence to show the amount received during the year. Nevertheless, the Department may revoke the privilege granted for the exclusion if it is determined that the taxpayer did not comply with his/her tax responsibilities at any moment. In that case, the taxpayer must have to pay the amount due with the corresponding interest, surcharges and penalties.

Taxpayers who receive this type of income may be subject to the alternate basic tax even when it is exempt for purposes of the regular tax (See instructions of Schedule O Individual).





**PROVISIONS APPLICABLE TO CERTAIN  
MILITARY PERSONNEL**

**Exclusion from Income**

Any compensation received from active military service rendered by military personnel in a combat zone designated as such by the President of the United States is exempt from the payment of income tax. This exclusion shall not apply to military personnel transferred outside of Puerto Rico to replace military personnel sent to the combat zone.

**Extension of Time to File**

An extension of 6 months to file the income tax return shall be granted to any taxpayer who has been activated and transferred to render military services outside of Puerto Rico during any warlike conflict. Said extension shall be granted from the date in which the taxpayer ceases in the active military service. To enjoy this benefit you should:

1. File the return within the 6 months beginning from the date in which you ceased in the active military service.
2. Indicate in the upper central part of the return's first page, the place of the warlike conflict in which you were active.
3. Attach to the return the military orders showing your transfer outside of Puerto Rico, your stay in a warlike conflict, and the date of your return.

If you file the return following these indications, the extension shall be considered as granted.

**Extension of Time to Pay**

An extension of 6 months to pay the tax shall be granted to every taxpayer that during any warlike conflict is activated and transferred to render military service outside of Puerto Rico. Such extension shall be granted from the date in which the taxpayer ceases in the active military service.

Also, it shall be exempt from the payment of interest the tax declared on the return which payment had been extended.

**RETURN WITH CHECK**

Every taxpayer who sends a check with the return must attach the same to the upper part of the return's first page. This will allow us to apply the payment promptly and minimize mistakes in processing the return. It is important that you fill in the corresponding oval on the envelope.

**PAYMENT OF TAX THROUGH  
ELECTRONIC TRANSFERS**

You may pay the total or the first installment of income tax declared on the income tax return (if applicable), through electronic transfer using the telephone. You may also make the second installment of income tax using this method. This service is exclusive for

clients of the participating banking institutions. You must have your social security number and bank account number at the moment of making the call.

**Procedure**

- 1) Call your banking institution and ask for this service.
- 2) In the space provided for this purpose on line 38(b) of the return, write the transaction number provided by your banking institution.
- 3) In the upper left part of the return's envelope you must fill in the oval corresponding to payment through electronic transfer.
- 4) Mail your return on or before April 15.

Also, if you file your return electronically using a program or application certified by the Department, you must include in the screen corresponding to the payment, the name, routing/transit and account number for which you authorize the electronic debit and the amount of the payment on line 38(a) of Part 4 of the return.

For additional information, see our webpage: [www.hacienda.gobierno.pr](http://www.hacienda.gobierno.pr) or contact any of our Taxpayer's Service Centers.

**OVERPAYMENT APPLICATION**

Any overpayment will be applied against any exigible tax liability imposed by the Code. If married and one of the spouses owes taxes, the overpayment may be applied to any exigible debt.

**RETENTION OF REFUND FOR THE  
CONCEPT OF CHILD SUPPORT**

If you are a parent who has the obligation to provide child support to your children through the Child Support Administration (ASUME) and you owe said pension, your refund may be retained. If you understand that the retention does not apply, you will have 10 days from the date of the notification to object the same at the ASUME office nearest to your residence.

**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, assistance for Cases of Inheritance and Donations, Individuals, Corporations or Partnerships and Professional Services Withholding Waivers.

Following are the addresses and telephone numbers of our Centers:

📍 **San Juan Services Center**  
Intendente Ramírez Building  
10 Paseo Covadonga  
Office 101

☞ **Calls and Correspondence Center**  
PO BOX 9024140  
SAN JUAN PR 00902-4140  
Telephone: **(787) 722-0216**

☞ **Bayamón Services Center**  
Road #2  
2<sup>nd</sup> Floor, Gutiérrez Building  
Telephone: **(787) 778-4949**

☞ **Caguas Services Center**  
Goyco Street, Acosta Corner  
1<sup>st</sup> Floor, Governmental Building, Office 110  
Telephone: **(787) 745-0666**

☞ **Mayagüez Services Center**  
Governmental Center  
50 Nenadich Street, Office 102  
Telephone: **(787) 265-5200**

☞ **Ponce Services Center**  
Governmental Center  
2440 Las Américas Ave., Office 409  
Telephone: **(787) 844-8800**

#### TECHNICAL ASSISTANCE

For additional information on the technical contents of this booklet or to clarify any doubts, please call **(787) 722-0216**.

#### HACIENDA MAKING CONNECTION

Access the Department of the Treasury's webpage: [www.hacienda.gobierno.pr](http://www.hacienda.gobierno.pr). Here you can find information about the following services, among others:

☞ Electronic transfer of the Individual Income Tax Return using programs or applications certified by the Department, except in the following cases:

- nonresident taxpayers, non United States citizens;
- taxpayers filing return for the first time;
- taxpayers who complete Schedule CH Individual;
- taxpayers who inform certain income or losses for which evidence is required with the return;
- taxpayers who claim tax credits for which evidence is required with the return;
- taxpayers who claim other payments and withholdings for which evidence is required with the return; and
- taxpayers deceased during the year.

☞ 2009 W-2 & Informatives Returns Program

☞ Payments Online

☞ Puerto Rico Internal Revenue Code of 1994, as amended (Spanish only)

☞ Forms, Returns and Informative Booklets, such as:

- Income Tax Return of Taxable Corporations and Partnerships
- *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)

☞ 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. 06-27 de 28 de diciembre de 2006 - Enmiendas a la Carta Circular de Rentas Internas Núm. 02-13 de 24 de julio de 2002 Relacionada a la Retención sobre Pagos Efectuados por Servicios Prestados a Ciertos Sectores o Categorías de Empresas o Negocios (Spanish only)*
- *Determinación Administrativa Núm. 05-02 de 10 de junio de 2005 - Tratamiento Contributivo sobre Pagos Realizados Mediante Acuerdos Transaccionales (Spanish only)*
- *Determinación Administrativa Núm. 07-01 de 12 de enero de 2007 - Tratamiento Contributivo de Indemnización Recibida por Concepto de Daños y Perjuicios, por Razón de Incapacidad Ocupacional y No Ocupacional; y Pagos por Terminación de Empleo (Spanish only)*
- *Determinación Administrativa Núm. 07-03 de 4 de abril de 2007 - Aportaciones y Transferencias de Cuentas de Aportación Educativa (Spanish only)*
- *Determinación Administrativa Núm. 08-04 de 22 de mayo de 2008 - Enmienda a la Determinación Administrativa Núm. 07-01 Relativa al Tratamiento Contributivo de Indemnización Recibida por Concepto de Daños y Perjuicios, por Razón de Angustias Mentales Incidentales a Daños Físicos (Spanish only)*

## SUGGESTIONS TO AVOID MISTAKES WHEN FILING YOUR RETURN

1. *Make sure to write your social security number on the return and schedules.*
2. Verify that your **social security number** is the one shown on the Withholding Statement.
3. Notify any change of address writing clearly and legible your new address in the space provided for this purpose in the heading of the return.
4. In the case of a married couple filing jointly, the return must be filed under the husband's name.
5. If you are **married filing separately**, you must include the name and social security number of your spouse. Also, **you must use Table B to compute your tax.**
6. Married couples who choose the optional computation of tax in the case of married individuals living together, filing a joint return and both working, must make sure to fill in completely the oval provided to indicate this option in Part 1 of the return and to include Schedule CO Individual.
7. Married couples who choose the optional computation and the net taxable income or the net income subject to alternate basic tax of any of the spouses is \$37,500 or more, must complete Schedules O and P Individual.
8. Do not include estimated tax payments or tax paid in excess in prior years credited to estimated tax, in Part II of Schedule B Individual. You must inform them in Part III of said Schedule.
9. **Include evidence of the income tax withheld with your return (Forms 499R-2/W-2PR, 480.6B or others).**
10. **Contributions made to Qualified Plans** (Part 15, Withholding Statement) are excluded from salaries (Part 11). Therefore, **the contributions cannot be considered again as a deduction.**
11. If you claim ordinary and necessary expenses, make sure that you only claim the **smaller** of 4% of your salary, \$1,500 or the amount actually incurred.
12. If you claim automobile loan interests, make sure not to exceed \$1,200.
13. **Do not include your spouse as a dependent on Schedule A1 Individual.** A married individual living with his spouse is not a head of household for tax purposes, therefore, he should not include the wife's name in the box for head of household.
14. **If you claim the head of household filing status, include the dependent who entitles you to claim such status on the line for Head of Household (01) of Schedule A1 Individual, but do not claim the exemption for this dependent.**
15. Complete **Schedule A1 Individual** with all the information regarding your dependents and beneficiaries of Educational Contribution Accounts and send it with the return.
16. Sign your return with **ink** and in the case of a joint return, make sure that **both spouses sign it.**
17. Use the correct tax return form that applies to you: Short Form or Long Form.
18. Make sure to indicate on the envelope the concept applicable to your return: **Refund, Total Payment, Payment of the First Installment (Deferred Payment), Payment through Electronic Transfer, Exempt and Others.** Make sure to fill in the corresponding oval.

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### ADDITIONAL CHILD TAX CREDIT FOR BONA FIDE RESIDENTS OF PUERTO RICO

(Benefit provided by the Federal Government to qualified residents of Puerto Rico)

The U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico) (Form 1040-SS) enables you to claim the Additional Child Tax Credit, if you comply with the following requirements:

- you are a bona fide resident of Puerto Rico;
- you made contributions to Social Security or Medicare from your salaries or paid the U.S. self-employment tax; and
- you have three (3) or more children under the age of 17.

For additional information and free tax return preparation assistance through the Volunteer Income Tax Assistance Program Centers (VITA), you must contact the Internal Revenue Service at (1) (800) 829-1040.

## INSTRUCTIONS TO COMPLETE THE LONG FORM RETURN

### NAME, ADDRESS AND SOCIAL SECURITY NUMBER

The mailing label located on the back of this instructions booklet should be placed on the upper section of page 1 of the return. Its purpose is to allow us to process promptly the return and avoid mistakes that could delay any notice from the Department.

If you did not receive the labeled return through the mail, print with ink or type the required information in the spaces provided.

**It is important that you write your social security number in the corresponding box of the return and schedules. This number is necessary to process your return.**

### ELECTRONIC ADDRESS (E-MAIL)

If you have an electronic mail address, include it in the space provided for this purpose.

### CHANGE OF ADDRESS

If there was a change of address at the moment of filing the return, fill in completely the corresponding oval and write clearly and legible your new address. This allows us to keep our records up to date and send you any notice to the correct address.

### AMENDED RETURN

If after filing your original return, you find out that you omitted some income, did not claim a certain deduction or credit, or claimed a deduction or credit for which you do not qualify, you must amend the return. Fill in completely the oval corresponding to **Amended Return**.

Such return must be filed within 4 years from the date the original return was filed.

### TAXPAYER DECEASED DURING THE TAXABLE YEAR

If a taxpayer dies during the taxable year, the administrator or representative must file an income tax return including the income derived until the date of death, on or before the 15th day of the fourth month following the date of death. Such return shall be signed by the administrator or representative. If the taxpayer was married and living with his/her spouse, two returns will be filed: one including both spouses' income from January 1st to the date of death, and another with the surviving spouse's income for the remaining months of the year.

The personal exemption on the first return will be married living with spouse. On the second one, the surviving spouse can claim the personal exemption he or she is entitled to at the end of the taxable year.

Fill in completely the oval corresponding to **deceased during the year**, which is located at the top right side of the return.

Indicate the date of death and keep for your records copy of the Death Certificate.

### TAXPAYER MOVED TO PUERTO RICO DURING THE YEAR

If you were a resident of another country and changed your residence to Puerto Rico during the taxable year, you must inform the government of Puerto Rico the income received from the date of the residence change until the end of your taxable year and the income from sources within Puerto Rico while not residing in Puerto Rico.

A taxpayer's residence is determined based upon the facts and circumstances of each case. Generally, an individual is considered a bona fide resident of Puerto Rico if he/she is domiciled in Puerto Rico. It shall be presumed that an individual is a resident of Puerto Rico if he/she has been present in Puerto Rico for a period of 183 days during the calendar year. However, if his/her intention regarding to his/her stay is merely temporary and meets other requirements, even when he/she had been in Puerto Rico 183 days or more, he/she may not be considered a bona fide resident of Puerto Rico.

The income from sources outside of Puerto Rico received by an individual attributable to the period when he/she was not a resident of Puerto Rico is not taxable in Puerto Rico. Therefore, deductions attributable to the amounts so excluded from the gross income will not be allowed.

Nonresident individuals will be taxed in Puerto Rico only on their income from sources within Puerto Rico.

In the same way, if the individual changes his/her residence from Puerto Rico to the United States or a foreign country, he/she will include on the Puerto Rico income tax return all the income earned until the date he/she changed his/her residence to the United States or a foreign country, independently of the source of said income. Also, he/she will include on his/her income tax return the income from sources within Puerto Rico earned after the change of residence.

## PART 1 - TAXPAYER'S INFORMATION

### QUESTIONNAIRE

Fill in completely the applicable oval to indicate if you are a United States citizen and if you were a resident of Puerto Rico at the end of the taxable year. Also, you must inform if you received tax exempt income during the year (Example: social security income). **You must submit a schedule with a detail of the same.** Indicate if you make child support payments through the Child Support Administration (ASUME).

## HIGHEST SOURCE OF INCOME

Fill in completely the applicable oval in accordance with your principal source of income.

## FILING STATUS AT THE END OF THE TAXABLE YEAR

Fill in completely the oval that indicates your filing status at the end of the taxable year:

- 1) **Married living with spouse** - This filing status is for those individuals that at the end of the year are legally married and living together with his or her spouse. If your spouse died during the year and you did not remarry in said year, you must file a return as married living with spouse up to the date of the death, and another as single or as head of household, from the date of the death up to the end of the year. **You must submit your spouse's name and social security number.**
- 2) **Married not living with spouse** - This filing status is for those individuals that at the end of the year are not legally separated from their spouses and do not qualify as head of household. **You must submit your spouse's name and social security number.**
- 3) **Head of household** - This filing status is for those individuals, not married, who really support and maintain in one household, one or more dependents closely related to them by blood, marriage or adoption. If you are not legally separated from your spouse, you can qualify as head of household subject to compliance with the requirements of the Code and its regulations.
- 4) **Single** - This filing status is for those individuals that have never been married, are legally separated by a divorce decree or those who are widows and have not remarried at the end of the taxable year.
- 5) **Married filing separately** - This filing status is for those individuals that at the end of the taxable year are legally married and living together, but elect to file separately. If you file under this status, you must include only your own income. Also, you must only claim half of certain deductions on your return, and the other half must be claimed by your spouse. **You must submit your spouse's name and social security number. You must use the tax table for married individuals living with spouse and filing separately (Table B of page 17).**

## OCCUPATION

Inform the nature of your and your spouse's occupation. In order to facilitate the description of the activity in which you are engaged, enter the code that better describes it using the Occupational Code List provided on page 63.

## OPTIONAL COMPUTATION OF TAX

If you choose the **optional computation of tax** in the case of married individuals living together, filing a joint return and both

working, **fill in completely the corresponding oval** in this Part 1. **Do not complete Parts 2 and 3, neither lines 15 through 25 of Part 4 of the return and go to Schedule CO Individual.** (See instructions of Schedule CO Individual).

## PART 2 - ADJUSTED GROSS INCOME

### CHILD INCOME (Section 1022(j))

All income received by a child for a service rendered must be included as part of his/her gross income and not in the gross income of the parents. The child will have the obligation to file a return if his/her gross income exceeds \$3,300 and will have the right to claim all the deductions provided by law that are applicable. On the other hand, passive income such as interest, dividends, donations, prizes and contests, among others, will not be included as part of the gross income of the child. Therefore, that income will be included on the parent's return.

If the child receives income from services rendered, and said gross income does not exceed \$2,500, the parents can claim him/her as a dependent. In case that the child is a regular student, said gross income should not exceed \$3,400.

### Line 1 - Wages, Commissions, Allowances and Tips

Enter on line 1, Column B, all the wages, commissions, allowances and tips subject to withholding in Puerto Rico received by you or your spouse during the taxable year. This information is found in Part 11 of the Withholding Statement (Form 499R-2/W-2PR). Enter on line 1, Column A, the Puerto Rico income tax withheld by each one of your employers shown in Part 13 of the Withholding Statement. If there is no tax withheld, enter zero.

Enter in the space provided in Part 2, line 1, the number of withholding statements included with your return.

Add the amounts of Column A and enter the total income tax withheld at the bottom of the column. Add the amounts in Column B and enter the total of wages, commissions, allowances and tips at the bottom of that column.

**Make sure to include with your return all the Withholding Statements (Form 499R-2/W-2PR).**

### Line 1C - Federal Government Wages

Enter the total of Federal Government income from salaries and wages received, excluding the Cost of Living Allowance (COLA). To determine if you qualify for this exclusion, refer to RELEVANT FACTS - FEDERAL EMPLOYEES. Also, you can refer to the Informative Booklet to Provide Orientation on the Income Tax Responsibilities of Federal, Military and Other Employees.

**Include the corresponding copy of the W-2 Form with your return.**

### Line 2 - Other Income (or Losses)

Enter on lines 2A through 2S the total of each type of other income or deductible losses, and provide detailed information for each one of them on the applicable Schedules.



Enter on line 2L the amount of income from alimony received. You must provide the Social Security number of the person making the payment.

Use Schedule F Individual to inform income from interest, dividends from corporations and distributions from partnerships benefits, distributable share on profits from special partnerships and corporations of individuals, distributions and transfers from the Retirement Saving Accounts Program or other governmental plans, income from prizes and contests, income from judicial or extrajudicial indemnification, miscellaneous income and income from Major League Baseball teams and the U.S. National Basketball Association, distributions from Individual Retirement Accounts and Educational Contribution Accounts, distributions from deferred compensation plans, and distributions from qualified retirement plans (partial or lump-sum not due to separation from service). Transfer the amounts from Schedule F Individual to Part 2, lines 2A, 2B and 2D through 2I of page 1 of your return. (See instructions for Schedule F Individual).

If you received dividends from investment in a Capital Investment or Tourism Fund, use Schedule Q1 to determine this income. This Schedule and its instructions are available at the Forms and Publications Division of the Department of the Treasury.

If you received income from an industry or business or from an activity for the production of income, use the applicable Schedule: (1) Schedule K Individual - to inform industry or business income; (2) Schedule L Individual - to inform farming income; (3) Schedule M Individual - to inform professions and commissions income; (4) Schedule N Individual - to inform rental income.

**If such activity does not constitute your principal source of income, transfer only the profits determined on the Schedules to Part 2, lines 2M through 2P, page 1 of your return. If you had losses, enter zero on lines 2M through 2P.**

If you had a net capital gain or loss, use Schedule D Individual to determine it and transfer to Part 2, line 2Q of the return. If you received a lump-sum distribution from a qualified pension plan due to separation from service or from a variable annuity contract, use Schedule D Individual to inform it and transfer to Part 2, line 2R of the return.

If you had a long-term capital gain from Capital Investment Funds, use Schedule Q1 to determine this gain and transfer to Part 2, line 2S of the return.

## LOSSES

Losses incurred in activities that are not the taxpayer's or his spouse's principal business or industry, may be used to offset future income from the same activity that produced the loss.

However, if during the taxable year you dispose all the assets used in an activity that is not your or your spouse's principal business or industry, you may use the excess of expenses (losses) not claimed in previous years, as a deduction against any income derived in said disposition. Any excess will be considered as a capital loss subject to the \$1,000 limit. If there is any loss left, you may claim up to \$1,000 as a deduction in each one of the following

five years. Such excess of expenses should be reflected on Schedule D Individual. (See instructions for Schedule D Individual).

Losses incurred in an industry or business that is the taxpayer's or his spouse's principal business or industry, may be used to offset your income from other sources, except salaries, wages and pension benefits.

To classify an economic activity as a principal industry or business, the following facts shall be considered:

- ☞ Time devoted to the activity.
- ☞ If the taxpayer is dedicated to the activity in a regular, continuous and substantial basis.
- ☞ Taxpayer's knowledge and experience with respect to the activity's operation.
- ☞ If such activity essentially constitutes the taxpayer's way of living.

However, the determination as to what constitutes the taxpayer's principal industry or business shall depend on the facts and circumstances present in each case. The taxpayer must show that a particular activity constitutes his/her principal industry or business. The fact that he/she does so with respect to a particular year, does not automatically qualify such activity as his/her principal industry or business for subsequent years. Thus, the taxpayer must be able to show that such activity constitutes his/her principal industry or business with respect to each taxable year.

**If you were a salaried employee and also engaged in any trade or business as your principal activity, and had a loss in that year, you may deduct said loss from your or your spouse's salaries and wages only in the first year in which you began the business and in the following two years. This is a once in a lifetime benefit.** Therefore, if you have benefited from the above, you cannot benefit again from the same allowance.

## Line 4 - Alimony Paid

Generally, you may claim as a deduction any periodic payment made for alimony under a divorce or separation decree, if you comply with the following requirements:

- 1) Payment is made in the name and for the benefit of the former spouse under a divorce or separation document.
- 2) Payment is not designated in such document as excludible from the recipient's gross income and not allowable as a deduction to the payer.
- 3) The payer and the former spouse are not members of the same household on the date of payment.
- 4) There is no obligation to continue making any payments after the death of the former spouse.

- 5) If the payment exceeds \$10,000 during any calendar year, it shall be payable during each one of at least 6 years following the divorce or separation.

You must provide the social security number of the person who receives the payment and the judgment number. You must keep for your records copy of canceled or substitute checks and the divorce decree. Lump-sum payments or assets division, voluntary payments not included in a court decree or agreement for separation support, or child support payments, are not deductible.

### PART 3 - DEDUCTIONS, PERSONAL EXEMPTION AND EXEMPTION FOR DEPENDENTS

#### Line 6 - Standard Deduction

Enter the standard deduction to which you are entitled on this line. The standard deduction is an amount that the Code provides as an automatic deduction against your **ADJUSTED GROSS INCOME**. The standard deduction is available as an alternative to the itemized deductions.

The standard deduction to which you are entitled depends on the filing status oval that you filled in, in Part 1 of your return.

In case of married individuals filing separate returns, they may elect the standard deduction (\$1,575 by each one of them), only if both spouses elect the standard deduction. Otherwise, **if one of the spouses claim the itemized deductions and the other one does not itemize the deductions, the last one must enter zero on this line**, because he/she won't have the right to the standard deduction provided by the Code.

#### Line 7 - Total itemized deductions

Itemized deductions are allowable in lieu of the standard deduction when they exceed the standard deduction. If you elect to itemize deductions, determine the amount of any itemized deduction to which you are entitled on Schedule A Individual, Part I and transfer the amount from line 17 to this line.

#### Line 9 - Total additional deductions

In addition to the standard deduction or the itemized deductions, the taxpayer is entitled to certain additional deductions depending on qualification. Determine the amount of additional deductions to which you are entitled on Schedule A Individual, Part II. Transfer the total amount of the additional deductions from Schedule A Individual, Part II, line 12 to this line.

#### Line 10 – Telephone service payment for communication with military personnel in combat zone

Enter the total telephone service payment up to a maximum of \$200, for the expense incurred in the telephone communication with your spouse, brother (sister), son (daughter), grandchild, parent or grandparent who is in active service as military personnel in combat zone.

In order to claim this deduction, including the military personnel,

you must submit with the return your telephone calls registry showing the calls originated from your telephone number or originated from the telephone number where the military personnel is located and is charged to your telephone number.

When the call is originated in Puerto Rico from a telephone number other than the one corresponding to the person claiming this deduction, or in the absence of telephone service of your own, said person, along with the person in the name of which the telephone calls registry appears, must present a joint sworn declaration stating that the payment of the telephone calls were made by the person claiming the deduction and the receipt of such payment by the other person.

For purposes of this deduction, **military personnel** includes the members of the United States Armed Forces, as well as the members of the Puerto Rico National Guard who are activated during the period of the conflict and serve in the combat zone. On the other hand, **combat zone** means the area designated through an Executive Order from the President of the United States as the area in which the United States Armed Forces will be in combat during the period of the conflict.

#### Line 11 - Personal Exemption

Enter on this line the personal exemption applicable to the filing status specified in Part 1.

#### Line 12 - Exemption for Dependents

Enter in the spaces provided in Part 3, lines 12A through 12C, the number of dependents claimed according to their category:

Line	Category	Class
12A	(N)	Non university
12B	(U)	University students
12C	(I)	Disabled, blind or age 65 or older

Multiply the amount of dependents claimed on each line by \$2,500 and enter the result in the space provided. Add lines 12A, 12B and 12C and enter on line 12D.

The Code requires you to indicate on your return the social security number of any dependent claimed who is age one or older at the end of the taxable year. When filing your return, you must indicate on **Schedule A1 Individual**, the name, date of birth, relationship and social security number of each dependent claimed. **If you do not complete Schedule A1 Individual nor meet these requirements, the exemption may be disallowed.** If the dependent does not have a social security number, you must request it at the nearest Social Security Office.

**The dependent who qualifies you for the head of household status cannot be included in the computation of the total exemption for dependents.**

For the **definition of dependent**, refer to the instructions for **Schedule A1 Individual**.

**PART 4 - TAX COMPUTATION, CREDITS AND TAX WITHHELD OR PAID**
**Line 15 - Tax**

Once you have determined your net taxable income, you must compute your tax and fill in completely the corresponding oval to indicate the method used to determine the same:

Oval 1 - Tax as per tables

Oval 2 - Special tax on capital gains

Oval 3 - Tax to nonresident aliens

If you are a resident of Puerto Rico, you must compute your tax using Table A or B, whichever applies.

**Tax Tables**

Use the following Table A to compute your tax if you filled in Oval 1, 2, 3 or 4 in Part 1 (Personal status under which you are filing the return). Use **Table B for married individuals filing separately, that is, if you filled in Oval 5 in Part 1.** Determine your tax taking into account your Net Taxable Income (Part 3, line 14) and your personal filing status. Enter the total tax amount on this line and fill in Oval 1.

**TAX COMPUTATION TABLES**
**A. For a married person living with spouse and filing jointly, married person not living with spouse, single person or head of household**

If the net taxable income (line 14) is:	The tax will be:
Not over \$17,000	7%
Over \$17,000, but not over \$30,000	\$1,190 plus 14% of the excess over \$17,000
Over \$30,000, but not over \$50,000	\$3,010 plus 25% of the excess over \$30,000
Over \$50,000	\$8,010 plus 33% of the excess over \$50,000

**B. For married individual living with spouse and filing separately**

If the net taxable income (line 14) is:	The tax will be:
Not over \$8,500	7%
Over \$8,500, but not over \$15,000	\$595 plus 14% of the excess over \$8,500
Over \$15,000, but not over \$25,000	\$1,505 plus 25% of the excess over \$15,000
Over \$25,000	\$4,005 plus 33% of the excess over \$25,000

**Special Tax on Long-term Capital Gains**

If you are a resident of Puerto Rico and derived long-term capital gains, you must complete Schedule D Individual. You can benefit from the special tax, if your long-term capital gains exceed your short-term capital losses, and the tax on your net taxable income exceeds the 10%, 20% or 10% for certain lump-sum distributions from pension plans and variable annuity contracts, or 10% over investment in a Tourism Development Fund or Capital Investment Fund. In these cases, you may complete Schedule D2 Individual (Special Tax on Net Long-Term Capital Gains).

If you used Schedule D2 Individual, transfer the tax amount on line 13 of said schedule to this line and fill in Oval 2. **Submit Schedule D2 Individual with your return.**

**Nonresident alien**

If you are a nonresident alien not engaged in trade or business within Puerto Rico, all of your income from sources within Puerto Rico are subject to a fixed tax rate of 29%. Enter the tax determined on this line and fill in Oval 3.

If you are a nonresident alien engaged in trade or business within Puerto Rico, all your income from sources within Puerto Rico as well as the income which is effectively connected with the operation of a trade or business in Puerto Rico, is subject to normal tax rates.

**Line 16 - Gradual Adjustment Amount**

If the net taxable income is more than \$75,000 (\$37,500 if married filing separately or choose the optional computation of tax in the case of married individuals living together, filing a joint return and both working), you must complete Schedule P Individual. Determine the gradual adjustment amount on said Schedule (See Instructions to Complete the Schedules). Enter the amount determined on Schedule P Individual, line 7. **Submit this Schedule with the return.**

**Line 17 - Excess of Alternate Basic Tax over Regular Tax**

If your net income subject to alternate basic tax is \$75,000 or more (\$37,500 if married filing separately or choose the optional computation of tax in the case of married individuals living together, filing a joint return and both working), you must complete Schedule O Individual. **To determine whether you are subject to the Alternate Basic Tax or not, complete and submit said Schedule (See Instructions to Complete the Schedules).** Enter the amount determined on Schedule O Individual, Part II, line 7.

**Line 21 - Tax on IRA or Educational Contribution Accounts distributions of income from sources within Puerto Rico**

Enter 17% of the IRA or Educational Contribution Accounts Distributions of income from sources within Puerto Rico received during the year. Submit Schedule F Individual. (See Instructions to complete the Schedules).

**Line 22 - Tax on IRA distributions to Government pensioners**

Enter the 10% of the IRA distributions to Government pensioners received during the year. Submit Schedule F Individual. (See instructions to complete the Schedules).

**Line 23 - Tax on distributions and transfers from Governmental Plans and Deferred Compensation Plans**

Enter the tax on distributions or transfers from the Retirement Savings Accounts Program (10% of a lump-sum distribution or from an amount transferred under Section 1169B). Submit Schedule F Individual. (See instructions to complete the Schedules).

**Line 24 - Special tax on net income from Film or Infrastructure Projects, and from businesses with tax exemption decree under Act 135 of 1997**

Enter the income tax previously determined on Schedules K and/or N Individual, whichever applies. (See instructions to complete the Schedules).

**Line 25 – Income tax from Major League Baseball teams and the U.S. National Basketball Association**

Enter the 20% of the income from Major League baseball teams and the U.S. National Basketball Association. Submit Schedule F Individual. (See instructions to complete the Schedules).

**Line 28 - Credit for Salaried Taxpayers**

Every taxpayer who is single, head of household, or married filing jointly, whose adjusted gross income does not exceed \$10,000 and whose **only source of income consists of salaries**, is entitled to claim a tax credit up to the amount of the determined income tax. For purposes of this credit, the term salaries does not include the amounts received from annuities or pensions.

To determine if you qualify for this credit on the Long Form of the return, the term **adjusted gross income** means: gross income less the allowable deduction for ordinary and necessary expenses, losses (subject to the \$1,000 limitation) from the sale or exchange of capital assets and payments from divorce or separation as provided by Section 1023(w) of the Code. In other words, the total of lines 1B and 1C of Part 2 of the return less line , Part II of Schedule A Individual (or line 8, Part I of Schedule I Individual), line 39, Part V of Schedule D Individual, and line 4, Part 2 of the return can not exceed \$10,000.

Use the following worksheet to facilitate the determination of the adjusted gross income for purposes of this credit.

**WORKSHEET**

Determination of the Adjusted Gross Income for purposes of this credit:	
Line 1B, Part 2 of the return .....	_____
	+
<b>Plus:</b> Line 1C, Part 2 of the return .....	_____
	Total .....
	\$ _____
<b>Less:</b> Line 5, Part II of Schedule A Individual .....	_____
Line 39, Part V of Schedule D Individual .....	_____
Line 4, Part 2 of the return .....	_____
	Total .....
	( _____ )
<b>Adjusted Gross Income (Can not exceed \$10,000 to claim this credit) .....</b>	<b>\$ _____</b>

**On the other hand, if you chose the optional computation of tax, refer to Schedule CO Individual.** In other words, the sum of line 1, Columns B and C and line 2, Columns B and C of Schedule CO Individual, less line 10E, Columns B and C of Schedule CO Individual, line 39, Part V of Schedule D Individual, and line 5, Columns B and C of Schedule CO Individual, can not exceed \$10,000.

Use the following worksheet to facilitate the determination of the adjusted gross income for purposes of this credit, **if you chose the optional computation of tax.**

**WORKSHEET**

**(Under the optional computation of tax)**

Determination of the Adjusted Gross Income for purposes of this credit:	
Line 1, Columns B and C, Schedule CO Individual	\$ _____
<b>Plus:</b> Line 2, Columns B and C, Schedule CO Individual	\$ _____
	Total .....
	\$ _____
<b>Less:</b> Line 10E, Columns B and C, Schedule CO Individual .....	_____
Line 39, Part V of Schedule D Individual .....	_____
Line 5, Columns B and C, Schedule CO Individual .....	_____
	Total .....
	( _____ )
<b>Adjusted Gross Income (Can not exceed \$10,000 to claim this credit) .....</b>	<b>\$ _____</b>

This credit must be claimed before any other credit that you are entitled to claim.



**Line 31(D) - Compensatory Credit for Low Income Pensioners**

Every individual with low income who is a pensioner from the Employees' Retirement System Administration of the Government of Puerto Rico and the Judiciary, the Teachers' Retirement System, the University of Puerto Rico, the Electric Power Authority, as well as those duly pensioned by the private sector, shall be entitled to claim a reimbursable compensatory personal credit of \$300.

For purposes of this credit, an individual is considered to be a low income pensioner if **his/her only source of income consists of the pension for services rendered and the amount received does not exceed \$4,800 annually.**

In the case of married taxpayers filing a joint return, if each one receives pension income and none of them exceeds \$4,800 annually, they may claim a credit of \$600.

**Line 31(E) – Employment Credit**

Every individual resident of Puerto Rico or United States citizen nonresident of Puerto Rico who generates earned income of less than \$20,000 and is not claimed as a dependent by another taxpayer for the taxable year, will be entitled to claim this credit against the income tax.

If the earned income does not exceed \$10,000, the employment credit will be equal to 3% of such earned income up to a maximum of \$300. On the other hand, if the earned income is in excess of \$10,000 but does not reach \$20,000, the maximum credit of \$300 shall be reduced by an amount equal to 2% of the earned income in excess of \$10,000.

For purposes of this credit, the term **earned income** includes salaries, wages, tips, any remuneration for services rendered by an **employee** to his/her employer or other compensation derived from the rendering of services as an **employee**. The

earned income shall be determined separately for each individual, regardless of whether he/she may file a joint return, without taking into account any amount received as pension or annuities, taxable income under Section 1221 (nonresident aliens), or the amount received by an individual for services rendered while such individual is confined in a penal institution.

No credit shall be allowed if the taxpayer derives net income (whether or not considered gross income under subsection (a) of Section 1022) from interest or dividends, rents or royalties, the sale of capital assets, alimony payments for divorce or separation, or any other type of income not considered earned income, as previously defined, **in excess of \$2,200 for the taxable year.**

The credit shall be claimed against the tax determined after the deduction of other credits that the taxpayer is entitled to claim. The amount of credit in excess of the tax determined will be refunded to the taxpayer or can be contributed to the San Juan Bay Estuary Special Fund or credited against the estimated tax for the subsequent taxable year.

Every taxpayer who unduly claims this credit shall be liable for the payment of a sum equal to the credit unduly claimed as additional income tax, including interest, surcharges and penalties, as established in the Code, in the year in which the amount of that sum unduly claimed is determined. In the case of fraud, in addition to being liable for the payment herein provided, the taxpayer may not benefit from this credit for a period of 10 years starting from the year in which the Secretary determines the total of any amount unduly claimed.

Select one of the following worksheets, to determine the amount of credit that you may claim. Use **Table I** if your personal status is single person, head of household, or married person not living with spouse. Use **Table II** if your personal status is married person living with spouse and filing jointly.

**Table I**

<b>Worksheet to Determine the Employment Credit for a Single Person, Head of Household, Married Person not Living with Spouse or Married Person Filing Separately</b>	
1. Total of lines 1B and 1C, Part 2 of the return. If the total is \$20,000 or more, do not continue and enter zero ("0") on line 31(E), Part 4 of the return .....	\$ _____
2. Enter the amount of other income not considered earned income (lines 2B through 2J, 2L, 2Q, 2R and 2S, Part 2 of the return; line 1, Part I of Schedule F Individual; line 7, Part II of Schedule H Individual; line 3, Part II of Schedule K Individual; line 5, Part II of Schedule L Individual; line 1, Part II of Schedules M and N Individual; and any other income (exempt or not) for which a specific line is not provided in the return): \$ _____. If this amount is more than \$2,200, do not continue and enter zero ("0") on line 31(E), Part 4 of the return.	
3. If line 1 is \$10,000 or less, multiply it by 3%. Otherwise, go to line 5 .....	\$ _____
4. Enter the smaller of line 3 and \$300. Transfer to line 31(E), Part 4 of the return .....	\$ _____
5. If line 1 is more than \$10,000 but less than \$20,000, enter here and on line 31(E), Part 4 of the return the product of the following calculation: $\$300 - [ (\text{line 1 of this worksheet} - \$10,000) \times 2\% ]$ $\$300 - [ (\$ \text{_____} - \$10,000) \times 2\% ]$ $\$300 - [ \$ \text{_____} \times 2\% ]$ $\$300 - \$ \text{_____} = \text{.....}$	\$ _____
* For purposes of this calculation, do not consider cents.	
* If the result of this calculation is zero ("0") or negative, enter zero on line 31(E), Part 4 of the return.	





Table II

Worksheet to Determine the Employment Credit for Married Person Living with Spouse and Filing Jointly	
Part I – Husband	
1. Share of lines 1B and 1C, Part 2 of the return attributable to the <b>husband</b> (or total of lines 1B and 2B of Schedule CO Individual, if you choose the optional computation of tax). If the total is \$20,000 or more, do not continue and enter zero ("0") on line 1, Part III of this worksheet .....	\$ _____
2. Enter the amount of other income not considered earned income attributable to the <b>husband</b> (lines 2B through 2J, 2L, 2Q, 2R and 2S, Part 2 of the return; line 1, Part I of Schedule F Individual; line 7, Part II of Schedule H Individual; line 3, Part II of Schedule K Individual; line 5, Part II of Schedule L Individual; line 1, Part II of Schedules M and N Individual; and any other income (exempt or not) for which a specific line is not provided in the return): \$ _____. The income that can not be attributable to a particular spouse will be divided in half. If this amount is more than \$2,200, do not continue and enter zero ("0") on line 1, Part III of this worksheet.	
<p style="text-align: center;"><b>(If you choose the optional computation of tax, refer to the following instruction)</b></p> Enter the amount of other income not considered earned income attributable to the <b>husband</b> (lines 3B through 3J, 3L, 3Q, 3R and 3S, Column B of Schedule CO Individual; line 1, Part I of Schedule F Individual (or 50% of such line 1 if only one Schedule F Individual is completed between both spouses); line 7, Part II of Schedule H Individual; line 3, Part II of Schedule K Individual; line 5, Part II of Schedule L Individual; line 1, Part II of Schedules M and N Individual; and any other income (exempt or not) for which a specific line is not provided in the return): \$ _____. The income that can not be attributable to a particular spouse will be divided in half. If this amount is more than \$2,200, do not continue and enter zero ("0") on line 1, Part III of this worksheet.	
3. If line 1 is \$10,000 or less, multiply it by 3%. Otherwise, go to line 5 .....	\$ _____
4. Enter the smaller of line 3 and \$300. Transfer to line 1, Part III of this worksheet .....	\$ _____
5. If line 1 is more than \$10,000 but less than \$20,000, enter here and on line 1, Part III of this worksheet the product of the following calculation:	
$* \$300 - [(line\ 1\ of\ this\ Part\ I - \$10,000) \times 2\%]$ $\$300 - [(\$ \_\_\_\_\_\_ - \$10,000) \times 2\%]$ $\$300 - [ \$ \_\_\_\_\_\_ \times 2\%]$ $\$300 - \$ \_\_\_\_\_\_ = \dots\dots\dots$	\$ _____
* For purposes of this calculation, do not consider cents. * If the result of this calculation is zero ("0") or negative, enter zero on line 1, Part III of this worksheet.	
Part II - Wife	
1. Share of lines 1B and 1C, Part 2 of the return attributable to the <b>wife</b> (or total of lines 1C and 2C of Schedule CO Individual, if you choose the optional computation of tax). If the total is \$20,000 or more, do not continue and enter zero ("0") on line 2, Part III of this worksheet .....	\$ _____
2. Enter the amount of other income not considered earned income attributable to the <b>wife</b> (lines 2B through 2J, 2L, 2Q, 2R and 2S, Part 2 of the return; line 1, Part I of Schedule F Individual; line 7, Part II of Schedule H Individual; line 3, Part II of Schedule K Individual; line 5, Part II of Schedule L Individual; line 1, Part II of Schedules M and N Individual; and any other income (exempt or not) for which a specific line is not provided in the return): \$ _____. The income that can not be attributable to a particular spouse will be divided in half. If this amount is more than \$2,200, do not continue and enter zero ("0") on line 2, Part III of this worksheet.	
<p style="text-align: center;"><b>(If you choose the optional computation of tax, refer to the following instruction)</b></p> Enter the amount of other income not considered earned income attributable to the <b>wife</b> (lines 3B through 3J, 3L, 3Q, 3R and 3S, Column C of Schedule CO Individual; line 1, Part I of Schedule F Individual (or 50% of such line 1 if only one Schedule F Individual is completed between both spouses); line 7, Part II of Schedule H Individual; line 3, Part II of Schedule K Individual; line 5, Part II of Schedule L Individual, line 1, Part II of Schedules M and N Individual; and any other income (exempt or not) for which a specific line is not provided in the return): \$ _____. The income that can not be attributable to a particular spouse will be divided in half. If this amount is more than \$2,200, do not continue and enter zero ("0") on line 2, Part III of this worksheet.	
3. If line 1 is \$10,000 or less, multiply it by 3%. Otherwise, go to line 5 .....	\$ _____
4. Enter the smaller of line 3 and \$300. Transfer to line 2, Part III of this worksheet .....	\$ _____
5. If line 1 is more than \$10,000 but less than \$20,000, enter here and on line 2, Part III of this worksheet the product of the following calculation:	
$* \$300 - [(line\ 1\ of\ this\ Part\ II - \$10,000) \times 2\%]$ $\$300 - [(\$ \_\_\_\_\_\_ - \$10,000) \times 2\%]$ $\$300 - [ \$ \_\_\_\_\_\_ \times 2\%]$ $\$300 - \$ \_\_\_\_\_\_ = \dots\dots\dots$	\$ _____
* For purposes of this calculation do not consider cents. * If the result of this calculation is zero ("0") or negative, enter zero on line 2, Part III of this worksheet.	
Part III – Total Credit to be Claimed	
1. Credit attributable to the husband .....	\$ _____
2. Credit attributable to the wife .....	\$ _____
3. Total credit to be claimed (enter here and on line 31(E), Part 4 of the return, the sum of lines 1 and 2) .....	\$ _____





**Line 31F – American Opportunity Tax Credit**

Enter the amount previously determined on Schedule B2 Individual, Part II, line 7.

**Line 32 - Amount of Tax Due**

Compare the amount on lines 30 and 31G. If line 30 is larger than line 31G, there is a balance of tax due. Enter the difference on this line. If the amount on line 31G is larger than the amount on line 30, you have a tax overpayment. Enter this difference plus the amount paid, if any, with the automatic extension of time to file the tax return (line 33), on line 37.

**Line 33 - Amount paid with automatic extension of time**

If for any reason you cannot file your return on time, you may request an automatic extension of time on or before the due date for filing the return. The request will be done using **Form AS 2644**. (In case of military personnel activated in any warlike conflict, refer to RELEVANT FACTS).

**A taxpayer who is required to pay estimated tax, must pay the total tax due with the request for an automatic extension of time.** If you are not required to pay estimated tax, you must pay with your extension of time at least 50% of the balance of tax due, if you qualify to pay in two installments.

Enter on this line the amount paid with Form AS 2644.

**Line 34 - Balance of Tax Due**

If you were required to file an estimated tax declaration, you must pay the entire amount of tax due (line 32) not later than the date required to file your income tax return. **In this case, you are not entitled to pay the balance of tax due in two installments.**

If you were not required to file an estimated tax declaration, the following conditions prevail:

☞ If you made a payment with the request for an automatic extension of time and it was less than 50% of your amount of tax due (line 32), then you must pay with the return the balance of tax due (line 34), plus interest and surcharges from the original due date in which the return should have been filed, to the date of payment.

☞ If you made a payment with the request for an automatic extension of time on or before the due date to file the return, and this payment was at least 50% or more of your amount of tax due (line 32), then you are entitled to the deferred tax payment. In this case, no payment has to be made when filing the return. The second installment is due not later than October 15 if you file your return on a calendar year basis, or, if filing on a fiscal year basis, not later than the 15th day of the 6th month after the due date to file the return.

**Line 35 - Addition to the Tax for Failure to Pay Estimated Tax**

Enter the addition to the tax for failure to pay estimated tax and the penalty for substantial underestimate of estimated tax previously determined on Schedule T Individual. (See instructions to complete Schedule T Individual).

**Line 36 – Special Additional Tax**

There shall be levied, collected and paid a 5% special additional tax over the total tax determined. The same constitutes a separate tax and will be effective for each one of the taxable years beginning after December 31, 2008 and before January 1, 2012. This tax applies to single persons, head of a household, married persons not living with spouse or married persons living with spouse and filing separate returns, whose adjusted gross income exceeds \$100,000, or married persons living with spouse and filing a joint return, whose adjusted gross income exceeds \$150,000.

Use the following worksheet to determine the amount corresponding to the special additional tax:

<b>Worksheet to Determine the Special Additional Tax</b>	
1. Enter the amount reflected on line 5, Part 2 of the return or line 6, Columns B and C of Schedule CO Individual, as applicable. If the total is \$100,000 or less (in the case of single person, head of household, married not living with spouse or married filing separately) or \$150,000 or less (in the case of married person living with spouse and filing jointly), do not continue and enter zero ("0") on line 36, Part 4 of the return.....	\$ _____
2. Enter the amounts reflected in the following lines of the return or its schedules:	
(a) Total of lines 15 through 17, Part 4 of the return or lines 16 through 18, Columns B and C of Schedule CO Individual, as applicable .....	\$ _____
(b) Line 18, Part 4 of the return or line 19, Columns B and C of Schedule CO Individual, as applicable .....	\$ _____
(c) Line 19, Part 4 of the return or line 20, Columns B and C of the Schedule CO Individual, as applicable .....	\$ _____
(d) Line 25, Part 4 of the return, or line 26, Columns B and C of Schedule CO Individual, as applicable .....	\$ _____
3. Add lines 2(a) through 2(d) .....	\$ _____
4. Multiply line 3 by 5% .....	\$ _____
5. Credit for taxes paid to the United States, its possessions and foreign countries (Schedule C Individual, Part IV, Line 7) .....	\$ _____
6. Enter the difference between lines 4 and 5. If line 4 exceeds line 5, transfer this amount to line 36, Part 4 of the return. If line 5 exceeds line 4, transfer this amount to Schedule B Individual, Part II, line 1 .....	\$ _____



### Line 38 - Amount paid

You may pay your tax sending the payment with the return, through electronic debit if you use a program or application certified by the Department or through other electronic transfers. If a payment is sent with the return or an electronic debit is authorized through a certified program or application, you must enter the amount on line 38(a). Remember to enter in the corresponding screen of the certified program the information of the account number and routing/transit number necessary to make the electronic debit. If you made a payment through other electronic transfers, like for example, the payment using the telephone, you must enter the amount on line 38(b). In this case, you must also indicate the transaction number provided by your banking institution. For additional information about payment of tax through electronic transfers, refer to RELEVANT FACTS.

A taxpayer who is not required to pay estimated tax may elect to pay the balance of tax due in two installments. To be entitled to this benefit, you have to pay on or before the due date to file the return, at least 50% of the tax balance due.

Make your check or money order payable to the Secretary of the Treasury. **Indicate your social security number and Form 482.0 - 2009 on the check or money order.**

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

### INTEREST, SURCHARGES AND PENALTIES

#### Interest

The Code provides for the assessment of interest at a 10% annual rate over any tax balance that is not paid by its due date.

#### Surcharges

In case that imposition of interest is applicable, a surcharge of 5% of the amount due will be assessed, if the delay in paying exceeds 30 days, but not over 60 days; or 10% of the amount due, if the delay exceeds 60 days.

#### Penalties

The Code imposes a progressive penalty from 5% to 25% of the total tax for late filing unless you can show reasonable cause for the delay.

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

**If any person voluntarily fails to file the above mentioned return, declaration, certification or report (within the terms required by the Code or regulations) with the intention to**

**avoid or defeat any tax imposed by the Code, in addition to other penalties, shall be guilty of a third degree felony.**

### Line 39 - Balance of Tax Due

This is the amount of tax that you owe and that you must pay on or before October 15 if you file your return on a calendar year basis, or, if you are filing on a fiscal year basis, on or before the 15th day of the 6th month after the due date to file the return.

**Remember that if you are required to pay estimated tax, you must pay the total amount of tax due (line 32) not later than the date in which the tax return must be filed.**

### Line 40 - Amount Overpaid

**Before issuing a refund, any overpayment will be applied against any exigible tax liability imposed by the Code.**

If you are married and one of the spouses owes taxes, the overpayment will be credited against any exigible tax liability.

If there are no previous year debts, you may elect to apply all or part of the tax paid in excess to your estimated tax for taxable year 2010 or to the San Juan Bay Estuary Special Fund.

If you elect to do so, enter the amount that you want to credit to your estimated tax for the taxable year 2010 on line 40A, to the San Juan Bay Estuary Special Fund on line 40B and any amount to be refunded to you on line 40C. You must keep for your records evidence of the estimated tax payments (copy of canceled or substitute checks, copy of money orders, etc.).

### PART 5 - AUTHORIZATION FOR DIRECT DEPOSIT OF REFUND

You can receive your refund faster and safely. The Department of the Treasury can deposit your refund directly into your checking or savings account. To authorize the Department of the Treasury to deposit your refund directly into your account, you must complete this part.

**Type of Account** - Indicate if the deposit will be made into your checking or savings account.

**Routing/Transit Number** - Enter the routing/transit number of your account. This information is on the check. In case of a savings account, you must call the financial institution to obtain the routing/transit number. **Do not leave blank spaces. Do not use hyphens or other symbols.**

**Account Number** - Enter the checking or savings account number. **Do not use hyphens or other symbols.** Do not fill out blank spaces with zeros. The account number may have less numbers than the spaces provided for this purpose in this box.

**Account in the name of** - Enter your name, as it appears on your account. In the case of married taxpayers filing jointly, the account must be in the name of both spouses.

For additional information, refer to the **RELEVANT FACTS - DIRECT DEPOSIT OF REFUND.**

#### **SIGNATURE OF THE RETURN**

The return will not be considered filed unless it is signed with ink and all necessary documents and information are submitted. In the case of married individuals filing jointly, both spouses must sign the return.

#### **PAYMENT FOR THE PREPARATION OF THE RETURN**

Indicate if payments were made for the preparation of the tax return and make sure that the specialist signs the return and includes his/her specialist 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 the return is correct and complete.

If the return is prepared by a Certified Public Accountant (CPA) or by a CPA firm duly registered as a specialist, it must include the employer identification number, registration number and be signed by the authorized person.

## INSTRUCTIONS TO COMPLETE THE SCHEDULES

### SCHEDULE A INDIVIDUAL - ITEMIZED AND ADDITIONAL DEDUCTIONS

Use this Schedule to determine the itemized and additional deductions. **Remember not to submit evidence of the same with the return. However, you must keep the evidences of these deductions for your records for at least 6 years, in case that they may be required eventually by the Department.**

#### PART I - ITEMIZED DEDUCTIONS

**Line 1** - Enter the amount of home mortgage interest paid to acquire, refinance, improve or construct a property that constitutes a qualified residence. **You must keep for your records the Informative Return - Mortgage Interest (Form 480.7A) provided by the financial institution.**

**Qualified residence** means:

- 1) the principal residence of the taxpayer;
- 2) a second residence located in Puerto Rico and used by the taxpayer, or by any other person that has an interest in that property or by any member of his/her family, as a residence for a number of days that exceeds the larger of:
  - a) 14 days, or
  - b) 10% of the number of days during the taxable year in which the property has been rented at the prevailing rental market value.

Interest payments attributable to any portion of the mortgage debt in excess of the residence fair market value are not deductible.

A participant partner of a housing cooperative association may deduct payments representing home mortgage interest.

If you use a personal loan to acquire, construct or improve a qualified residence, which is not accepted by a mortgage institution as a mortgage guarantee or equity, you must keep for your records a copy of the property tax exemption application or of the appraised revision of the property.

**Also, loan origination fees (Points) paid directly by the borrower and loan discounts (Points) paid directly by the borrower, will be admitted as home mortgage interest deduction for the year in which they were incurred, as long as the following requirements are met:**

- 1) they are described on the Informative Return - Mortgage Interest (Form 480.7A),
- 2) they are paid to acquire your principal residence,

- 3) they are paid by the taxpayer; if they are financed through the mortgage loan, they will be deductible throughout the term of the loan, and

- 4) keep for your records a copy of the canceled or substitute check.

The loan origination fees and loan discounts financed through a home mortgage loan will be deductible throughout the term of the loan. The deduction that you may claim will be the apportioned amount paid during the term of the loan.

In case of married taxpayers filing separately who own only one residence, one of the spouses has the sole right to claim such deduction. If the married couple has two residences, one spouse may claim the interest of the principal residence and the other spouse may claim the interest of the second residence. However, one of the spouses may claim all the home mortgage interest for both residences, if both spouses agree that in writing. On the other hand, in case that the residence had been acquired by both spouses individually, each spouse may claim the interest attributable to his/her joint share in said residence, as stated in the sale deed.

**Enter in the spaces provided on line 1, the name and employer identification number of the banking or financial institution to which the payments were made, the loan number and the total amount of home mortgage interest paid.**

**Line 2** - Enter the amount paid for motor vehicle license plates paid during the taxable year for automobiles used for personal purposes. Do not include any amount paid to ACAA, or amounts paid for compulsory insurance or fines.

**Line 3** - Enter the amount paid to a person who is not a dependent of the taxpayer, for child care expenses incurred up to the amount of \$1,500 for one dependent (\$750 if married filing separately), or \$3,000 for two or more dependents (\$1,500 if married filing separately). In order to claim this deduction, you must comply with the following requirements:

- 1) The dependent with respect to which this deduction is claimed cannot be over age 14.
- 2) The expense is incurred to enable the taxpayer to be employed or engaged in a profitable activity.

In case of a married taxpayer living with spouse at the end of the taxable year, both spouses must be employed or otherwise engaged in a profitable activity. If one of the spouses is disabled, you are entitled to this deduction, but you must keep for your records a medical certificate indicating the disability.

If you are a divorced parent, the deduction is allowed only if the dependent is under your custody.

Deductible child care expenses are those made primarily to assure the safety and well being of the dependent while the taxpayer is working. Amounts paid solely to provide benefits such as food, clothing, education, medicines and physicians are not deductible as child care expenses.

If the taxpayer paid a person to take care of the child and also to perform housework, only the part of the payment attributable to the child care will be allowed as a deduction.

When the child receives other benefits besides care, which are inseparable one from the other, the total expense will be considered as child care expense.

**Taxpayers who claim this deduction must keep for their records copy of canceled or substitute checks, or receipts indicating the name, address and social security number of the person to whom the payment was made.**

**Line 4** – Enter the amount paid to a person who is not a dependent of the taxpayer, for the expenses incurred in the care of elderly persons up to the amount of \$600 for one elderly person (\$300 if married filing separately), or \$1,200 for two or more elderly persons (\$600 if married filing separately). In order to claim this deduction, you must comply with the following requirements:

1. The person for which the deduction is claimed must be a dependent of the taxpayer.
2. The person with respect to which this deduction is claimed must have reached the age of 60, within the taxable year in which the deduction is claimed for the first time.
3. The deduction will be granted only if the expense is incurred to enable the taxpayer to be employed or engaged in a profitable activity. In case of a married taxpayer living with spouse at the end of the taxable year, both spouses must be employed or engaged in a profitable activity.
4. The expenses will be those made primarily to assure the well being, safety and protection of the elderly person.
5. If the taxpayer paid a person to perform housework and also to take care of the elderly person, only the part of the payment attributable to the elderly person's care will be allowed as a deduction.
6. The care service to the elderly person must be realized in his/her home or in the home of the taxpayer who has the right to claim this deduction. This deduction will not be available if such care is realized in long term institutions as defined by Act No. 94 of July 22, 1977.

Taxpayers who claim this deduction must keep for their records copy of canceled or substitute checks, or receipts indicating the name, address and social security number of the person to whom the payment was made.

**Line 5** - Enter 10% of the total rent paid during the year, but not more than \$500 per year (\$250 if married filing separately). To be entitled to this deduction, the leased property must be your principal residence. Enter also the landlord's social security number.

**You must keep for your records crediting receipts of the total rent paid.**

**Line 6** - Enter the amount of property taxes paid on the property owned by you that constitutes your principal residence. You may claim as part of this deduction the temporary special tax on real property used for residential purposes imposed by Act No. 7 of March 9, 2009, as amended. This deduction is allowable to a participant partner of a housing cooperative association.

If part of the property is used for purposes other than principal residence, you may deduct only the portion of the tax paid attributable to the part used as your principal residence.

**You must keep for your records Form 480.7A, copy of canceled or substitute checks, or receipts as evidence for the payment of this tax.**

**Line 7** - Enter losses of real property used as your principal residence incurred during the taxable year, not compensated by insurance or in any other form. Such losses must be **caused by hurricane, earthquake, storm, tropical depression, floods, fire or other casualties.**

You must keep for your records a certification stating the amount of the loss and the type of damage. **Also, a certification from the Civil Defense or Fire Department if the loss was from fire, and any other documents, public deeds or appraisals which reflect the value of the property subject to the loss.**

If after claiming the deduction, you receive any compensation from an insurance company or from a local or federal agency, you must include on the return the total amount received as part of your gross income.

In the case of married persons filing separate returns, each spouse may claim 50% of this deduction.

**Line 8** - Enter 50% of the total medical expenses paid not compensated by insurance or in any other form, that exceeds 3% of your adjusted gross income.

**Medical expenses are:**

- 1) professional services rendered by physicians, dentists, radiologists, clinical pathologists, surgeons, nurses or hospitals, within or outside Puerto Rico, and
- 2) health or accident insurance premiums.

Payments for medicines are not deductible expenses. However, when the medicines are part of hospitalization expenses, they may be deducted as medical expenses.



To claim the medical expense deduction, **follow the instructions of Schedule J Individual and submit the same with your return.** Transfer to this line the amount from Schedule J Individual, line 4.

**You must keep for your records copy of canceled or substitute checks, or receipts evidencing the payments made.**

**Line 9** - You may deduct, subject to certain limitations, contributions or donations paid during the taxable year to religious, charitable, scientific, literary, educational or museological organizations, or to organizations for the prevention of cruelty to children or animals, or to organizations of war veterans in the United States or Puerto Rico. However, no part of the net earnings of any organization to which you contributed, may benefit any private shareholder or individual.

You may also deduct contributions or donations paid to:

- ☞ the Commonwealth of Puerto Rico, the United States Government, or any of its states, territories or possessions, or any political subdivision thereof, or the District of Columbia, when the contributions or donations are used exclusively for public purposes;
- ☞ the special fund for vocational rehabilitation authorized by the Vocational Rehabilitation Act;
- ☞ a domestic fraternal association or partnership operating as a lodge, but only if the contributions are to be used exclusively for religious, charitable, literary or educational purposes, or for the prevention of cruelty to children or animals;
- ☞ the Educational Foundation for the Free Selection of Schools to provide economic assistance for students of elementary and secondary level of public or private educational institutions in Puerto Rico, but only if the total amount of the contribution or donation exceeds the Tax Credit for Contributions to the Educational Foundation for Free Selection of Schools allowed against the income tax;
- ☞ the depository of Files and Relics of Former Governors and First Ladies of Puerto Rico.

The allowable deduction is the total amount of contributions or donations in excess of 3% of your adjusted gross income, or 33% of the contributions or donations paid during the taxable year, whichever is larger. However, the deduction allowed shall not exceed 15% of your adjusted gross income, except for the additional deduction up to 15% of your adjusted gross income for contributions or donations paid to accredited educational institutions at university level established in Puerto Rico, to the José Jaime Pierluisi Foundation, to the National Fund for the Financing of Cultural Affairs of Puerto Rico, to the Puerto Rico Communitarian Foundation, for contributions of conservation easements to government agencies or non profit organizations (**only if you do not claim a tax credit for this concept** and subject to the requirements provided by the

Puerto Rico Conservation Easement Act), as well as for contributions to museological institutions, private or public, that consist of art work properly appraised or of any other objects of recognized museological value. The donations or contributions in excess of the limit allowed may be carried over to the five subsequent taxable years subject to the limitations previously indicated.

It is important to point out that in order to claim the additional deduction of up to 15% of the adjusted gross income, in case of contributions to private museological institutions, they have to be conditioned in terms that any type of future negotiation with the work or donated object is forbidden, and that in case of the dissolution of the private museological institution, the title of the art work or museological value objects donated will be transferred to the Commonwealth of Puerto Rico and will become part of the National Collection of the Institute of Puerto Rican Culture.

You may claim an unlimited deduction for charitable and other contributions, if the amount of qualified contributions or donations plus the total amount of income taxes paid during the taxable year and in each of the 10 preceding taxable years, exceed 90% of your net income for each one of those years, determined without the benefit of the contributions or donations.

**Net income** is the adjusted gross income less the standard deduction and additional deductions, or less the itemized deductions and the additional deductions.

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

Also, for taxable years 2008 and 2009 a special deduction shall be allowed for 100% of the contributions or donations paid on behalf of the Ponce Museum of Arts, strictly for the Museum's renovation and expansion purposes. The total amount of such contributions will not be subject to the limitations provided by the Code.

To claim the donations, **follow the instructions on Schedule J Individual and submit it with your return.** Transfer to this line the amount from Schedule J Individual, line 11.

**You must keep for your records copy of canceled or substitute checks, receipts or certifications as evidence of the payment made.**

**Line 10** - Enter losses of automobiles, furniture, fixtures and other household goods (excluding the value of jewelry and cash), not compensated by insurance or in any other form, occurred during the taxable year due to earthquakes, hurricanes, storms, tropical depressions and floods. The deduction is limited to \$5,000 (\$2,500 if married filing separately) for the year in which the loss was incurred.



The amount of said \$5,000 not claimed in the year in which the loss occurred may be carried over to the following two taxable years as a loss of personal property due to casualties. **In order to be entitled to this deduction, the affected area must be declared as disaster area by the Governor of Puerto Rico, and you must have claimed, within the appropriate dates and places, the applicable benefits from the assistance programs approved for disaster cases.**

**You must keep for your records copy of the approved claim filed stating the damages suffered.**

**Line 11** - Enter 50% up to \$3,000 (\$1,500 if married filing separately) of the expenses incurred for the acquisition and installation in your residence of a windmill with all its accessories used to generate electric power. To claim this deduction, the windmill must have been manufactured in Puerto Rico, or at least 50% of the added manufacturing cost must have been done locally. **This deduction can be claimed only once.**

**You must keep for your records the invoice or receipt indicating the information regarding the cost and installation expense, a copy of the installation permit or authorization from the Puerto Rico Regulations and Permits Administration, copy of the certification issued to the manufacturer or distributor by the Energy Affairs Administration of the Department of Natural and Environmental Resources, as well as a guarantee certification for 5 years or more.**

**Line 12** - Enter the expenses incurred and not compensated by insurance or otherwise for the acquisition of any technological assistance equipment for handicapped persons, specialized treatment or chronic disease. The amount is limited to \$2,500 (\$1,250 if married filing separately) per handicapped person. This deduction may be claimed by the handicapped person, or a parent, tutor or guardian of a handicapped person.

For purposes of this deduction, the term **technological assistance equipment** means: any object, part of equipment or system, purchased by the consumer, or provided by a government agency or instrumentality, whether original, modified or adapted, that is used to maintain, increase or improve the capacities of handicapped persons. It includes, but not limited to, wheelchairs, motorized wheelchairs, motorized equipment used for mobility, adapted computers, electronic communication equipment, adapted computer programs, mechanical reading equipment, hearing aids, among others.

This deduction can be claimed only once with respect to any technological assistance equipment acquired.

**You must keep for your records the invoice or receipt indicating the cost of the equipment and a medical certificate stating that said equipment is necessary for the patient's condition.**

**Line 13** - A deduction is allowed, subject to certain limitations, for expenses incurred during the taxable year regarding the dependent's educational expenses at elementary and secondary school level. Such expenses include school tuition and registration, school transportation and text books.

This deduction is limited to \$1,500 (\$750 if married filing separately) for one dependent, or \$3,000 (\$1,500 if married filing separately) for two or more dependents who are studying at preschool, elementary or secondary level, or the amount actually paid, whichever is smaller.

In order to qualify for this deduction, the dependents must be studying in public or private educational institutions operating under a license granted by the Puerto Rico General Council of Education.

If for the taxable year the dependent qualifies as university student for purposes of the exemption for dependents, this deduction will not be allowed with respect to that dependent.

The deductible expenses allowed for text books are those incurred for the purpose of providing the dependent a secular education, excluding any books or printed material of a sectarian nature.

For purposes of this deduction, the term **dependent** means a person under 21 years of age at the close of the taxpayer's taxable year, and who, for the calendar year in which the taxpayer's taxable year began, received from the taxpayer more than half of his/her support.

**You must keep for your records copy of canceled or substitute checks, or invoices indicating the expenses incurred, and a certification from the public or private school where the dependent is enrolled. It must include the dependent's name as well as his/her school grade at the end of the taxable year.**

**Line 14** - Enter 30% of the expenses incurred during the taxable year for the purchase, manufacture and installation of solar equipment in your principal residence, whether owned or leased, up to an amount of \$1,500 (\$750 if married filing separately). When the equipment is being installed by the lessee, the owner of the real estate is not entitled to any deduction with respect to the same equipment, even when the equipment remains for the benefit of the owner at the end of the lease contract.

**Solar equipment** means all equipment which can convert solar energy into usable energy, whether in a direct or indirect form. This equipment may be purchased or manufactured by the taxpayer, and it must be in working condition.

**You must keep for your records copy of the receipts or invoices stating the cost of the solar equipment or its parts, and the expenses incurred in its manufacture or installation, copy of a certification issued to the manufacturer or distributor by the Energy Affairs Administration of the Department of Natural and Environmental Resources, as well as a guarantee certification for 5 years or more.**

**This deduction can be claimed only once.**

**Line 15** - Enter the amount of interest paid or accrued during the taxable year over debts incurred for student loans **to cover expenses of the taxpayer** for registration, tuition and textbooks at university level, as well as expenses for transportation, meals and lodging in those cases in which the taxpayer had to live outside his/her home in order to pursue such studies.

**In the spaces provided on this line, enter the name and employer identification number of the financial institution, the loan number and the total interest paid.**

**You must keep for your records a certification from the bank or financial institution as evidence of the deduction claimed.**

**Line 16** - Enter contributions made in cash during the taxable year to the Fund for Services Against Remediable Catastrophic Diseases (previously known as the Emergency Medical Treatment Fund for Indigent Patients) up to \$100 per taxable year.

**You must keep for your records invoices or certifications as evidence of the deduction claimed.**

## PART II - ADDITIONAL DEDUCTIONS

The following additional deductions will be allowed against the gross income in addition to the standard deduction or the itemized deductions.

**Line 1** - Enter all contributions made to a qualified Individual Retirement Account (IRA). **The maximum deduction for an individual is \$5,000** or the adjusted gross income from salaries or the earnings attributable to professions or business, whichever is smaller.

In order to claim this deduction, the IRA must be in a trust created or organized under the laws of the Commonwealth of Puerto Rico, among other requirements.

In case of married taxpayers filing a joint return, this deduction cannot exceed \$10,000 or the aggregated adjusted gross income from salaries or the earnings attributable to professions or business, whichever is smaller. However, the deduction for each spouse cannot exceed \$5,000.

No deduction is allowed for the taxable year in which the individual has reached 75 years of age on or prior to the end of the taxable year. **Also, no deduction will be allowed if the income received during the year is from pension or annuity.**

The taxpayer will have until the due date established by the Code to file the return, or until the due date of any extension of time granted by the Secretary to file the return to make a contribution to his/her IRA.

**In the spaces provided on this line, enter the name and employer identification number of the financial institution, the account number and the total contributions made.**

**You must keep for your records the Informative Return - Individual Retirement Account (Form 480.7) provided by the bank or institution in which you opened the account.**

**Line 2** - In the case of an eligible individual, enter the contributions made during the taxable year by himself or someone who made the contributions for his/her benefit, to a Health Savings Account with a High Annual Deductible Medical Plan (Health Savings Account).

The limit of the contributions will depend on the type of coverage, whether individual or family, and the number of months during the year for which you were eligible. If you were eligible during the whole year and have an individual coverage, the contribution cannot exceed the smaller amount between the annual deductible under such coverage or \$2,850. On the other hand, if you have a family coverage, the contribution cannot exceed the smaller amount between the annual deductible under such coverage or \$5,650. Those individuals who reach the age of 55 before the close of the taxable year, can make an additional contribution of up to \$500 for the 2009 taxable year.

If you were not eligible during whole year, divide the previously established limits between 12 and multiply this amount by the number of months for which you were eligible.

In the case of married persons, if any of the spouses has a coverage under a family insurance plan, both will be treated as if they only have the family coverage and if both spouses have a family coverage under different plans, the plan with the smaller annual deductible will be considered.

The taxpayer can make the contribution to his/her Health Savings Account until the last day established by the Code to file the return, or until the due date of any extension of time granted by the Secretary to file the same.

**In the spaces indicated on this line enter the name and employer identification number of the institution, the account number, the total contributions made, the annual deductible and the type of coverage.**

**You must keep for your records the certification issued by the institution in which you established the account.**

**Line 3** - Enter all cash contributions made during the year to a pension or retirement system, other than Social Security, established by the Congress of the United States, the Legislative Assembly of Puerto Rico, the municipalities, agencies, instrumentalities and public corporations of Puerto Rico.

This contribution must be informed in Part 14 of the Withholding Statement (Form 499R-2/W-2PR) or on Form W-2, if you are a federal employee.

**Line 4** - Enter **\$1,500** if you are resident of Puerto Rico and a veteran of the United States Armed Forces.

**Keep for your records copy of Form DD- 214 (Discharge from U.S. Armed Forces).**

**Line 5** – Enter the amount determined on Schedule I Individual, Part I, line 8. This deduction is limited to the smaller of the amount paid up to \$1,500 or 4% of the salary. You must submit Schedule I Individual.

**Line 6** - Enter the interest paid or accrued on a loan for the acquisition of an automobile which is guaranteed by it. Also include, in the space provided, the name of the financial institution, the loan number and the employer identification number of the institution granting the loan. **The deduction shall be allowed for only one vehicle and will not exceed \$1,200 (\$600 if married filing separately, unless both spouses consent that one of them claims this deduction in full).**

**You must keep for your records a certification from the bank or financial institution as evidence of the deduction claimed.**

**Line 7** - Enter the amount of **\$1,000** if you are a young person who work and your age ranges between 16 and 25 at any moment of the taxable year.

**Line 8** - Enter the cash contributions to an educational contribution account for the exclusive benefit of a child or relative up to the third degree of blood relationship or second degree by affinity. The maximum contribution amount that can be claimed **can not exceed \$500 for each beneficiary.**

The account must be established by the individual who has the custody and the parental rights obligations conferred by law of the beneficiary for whom the account was established. There is no limitation in the number of educational contribution accounts to which each individual can contribute, as long as such beneficiary is eligible. Under no circumstances, the total contributions for each beneficiary account can exceed \$500.

This deduction will not be allowed for a taxable year in which the beneficiary has reached the age of 26 before the closing of such taxable year.

The taxpayer will have until the due date established by the Code to file the return, or until the due date of any extension of time granted by the Secretary to file the return, in order to make a contribution to an account.

Transfer to this line the total of Schedule A1 Individual, Part II, line 10.

**You must keep for your records the certification issued by the institution which receives the contributions.**

**Line 9** - Enter the amount up to a maximum of \$500 for the expenses incurred in the acquisition and installation of a personal computer in your residence to be used by your dependents.

For purposes of this deduction, a dependent is a person who at the end of the taxable year has not reached the age of 21 and who receives more than half of the support from the taxpayer.

**You must keep for your records evidence of the payment for the acquisition and installation of this equipment. This deduction can only be claimed once by the taxpayer.**

**Line 10** - Enter the amount of contributions made during the year to the Endowment Fund of the University of Puerto Rico. **You must keep for your records copy of canceled checks or its equivalent, in case of electronic contributions, that evidence the same.**

**Line 11** - Enter **\$3,000** if the taxpayer is married living with spouse and filing jointly, and both spouses receive earned income. This deduction does NOT apply when both spouses file separate returns or choose the optional computation of tax in the case of married individuals living together, filing a joint return and both working.

The term **earned income** includes salaries, wages, earnings, professional fees and other amounts received as compensation for personal services actually rendered. The amount received from annuities or pensions is not considered earned income.

#### SCHEDULE A1 INDIVIDUAL - DEPENDENTS AND BENEFICIARIES OF EDUCATIONAL CONTRIBUTION ACCOUNTS

In order to process the information submitted of your dependents, allow the exemption for dependents and claim the deduction for contributions to an Educational Contribution Account, you must complete this Schedule and include it with your return.

#### PART I - DEPENDENT'S INFORMATION

The term **head of household** means an individual who actually supports and maintains in one household one or more dependents closely related to him/her by blood, marriage or adoption, over whom he/she exercises family control and whose duty to provide for such dependents is based upon moral or legal obligation. The relationship established by marriage shall not be considered terminated because of divorce or death of the spouse.

If you claim the filing status of head of household in Part 1 of the return, indicate in the space **Head of Household** of Part I of this Schedule, the name, relationship, date of birth, and social security number of the dependent who entitles you to claim such status. **Remember that you can not claim an exemption for dependent regarding this person.**

The term **dependent** means:

- 1) a person who at the close of the calendar year in which the taxpayer's taxable year begins **has not reached the age of 21;**
- 2) the taxpayer's father or mother;
- 3) a person who is **age 65 or older;**
- 4) a person who has reached the age of 21 or older and is blind or incapable of self-support because of being mentally or physically disabled;

- 5) an university student who at the close of the calendar year in which the taxpayer's taxable year begins **has not reached the age of 26**, as long as he/she has completed as a regular student, at least one semester in an **university or technical - professional institution recognized as such by the educational authorities of Puerto Rico, or of the applicable country, until he/she receives his/her degree.**

Notwithstanding the above, to be entitled to claim a dependent, you must comply with the following requirements:

- 1) the person claiming the dependent must provide more than half of the support for the dependent during the calendar year in which the taxpayer's taxable year began;
- 2) the dependent's gross income for the calendar year in which the taxpayer's taxable year began is less than the amount allowed as a credit for this concept. Nevertheless, if the dependent is your child and also a regular student, he/she may earn a gross income of up to **\$3,400**, and you still have the right to claim him/her as a dependent.

In the case of children from divorced or separated parents, the exemption for dependents will be claimed by the parent who has the legal custody of the children. However, the parent who has the legal custody may release his/her right to claim the exemption in favor of the parent who does not have that custody. The release should be made using **Schedule CH Individual - Release of Claim to Exemption for Child (Children) of Divorced or Separated Parents**. The parent to whom the right to claim the exemption was released must submit Schedule CH Individual with the return. (See instructions of Schedule CH Individual).

**An individual required to file a joint return with his/her spouse does not qualify as a dependent.**

**The dependent who qualifies you for the Head of Household filing status cannot be included in the computation of the total exemption for dependents.**

**Nonresident aliens of Puerto Rico do not qualify as dependents.**

If the dependent is totally or partially blind, keep for your records a certificate from an ophthalmologist or optometrist indicating the visual condition of the dependent.

If you claimed the exemption for dependents who are university students, or who are disabled, blind or age 65 or older, you must keep for your records the evidence to claim the exemption for those dependents.

In the space provided, **write the complete name, relationship, date of birth, and social security number** of all dependents for whom you claim an exemption on your return. **Also, classify the dependent in one of the following categories:**

Category	Class
(N)	Non university
(U)	University students
(I)	Disabled, blind or age 65 or older

If you do not comply with these requirements, the exemption will be disallowed. Remember that you must include the **social security number** of all dependents who are age one (1) or older at the end of the taxable year.

## PART II - BENEFICIARIES OF EDUCATIONAL CONTRIBUTION ACCOUNTS

In the space provided, **write the complete name, relationship, date of birth, and social security number** of the beneficiaries for whom you made contributions to an Educational Contribution Account. Indicate also the name and employer identification number of the financial institution, and the account number where the contributions are made. **You must also include the amount of said contributions.**

**For additional information regarding who qualifies for this deduction and its limitations, refer to the instructions of Schedule A Individual, Part II, line 8.**

## SCHEDULE B INDIVIDUAL - RECAPTURE OF CREDIT CLAIMED IN EXCESS, TAX CREDITS AND OTHER PAYMENTS AND WITHHOLDINGS

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

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

You must indicate in Columns A, B and C the name and employer identification number of the entity to which the investment credit or donation of a conservation easement claimed in excess belongs. Also, you must fill in completely the oval that identifies the act under which the investment or donation was 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 that regulates each of the following acts: Puerto Rico Tourism Development Act (Act No. 78 of September 10, 1993, as amended), Solid Waste Authority Act (Act No. 70 of June 23, 1978, as amended), Agricultural Incentives Act (Act No. 225 of December 1, 1995, as amended), Capital Investment Fund Act (Act No. 3 of October 6, 1987, as amended), Act for the Creation of the Theatrical District of Santurce (Act No. 178 of August 18, 2000), Act for the Development of the Film Industry (Act No. 362 of December 24, 1999), Act for Tax Credits from Investment in Housing Infrastructure (Act No. 98 of August 10, 2001), Act for Tax Credits for Investment in the Construction or Rehabilitation of Rental Housing Projects for Low or Moderate Income Families



(Act No. 140 of October 4, 2001), Act for Credit to Investors in an exempt business that is in the process of closing its operations in Puerto Rico (Act No. 109 of August 17, 2001) and Conservation Easement Act (Act No. 183 of December 27, 2001, as amended).

The total investment carried out by the exempt business in the project is subject to the revision of the Secretary or Director of each Agency or Department, or the Special Work Board (Board) in case of the Theatrical District of Santurce. If the investment credit claimed by the investors exceeds the investment credit computed by the Secretary, the Director or the Board, this excess shall be due as income tax. 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 the recapture of credit mentioned before will not apply to the participants or investors that are not developers in a project under the Puerto Rico Tourism Development Act and the Puerto Rico Solid Waste Authority Act.**

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

In the case of condohotels, the operator of the integrated rental program shall send an annual report to the Director and the Secretary of the Treasury identifying the units participating in the integrated rental program. Such report must indicate the aforesaid program beginning dates with respect to the participating 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:

$$\begin{array}{rcl} \text{Income tax} & & \text{Balance of the} \\ \text{owed} & = & \text{10 year period} \\ & & \text{business} \end{array} \quad \begin{array}{r} \text{Total investment credit} \\ \text{claimed per unit or} \\ \text{business} \end{array} \quad \begin{array}{r} \text{X} \\ \hline 10 \end{array}$$

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. These dispositions will also apply when the perpetuity requirement is not fulfilled 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 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 as established by law.

**Line 3** - Multiply line 1 by 50% and enter the result here. Transfer the result to Part 4, line 27 of the return. In case that you had paid part of the recapture of excess of credit in the previous year, enter the difference owed.

**Line 4** - If this is the first year in which you claim 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 your second year of recapture, subtract lines 2 and 3 from line 1.

**PART II - TAX CREDITS**

**The following credits may be claimed subject to the terms and conditions established in Act No. 7 of March 9, 2009, as amended, and the Administrative Determination or Certification under which they were granted.**

**Line 2** - Enter the tax withheld on dividends from Industrial Development income under Act 8 of January 24, 1987 and/or 30% of your proportional share in the fixed tax rate on Industrial Development income paid by the exempt business under Act 135 of December 2, 1997.

You must fill in completely the oval that identifies the act or acts under which the investment was made.

**Line 3** - Enter the amount of the credit to be claimed for the investment in a Film Entity engaged in a Film Project and/or Infrastructure Project under Act No. 362 of December 24, 1999.

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

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

**Line 4** - Enter the amount determined on Schedule Q. You must submit Schedule Q and Q1 to claim this credit, as well as other forms that indicate the credit earned for the investment in several capital investment funds or direct investments.

In order to claim such credit, you must submit with your return copy of the certification issued by the pertinent agencies and copy of a sworn statement issued by the agency indicating the distribution or allocation of the credit.





**Line 6** - Enter the amount contributed to the **Educational Foundation for Free Selection of Schools**. The maximum amount of credit allowed is \$250.

The amount of contributions made in excess of the credit will be deducted as charitable contributions, up to the limit allowed by the Code.

**You must keep for your records a certification from the Educational Foundation for Free Selection of Schools or copy of the canceled or substitute check as evidence of the contribution made.**

**Line 7** - Any person to whom a certificate of membership is issued as ordinary or extraordinary member of an Employees-Owned Special Corporation is entitled to a credit of 25% of the total amount paid for said certificate up to \$1,000. The credit shall be taken against the determined income tax for the year in which the payments to acquire the certificate are made, whether paid totally or paid in installments in one or more taxable years, as applicable. **The credit granted shall not be applicable against the alternate basic tax for individuals.**

In case that the amount of credit allowed exceeds the determined income tax for the taxable year, the excess may be carried forward during the next two years.

Refer to Section 1383 of the Code for qualifications and requirements to benefit from this credit.

**Line 8** - Enter here the tax credit acquired during the year through the purchase, exchange or transfer made by the investor or participant of the primary investor. See instructions of Schedule Q in order to know the percentages and limitations to claim on the return.

To claim this credit, the conveyor and the cessionary will submit with the income tax return in the year of the cession, a sworn statement notifying the same to the Secretary.

#### **Complete Part IV of Schedule B Individual.**

**Line 9** - Enter the amount of credit for investment in housing infrastructure recommended by the designated officials of the Housing Department and the Department of the Treasury.

Act No. 98 of August 10, 2001 grants a tax credit for infrastructure investment to developers of housing projects. 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.**

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

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.

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

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

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

**Line 11** - Enter the amount of credit for construction investment in urban centers. Every person who carries out a construction or improvement project in a urban center, as provided by law, may qualify to claim a credit against the tax.

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

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

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

**Line 12** - Enter the amount of Tax Credit for Merchants Affected by the 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% gross sales generated during the construction period.

The amount of this credit can not exceed the tax responsibility reported on the previous year return. **To claim this credit, the taxpayer 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 other requirements and additional details, refer to Act No. 212 of August 29, 2002, as amended, and the corresponding regulations.**

**Line 13** - Enter the amount of credit to investors in an exempt business that is in the process of closing its operations in Puerto Rico. Every investor can claim a credit for industrial investment equal to 50% of its eligible investment.

The credit may 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 Act No. 109 of August 17, 2001, and the corresponding regulations.**

**Line 14** - Enter the amount determined on Schedule B1 Individual. For details about percentages and limitations regarding these credits, refer to instructions of Schedule B1 Individual. It 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 by calling (787) 722-0216.

**Line 15** - Enter the amount of credit for the purchase of automobiles propelled by alternative or mixed power. The amount to be claimed will be \$2,000 for the taxable year in which the qualified automobile is acquired.

To claim this credit, the taxpayer must use the qualified automobile to carry out personal or commercial activities, and it can not be acquired for resale. Likewise, the credit will not be refundable nor will be carried forward to subsequent taxable years.

The credit may be claimed only by the original owner of a new qualified automobile, therefore, it does not apply to the purchase of used qualified automobiles.

In the case of automobiles acquired through leasing, the company that provides the financing will be the one entitled to claim the credit, therefore, the credit can not be claimed by the lessee.

For additional details, refer to Act No. 182 of December 10, 2007 and its corresponding regulations.

**Line 16** - Enter the amount of credit for the establishment and donation of a conservation easement. The taxpayer may choose to claim a tax credit equal to 50% of the value of the eligible conservation easement.

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 to the Internal Revenue Circular Letter No. 05-04 of March 23, 2005.**

**Line 17** - Enter 15% of the total income tax attributable to the income earned from the sale of books printed in Puerto Rico or from Puerto Rican authors.

The concession of this benefit will be subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination under Act No. 516 of September 29, 2004, as provided by the Internal Revenue Circular Letter No. 05-05 of March 23, 2005. You must include with the return

copy of such determination, along with the information required in the determination letter.

Also, you must include with the return a schedule detailing the determination of the 15% from tax that you will claim as an exemption. This benefit will be available for a period of 10 years, beginning on September 29, 2004, enforcement date of Act No. 516 of 2004 which grants this benefit.

**Line 18** - Enter the amount of credit to be claimed for industrial investment under Section 6 of Act No. 73 of May 28, 2008. This amount must be equal to 50% of the eligible investment to be claimed in two or more installments: the first half in the year in which the eligible investment is completed and the balance in the subsequent years.

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

For additional details, refer to Act No. 73 of May 28, 2008 and the corresponding regulations.

**Line 19** - Enter the amount of credit granted for the acquisition or manufacture and installation of electric solar equipment in the taxpayer's principal residence or business. The credit is limited to 75% of the cost of the equipment, including installation, for the period between January 1 and June 30, 2009, and to 50% for the period between July 1 and December 31, 2009.

The credit is subject to the taxpayer's request and the issuance by the Secretary of the Treasury of a certification under Section 1040J of the Code (Act No. 248 of August 10, 2008). Include with the return copy of such certification.

The credit is not refundable, but, such part of the credit not used in the taxable year may be carried over during the next ten taxable years.

If the credit to be claimed has been acquired through cession, sale or transfer from the original owner, include a sworn statement providing the following:

- 1) name, address and social security number of the transferrer;
- 2) name, address and social security number of the transferee;
- 3) total amount of the credit approved by the Secretary of the Treasury and taxable year in which it was granted;
- 4) amount of credit used by the transferrer;
- 5) amount of credit ceded, sold or transferred;
- 6) date of cession, sale or transfer; and
- 7) consideration given or payment in kind received in exchange for the credit.

Also, you must include copy of the credit certification.

It is important to note that in order to be eligible for this credit, you can not claim the deduction for the acquisition and installation of a windmill to generate electricity in your residence or business.

For additional details, refer to Internal Revenue Circular Letter No. 08-13 of October 30, 2008.

**Line 21** - Enter the total amount of other credits not included on the preceding lines. **If on this line you included credits from different concepts, you must submit a schedule showing a breakdown of such credits. You must also submit documents or evidences to support such credits.**

### PART III - OTHER PAYMENTS AND WITHHOLDINGS

**Line 1** - Enter the estimated tax paid for the taxable year. **For more information about estimated tax, refer to INSTRUCTIONS (OBLIGATION TO PAY ESTIMATED TAX).**

**Line 2** - Amounts already included on line 1 should not be included again on this line.

**Line 4** - Enter the amount reported on Schedule F Individual, Part I, line 8. Submit the Informative Return - Income Subject to Withholding (Form 480.6B), Informative Return - Individual Retirement Account (Form 480.7) and Informative Return - Educational Contribution Account (Form 480.7B), as applicable, with the return.

**Line 5** - Enter the amount reported on Schedule F Individual, Part II, line 5A. Submit Form 480.6B with the return.

**Line 6** - Enter the tax withheld reported on Form 480.6B. You must submit this form with the return.

**Line 8** - Enter the tax withheld reported on Form 480.6B. You must submit this form with the return.

**Line 9** - Enter the tax withheld reported on Form 480.6B. You must submit this form with the return.

**Line 10** - Enter the tax withheld reported on the Informative Return - Corporation of Individuals (Form 480.6 CI). You must submit this form with the return.

**Line 11** - Enter the tax withheld reported on the Informative Return - Special Partnership (Form 480.6 SE). You must submit this form with the return.

**Line 12** - Enter the 17% tax withheld on distributions from IRA or Educational Contribution Accounts of income from sources within Puerto Rico. Submit Form 480.7 and/or Form 480.7B.

**Line 13** - Enter the 10% tax withheld on IRA distributions to Government pensioners. Submit Form 480.7.

**Line 14** - Enter the 20% or 10% withholding, as applicable, on lump-sum distributions (one payment or various payments within one year) from qualified pension plans. Submit Informative Return - Retirement Plans and Annuities (Form 480.7C).

**For additional details, refer to the instructions of Schedule D Individual, Part IV.**

**Line 15** - Enter the 10% tax withheld on lump-sum distributions, in excess of your contributions, from Governmental Plans, or from the transfer of such funds to a non deductible IRA. You must submit Form 480.7C.

**For additional details, refer to the instructions of Schedule F Individual, Part V.**

**Line 16** - Enter the total of other payments and withholdings not included on the preceding lines.

If payments and withholdings of different nature are included on this line, such as 20% withholding from Major League baseball teams and the U.S. National Basketball Association, you must keep for your records a schedule showing a breakdown of such payments and withholdings. You must submit the corresponding Informative Return (i.e. Form 480.6B) and keep for your records any other document or evidence to support such payments and withholdings.

### SCHEDULE B2 INDIVIDUAL - AMERICAN OPPORTUNITY TAX CREDIT

Complete this Schedule if during the taxable year you paid qualified educational expenses for an eligible student. An **eligible student** is a student who:

- 1) at the beginning of the taxable year has not completed the first 4 years of postsecondary education,
- 2) for at least one academic period that begins during the taxable year:
  - was enrolled in a program leading to a degree, certificate or other recognized educational credential in an eligible educational institution, and
  - was completing at least half of the requirements for the degree or certificate to which he/she aspires on a full time basis, and
- 3) at the end of such taxable year has not been convicted for any felony related to the possession or distribution of a controlled substance.

The eligible student may be the taxpayer, spouse or anyone who may be claimed as a dependent by the taxpayer.

**Qualified educational expenses** refers to tuition, fees and materials for courses paid during the taxable year and required to the eligible student as a condition of enrollment or attendance by an eligible educational institution. Eligible educational expenses will be reduced by any educational assistance and exempt reimbursements received by the individual, including scholarships, subsidies or grants.

The term **eligible educational institution** means, as general rule, any college, university, vocational school or other certified postsecondary educational institution, public or private, eligible to participate in student aid programs administered by the Department of Education of Puerto Rico or the United States.

The credit is allowed for the first \$2,000 of qualified educational expenses paid during the taxable year plus 25% of the next \$2,000 paid of such expenses limited to 40%. **The maximum amount of the credit per eligible student cannot exceed \$1,000.** If the adjusted gross income of the taxpayer is over \$80,000, and the personal status is single, married not living with spouse, head of household or married filing separately; or over \$160,000, and is married living with spouse and filing jointly, the credit

is reduced in proportion to the excess of such amounts over \$10,000 or \$20,000, respectively. This credit is refundable.

### PART I – DETERMINATION OF CREDIT

Complete the name and social security number of the eligible students. In Column (C) enter, for each eligible student, the total qualified educational expenses **without exceeding \$4,000** per each one. Remember to include only expenses that were not covered by educational scholarships, subsidies or grants. In Columns (E) enter the difference between Columns (C) and (D) but not less than zero ("0"). Complete the subsequent columns as indicated in the Schedule.

### PART II – CREDIT LIMITATION

Calculate the proportional credit limitation based on your adjusted gross income. If your personal status is single, married not living with spouse, head of household or married filing separately and your adjusted gross income is \$90,000 or more, you are not entitled to claim this credit. If your personal status is married living with spouse and filing jointly and your adjusted gross income is \$180,000 or more, you are not entitled to claim this credit.

To claim this credit, it is required that you submit with your return evidence of the expenses paid for tuition, fees and materials for the courses, such as books, supplies or equipment. If you file the return electronically, you must submit the evidence of the expenses by mail together with a copy of Schedule B2 Individual to the following address: DEPARTMENT OF THE TREASURY, PO BOX 9022501, SAN JUAN PR 00902-2501.

For additional information, see the American Opportunity Tax Benefit Distribution Plan for the Commonwealth of Puerto Rico and Section 1004 of the American Recovery and Reinvestment Act of 2009.

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

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

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

- 1) Paid or accrued income tax outside of Puerto Rico.
- 2) Included taxable income from outside of Puerto Rico on your Puerto Rico income tax return.
- 3) Keep for your records evidence of the tax paid (copy of canceled or substitute checks and copy of the return filed to the IRS (or the Tax Return Filing Certification, Form 1722) or the foreign countries). If the payment receipt or tax return is written in a foreign language, you must keep for your records a certified translation of the same.

In order to determine the net income from sources outside Puerto Rico (Part I) and the net income from all sources (Part II), **the gross income will include** the net capital gain subject to the special tax rate of 10% or any other applicable rate, lump-sum distributions from pension plans subject to special tax rates, IRA distributions subject to 10% or 17% tax rate, the eligible distributions of dividends and share in partnership profits subject to the 10% tax, and the interest paid or credited over deposits on accounts that earn interest over which you elected the 10% tax.

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

**Line 1** - Enter the adjusted gross income from sources outside of Puerto Rico. The adjusted gross income from outside sources is determined by subtracting the gross income of Puerto Rico not taxable in the United States, its possessions and foreign countries from the adjusted gross income of your return (Part 2, line 5 or Schedule CO Individual, line 6, Columns B and C). Therefore, it is important to accurately determine the source of the income at the moment you are filing the return.

The source of income is determined as follows:

- 1) Interest and dividends - It is determined by the payer's residence or place of incorporation.
- 2) Payments for personal services - It is determined by the place where the services are rendered.
- 3) Rents and royalties - It is determined by the place where the property is located or by the place of use, or of the privilege of using patents, copyrights, trademarks, goodwill and other similar property.
- 4) Profit on the sale of inventory - It is determined by the place where the title of goods is transferred. There is an exemption when you buy products manufactured outside of Puerto Rico.
- 5) Profit on the sale of personal property - It is determined by the place where the title of such property is transferred.
- 6) Profit on the sale of real property - It is determined by the place where such property is located.

### PART II - DETERMINATION OF NET INCOME FROM ALL SOURCES

Determine your net income from all sources according to your income tax return.

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

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

If the tax was paid or accrued in a foreign currency, you must translate such tax to U.S. dollars at the date of the payment. You must keep for your records a schedule indicating the translation to U.S. dollars.



## PART IV - DETERMINATION OF CREDIT

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

**The credit cannot exceed the amount of taxes paid or accrued to the United States, its possessions and foreign countries.**

**Line 7** - If you are required to pay the special additional tax, transfer the amount determined on this line to line 5 of the worksheet provided in the instructions of Part 4, line 36 of the return (page 21 of this booklet). Otherwise, transfer the amount to Schedule B Individual, Part II, line 1.

### SCHEDULE CH INDIVIDUAL - RELEASE OF CLAIM TO EXEMPTION FOR CHILD (CHILDREN) OF DIVORCED OR SEPARATED PARENTS

In the case of minor children from divorced or separated parents, the exemption for dependents will be claimed by the parent with the right to custody. However, a minor child will be considered to have received more than half of his/her support during a calendar year from the parent who does not have the right to custody if:

- 1) the parent with the right to custody signs a Schedule CH Individual establishing that he/she will not claim said child as a dependent for any taxable year commencing within said calendar year; and
- 2) the parent who does not have the right to custody submits said Schedule with the return for the taxable year commencing within said calendar year.

You may agree to release your claim to the child's exemption for the current taxable year or for future years, or both. In order to do that:

- Complete **Part I** only if you agree to release your claim to the child's exemption for the current taxable year.
- Complete **Part II** only if you agree to release your claim to the child's exemption for any or all future taxable years. If you do, write the specific future taxable years or "all future taxable years" in the space provided.

**If the custodial parent completed Part II, you must submit a copy of this Schedule with your return for each future taxable year in which the exemption was released and claimed.**

### SCHEDULE CO INDIVIDUAL - OPTIONAL COMPUTATION OF TAX

You must complete this Schedule and include it with your return if you choose the optional computation of tax in the case of married individuals living together, filing a joint return and both working. This computation allows each spouse to determine the tax individually.

If you choose this computation, **do not complete Parts 2 and 3, neither lines 15 through 25, Part 4 of the return.** In the following instructions a detail is provided as to how the income, the standard or itemized deductions, the additional deductions, the personal exemption and the exemption for dependents will be attributed to each spouse.

#### Line 1 - Wages, Commissions, Allowances and Tips

This type of income will be attributed as it was earned by each spouse individually. Enter in Column B the salaries attributed to the taxpayer and in Column C the salaries attributed to the spouse. Enter in Column A, the income tax withheld by each one of your employers, for both the taxpayer and the spouse. If there is no tax withheld, enter zero. Enter in the space provided on line 1, the number of withholding statements included with your return.

Add the amounts of Columns A, B and C and enter the total amount of income tax withheld, wages, commissions, allowances and tips at the bottom of each column.

For additional information, see instructions of Part 2, line 1 of the return.

**Make sure to include with your return all Withholding Statements (Form 499R-2/W-2PR).**

#### Line 2 - Federal Government Wages

This type of income will be attributed as it was earned by each spouse individually. Enter in Columns B and C, as it corresponds to the taxpayer and his spouse, the total Federal Government income from salaries and wages received, excluding the Cost of Living Allowance (COLA). To determine if you qualify for this exclusion, refer to RELEVANT FACTS – FEDERAL EMPLOYEES.

Also, you can refer to the Informative Booklet to Provide Orientation on the Income Tax Responsibilities of Federal, Military and Other Employees.

**Include the corresponding copy of the W-2 Form with your return.**

#### Line 3 - Other Income (or Losses)

Enter on lines 3A through 3S the total of each type of other income or deductible losses, distributing in Columns B and C the amounts as they correspond to the taxpayer and his spouse. These amounts will be attributed individually or on a 50% basis to each spouse, as indicated as follows.

**The following income will be attributed to each spouse as they were earned individually:** distributable share on special partnerships profits or losses, distributable share on profits from corporations of individuals, distributions from governmental plans, distributions from Individual Retirement Accounts and Educational Contribution Accounts, income from annuities and pensions, alimony received, gain or loss from industry or business, farming, professions and commissions, qualified plans and variable annuity contracts.



The following concepts of miscellaneous income will be attributed also as they correspond to each spouse **individually**: judicial or extrajudicial indemnification, income from Major League Baseball teams and the United States National Basketball Association, distributions from deferred compensation plans, and distributions from qualified retirement plans (partial or lump-sum not due to separation from service).

On the other hand, the income from interest, dividends from corporations and distributions from partnerships subject and not subject to withholding, miscellaneous income (except those indicated in the preceding paragraph), dividends from Capital Investment or Tourism Fund, gain or loss from rental business, gain or loss from sale or exchange of capital assets, and net long-term capital gain on Investment Funds, **will be attributed to each spouse on a 50% basis of the total amount.**

It is very important that you provide the detailed information for each concept of other income or losses on the corresponding Schedules.

For additional information, including the tax treatment of losses, see instructions of Part 2 of the return.

#### Line 5 - Alimony Paid

Generally, you may claim as a deduction any periodic payment made for alimony under a divorce or separation decree, if you comply with certain requirements. **You must provide the social security number of the person who receives the payment and the judgment number. You must keep for your records copy of canceled or substitute checks and the divorce decree. Lump-sum payments or assets division, voluntary payments not included in a court decree or agreement for separation support, or child support payments, are not deductible.**

For information regarding the requirements that the alimony payment must comply with, refer to instructions of Part 2, line 4 of the return.

#### Line 7 - Standard Deduction

The amount of \$1,575 preprinted in Columns B and C corresponds to the standard deduction to which each spouse is entitled to claim under the optional computation of tax.

#### Line 8 - Itemized Deductions

Under the optional computation of tax, the itemized deductions will be attributed to each spouse on a 50% basis of the total amount. Therefore, once the total amount of itemized deductions is determined on line 8Q, enter 50% in Columns B and C of line 8R.

For detailed information regarding the deductions to be claimed on lines 8A through 8P, refer to instructions of Part I of Schedule A Individual.

#### Line 10 - Additional Deductions

In addition to the standard deduction or the itemized deductions, you are entitled to claim the deductions detailed in this section.

In the case of taxpayers who choose the optional computation of tax, the additional deductions shall be allowed to the spouse to whom they correspond individually, to the extent and subject to the provisions of Section 1023(bb) of the Code. Notwithstanding, in the case of the deductions for contributions to health savings accounts with a high annual deductible medical plan, educational contribution accounts, acquisition and installation of a personal computer used by dependents, automobile loan interest (one car only), and contributions to the Endowment Fund of the University of Puerto Rico, they **may be claimed at their option by one of the spouses, or on a 50% basis to each one.**

**Remember not to submit evidence of the same with the return. However, you must keep the evidences of these deductions for your records for at least 6 years, in case that they may be required eventually by the Department.**

#### Line 10A - Contributions to individual retirement accounts

Enter in Columns B and C, as it corresponds to the taxpayer and his spouse, the total contributions made to a qualified Individual Retirement Account (IRA). **The maximum deduction for each spouse is \$5,000** or the adjusted gross income from salaries or earnings attributable to professions or business, whichever is smaller.

**In the spaces provided on this line enter the name and employer identification number of the financial institution, the account number and the detail of the contributions made.**

For additional information, see instructions of Part II, line 1 of Schedule A Individual.

#### Line 10B - Contributions to health savings accounts with a high annual deductible medical plan

In the case of eligible individuals, enter the total contributions made to a Health Savings Account with a High Annual Deductible Medical Plan (Health Savings Account). If you have an **individual** coverage under the Health Savings Account, enter the amount in Columns B and C as it corresponds to the taxpayer and his spouse. Otherwise, if you have a **family** coverage, enter the amount in Columns B and C, as it corresponds or on a 50% basis to each spouse.

If you were eligible during the whole year and have an individual coverage, the contribution cannot exceed the smaller amount between the annual deductible under such coverage or \$2,850. If you have a family coverage, the contribution cannot exceed the smaller amount between the annual deductible under such coverage or \$5,650. Those individuals who reach age of 55 before the close of the taxable year, can make an additional contribution of up to \$500 for the 2009 taxable year.

If you were not eligible during whole year, divide the previously established limits between 12 and multiply this amount by the number of months for which you were eligible.

**In the spaces indicated on this line enter the name and employer identification number of the institution, the account number, the total contributions made, the annual deductible and the type of coverage.**

**You must keep for your records the certification issued by the institution in which you established the account.**

For additional information, see instructions of Schedule A Individual, Part II, line 2.

#### **Line 10C - Contributions to governmental pension or retirement systems**

Enter in Columns B and C as it corresponds to the taxpayer and his spouse, all cash contributions made during the year to a pension or retirement system, other than Social Security, established by the Congress of the United States, the Legislative Assembly of Puerto Rico, the municipalities, agencies, instrumentalities and public corporations of Puerto Rico.

This contribution must be informed in Part 14 of the Withholding Statement (Form 499R-2/W-2PR) or on Form W-2, if you are a federal employee.

#### **Line 10D – Deduction for Veterans**

Enter in Columns B and C, as it corresponds to the taxpayer and his spouse, the amount of **\$1,500**, if you are a resident of Puerto Rico and a veteran of the United States Armed Forces.

If both spouses are veterans, each one can claim \$1,500.

**Keep for your records copy of Form DD-214 (Discharge from U.S. Armed Forces).**

#### **Line 10E – Ordinary and necessary expenses**

Enter in Columns B and C, as it corresponds to the taxpayer and his spouse, the amount determined on Schedule I Individual, Part I, line 8. This deduction is limited to the smaller of the amount paid up to a maximum of \$750 or 4% of the salary.

If the taxpayer and his spouse claim this deduction, each one must complete a separate Schedule I Individual. In such case, both spouses must fill in completely the oval corresponding to the taxpayer or spouse located at the top of said Schedule.

#### **Line 10F – Automobile loan interest**

Enter in Columns B and C, as it corresponds or on a 50% basis to each spouse, the interest paid or accrued on a loan for the acquisition of an automobile which is guaranteed by it. Also include, in the space provided, the name of the financial institution, the loan number and the employer identification number of the institution granting the loan. **The deduction will not exceed \$1,200 between both spouses and it shall be allowed for only one vehicle.**

**You must keep for your records a certification from the bank or financial institution as evidence of the deduction claimed.**

#### **Line 10G – Young people who work**

Enter in Columns B and C, as it corresponds to the taxpayer or his spouse, the amount of **\$1,000** if you are a young person who work and your age ranges between 16 and 25 at any moment of the taxable year.

If both spouses qualify, they can claim \$1,000 each.

#### **Line 10H – Educational Contribution Account**

Enter in Columns B and C the total reflected on Schedule A1 Individual, Part II, line (10), as it corresponds or on a 50% basis to each spouse, the cash contributions to an educational contribution account for the exclusive benefit of a child or relative up to the third degree of blood relationship or second degree by affinity. The maximum contribution amount **can not exceed \$500 for each beneficiary.**

The account must be established only by the individual who has the parental rights and obligations conferred by law of the beneficiary for whom the account was established. This deduction will not be allowed for a taxable year in which the beneficiary has reached the age of 26 before the closing of such taxable year.

**You must keep for your records the certification issued by the institution which receives the contributions.**

For additional information, see instructions of Part II, line 8 of Schedule A Individual.

#### **Line 10 I – Acquisition and installation of a personal computer used by dependents**

Enter in Columns B and C, as it corresponds or on a 50% basis to each spouse, the amount up to a maximum of \$500 for the expenses incurred in the acquisition and installation of a personal computer in your residence to be used by your dependents.

For purposes of this deduction, a dependent is a person who at the end of the taxable year has not reached the age of 21 and who receives more than half of the support from the taxpayer.

**You must keep for your records evidence of the payment for the acquisition and installation of this equipment. This deduction can only be claimed once by the taxpayer.**

#### **Line 10J – Contributions to the Endowment Fund of the University of Puerto Rico**

Enter in Columns B and C, as it corresponds or on a 50% basis to each spouse, the amount of contributions made to the Endowment Fund of the University of Puerto Rico. You must keep for your records copy of canceled checks or its equivalent, in case of electronic contributions, that evidence the same.

### Line 11 – Telephone service payment for communication with military personnel in combat zone

Enter in Columns B and C, as it corresponds or on a 50% basis to each spouse the total telephone service payment up to a maximum of \$200, for the expense incurred in the telephone communication with your spouse, brother (sister), son (daughter), grandchild, parent or grandparent who is in active service as military personnel in a combat zone.

For additional information, see instructions of Part 3, line 10 of the return.

### Line 12 – Personal Exemption

The amount of \$1,500 preprinted in Columns B and C corresponds to the personal exemption to which each spouse is entitled to claim under the optional computation of tax.

### Line 13 – Exemption for Dependents

Enter in the spaces provided on lines 13A through 13C, the number of dependents claimed according to their category:

Line	Category	Class
13A	(N)	Non university
13B	(U)	University students
13C	(I)	Disabled, blind or age 65 or older

Multiply the amount of dependents claimed on each line by \$2,500 and enter the result in the space provided. Add lines 13A through 13C and enter the total on line 13D. Enter on each one of Columns B and C of line 13E, 50% of line 13D.

For the additional information, see instructions of **Schedule A1 Individual**.

### Line 16 – Tax

Both spouses shall determine their tax using the **same method** and fill in the corresponding oval.

### Tax Tables

Use **Table A** for the Tax Computation provided on page 17 of the instructions. Determine your tax individually considering your Net Taxable Income, as determined on line 15, Columns B and C, respectively. Enter the tax determined for each column on this line and fill in Oval 1.

### Special Tax on Long-term Capital Gains

If you are a resident of Puerto Rico and derived long-term capital gains, you must complete Schedule D Individual. You can benefit from the special tax, if your long-term capital gains exceed your short-term capital losses, and the tax on your net taxable income exceeds the 10%, 20% or 10% for certain

lump-sum distributions from pension plans and variable annuity contracts; or 10% over investment in a Tourism Development Fund or Capital Investment Fund. In these cases, you may complete Schedule D2 Individual (Special Tax on Net Long-Term Capital Gains).

If you used Schedule D2 Individual, transfer the tax amount on line 13 of said schedule to Columns B and C, as it corresponds, of this line and fill in Oval 2. **Complete one Schedule D2 Individual for each spouse and submit both Schedules with your return.**

### Nonresident alien

If you are a nonresident alien not engaged in trade or business within Puerto Rico, all of your income from sources within Puerto Rico are subject to a fixed tax rate of 29%. Enter the tax determined in Columns B and C, as it corresponds, of this line and fill in Oval 3. If you are a nonresident alien engaged in trade or business within Puerto Rico, all of your income from sources within Puerto Rico as well as the income which is effectively connected with the operation of a trade or business in Puerto Rico, is subject to normal tax rates.

### Line 17 - Gradual Adjustment Amount

If the net taxable income is more than \$37,500, you must complete Schedule P Individual. Determine individually the gradual adjustment amount on said Schedule (See Instructions to Complete the Schedules). Enter in Columns B and C, as it corresponds, the amount determined on Schedule P Individual, line 7. **Submit with the return the Schedules used.**

### Line 18 - Excess of Alternate Basic Tax over Regular Tax

If your net income subject to alternate basic tax is \$37,500 or more, you must complete Schedule O Individual. **To determine individually whether you are subject to the Alternate Basic Tax or not, complete and submit the Schedules used (See Instructions to Complete the Schedules).** Enter in Columns B and C, as it corresponds, the amount determined on Schedule O Individual, Part II, line 7.

### Line 22 - Tax on IRA or Educational Contribution Accounts distributions of income from sources within Puerto Rico

Enter in Columns B and C, as it corresponds, 17% of the IRA or Educational Contribution Accounts Distributions of income from sources within Puerto Rico received during the year. Submit Schedule F Individual. (See instructions to complete the Schedules).

### Line 23 - Tax on IRA distributions to Government pensioners

Enter in Columns B and C, as it corresponds, the 10% of the IRA distributions to Government pensioners received during the year. Submit Schedule F Individual. (See instructions to complete the Schedules).

### Line 24 - Tax on distributions and transfers from Governmental Plans

Enter in Columns B and C, as it corresponds, the tax on distributions or transfers from the Retirement Savings Accounts Program (10% of a lump-sum distribution or from an amount transferred under Section 1169B). Submit Schedule F Individual. (See instructions to complete the Schedules).

### Line 25 - Special tax on net income from Film or Infrastructure Projects, and from businesses with tax exemption decree under Act 135 of 1997

Enter in Columns B and C, as it corresponds, the income tax previously determined on Schedules K and/or N Individual, whichever applies. (See instructions to complete the Schedules).

### Line 26 – Income tax from Major League Baseball teams and the U.S. National Basketball Association

Enter in Columns B and C, as it corresponds, the 20% of the income from Major League baseball teams and the U.S. National Basketball Association. Submit Schedule F Individual. (See instructions to complete the Schedules).

### Line 28 – Total Tax Determined

Enter the sum of Columns B and C of line 27. Transfer this amount to Part 4, line 26 of the return.

## SCHEDULE D INDIVIDUAL - CAPITAL ASSETS GAINS AND LOSSES

Use this Schedule to determine capital gains or losses on the sale or exchange of capital assets and to report lump-sum distributions from qualified pension plans and variable annuity contracts. Capital assets could be defined as a property acquired for investment.

Capital gains or losses are classified in two classes, based on the period of time you held the property:

- 1) short-term - property held not more than six months.
- 2) long-term - property held more than six months.

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

Once you determine a gain in the sale or exchange of capital assets, you must identify the date of sale of the property.

In case that the eligible person to claim the 10% or any other special tax rate, has derived capital gains from both categories and at the same time has capital losses, to determine the net capital gain under each category, said losses will be applied against the gains in the proportion that each one of these gains bears with the total amount of said gains.

For additional information, refer to the instructions to complete Schedule D2 Individual.

**As a general rule, the adjusted basis of the property is its original cost plus the cost of the permanent improvements, less depreciation, if the property was leased during its possession.**

### Provisions applicable to the adjusted basis of certain capital assets:

The adjusted basis must include the increase in accumulated value of included capital assets on which the 5% special tax was prepaid during the period of **July 1 to December 31, 2006**, as provided in Section 1014A of the Code.

You must also include in the adjusted basis the accumulated gain upon which you paid the 5% special tax during the period of July 1 to December 31, 2006 in the case of corporate stocks or partnership interests acquired upon the exercise of an option, as provided in Section 1046(e) of the Code.

Those taxpayers who benefited from the 5% special tax rate, must indicate it by filling in the oval in Parts I, II and III of this Schedule. **You must keep for your records Form SC 2731 with the corresponding Schedule.**

Any amount or increase in value of the included capital assets generated after the election provided in Section 1014A of the Code must be taxed according to the law provisions in force at the moment in which the sale, exchange or other disposal of such capital assets finally takes place.

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

### Recognition of loss:

**Losses generated in the sale of capital assets for which the 5% special tax was prepaid, shall be adjusted according to the income tax rate in force applicable to this kind of transaction at the moment of the sale of such assets, before the use or carry over of said loss by the individual. According to the above, such loss will be adjusted by a formula or fraction, where the numerator will be the 5% rate and the denominator will be the income tax rate in force at the date on which the sale of the asset took place.**

For additional details, refer to Regulation No. 7188 of August 4, 2006.

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

You must inform in this part **every** short-term capital gains and losses.

**Line 1** - Add Column (F) and enter the result on this line.

**Line 5** - If you elected to pay taxes using the bracket method, enter the amount determined on Form 480.6 SE, regarding the distributable share on the net short-term capital gain (or loss) from special partnerships. You must submit this form with your return.

**Line 6** - If you elected to pay taxes using the bracket method, enter the amount determined on Form 480.6 CI, regarding the distributable share on the net short-term capital gain (or loss) from a corporation of individuals. You must submit this form with your return.

**Line 7** - Enter the amount determined on the Informative Return, Employees-Owned Special Corporation (Form 480.6 CPT). You must submit said form with your return.

**Line 10** - Use this line only if during the taxable year you disposed all the interest or assets used in an activity that is **not** your principal industry or business and a capital gain was derived in such disposal.

If you comply with the preceding requirement, enter the excess of deductions (losses) determined, as applicable, in whichever of the following schedules: Schedule K Individual, Part II, line 9; Schedule L Individual, Part II, line 11; Schedule M Individual, Part II, line 5; or Schedule N Individual, Part II, line 7.

For additional information about losses incurred in activities that **does not** constitute your principal industry or business, refer to the instructions for LOSSES in Part 2 of the return.

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

You must inform in this part the long-term capital gains and losses.

**Line 12** – Add the amounts indicated in Column (F) and enter the result on this line.

**Lines 15, 16 and 17** - Refer to the instructions of lines 5, 6 and 7 of Part I, respectively.

**Line 19** - Refer to the instructions of line 10, Part I.

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

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

**Line 21** – Enter the result of Column (F) on this line. Identify the act under which you received the benefit and include the number of the decree that grants you the special treatment, if applicable.

## PART IV – LUMP-SUM DISTRIBUTIONS FROM QUALIFIED PENSION PLANS AND FROM VARIABLE ANNUITY CONTRACTS

Enter the lump-sum distribution or distributions from pension plans qualified by the Department of the Treasury received during the same taxable year of the participant (one payment or various payments during the same year) due to separation from service. Indicate the distribution date, the total lump-sum payment received, basis and taxable amount.

The **basis** of the distribution includes amounts for which the tax was prepaid under Act No. 87 of May 13, 2006, as amended, and after- tax contributions. If the basis includes any prepaid amount, fill in the corresponding oval. The difference between Column (A) and Column (B) can not be less than zero ("0").

**Line 22** – Enter the distributions received by the **taxpayer** if the employee's trust that is part of the plan **does not** meet the requirements established on line 24. These distributions are taxable at the 20% special tax rate.

**Line 23** – Enter the distributions received by the **spouse** if the employee's trust that is part of the plan **does not** meet the requirements established on line 24. These distributions are taxable at the 20% special tax rate.

**Line 24** – Enter the distributions received by the **taxpayer** if the following requirements are met:

- the trust that is part of the plan is organized under the laws of the Commonwealth of Puerto Rico, or
- the trust has a Puerto Rico resident fiduciary acting as paying agent, and
- 10% of the trust's assets attributable to participants residents of Puerto Rico, determined at the close of the plan's year during which the distribution is made and during each one of the plan's two years preceding the date of the distribution have been invested in registered investment companies organized under the laws of Puerto Rico and subject to tax under Section 1361 of the Code, or in property located in Puerto Rico as defined in Administrative Determination No. 08-15 of December 29, 2008.

These distributions are taxable at the **10%** special tax rate.

**Line 25** – Enter the distributions received by your **spouse** and that at the same time meet the requirements established on line 24. These distributions are taxable at the **10%** special tax rate.

**Line 27** – Enter the lump-sum distributions (amounts paid during the same taxable year) under a variable annuity contract received by the **taxpayer**. You may elect on Schedule D2



Individual, to treat such distribution as a long-term capital gain subject to the 10% tax rate, according to Section 1012B of the Code.

**Line 28** – Enter the lump-sum distributions under a variable annuity contract received by your **spouse**. You may elect on Schedule D2 Individual, to treat such distribution as a long-term capital gain subject to the 10% tax rate, according to Section 1012B of the Code.

#### PART V - NET CAPITAL GAINS OR LOSSES FOR DETERMINATION OF THE ADJUSTED GROSS INCOME

**Line 30** - Enter here **only** the net capital gains determined on lines 11, 20 and 21.

Column A - Enter the net short-term capital gain, if any, determined in Part I, line 11, Column (F).

Column B - Enter the net long-term capital gain, if any, determined in Part II, line 20, Column (F).

Column C - Enter the net long-term capital gain realized from the sale of shares or other property under the provisions of special legislation, if any, determined in Part III, line 21, Column (F).

**Line 31** - Enter here **only** the net capital losses determined on lines 11, 20 and 21.

Column A - Enter the net short-term capital loss, if any, determined in Part I, line 11, Column (F).

Column B - Enter the net long-term capital loss, if any, determined in Part II, line 20, Column (F).

Column C - Enter the net long-term capital loss realized from the sale of shares or other property under the provisions of special legislation, if any, determined in Part III, line 21, Column (F).

**Line 32** - This line must be used **when any** of Columns B and C reflect a loss on line 31. Such loss will be applied proportionally to the gain, if any, reflected in the other Column of line 30, except Column A. If the other Column does not reflect a gain on line 30, enter zero in the box.

**Line 34** - If line 31, Column A reflects a loss, apply the same proportionally to the gains, if any, reflected on line 30. If no Column reflected gains on line 30, enter zero.

On this line, the net short-term capital loss reflected on line 31, Column A, is applied proportionally to the long-term capital gains reflected on line 30, Columns B and C, after having applied proportionally the net long-term capital losses of the other categories.

**Line 38** - If you derived a net capital gain, the excess of the net long-term capital gain over the net short-term capital losses must be transferred to Schedule D2 Individual and to Part 2, line 2Q of the return or to line 3Q of Schedule CO Individual, as

applicable. **On the other hand, the net short-term capital gain must be transferred only to Part 2, line 2Q of the return or to line 3Q of Schedule CO Individual, as applicable. Therefore, do not transfer this amount to Schedule D2 Individual.** That is because the short-term capital gain is taxed at the regular tax rates. If the amount on line 37 is a net capital loss, then continue with line 39.

**Line 39** - If the amount on line 37 of this schedule is a loss, enter on this line and in Part 2, line 2Q of the return or on line 3Q of Schedule CO Individual, as applicable, the smaller of the following: (a) the amount of the loss reflected on line 37, or (b) (\$1,000). If you have a net capital loss derived from the sale or exchange of assets, you may deduct up to \$1,000 on your return. Any loss not used may be carried over for a period of 5 years. Such loss may be used against any capital gain derived in the future and if there is any remaining loss, you may claim it as a deduction up to \$1,000 in each one of the 5 years.

#### SCHEDULE D1 INDIVIDUAL - SALE OR EXCHANGE OF PRINCIPAL RESIDENCE

If you sold or exchanged your principal residence during the year, you must complete this Schedule in order to pay taxes on the gain, if any.

However, if you have the intention to purchase or construct a new residence, you may postpone the payment of taxes on the gain, if any, if within two years prior to or two years after the sale of the old residence, you purchase or construct a new residence in Puerto Rico and use it as your principal residence, provided that the purchase price of said new residence is equal to or larger than the selling price of the old residence.

On the other hand, if you do not invest the sale proceeds in another residence within the established period of time, or do not invest the total sale proceeds in another residence, you must recognize the gain in the year in which the sale occurred.

#### PART I - COMPUTATION OF GAIN

**Line 1** - Enter the date of sale of the old residence. This date appears on the Sale and Purchase Deed.

**Line 2** - If you used funds from your Individual Retirement Account (IRA) to purchase your old residence, these funds are taxable when the old residence is sold. Enter the amount withdrawn from the IRA to purchase the old residence. Transfer to Schedule F Individual, Part VII.

**Line 3** - If you sold your principal residence during the taxable year, you must inform the Secretary of the Treasury whether you purchased or constructed a new residence and the dates thereof.

**Line 4** - Enter the selling price of your old residence, without including personal property items. Generally, the sale price includes the cash received from the sale plus the mortgages assumed by the purchaser.

**Line 5** - Enter the expenses incurred in order to sell the old residence. These expenses include sales commissions, advertising, legal, appraisal and other expenses. Lodging expenses (i.e. hotels) nor travel expenses (i.e. airplane tickets) are not considered selling expenses. Do not include fixing-up expenses on this line (see the instructions for line 16).

**Line 7** - Enter the adjusted basis of the old residence. The adjusted basis is the original cost of the old residence and its permanent improvements, less the accumulated depreciation, if the property was used to produce income during its possession.

Also, the adjusted basis of the property will include the increase in accumulated value of such property for which the 5% special tax rate was prepaid during the period of July 1, 2006 to December 31, 2006, as provided in Section 1014A of the Code. If you made a prepayment during the indicated period, fill in the corresponding oval. **You must keep copy of Form SC 2731 with the corresponding Schedule for a period not shorter than 6 years.**

**Line 9** - If you answered "Yes", do not complete the rest of the Schedule and include the same with your return. You must complete an additional Schedule D1 Individual on the following year if you have not replaced your residence and have the intention of doing so during the replacement period. If you answered "No", continue with Part II or III, whichever applies.

## PART II - ONCE IN A LIFETIME EXCLUSION FOR TAXPAYERS AGE 60 OR OLDER

If you or your spouse are age 60 or older at the date of the sale or exchange of the principal residence, you may exclude from the gross income up to \$150,000 (\$75,000 if married filing separately) from the gain realized on the sale or exchange of your principal residence. This exclusion will apply as long as you have used the property as your principal residence for a period of 3 years or more of the 5 years previous to the sale. **This exclusion may be claimed by the taxpayer only once in a lifetime.**

If you realized a gain on the sale or exchange of your principal residence, and did not purchase or construct a new residence within the time limits previously mentioned, or do not have the intention of buying or constructing a residence, and do not qualify for the \$150,000 exclusion (\$75,000 if married filing separately), or did not claim said exclusion, transfer the total amount of the gain from line 8 of this Schedule to line 2 (if you owned the residence for 6 months or less), or to line 13 (if you owned the residence for more than 6 months) of Schedule D Individual.

If you qualify for the exclusion and claimed it, but did not purchase or construct a new residence, neither have the plan to do so during the period established by the Code to differ the gain, transfer the amount of gain recognized from line 15 of this Schedule to Schedule D Individual, Part II, line 13.

## PART III - ADJUSTED SALES PRICE, TAXABLE GAIN AND ADJUSTED BASIS OF NEW RESIDENCE

**Line 15** - If the purchase price or cost of construction of the new residence is smaller than the adjusted sale or exchange

price of the old residence, the gain will be recognized only up to the total amount by which the adjusted sales or exchange price of the old residence exceeds the cost of purchase of the new residence. You must indicate if the recognized gain is a short-term or long-term gain.

**Line 16** - Enter the fixing-up expenses you paid in order to sell the old residence. Fixing-up expenses include repair, maintenance, painting and cleaning expenses paid in order to facilitate the sale of the property. However, to qualify, the expenses must be:

- ☒ for work performed during the 90 day period ended on the date in which the sales contract of the old residence took place;
- ☒ paid not later than 30 days after the date of sale of the old residence.

The fixing-up expenses do not include amounts paid for sales expenses nor permanent improvements. To claim said expenses, see instructions for lines 5 and 7, respectively.

**Line 19(b)** - Enter the cost of the new residence. The cost of the new residence includes that part of such cost that is ascribed to the purchase, construction, reconstruction and improvements made that can appropriately be charged to the capital account during the established replacement period.

## SCHEDULE D2 INDIVIDUAL - SPECIAL TAX ON NET LONG-TERM CAPITAL GAINS

If you choose the optional computation of tax in the case of married individuals living together, filing a joint return and both working, you must complete and submit with the return **one Schedule D2 Individual for each spouse**. Fill in completely the oval that identifies the taxpayer or his spouse, respectively.

Every individual, estate or trust will pay, in lieu of any other tax imposed by the Code, a special tax for the total amount that exceeds the net long-term capital gains over any net short-term capital loss, including the direct investments and not through a Capital Investment or Tourism Fund.

The special tax rate of 10% will be applicable to any capital asset, without distinction, including lump-sum distributions under a variable annuity contract. This 10% tax also applies to lump-sum distributions from qualified pension plans which trust is organized under the laws of the Commonwealth of Puerto Rico or has a resident fiduciary acting as paying agent and 10% of the trust's assets attributable to participants residents of Puerto Rico, determined at the close of the plan's year during which the distribution is made and during each one of the plan's two years preceding the date of the distribution have been invested in registered investment companies organized under the laws of Puerto Rico and subject to tax under Section 1361 of the Code, or in property located in Puerto Rico as defined in Administrative Determination No. 08-15 of December 29, 2008.

You may also elect to pay a 20% tax on lump-sum distributions from qualified pension plans which trust does not comply with the above requirements.

Furthermore, you may elect to pay a tax of 10% for the total amount that exceeds the net long-term capital gains attributable to investments made in a Tourism Development Fund and Capital Investment Funds, over any net short-term capital loss for the same concept.

It is important to point out that there are particular situations where as a result of the operation of a business under the provisions of special legislation, the gain in the sale or exchange of capital assets may be taxable at a special rate not mentioned previously. For example, this occurs with the Tax Incentives Act of 1998 (Act No. 135 of December 2, 1997, as amended) and the Economic Incentives for the Development of Puerto Rico Act (Act No. 73 of May 28, 2008), which provides a special tax rate of 4% applicable in case of the sale or exchange of stocks of an exempt business with an exemption decree, and that if it were not for this special legislation, they will be subject to the regular tax rates provided by the Code.

However, you may elect to include such gains as part of your gross income on the income tax return for the year in which said gains are recognized, and pay a tax in accordance with the normal tax rates, whichever is more beneficial.

As a general rule, you may reduce your tax liability by using Schedule D2 Individual, if the total amount on line 38 of Schedule D Individual is more than zero, and

You filled in the Personal Status Oval under which you File: In Part 3, line 14 of the return or line 15, Column B or C of Schedule CO Individual is more than:

1, 2, 3 or 4	\$17,000
5	\$ 8,500

You must complete your return up to Part 3, line 14 or up to line 15 of Schedule CO Individual before using Schedule D2 Individual.

#### PART I - COMPUTATION OF SPECIAL TAX ON NET LONG-TERM CAPITAL GAINS

**Line 1** – If you are within the first three years from the beginning of an activity that is your or your spouse's principal industry or business and said activity generated a loss, **do not transfer to this line** any excess of said loss after having applied the same against other income **except** salaries and pensions.

**Line 2** – The amounts to be included on **lines 2(a) and 2(f)**, if you elect to pay taxes on such items at the special rates, come from Schedule D Individual, line 35, as applicable. The net short-term capital gains should be taxed at regular rates, and cannot be transferred to this line.

You must enter **zero** in any line on which you decide to pay taxes at the regular tax rates and do not elect the special rates. This applies to such cases in which you have derived gain in more than one of the concepts indicated on this line.

**Line 2(b)** – Enter the lump-sum distributions from qualified pension plans for which you elect to pay taxes at the 20% special tax rate as specified on Schedule D Individual, Part IV, line 22(C) or 23(C), as it applies to the taxpayer or his spouse.

**Line 2(c)** – Enter the lump-sum distributions from qualified pension plans for which you elect to pay taxes at the 10% special tax rate as specified on Schedule D Individual, Part IV, line 24(C) or 25(C), as it applies to the taxpayer or his spouse.

**Line 2(d)** – Enter the lump-sum distribution from a variable annuity contract for which you had elected to pay taxes at the 10% special tax rate as specified on Schedule D Individual, Part IV, line 27 or 28, as it applies to the taxpayer or his spouse.

**Line 4(a)** – Enter the standard or itemized deduction, whichever is larger (Part 3, line 8 of the return or line 9, Column B or C of Schedule CO Individual, as applicable). Recompute your deductions for Medical Expenses and Charitable Contributions (if any), based on the Adjusted Gross Income indicated on line 3 of this schedule. Do not alter any of the previously established amounts in other schedules.

**Line 5** - Subtract line 4(e) from line 3 and enter the difference (but not less than zero). This is the Net Taxable Income without including the excess of the net long-term capital gains over the net short-term capital losses.

**Line 10** - Add the amounts of lines 6 through 9 of this schedule. This is your total tax as per special tax on the excess of net long-term capital gains over the net short-term capital losses.

#### PART II - COMPUTATION OF REGULAR TAX ON NET TAXABLE INCOME AS PER RETURN

**Line 13** - Enter line 10 or 12, whichever is smaller. If the amount on line 12 from the computation of the Regular Tax is smaller than the amount on line 10, enter the tax of line 12 in Part 4, line 15 of the return or line 16, Column B or C of Schedule CO Individual and fill in completely oval 1 (Tax Table). If the amount on line 10 is smaller, enter this amount in Part 4, line 15 of the return or line 16, Column B or C of Schedule CO Individual and fill in oval 2 (Special tax on capital gains). **In this case, submit this Schedule with your return.**

#### SCHEDULE E - DEPRECIATION

This Schedule must be completed by those taxpayers who are engaged in an industry or business, or who derived income from professions, commissions, farming and rent.

Schedule E will be used to inform each of the properties for which you claim depreciation. There are spaces for current, flexible and accelerated depreciation; improvements depreciation and amortization.

On this schedule you must provide the following information:

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

### Line (b) - Flexible Depreciation

In order to be entitled to claim flexible depreciation in lieu of current depreciation, the Code requires you to make an option through a sworn statement to be filed not later than 30 days after the end of the taxable year. Said option may be exercised only for property acquired by the taxpayer prior to June 30, 1995.

### Line (c) - Accelerated Depreciation

The Code grants a deduction for accelerated depreciation in lieu of current depreciation. In order to be entitled to this deduction, the taxpayer is required to make an election with his/her return to use the accelerated depreciation method. Said election may be exercised only for property acquired by the taxpayer during taxable years commenced after June 30, 1995. The aforesaid election, once made, is irrevocable.

**Refer to the Code and its regulations for other requirements and provisions in connection with the deduction under the flexible and accelerated depreciation methods.**

**Submit this Schedule with your return.**

## SCHEDULE F INDIVIDUAL - OTHER INCOME

The following types of income will be reported on this Schedule: interest, dividends from corporations and distributions from partnerships, distributable share on profits from special partnerships and corporations of individuals, distributions and transfers from governmental plans, income from prizes and contests, judicial or extrajudicial indemnifications, miscellaneous income, income from Major League baseball teams and the U.S. National Basketball Association, distributions from Individual Retirement Accounts and Educational Contribution Accounts, distributions from deferred compensation plans and distributions from qualified retirement plans (partial or lump-sum not due to separation from service).

If you choose the optional computation of tax in the case of married individuals living together, filing a joint return and both working and the income reported on this Schedule is **only from dividends from corporations and distributions from partnerships subject and not subject to withholding, miscellaneous income (without including judicial or extrajudicial indemnifications and income from Major League baseball teams and the U.S. National Basketball Association) and income from prizes and contests, you must complete and submit with your return only one Schedule F Individual for both spouses.** Fill in completely the oval identifying both. These income are attributed on a 50% basis to each spouse. Nevertheless, in the case of income from **interest**, although the total is attributed on a 50% basis to

each spouse, **you must complete and submit with your return one Schedule F Individual for each spouse.** Thus, each spouse may claim the exclusion of up to \$2,000 provided by the Code in the case of interest received from financial institutions engaged in trade or business in Puerto Rico.

On the other hand, if under such optional computation you reported on this Schedule income from distributable share on special partnerships profits or losses, distributable share on profits from corporations of individuals, distributions from governmental plans, judicial or extrajudicial indemnifications, income from Major League baseball teams and the U.S. National Basketball Association, distributions from Individual Retirement Accounts and Educational Contribution Accounts, distributions from deferred compensation plans and distributions from qualified retirement plans (partial or lump-sum not due to separation from service), **you must complete and submit with your return one Schedule F Individual for each spouse.** Fill in completely the oval that identifies the taxpayer or his spouse, respectively. These income are attributed according to the spouse who had received or earned them.

### PART I - INTEREST

Enter in the indicated spaces, the payer's name and employer identification number, and the account number.

**Column A** - Enter the 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, if you elected to pay the special tax rate of 10%.

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.

**Column B** - You must show the taxable interest from an Individual Retirement Account or an Educational Contribution Account from eligible financial institutions subject to withholding, if you exercised the option to pay a special tax rate of 17% over the excess of \$2,000. Submit with your return Form 480.7



(Informative Return - Individual Retirement Account) or Form 480.7B (Informative Return - Educational Contribution Account), as applicable.

**Column C** – You must show the interest subject to withholding from financial institutions if you exercised the option to pay a special tax rate of 10% over the excess of \$2,000, **without including** taxable interest from an Individual Retirement Account or an Educational Contribution Account. Submit with your return Form 480.6B (Informative Return – Income Subject to Withholding).

**Column D** - Enter the interest received from eligible financial institutions for which the option to pay the 10% tax was not exercised. Submit with your return Form 480.6A (Informative Return - Income Not Subject to Withholding).

**Column E** - Enter the interest earned from Individual Retirement Accounts (IRA) received from distributions to certain Government pensioners, if you exercised the option to pay a special tax rate of 10% over the excess of \$2,000.

For additional information refer to instructions of Part VII of this Schedule. Submit Form 480.7 with your return.

**Interest received from financial institutions engaged in trade or business in Puerto Rico are exempt up to \$2,000. This exclusion will be claimed on Schedule F Individual, Part I, line 2, Column B, C, D or E. The total amount of line 2 in all columns should not exceed \$2,000. However, in case of married individuals filing separate returns, the exclusion should not exceed \$2,000 for each one.**

**Column F** - Enter the interest received or credited from deposits, certificates of deposit, current accounts held in savings cooperatives and associations held in any commercial bank or financial institution located outside of Puerto Rico, or any other interest income not included in Columns A through E.

## **PART II - CORPORATE DIVIDENDS AND PARTNERSHIPS DISTRIBUTIONS**

Enter in the indicated spaces, the payer's name and employer identification number, and the account number.

**Column A** - You must include dividends and profits from corporations or partnerships subject to withholding. Every distribution made by a domestic or foreign corporation, whose income from sources within Puerto Rico is at least 80% of its gross income derived during 3 taxable years preceding the date of the dividend's declaration, is subject to a 10% preferential tax. If you have an investment in stocks or shares in a domestic corporation or partnership, a 10% withholding will be made automatically from any distribution, unless you elect that such withholding be inapplicable.

If you elected that no withholding be made, you must inform such income as ordinary income and pay taxes at the regular rates. This income must be informed in Column B.

If the 10% tax withholding was made, you may elect to pay taxes from the dividends or profits as ordinary income, if it is more beneficial, in case of which you must enter this amount on line 2D, Part 2 of the return or line 3D, Columns B and C of Schedule CO Individual if you choose the optional computation of tax.

**Column B** - Enter any dividend or profit distribution received from a foreign corporation or partnership not engaged in trade or business in Puerto Rico, or which income is substantially from sources outside Puerto Rico.

**The tax withheld from interest, dividends or profits will be credited against your tax liability. Transfer the amounts withheld in Parts I and II of this Schedule, to Schedule B Individual, Part III, line 4 or 5, as applicable. Submit Form 480.6B with your return.**

## **PART III - SPECIAL PARTNERSHIPS PROFITS**

Enter here only the distributable share on income derived by a special partnership. If you choose the optional computation of tax, remember to complete one Schedule F Individual for the spouse who had received this type of income.

**Submit with the return Schedule R - Special Partnership.**

## **PART IV - PROFITS FROM CORPORATIONS OF INDIVIDUALS**

You must report your distributable share on the income or loss derived by a corporation of individuals. If the corporation of individuals derived losses, you may use said losses only against income derived from the distributable share of other investment made in a corporation of individuals or against income derived by the corporation of individuals that produced the loss. Losses not admissible may be carried over indefinitely. If you choose the optional computation of tax, remember to complete one Schedule F Individual for the spouse who had received this type of income.

## **PART V – DISTRIBUTIONS AND TRANSFERS FROM GOVERNMENTAL PLANS**

You must inform the total lump-sum distributions from governmental plans received during the same taxable year due to the participant's separation from service and rollovers of the balance in the savings account of participants in the Retirement Savings Accounts Program to a Non Deductible Individual Retirement Account when they terminate the public service.

Governmental plans include retirement plans under the Employees Retirement System of the Commonwealth of Puerto Rico, the Teachers Retirement System, the Retirement System of the University of Puerto Rico, and the Employees Retirement System of the Electric Power Authority.

Indicate the date and total amount of the distribution. The **basis** of the distribution includes amounts for which you prepaid the tax during the period of November 15, 2006 to December 31,



2006 under Section 1012D of the Code and exempt contributions according to Article 1 of Act No. 415 of May 13, 1950. Fill in the corresponding oval if you made a prepayment. If you choose the optional computation of tax, remember to complete one Schedule F Individual for the spouse who had received this type of income.

**Line 1C** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions from governmental plans (except the Retirement Savings Accounts Program). Transfer this amount to Part 2, line 2G of the return or line 3G, Column B or C of Schedule CO Individual if you choose the optional computation of tax. (Submit Form 480.7C).

**Line 1D** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions under \$10,000 from the Retirement Savings Accounts Program. Transfer this amount to Part 2, line 2G of the return or line 3G, Column B or C of Schedule CO Individual if you choose the optional computation of tax. (Submit Form 480.7C).

**Line 2E** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions of \$10,000 or more from the Retirement Savings Accounts Program on which the 10% special tax had been withheld at source. (Submit Form 480.7C).

**Line 2F** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the amounts transferred from the Retirement Savings Accounts Program to a Non Deductible Individual Retirement Account subject to the 10% special tax rate. (Submit Form 480.7C).

**Line 3** - Enter the 10% tax applicable to lump-sum distributions of \$10,000 or more (line 2E) or rollovers under Section 1169B (line 2F), as applicable. Transfer this amount to Part 4, line 23 of the return or line 24, Column B or C of Schedule CO Individual if you choose the optional computation of tax.

#### PART VI - MISCELLANEOUS INCOME

**Column A** - Enter those miscellaneous income not itemized in any part of the return or schedules. If you choose the optional computation of tax, these income not itemized will be attributed on a 50% basis to each spouse.

**Column B** - Enter those amounts received from judicial or extrajudicial indemnification, paid under a judgement issued by the Court or under an extrajudicial claim, that constitute taxable income.

The term **taxable income** includes, among others:

- 1) any part of the compensation that represents or substitutes losses from income or salaries, including ceased profits; and
- 2) the indemnification from lost or ceased salaries in cases of job suspension or termination, and from illegal dismissals.

The amounts received from judicial or extrajudicial indemnification are subject to a 7% withholding of tax at source.

Submit Form 480.6B with your return. Enter the income tax withheld on Schedule B Individual, Part III, line 9.

**Column C** - You must inform the income received from prizes or contests. If the prize consists of a property, equipment or other value, you must inform its fair market value. If you choose the optional computation of tax, this income must be attributed on a 50% basis to each spouse.

**Column D** - You must inform income received from Major League baseball teams or the U.S. National Basketball Association, subject to the 20% withholding at source. (Submit Form 480.6B). Enter the tax withheld on Schedule B Individual, Part III, line 16. If you choose the optional computation of tax, remember to complete one Schedule F Individual for the spouse who had received income for the concepts of Column B or D.

#### PART VII - DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS AND EDUCATIONAL CONTRIBUTION ACCOUNTS

Enter in the indicated spaces, the payer's name, the employer identification number of such person, account number and the total distribution from an Individual Retirement Account or Educational Contribution Account. Indicate, also, if the distribution includes a portion for which you prepaid the tax under Sections 1169A or 1169C of the Code.

The **basis** of the distribution includes any amount for which you prepaid the tax, exempt income and voluntary contributions.

The **taxable amount**, difference between the total distribution (Column A) and the basis (Column B), must be distributed between Columns C through E, as applicable. The difference between Column A and Column B can not be less than zero ("0").

**Column C** - Enter the distributions received from an Individual Retirement Account (IRA) or an Educational Contribution Account. **Do not include interest received in this part. The same must be reported in the corresponding column of Part I of this Schedule.** Submit with the return the Informative Return - Individual Retirement Account (Form 480.7) and Informative Return - Educational Contribution Account (Form 480.7B), as applicable.

**Column D** - If the owner or beneficiary of the IRA or Educational Contribution Account receives a total or partial distribution **that is not an interest distribution received from financial institutions engaged in trade or business in Puerto Rico** (as provided in Section 1013 of the Code), **neither a distribution of the contributions to your IRA** and which consists of sources within Puerto Rico received by said IRA, enter the amount distributed in this column if you elected the option to pay the special tax rate of 17%. **Submit Form 480.7 with your return.**

**Column E** - If the owner or beneficiary of the IRA receives a total or partial distribution and is a pensioner of the Employees Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, the Judicature Retirement System or the

Teachers Retirement System, enter in this column the amount distributed, **that does not constitute a distribution of your contributions**, if you elected the option to pay the special tax rate of 10%. That part of the distribution which constitutes your contribution to the IRA, must be reported in Column C. **Do not include the interest received in this part. The same must be reported in the corresponding column of Part I of this Schedule. Submit Form 480.7 with your return.**

**Line 2** - Enter 17% of tax from line 1D. Transfer this amount to Part 4, line 21 of the return or line 22, Column B or C of Schedule CO Individual if you choose the optional computation of tax. The tax withheld (17%) on such distributions must be informed on Schedule B Individual, Part III, line 12.

**Line 3** - Enter 10% of tax from line 1E. Transfer this amount to Part 4, line 22 of the return or line 23, Column B or C of Schedule CO Individual if you choose the optional computation of tax. The tax withheld (10%) on such distributions must be informed on Schedule B Individual, Part III, line 13.

**Line 4** - If you elected that the 17% withholding (IRA or Educational Contribution Accounts distributions from sources within Puerto Rico) or 10% withholding (IRA distributions to Government pensioners) was to be made, you may elect to pay the special tax rates on those distributions or tax them as ordinary income, whichever is more beneficial. If you choose the optional computation of tax, remember to complete one Schedule F Individual for the spouse who had received this type of income.

#### **PART VIII – DISTRIBUTIONS FROM DEFERRED COMPENSATION PLANS (NON-QUALIFIED)**

Enter in the indicated space the date and total amount of the distribution from a Deferred Compensation Plan. Indicate, also, if the distribution includes a portion for which the tax was prepaid under Act No. 250 of November 29, 2006.

The **basis** of the distribution includes any amount for which you prepaid the tax under Act No. 250 and after-tax contributions.

**Line 1C** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions from deferred compensation plans received during the year. Transfer this amount to Part VI, Column A of this Schedule. If you choose the optional computation of tax, remember to complete one Schedule F Individual for the spouse who had received this type of income.

#### **PART IX - DISTRIBUTIONS FROM QUALIFIED RETIREMENT PLANS (PARTIAL OR LUMP-SUM NOT DUE TO SEPARATION FROM SERVICE)**

Enter in the indicated space the date and total amount of the partial or lump-sum distribution not due to separation from service, from a qualified retirement plan. Indicate, also, if the distribution includes a portion for which the tax was prepaid under Act No. 87 of May 13, 2006, as amended.

The **basis** of the distribution includes any amount for which you prepaid the tax under Act No. 87 and after-tax contributions.

**Line 1C** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions received during the year. Transfer this amount to Part VI, Column A of this Schedule. If you choose the optional computation of tax, remember to complete one Schedule F Individual for the spouse who had received this type of income.

### **SCHEDULE G INDIVIDUAL - SALE OR EXCHANGE OF ALL TRADE OR BUSINESS ASSETS OF A SOLE PROPRIETORSHIP BUSINESS**

Every individual who sells, exchanges or disposes all the assets used in his/her sole proprietorship business, may defer the gain if:

- 1) Reinvests the product of the sale or exchange in another sole proprietorship business in Puerto Rico.
- 2) Makes the reinvestment within 12 months from the date of the sale or exchange of the first business.

**This gain deferment will not apply to businesses conducted by corporations or partnerships, or other type of organizations.**

#### **Definitions:**

**Sole proprietorship business** - Any business engaged in manufacture, agriculture, construction, sale and purchase of consumers goods or to render services, which are totally owned by a natural person.

**Assets used in your sole proprietorship business** - It includes land, real and personal property subject to the concession of depreciation, property included on the taxpayer's inventory in existence at the end of the taxable year, property owned for the sale during the ordinary course of business or industry, sales or payable promissory notes and other intangible property. The term does not include property for personal use, property owned as investment and property that is not used in your sole proprietorship business.

#### **PART I - QUESTIONNAIRE**

You must indicate on line 1 if in previous years you have claimed the benefit of postponing the gain of a sole proprietorship business, by filling in completely the corresponding oval. In case you have answered "Yes", you must inform in the spaces indicated the taxable year in which you commenced to postpone the gain and the amount claimed.

The adjusted basis to be informed on line 2 will be equal to the amount determined on Schedule G Individual, Part III, line 20, for the taxable year in which you elected to benefit from the gain postponition.

This Schedule must include the aforesaid information and will be submitted with your return for **all subsequent years in**

which you elected to benefit from the postponement of the gain from a sole proprietorship business.

## PART II - COMPUTATION OF GAIN

**Line 7** - You must inform those expenses incurred that made possible the sale of your first sole proprietorship business. The following examples are considered these type of expenses: advertisements, legal fees, commissions, etc.

**Line 9** - The adjusted basis of your first sole proprietorship business will be its cost, increased by the permanent improvements made to the business and reduced by the depreciation expense claimed over the business assets used.

However, the adjusted basis of the property must be increased by those taxpayers that during the period of July 1 to December 31, 2006, prepaid the 5% special tax on the increase in accumulated value of capital assets. In this case, the adjusted basis of the property will include the increase in accumulated value upon which the special tax was paid. To indicate this adjustment to the basis, fill in the corresponding oval.

**Line 11** - If you sold your first sole proprietorship business and have the intention of purchasing another new sole proprietorship business, the Code provides you the benefit to postpone the realized gain as long as you comply with the requirements previously mentioned. Do not complete the rest of the Schedule and submit it with your return. You must fill out another Schedule G Individual for next year to inform the postponed gain and the adjusted basis of the new sole proprietorship business.

## PART III - ADJUSTED SALES PRICE, TAXABLE GAIN AND ADJUSTED BASIS OF NEW SOLE PROPRIETORSHIP BUSINESS

**Line 12** - Enter on this line the total amount realized on the sale of your first sole proprietorship business as determined on line 10. Indicate if it is a short-term or long-term gain, by filling in completely the corresponding oval.

If this line is zero, then there is no gain to be recognized for this taxable year. In this case, do not complete the rest of the form and include the same with the return.

If this line is larger than zero and you acquired a new sole proprietorship business, continue with the rest of the form in order to determine if any part of this realized gain will be taxed in this taxable year. This occurs when the assets sales price of your first sole proprietorship business exceeds the purchase cost of the new sole proprietorship business.

On the other hand, if this line is more than zero and you do not have the intention of buying another business during the replacement period provided by the Code, all realized gain, as determined on line 10 of this schedule, will be recognized and taxed in this taxable year.

**Line 13** - To determine which part of the realized gain is taxable, the sale price of the first sole proprietorship business will include only the amount of any mortgage, fiduciary cession for the benefit of creditors (trust deed), or any other debt to which is

subject such property owned by the purchaser. In this case, the commissions and other selling expenses paid or incurred on the sale of the first sole proprietorship business will not be deducted nor taken into consideration while determining the sale price.

**Line 14(b)** - The cost of the new sole proprietorship business will be its cost plus those debts to which the property is subject (including mortgages) as of the date of the purchase, and the nominal value of the taxpayer's debts that are part of the consideration for the purchase.

**Line 18** - Enter the smaller of line 12 or 17. If the result is zero or less, there will be no taxable gain for this taxable year.

If the amount is more than zero, this will be the taxable gain for this taxable year. This occurs when the total amount reinvested in the new sole proprietorship business is smaller than the sale price of the first sole proprietorship business.

**Line 20** - This will be the adjusted basis of the new sole proprietorship business which you must inform in all the subsequent taxable years in which you elected the benefit of postponing the gain. The same will be informed on Schedule G Individual, Part I, line 2 of the following year of said election.

This provision has the effect of postponing the gain not recognized on the sale of the first sole proprietorship business until a sale is made of all the assets of the new sole proprietorship business.

## SCHEDULE H INDIVIDUAL - INCOME FROM ANNUITIES OR PENSIONS

This Schedule must be completed if you received income from annuities or pensions exceeding **\$11,000** for individuals younger than age 60, or **\$15,000** for individuals age 60 or older. Schedule H Individual provides space to report the income from only one annuity or pension. Therefore, in the case of individuals receiving more than one annuity or pension, a separate schedule should be completed for each annuity or pension. If the taxpayer receives more than one annuity or pension, the exclusion will apply for each annuity or pension separately.

If you receive income from the Social Security Administration, do not complete this Schedule because the same is not taxable in Puerto Rico. Otherwise, if you bought an annuity through a financial or insurance institution, do not complete this Schedule. **Any income received from such annuity must be informed on Schedule F Individual, after considering the annuity's cost to be recovered.**

## PART I - DETERMINATION OF COST TO BE RECOVERED

Complete this part only if you have not recovered the cost of the pension. If you have already recovered the cost of the pension, do not fill out this Part and continue with Part II of the Schedule.

**Line 1** - Enter the cost of the annuity or pension. As a general rule, the cost of the annuity is the amount that the taxpayer paid in order to be entitled to receive the annuity or pension. Said

cost can be found on Form 499R-2/W-2PR, Part 6. Also, include those amounts over which you prepaid the 5% special tax under Sections 1165(b)(9) or 1012D of the Code.

**Line 2** - Breakdown per taxable year and totalize the amount of pension received in previous years.

**Line 3(a)** - Breakdown per taxable year and totalize the amount of taxable pension received in previous years.

**Line 3(b)** - Breakdown per taxable year and totalize the amount of tax exempt pension received in previous years.

## PART II - TAXABLE INCOME

**Line 7** - Enter the total amount received from annuities or pensions during the year. This information may appear on Form 499R-2/W-2PR, Part 11.

**Line 8** - Enter \$11,000 if you are younger than age 60, or enter \$15,000 if you are age 60 or older.

If the total amount received during the year exceeds \$11,000 or \$15,000, as applicable, only the excess over such amount will be subject to tax. While you are recovering the cost of the annuity or pension, you will be taxed up to 3% of such cost.

**If you claim the exempt amount of \$15,000, you must keep for your records a copy of your birth or baptism certificate as evidence to support your right to claim the exemption.**

**Line 12** - Enter the amount of line 11 or 3% of the annuity's cost, whichever is larger, until you have recovered the total cost of your annuity, pension or policy. This amount can not be larger than the amount on line 9.

If the payments received covered less than 12 months, multiply 1/12th from the 3% of the pension cost (line 1) by the number of months for which the pension was received. Enter on line 12 of this Schedule, and in Part 2, line 2K of the return, the amount determined from the above computation, or the amount indicated on line 11 of this Schedule, whichever is larger, but not larger than the amount of line 9. If you choose the optional computation of tax, transfer this amount to Schedule CO Individual, line 3K, Column B or C, as it corresponds to the taxpayer or his spouse.

**Line 13** - Enter the income tax withheld, if any, and transfer this amount to Part 4, line 31B of your return.

**Submit with your return the Withholding Statement (Form 499R-2/W-2PR) or Informative Return 480.7C and this Schedule.**

## SCHEDULE I INDIVIDUAL - ORDINARY AND NECESSARY EXPENSES

The Code provides a deduction for certain ordinary and necessary expenses incurred to derive income as an employee. This deduction is limited to the amount paid up to \$1,500, (\$750 if married filing separately or if you choose the optional computation of tax), or 4% of the salary, whichever is smaller.

The deduction claimed for ordinary and necessary expenses will be subject to a rigorous investigation. Therefore, in order to claim these expenses, you must be entitled to them and keep the necessary evidence.

In the case of taxpayers **who choose the optional computation of tax, they must complete one Schedule I Individual for each spouse and include both Schedules with the return.** Fill in completely the oval corresponding to the taxpayer or spouse located at the top of said Schedule.

## PART I - DETAIL OF EXPENSES

**Line 1(A)** - Enter 100% of expenses for meals and entertainment, which are neither luxurious nor extravagant, paid by you, as a result of your services as an employee.

**Line 1(B)** - Enter the amount reimbursed by your employer for meals and entertainment only.

**Line 1(C)** - This excess constitutes income and must be included on Schedule F Individual, Part VI.

**Line 1(E)** - This is the amount of meals and entertainment you will use to determine the deduction for ordinary and necessary expenses.

**Line 2(A)** - Enter the cost for the purchase and maintenance of uniforms (Do not include civilian clothes. The uniform must identify the business or organization you work for).

Enter on lines 2(B) through 2(D) the expenses incurred for dues paid to unions, college memberships, labor or professional associations, purchase of educational materials by teachers, and the purchase of technical books related to professional or technical work.

**Line 2(E)** - Enter the educational expenses paid during the taxable year to maintain or improve the skills required in your profession or occupation, to comply with the express requirements of an employer, or to comply with the legal or regulatory provisions to maintain your salary or job as an employee. If the taxpayer is a teacher or professor, the educational expenses are allowed whether or not the employer has required you to maintain or improve your skills, but only if the studies completed are usually taken by the members of your profession and result in the benefit of the school population.

**Line 2(F)** - Enter the depreciation of any property used that is related to your employment. Complete the detail of the depreciation on the reverse side (Part II) of the Schedule to determine the deduction.

Assets used in your profession or occupation must be depreciated under the straight-line method.

An automobile may be depreciated over a 3 year period if it is used only in sales activities, or over a 5 year period if it is used for other purposes. The maximum basis to determine the amount to be deducted for automobile depreciation will be \$25,000. These rules apply to automobiles leased with a purchase option. In case



of ordinary leases, the total amount of rent paid will be considered as basically equivalent to current depreciation, and a deduction is allowed for that part of the rent paid related to your employment.

If the automobile is used by the taxpayer in his/her industry or business or for the production of income as an employee and for personal purposes, the deduction for depreciation will be reduced by the amount applicable to personal use.

**Line 2(G)** - Enter other ordinary and necessary expenses related to your profession or occupation. **Expenses incurred for traveling from your residence to your place of work or vice versa are not deductible.**

When an employee is transferred from one location to another by request of the employer and receives a payment for such transfer, or that of his/her family or personal belongings, the amount so paid will be deductible from the employee's gross income. If the payment represents an allowance, the expenses paid or incurred by the employee for his/her transfer can be claimed as ordinary and necessary expenses up to the limit of \$1,500 (\$750 if married filing separately or if you choose the optional computation of tax) or 4% of the salaries, whichever is smaller. Otherwise, if the payment represents a reimbursement, the expense actually paid or incurred can be deducted up to the amount reimbursed by the employer. Any excess paid with respect to the expenses actually incurred will be included in the employee's gross income for the taxable year in which said excess was received.

If the transfer is made for the exclusive benefit of the employee, any concession received will be included in the gross income and such expenses are not deductible.

The expenses reimbursed must be informed by the employer on the Withholding Statement (Form 499R-2/W-2PR, Part 12).

**Line 3** - Enter the sum of lines 1(E) and 2(K). This is the total amount to be used to determine the ordinary and necessary expenses to be deducted.

**Submit this Schedule with your return.**

#### SCHEDULE J INDIVIDUAL - MEDICAL EXPENSES AND CHARITABLE CONTRIBUTIONS

Use this Schedule to determine the deduction for medical expenses and charitable contributions that you will claim on your return. You must provide a detail of each medical expense or contribution that you made during the year.

See full details for those deductions in the instructions to complete Schedule A Individual, Part I, lines 8 and 9.

It is very important to enter the name and address of the person or organization to whom the payment was made and the amount paid. **Evidence to support your payment must be kept for your records.**

If you claimed any of these two deductions, **submit this Schedule with your return.** Transfer the amount of the allowable deduction for medical expenses from line 4 to

Schedule A Individual, Part I, line 8 or line 8H of Schedule CO Individual if you choose the optional computation of tax. Transfer the amount of the deduction allowable for charitable contributions from line 11 to Schedule A Individual, Part I, line 9 or line 8 I of Schedule CO Individual if you choose the optional computation of tax.

#### SCHEDULES K INDIVIDUAL, L INDIVIDUAL, M INDIVIDUAL AND N INDIVIDUAL

Use these Schedules if you had income from:

- |                                |                       |
|--------------------------------|-----------------------|
| 1) Industry or Business        | Schedule K Individual |
| 2) Farming                     | Schedule L Individual |
| 3) Professions and Commissions | Schedule M Individual |
| 4) Rent                        | Schedule N Individual |

**Said Schedules provide spaces to inform only one source of income. Therefore, if you have more than one source of income, you must complete a separate schedule for each one. You must also indicate in the provided space, if the reported income on such schedule constitutes income from your principal industry or business.**

Also, you must consolidate the gain or benefit determined in Part II of the applicable schedules corresponding to the same source of income and transfer the total amount to the applicable line on page 1, Part 2 of the return or to lines 3M through 3P of Schedule CO Individual if you choose the optional computation of tax. For example, in case of a taxpayer who files a joint return, and he is a lawyer and she is a physician, they will use two Schedules M Individual to determine the income and expenses for each one of the professions and then will transfer the sum of line 5 of said schedules to page 1, Part 2, line 2 O of the return or line 3 O, Columns B and C of Schedule CO Individual if you choose the optional computation of tax.

In case of earning income from professions and commissions, you must use a separate Schedule M Individual for each one of these concepts and fill in completely the corresponding oval. Also, you must use a Schedule M Individual for each source of income.

If the taxpayer has a supermarket and a gas station, he or she will use two Schedules K Individual to detail the income and expenses and then will transfer the sum of line 9 of said schedules to page 1, Part 2, line 2M of the return or to line 3M, Column B or C of Schedule CO Individual if you choose the optional computation of tax.

If you received income from of a sole proprietorship derived from an industry or business, agriculture, professions, rents or commissions, and your income from the sole proprietorship was \$400 or more during the year, you must file with the Internal Revenue Service (IRS) the U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit For Bona Fide Residents of Puerto Rico) (Form 1040-SS).



Form 1040-SS is used to inform the sole proprietorship income and to pay any tax due. Also, the Social Security Administration use the information included on Form 1040-SS to compute the social security benefits of the persons who work as a sole proprietorship. For additional information you can call the IRS at (1) (800) 829-1040.

## PART I - QUESTIONNAIRE

Every taxpayer engaged in a trade or business must submit the information requested in the questionnaire of Part I. You must include your employer identification number, assigned by the **FEDERAL INTERNAL REVENUE SERVICE (IRS) and the Merchant's Registration Number assigned by the Department.**

**If you are engaged in a trade or business** and your operations are covered by a tax exemption decree under Act No. 26 of June 2, 1978 (Puerto Rico Industrial Incentives Act), Act No. 8 of January 24, 1987 (Puerto Rico Tax Incentives Act), or by a resolution issued under Act No. 148 of August 4, 1988 (Special Act for the Rehabilitation of Santurce), Act No. 78 of September 10, 1993 (Puerto Rico Tourism Development Act), Act No. 75 of July 5, 1995 (Special Act for the Rehabilitation of Río Piedras), Act No. 14 of March 15, 1996 (Special Act for the Development of Castañer), Act No. 135 of December 2, 1997 (Tax Incentives Act of 1998), a Film Entity operating under Act No. 362 of December 24, 1999 (Act for the Film Industry Development), a Theatrical Business operating under Act No. 178 of August 18, 2000 (Act for the Creation of the Theatrical District of Santurce), or Act No. 73 of May 28, 2008 (Economic Incentives for the Development of Puerto Rico Act), fill in completely the corresponding oval and indicate the case or concession number, if applicable. If you are not covered by a decree or resolution, you must fill in completely the oval which indicates "Fully Taxable".

**If you are engaged in a farming business**, the Code establishes a special deduction of 90% of the net income from an agricultural business of a bona fide farmer who has a valid or a current certification issued by the Secretary of Agriculture of Puerto Rico. To be eligible for this deduction, you must derive at least 50% of your gross income from farming activities as an operator, owner or lessee, and keep for your records copy of the current certification issued by the Secretary of Agriculture. That deduction will be entered in Part II, line 10 of Schedule L Individual. If you are eligible, you must fill in completely the corresponding oval.

If you elected to receive the tax benefits granted by the Puerto Rico Agricultural Tax Incentives Act (Act No. 225 of 1995), as amended, you will have a 90% tax exemption as long as you have derived at least 50% of the gross income from agricultural activities, and keep for your records a copy of the current bona fide farmer certificate issued by the Secretary of Agriculture. In order for this exemption to be granted, you must fill in completely the applicable oval. **It is important to indicate that you cannot claim both benefits at the same time.**

**Income from a Film Entity** derived directly from a Film Project or Infrastructure Project will be subject to a fixed income tax rate of 7%, in lieu of any other tax imposed by Law. **For more details refer to Act No. 362 of December 24, 1999.**

## PART II - DETERMINATION OF GAIN OR LOSS

If you received income from industry or business, agriculture, professions and commissions or rents, use Parts II and III to provide the information related to those activities.

On Schedule K Individual, Part II, line 6, Schedule L Individual, Part II, line 8, and Schedules M Individual and N Individual, Part II, line 4, you must include the carryover **Net Operating Losses from Previous Years**. On this line you may include the net loss from previous years operations carryover of your principal activity from which the income was derived. If there is a balance from the loss of the activity which is your principal source of income, said balance will be transferred to Part 2, lines 2M through 2P of the return, as applicable, or to lines 3M through 3P, Column B or C of Schedule CO Individual if you choose the optional computation of tax. You may reduce any income from other sources, **except from salaries or pensions**. The balance from business losses which are not your principal source of income will be carried over to future years and may be deducted only against the income derived from the same activity that produced the loss. See full details for the **treatment of losses** of the industry or business on the **INSTRUCTIONS TO COMPLETE THE LONG FORM RETURN: Part 2, line 2 - Other Income (or Losses)**.

### Schedule K Individual

If during the taxable year you were engaged in the **operation of an activity that qualifies as a theatrical business**, as provided by Act No. 178 of August 18, 2000, you must file this Schedule. However, if you derived income from the sale of admission tickets for artistic or cultural shows, as well as from other sources, you must file two Schedules K Individual. That is because half (50%) of the income derived from the sale of admission tickets is exempt from the payment of income tax. On one Schedule K Individual you must inform the partially exempt income, and on the other the fully taxable income.

It is important to point out that **expenses related with the theatrical business operation** should be assigned in the proportion that such expenses bear with each source of income. Make sure to indicate in Part I of this Schedule, Act No. 178 of 2000.

**Line 8-** If you derived income from an industry or business covered by a tax exemption decree granted under any tax incentives act, indicate the tax exemption percent (%) granted in you decree. Multiply the amount on line 7 by the corresponding exemption percent granted, and enter the result on this line.

**Line 9 -** If you derived income from the conduct of a Film Project or Infrastructure Project that comply with the requirements provided by Act No. 362 of 1999, or if you received income derived from a business with a tax exemption decree under the provisions of Act No. 135 of 1997, **you will not transfer the income determined on this line** to Part II, line 2M of the return neither to line 3M of Schedule CO Individual if you choose the optional computation of tax.

**You must be sure to indicate in Part I of this Schedule, Act No. 362 of 1999 or Act No. 135 of 1997.**

**Line 10** - If you derived income from activities covered by Act No. 362 of 1999, multiply line 9 by 7% and enter the result on this line. Transfer this amount to page 2, Part 4, line 24 of the return or line 25 of Schedule CO Individual if you choose the optional computation tax.

On the other hand, if the income is derived from activities covered by an exemption decree under Act No. 135 of 1997, multiply line 9 by the special tax rate granted in the decree (10%, 7%, 4%, 2% or other). For these cases it is necessary to indicate the number of the case or decree that grants you the special rate.

### Schedule N Individual

**Line 6** - If you derived income from an industry or business covered by a tax exemption decree granted under any tax incentives act, indicate the tax exemption percent (%) granted in you decree. Multiply the amount on line 5 by the corresponding exemption percent granted, and enter the result on this line.

**Line 7** - If you derived income from the operation of a business covered by a tax exemption decree under Act No. 135 of 1997, **you can not transfer the income determined on this line** to Part 2, line 2P of the return neither to line 3P of Schedule CO Individual if you choose the optional computation of tax.

**To claim this special tax rate, you must make sure to indicate in Part I of this Schedule, Act 135 of 1997.**

**Line 8** - If you derived income from activities covered by a tax exemption decree under Act No. 135 of 1997, multiply line 7 by the tax rate granted in the decree (10%, 7%, 4%, 2% or other). You must indicate the number of the case or decree that grants you the special rate. Transfer this amount to page 2, Part 4, line 24 of the return or line 25 of Schedule CO Individual if you choose the optional computation of tax.

### PART III - OPERATING EXPENSES AND OTHER COSTS

It is allowed a reasonable deduction for those ordinary and necessary expenses incurred for the production of income related to your business. **On the other hand, it will not be allowed to claim expenses attributable to exempt income or otherwise so excluded from the gross income.**

**The salaries deduction** will be verified by an electronic system in order to determine if the amounts claimed agree with the Withholding Statements and the forms that must be filed by the employers.

The Code allows a **deduction for contributions to pension plans or other qualified plans**. To claim the deduction for contributions made to any of said plans, it will be necessary to keep for your records the information required by the Regulations under the Code.

The contributions made to a qualified plan for the benefit of an individual, commonly known as "*Keogh Plans*"; cannot exceed 25% (15% if a profit sharing plan) of your earned income without considering said deduction. Because this deduction and the amount of net profits from sole proprietorship income

depend on each other, it is required to adjust the amount of said net profits. This adjustment can be determined indirectly through the reduction in the percentage of contributions made, attributable to said individual. The contribution's adjusted percentage and the deduction for contributions can be determined as follows:

(A) Percentage of contributions according to the plan	%
(B) Percentage in (A), reflected in decimal, plus 1	1._
(C) Adjusted percentage (divide (A) by (B))	%
(D) Net gains (without adjustment)	\$
(E) Maximum deduction (multiply (D) by (C))	\$

Up to 50% of the total amount for **meals and entertainment expenses** incurred or paid during the year may be deducted. **However, said deduction cannot exceed 25% of the gross income.**

The Code provides a **\$400 deduction for employers from private industries for each severely disabled person** that is employed for at least 20 hours per week for nine months during the taxable year. This deduction will be allowed for up to five severely disabled persons employed. The regulations in force applicable from the Vocational Rehabilitation Program of the Department of the Family, will be used for the definition of the term "severely disabled person".

You must keep for your records:

- 1) a certification indicating that the person for which the deduction is claimed, has been an employee for at least nine months of the taxable year in which the deduction is claimed, and
- 2) a certification issued by the Secretary of the Department of the Family, indicating that the individual for which the deduction is claimed is a severely disabled person, in accordance to the regulations and procedures of said Department.

The contributions made by an employer to an Educational Contribution Account, for a beneficiary designated by an employee, are deductible as part of the operating expenses of the industry or business, as long as the requirements established by law are met.

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

Every 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 rehabilitation 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. The limit for this deduction will be 50% of the net income according to the Code, adjusted by the special deductions provided by Act No. 212, without considering this deduction.

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

For details of these special deductions you must refer to Act No. 212 and the corresponding regulation.

Every individual engaged in a trade or business as self employed, whose gross income does not exceed \$500,000, can deduct as an industry or business expense, the cost of health insurance paid for him/herself and his/her family, provided that such health insurance is extended to all employees, if any. In the case of individuals who choose this benefit, they cannot include the cost paid for health insurance as an itemized deduction for medical expenses.

Every individual engaged in a trade or business, is entitled to deduct from the gross income 50% of the federal self employment tax paid to the Internal Revenue Service on the income reported for the same taxable year. This deduction will be claimed on line 22, Part III of Schedules K, L and M Individual and on line 18, Part III of Schedule N Individual.

Those expense items for which there are no specific spaces provided in Part III, will be added and entered as **Other Expenses**. Keep for your records a schedule detailing such expenses.

**Submit with your return the Schedules that you have used.**

#### SCHEDULE O INDIVIDUAL - ALTERNATE BASIC TAX

Complete this Schedule if you have a net income subject to alternate basic tax of \$75,000 or more (\$37,500 if married filing separately or if you choose the optional computation of tax).

An alternate basic tax will be assessed, determined in accordance to the following table and reduced by the alternate basic credit for foreign taxes paid, when the same is larger than the regular tax:

Net Income Subject to Alternate Basic Tax:	Tax rate:
From \$75,000 to \$125,000	10%
Over \$125,000, but not over \$175,000	15%
Over \$175,000	20%

In the case of married individuals, if they file separate returns or choose the optional computation of tax, the indicated levels of net income subject to alternate basic tax will be reduced by 50% for purposes of this tax.

#### PART I – DETERMINATION OF NET INCOME SUBJECT TO ALTERNATE BASIC TAX

**Line 1 – If you completed Schedule D2 Individual** to benefit from the special tax rates applicable to net long-term capital gains, transfer to this line the amount reflected on said Schedule D2 Individual, Part I, line 3.

**Line 2 -** Enter the total amount of deductions not provided in Section 1023 of the Code, such as the 5% deduction from the minimum salary applicable to each new employment created for every industry or business that generates new employments as part of an urban center rehabilitation process, and the 15% of the payroll expense related to the employees transferred to relocate your business to an urban center, according to the provisions of Act No. 212 of August 29, 2002, as amended.

**Line 3 -** For purposes of the Alternate Basic Tax, a partner's share in the profit or loss from a special partnership (subject to the limitation established in Section 1023(a)(5) of the Code) engaged in the edification, installation and construction of structures that cover a period in excess of one year, will be determined by the accounting method known as "percentage of completion method". Therefore, if any other accounting method was used, the partner's share in the profit or loss from the special partnership will have to be recalculated under the percentage of completion method and the difference must be included in this line. Enter the amount indicated in the Informative Return - Special Partnership (Form 480.6 SE, Part III, line 11). Do not alter any of the previously established amounts in the return or other schedules.

**Line 4 –** Enter the total amount of exclusions and exemptions that are not derived from Subtitle A of the Code, although they are granted by special laws, except those provided by Act No. 225 of December 1, 1995, as amended (Puerto Rico Agricultural Incentives Act). For the treatment of current or liquidating distributions according to the provisions of Act No. 73 of May 28, 2008 (Economic Incentives for the Development of Puerto Rico Act) and Act No. 135 of December 2, 1997, as amended (Tax Incentives Act of 1998), see Internal Revenue Circular Letter No. 09-06 of July 22, 2009.

**Line 5 -** If you choose the optional computation of tax, enter on lines 5(a) through 5(o), and 5(s) through 5(u) the amount of income received for each concept on a 50% basis from the total to each spouse. On the other hand, indicate on lines 5(p) through 5(r), 5(v) and 5(w) the total amount received by each spouse individually.

**Line 5(a)** - Enter the income received from interest upon securities issued under the Agricultural Loans Act of 1971 (Section 1022(b)(4)(C)), interest upon certain obligations secured by the Servicemen's Readjustment Act of 1994 (Section 1022(b)(4)(E)), interest up to \$5,000 upon securities issued by cooperative associations (Section 1022(b)(4)(K)), interest upon obligations for the construction of buildings to be leased to the Commonwealth of Puerto Rico for health or education activities (Section 1022(b)(4)(M)) and interest upon securities issued by exempt corporations that meet certain requirements (Section 1022(b)(4)(R)). Submit the Informative Return – Exempt Income and Exempt Income Subject to Alternate Basic Tax (Form 480.6D).

**Line 5(b)** - Enter the income received from interest upon certain mortgages secured by the National Housing Act of 1934 (Section 1022(b)(4)(D)), interest upon certain mortgages on residential property located in Puerto Rico (Section 1022(b)(4)(F)), interest upon certain mortgages on new residential property located in Puerto Rico (Section 1022(b)(4)(G)), interest upon mortgages to provide social interest housing (Section 1022(b)(4)(H)) and interest upon mortgages secured under the Bankhead-Jones Farm Tenant Act of 1937 (Section 1022(b)(4)(I)). Submit Form 480.6D.

**Line 5(c)** - Enter the income received from interest upon certain long-term loans granted by insurance companies other than life insurance companies (Section 1022(b)(4)(J)), interest upon certain loans from financial institutions to an employees-owned special corporation (Section 1022(b)(4)(O)), interest upon loans from financial institutions for the payment of membership in an employees-owned special corporation (Section 1022(b)(4)(P)) and interest upon loans from financial institutions for investment in an employees-owned special corporation (Section 1022(b)(4)(Q)). Submit Form 480.6D.

**Line 5(d)** - Enter the amount claimed as an exclusion of up to \$2,000 on deposits in interest bearing accounts (Section 1022(b)(4)(L)). Transfer to this line the amount indicated on Schedule F Individual, Part I, line 2.

**Line 5(e)** - Enter the amount of interest paid or credited upon deposits in accounts which earn interest subject to the 10% or 17% tax (Section 1022(b)(34)). Transfer to this line the amount indicated on Schedule F Individual, Part I, line 3.

**Line 5(f)** - Enter the amount of certain interest upon bonds, notes, other obligations or mortgage loans subject to the 10% tax (Section 1022(b)(53)). Submit Form 480.6D.

**Line 5(g)** - Enter the dividends from industrial development income derived from certain interests (Section 1022(b)(7)). Submit Form 480.6D.

**Line 5(h)** - Enter the distributions from limited dividends' corporations (Section 1022(b)(23)). Submit Form 480.6D.

**Line 5(i)** - Enter the eligible distribution of dividends and share in partnerships' profits subject to the 10% tax (Section 1022(b)(33)). Transfer to this line the amount indicated on Schedule F Individual, Part II, line 1.

**Line 5(j)** - Enter the dividends from cooperative associations (Section 1022(b)(36)). Submit Form 480.6D.

**Line 5(k)** - Enter the income received from dividends or distributions and income from distributions in liquidation from an International Insurer or a Holding Company of the International Insurer (Sections 1022(b)(55) and 1022(b)(56)). Submit Form 480.6D.

**Line 5(l)** - Enter the amount of rent received from the Commonwealth of Puerto Rico for the lease of buildings engaged in certain health and education activities (Section 1022(b)(8)(F)).

**Line 5(m)** - Enter the amount of rent received from the lease of buildings located in historic zones (Section 1022(b)(26)).

**Line 5(n)** - Enter the income received from prizes in the Caribbean International Classic and the Confraternity Cup Classic (Section 1022(b)(9)).

**Line 5(o)** - Enter the income received from literary, journalistic, scientific, artistic and for industrial, agricultural or professional development prizes (Section 1022(b)(20)).

**Line 5(p)** - Enter the exclusion on the income received from annuities and pensions provided by Act No. 166 of June 26, 1968, as amended (Section 1022(b)(24)). Transfer to this line the amount indicated on Schedule H Individual, Part II, line 8. If you received more than one pension or annuity, add all the exclusions claimed on said line of each Schedule H and enter the total on this line.

**Line 5(q)** - Enter the amount received by the pensioners of the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, the Retirement Systems of the Judiciary and the University of Puerto Rico and the pensioners of the Teachers' Pension and Annuity System with respect to the Christmas Bonus, the Summer Bonus granted by Act No. 37 and Act No. 38 of June 13, 2001 and the Medicine Bonus granted by Act No. 155 of June 27, 2003 and Act No. 162 of July 15, 2003 (Section 1022(b)(43)).

**Line 5(r)** - Enter the amount of remuneration received as a physician during the internship period under a contract with the Department of Health of Puerto Rico or with any municipality or political subdivision of the same for medical training through practice at a hospital (Section 1022(b)(13)).

**Lines 5(s) and 5(t)** - Enter the income and distributions from corporations or partnerships engaged in exportation or shipping activities, respectively (Sections 1022(b)(27) and 1022(b)(28)).

**Line 5(u)** - Enter the amount of the net long-term capital gain subject to the special tax of Section 1014 (Section 1022(b)(29)). Transfer to this line the amount indicated on Schedule D2 Individual, Part I, line 2(g).

**Line 5(v)** - Enter the amount of Cost of Living Allowance (COLA) received by employees of the Government of the United States of America who work in Puerto Rico up to the amount that is exempt from the income tax imposed by the Federal Internal Revenue Code (Section 1022(b)(40)). Transfer to this line the amount indicated in the Wage and Tax Statement (Form W-2) provided by the Federal Government.

**Line 5(w)** - Enter the amount paid by Major League Baseball teams for games in Puerto Rico subject to the 20% tax (Section



1022(b)(46)), income of any nature earned by Major League Baseball teams for games held in Puerto Rico (Section 1022(b)(47)), remuneration paid by NBA teams for games in Puerto Rico subject to the 20% tax (Section 1022(b)(48)) and income of any nature earned by NBA teams for games held in Puerto Rico (Section 1022(b)(50)). Transfer to this line the amount indicated on Schedule F Individual, Part VI, line 1, Column D.

**Line 8** - To determine the net income subject to alternate basic tax, it is allowed to reduce from the same the deductions provided under Section 1023 and the allowances for personal exemption and exemption for dependents provided by Section 1025. Transfer from Part 3, line 13 of the return or from line 14 of Schedule CO Individual, according to the corresponding column, the total standard or itemized deductions, additional deductions, deduction for telephone service payment for communication with military personnel in combat zone, personal exemption and exemption for dependents.

**Line 10** - The deduction for interest paid or accrued on residential property (mortgage interest) cannot exceed 30% of the taxpayer's adjusted gross income. To determine the taxpayer's adjusted gross income, the adjustments indicated on lines 3, 4 and 5 of this Part I will be considered. Use the following worksheet to determine the amount of the adjustment. Do not alter any of the previously established amounts in other schedules.

Before using this worksheet you must complete Schedule O Individual up to line 6 of Part I.	
1. Line 1, Part I of Schedule O Individual .....	\$ _____
2. Plus: Line 3, Part I of Schedule O Individual .....	\$ _____
3. Plus: Line 4, Part I of Schedule O Individual .....	\$ _____
4. Plus: Line 6, Part I of Schedule O Individual .....	\$ _____
5. Total (Add lines 1 through 4) .....	\$ _____
6. Less: Line 5, Part II of Schedule A Individual or line 10E, Column B or C of Schedule CO Individual, as applicable .....	\$ _____
7. Total (Subtract line 6 from line 5) .....	\$ _____
8. Limitation: Multiply line 7 by 30% .....	\$ _____
9. Line 1, Part I of Schedule A Individual (If you choose the optional computation of tax, enter 50% of line 8A of Schedule CO Individual) .....	\$ _____
10. Adjustment (Subtract line 8 from line 9. If line 8 is larger than line 9, enter zero ("0") here and on line 10, Part I of Schedule O Individual. If line 9 is larger than line 8, enter the difference here and transfer to line 10, Part I of Schedule O Individual) .....	\$ _____

**PART II – ALTERNATE BASIC TAX COMPUTATION**

**Line 5** - To determine the credit for taxes paid to the United States, its possessions or foreign countries, it is necessary to recompute the amount determined on Schedule C Individual using the alternate basic tax and the net income subject to alternate basic tax. In Part 1, line 1 of Schedule C Individual include the income from sources outside of Puerto Rico that was considered to determine the net income subject to alternate basic tax. Also, it is necessary to make the following adjustments:

- Part I, line 4 of Schedule C Individual – replace for line 7, Part I of Schedule O Individual
- Part IV, line 2 of Schedule C Individual – replace for line 11, Part I of Schedule O Individual
- Part IV, line 3 of Schedule C Individual – replace for line 4, Part II of Schedule O Individual

Determine the amount of credit on Schedule C Individual recalculated with the previous adjustments and enter the same on this line. Do not alter any of the previously established amounts in the return and its schedules, including Schedule C Individual. Neither include with the return the Schedule C Individual as recalculated for purposes of this line.

**SCHEDULE P INDIVIDUAL - GRADUAL ADJUSTMENT**

In the case of taxpayers whose net taxable income is over \$75,000 (\$37,500 if married filing separately or choose the optional computation of tax), the Code provides for a gradual adjustment to the lower tax rates applicable to the income under \$75,000 (\$37,500 if married filing separately or choose the optional computation of tax) and the gradual elimination of the personal exemption and exemption for dependents. If the net taxable income in Part 3, line 14 of the return or line 15, Column B or C of Schedule CO Individual is more than \$37,500 (if married filing separately or choose the optional computation of tax), it will be subject to this adjustment.

**SCHEDULE R - SPECIAL PARTNERSHIP**

If you choose the optional computation of tax in the case of married persons living together, filing a joint return and both working and the share in the special partnership is on behalf of both spouses, you must complete and submit with your return **only one Schedule R between both spouses**. Fill in completely the oval that identifies both. On the other hand, if under such optional computation the share in the special partnership is on behalf of the taxpayer or his spouse separately, you must complete and submit with your return **one Schedule R for each spouse**. Fill in completely the oval that identifies the taxpayer or his spouse, respectively.

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





You must complete this Schedule annually irrespectively the Special Partnership has derived gains or losses.

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

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

The basis of a partner's share from a Special Partnership will be the amount of cash, or the adjusted basis of any property that is not considered cash, contributed to said partnership.

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

### Line 2 - Basis increase

- (a) Enter the partner's distributable share on previous year's income and profits.

For example, in case of a taxpayer with a calendar taxable year, enter the total distributable share on the special partnership's income or profit included on the income tax return filed on April 15 of previous year (or later if you requested an extension of time to file your return). This amount must be the same as the one shown on line 7, Part II of Schedule R included on previous year's income tax return.

- (b) through (d) These entries are from the current taxable year.
- (e) Enter the proportion of income or gain attributable to your share on the income from agriculture earned by the special partnership, which is tax exempt under Section 1023(s) of the Code.
- (f) Enter other income or gains like for example, the distributable share on the dividends and interest received by the special partnership.

### Line 3 - Basis decrease

- (a) Enter the distributable share on the loss attributable to the partner in previous year. For example, in case of a taxpayer with a calendar taxable year, enter the total distributable share on the special partnership's loss included on the income tax return filed on April 15 of previous year (or later if you requested an extension of time to file your return). To determine the total loss claimed on previous year return, add lines 5(c), 8 and 13 of Part II from Schedule R included on previous year return. In order to add lines 5(c), 8 and 13 use the parenthesis for line 8, if the excess is a loss. For example, if line 5(c) is \$12,000, line 8 (\$2,000) and line 13 \$1,000, the result will be \$11,000 (\$12,000 + (\$2,000) + \$1,000).
- (b) The distributable share on special partnership's capital assets loss.

- (c) Distributions made to the partner by the Special Partnership, whether in cash or in property, including tax exempt income.
- (d) The amount claimed as credit against the income tax on previous taxable year for investments made in special partnerships engaged in the production of feature films or under the Puerto Rico Tourism Development Act of 1993, the Puerto Rico Capital Investment Fund Act, the Puerto Rico Agricultural Tax Incentives Act, as amended, or any other credit admitted by law to the partners related to the Special Partnership's activities.
- (e) The amount claimed as credit against the income tax for withholding of tax at source from the distributable share made to a resident partner (33%) or to a nonresident alien partner (29%).
- (f) Any expense from the Special Partnership not allowed as a deduction while determining your net income and that is not capitalized.
- (g) The distributable share on net losses from tax exempt operations under the Tourism Incentives Act of 1983 and the Tourism Development Act of 1993.

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

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

If the Special Partnership derived losses, the partner may claim such losses as a deduction from salaries, pension or any other income. Said loss will be limited to the adjusted basis of the partner's share in the partnership at the end of the taxable year in which the loss of the partnership occurred, or up to 50% of the taxpayer's net taxable income determined without considering said loss (see instruction for line 11), whichever is smaller.

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

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

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

**Line 5(b)** - Enter the carryover losses which were not claimed in previous years due to the limitation. This amount must be the same as the one shown on line 14, Part II of Schedule R included on previous year income tax return. If a partner possesses shares in losses from more than one Special Partnership, the balance subject to the loss carryover, as determined on the previous taxable year, will be proportionally attributed to the loss of each one of the partnerships. Said attribution will be done by using as factor the adjusted basis of the partner's share in each one of the partnerships at the end of the previous taxable year.

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

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

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

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

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

**Line 11** - Subtract from the Adjusted Gross Income (without considering the losses from Special Partnerships), the standard or itemized deduction and the additional deductions. This will be the net income subject to the computation of line 12.

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

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

**SCHEDULE T INDIVIDUAL – ADDITION TO THE TAX FOR FAILURE TO PAY ESTIMATED TAX IN CASE OF INDIVIDUALS**

Use this schedule to determine the addition to the tax for failure to pay estimated tax and to determine the penalty for substantial underestimate of estimated tax.

**PART I – PENALTY FOR SUBSTANTIAL UNDERESTIMATE OF TAX**

**Line 2** – Include the total of credits corresponding to foreign taxes paid, withholding at source on: payments for services rendered, income in case of non resident individuals, salaries, distributable share from a special partnership or a corporation of individuals and payments from judicial or extrajudicial indemnification. Also include the credit for contributions to the Educational Foundation established by Act No. 80 of July 19, 1995, known as the "Educational Foundation for Free Selection of Schools Act" and other similar credits provided by the Code or any other special act that may be applicable. Include also the amount paid in excess in prior years that you elected to credit to the estimated tax for the taxable year. Add line 22, Part II of Schedule B Individual, lines 2 through 16, Part III of Schedule B Individual and lines 31A and 31B, Part 4, page 2 of the return.

**Line 3** – If the amount of estimated tax to be paid is \$200 or less, you are not required to file an Estimated Tax Declaration, thus, do not complete this Schedule.

**Line 4** – If you are a farmer and elected the provisions under Section 1061 of the Code, then multiply line 1 by 66 2/3%.

**Line 5** – Enter the total of estimated tax installments paid for the current taxable year (Schedule B Individual, Part III, line 1).

**Line 6** – Enter the estimated tax to be paid informed on the Estimated Tax Declaration after considering the estimated credits for amounts withheld or paid and the credit for tax paid in excess (Estimated Tax Declaration (Form 480-E, line 5)).

If after filing the Estimated Tax Declaration on time, an amended declaration is filed, enter the amount as amended.

The penalty for substantial underestimate of the estimated tax is not applicable on the return of a taxpayer deceased during the taxable year. In this case, continue with Part II or III, as applicable.

**Line 8** – Determine the estimated tax based on the information of the immediate previous year return, except that regarding the personal exemption and the exemption for dependents, they must be determined according with your status at the date of filing the declaration for the current year. For purposes of this computation, you must use the current year tax rates. If you were not required to file an income tax return for the immediate previous year, enter zero.

Example:

At the moment of filing the Estimated Tax Declaration, the taxpayer is married and has a non university dependent. The information of 2008 income tax return is:

	2008 individual income tax return (single without dependents)
Professional services	\$80,000
Dividends subject to withholding	850
Itemized deductions	5,500
Additional deductions	3,200
Personal exemption	1,300
Exemption for dependents	0
Withholding on professional services	1,500
Withholding on dividends	85
Tax to be paid	\$13,110

The estimated tax for 2009, based on 2008 income tax return information, but the personal exemption and exemption for dependents at the moment of filing the 2009 Estimated Tax Declaration and according with 2009 tax rates would be:



	2008 individual income tax return (single without dependents)
Professional services	\$80,000
Dividends subject to withholding	850
Itemized deductions	5,500
Additional deductions	3,200
<b>Personal exemption when filing the declaration</b>	<b>3,000</b>
<b>Exemption for dependents when filing the declaration</b>	<b>2,500</b>
Withholding on professional services	1,500
Withholding on dividends	85
<b>Estimated Tax - 2009</b>	<b>\$11,724</b>

**Line 9** – If the estimated tax paid in each installment is equal or more than the estimated tax per installment using the information of the immediate previous year income tax return, as determined on line 8, and the amount of each tax installment was made on time (not later than the 15<sup>th</sup> day of the fourth month, sixth month, ninth month of the taxable year and the 15<sup>th</sup> day of the first month following the close of the taxable year), the penalty for substantial underestimate of estimated tax is not applicable.

**Line 10** – If the total of estimated tax, the credits and the excess payments is equal or more than 90% of the current year tax, the penalty for substantial underestimate of estimated tax is not applicable.

## PART II – ADDITION TO THE TAX FOR FAILURE TO PAY – SHORT METHOD

This method can be used if you meet all the following requirements:

1. you are required to pay estimated tax from the first installment;
2. no payment has been made or the four equal estimated payments have been realized at the moment of their respective due dates and their total is less than the estimated payment required;
3. a request for extension of time to file the Estimated Tax Declaration has not been filed;
4. an Amended Tax Declaration has not been filed; and
5. the estimated tax not paid is met in the due date to file the income tax return, without considering any extension of time for the payment.

**Line 13** – If an Estimated Tax Declaration was filed not later than April 15 (15<sup>th</sup> day of the fourth month of the taxable year, if you have a fiscal year), enter the declared estimated tax to be paid. If an Estimated Tax Declaration was not filed or if it was filed after April 15, enter the amount from line 3.

## PART III – ADDITION TO THE TAX FOR FAILURE TO PAY – ORDINARY METHOD

### Section A – Failure to Pay

Fill in completely the oval for calendar year if your taxable year ends on December 31, otherwise, fill in the oval which indicates fiscal year. If you filled in the oval for fiscal year, enter in Columns (a), (b), (c) and (d), the date corresponding to the 15<sup>th</sup> day of the fourth month, sixth month, ninth month of the taxable year and of the first month following the close 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 declaration.

**Line 16** – If 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, and you filed an Estimated Tax Declaration not later than the 15<sup>th</sup> day of the fourth month of the taxable year, enter in each one of the columns 25% of the declared estimated tax to be paid, otherwise, enter 25% of line 3. If the obligation was met for the first time after the last day of the third month and before the first day of the sixth month of the taxable year, and you filed an Estimated Tax Declaration not later than the 15<sup>th</sup> day of the sixth month of the taxable year, enter in Columns (b), (c) and (d) 33% of the declared estimated tax to be paid, otherwise, enter 33% of line 3. If the obligation was met for the first time after the last day of the fifth month and before the first day of the ninth month of the taxable year, and you filed an Estimated Tax Declaration not later than the 15<sup>th</sup> day of the ninth month of the taxable year, enter in Columns (c) and (d) 50% of the declared estimated tax to be paid, otherwise, enter 50% of line 3. If the obligation was met for the first time after the last day of the eighth month and you filed an Estimated Tax Declaration not later than the 15<sup>th</sup> day of the first month following the taxable year, enter in Column (d) 100% of the declared estimated tax to be paid, otherwise, enter 100% of line 3. If you are a farmer and elected the provisions under Section 1061 of the Code, and filed an Estimated Tax Declaration not later than the 15<sup>th</sup> day of the first month following the taxable year, enter in Column (d) 100% of the declared estimated tax to be paid, otherwise, enter 100% of line 3.

If after filing an Estimated Tax Declaration on time, an amended declaration is filed, enter the amount of the installment according with the corresponding amendment.

**Line 17** – Enter in Column (a) the amount of estimated tax paid not later than April 15 of the taxable year (the 15<sup>th</sup> day of the fourth month of the taxable year if you have a fiscal year); in Column (b), the estimated tax paid after April 15 of the taxable year (the 15<sup>th</sup> 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 15<sup>th</sup> day of the sixth month of the taxable year if you have a fiscal year); in Column (c), the estimated tax paid after June 15 of the taxable year (the 15<sup>th</sup> 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 15<sup>th</sup> day of the ninth month of the taxable year if you have a fiscal year); and in Column (d), the estimated tax paid after September 15 of the

taxable year (the 15<sup>th</sup> day of the ninth month of the taxable year if you have a fiscal year) and not later than January 15 following the taxable year (the 15<sup>th</sup> day of the first month following the taxable year if you have a fiscal year).

**Line 18** – If various payments were made in the periods described in the instructions for line 17, indicate the amount and date of the payments.

**Line 19** – To determine the amounts to be entered in Columns (b), (c) and (d), you must complete lines 19 through 25 of previous column.

**Section B – Penalty**

**Line 26** – 10% of the estimated tax of each installment due but not paid will be added to the tax.

**Line 27** – If the failure to pay on line 22 was covered in only one payment (or overpayment) after its due date, enter the months or fraction thereof (except the first month), elapsed from the date in which the estimated tax installment must have been paid and the date in which the payment was made. For example, if the first installment was due on April 15 and the payment was made on October 25, the months or fraction thereof elapsed, except the first month, will be 6.

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 line 22 is larger than zero and the failure to pay was covered with two payments, overpayments or a combination of those, **do not write anything on this line** and complete Columns (a), (b), (c), (d) and (e) of the tables in Part V, page 2 of this Schedule. Determine the months or fraction thereof (except the first month), elapsed from the due date of the estimated tax installment and the date of each one of the payments or overpayments applied.

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

**Line 28** – If line 22 is larger than zero and the failure to pay was

covered with two payments, overpayments or a combination of those, **do not write anything on this line**.

**Line 29** – Regarding each one of the installments due but not paid, 2% of the amount not paid of such installments will be added, for each month (except the first month) or fraction thereof during which such amount remained unpaid. Each fraction of month will be considered as a complete month.

If line 22 is larger than zero and you had to use the tables of Part V, page 2 of this Schedule, enter in Columns (a), (b), (c) and (d), the total of Table 1, Table 2, Table 3 and Table 4, respectively.

**Line 31** – Enter here 20% of the amount of the installment due that had not been paid by its due date.

**PART V – 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 on page 2 of this Schedule.

Example:

The estimated tax declared for the current year was \$3,200, thus, the taxpayer had to make four estimated tax installments for 4/15, 6/15, 9/15 of the current year and 1/15 of the following taxable year of \$800, respectively. The following payments were made:

Date	Amount
4/15	500
5/30	150
6/15	800
9/15	900
1/15	800

The declared estimated tax was totally met by the date prescribed by the Code to file the income tax return, without considering any extension of time. Therefore, the taxpayer paid the total tax for the current year on April 15 following the closing of the taxable year. The calculation of line 29 will be:

Amount due and not paid before the payment	Amount of payment or overpayment	Date of payment or overpayment	Months or fraction thereof (except the first month) from its due date	Multiply (a) by (d) by 2%
(a)	(b)	(c)	(d)	(e)
\$300	\$150	5/30	1	\$6
150	100	9/15	4	12
50	50	4/15	11	11
<b>Total: Add Column (e) and transfer to Part III, line 29, Column (a)</b>				<b>\$29</b>

**S** Line 22 of Column (a)

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



## OBLIGATION TO PAY ESTIMATED TAX

### IMPORTANT NOTICE

The requirement to file the Estimated Tax Declaration (Form 480-E) was eliminated beginning with taxable year 2010. However, the obligation to make the estimated tax payments is still required.

#### WHO HAS THE OBLIGATION TO PAY ESTIMATED TAX?

Every person whose total estimated gross income is derived totally or partially from any source, other than salaries and pensions subject to withholding, and whose estimated tax for any taxable year is over \$1,000. The estimated tax will be the excess of:

- 1) the amount of tax estimated by the individual for the taxable year, including the alternate basic tax and the gradual adjustment, among other taxes, over
- 2) the amount of withholdings and credits provided by the Code or special laws estimated by the individual for the taxable year, including the non refunded tax paid in excess corresponding to the previous taxable year.

**However, if the total amount of tax is \$1,000 or less, you are not required to pay estimated tax.**

#### PAYMENT OF TAX

The estimated tax for the taxable year must be paid in four equal installments:

- 1<sup>st</sup> installment: 15th day of the fourth month
- 2<sup>nd</sup> installment: 15th day of the sixth month
- 3<sup>rd</sup> installment: 15th day of the ninth month
- 4<sup>th</sup> installment: 15th day of the first month of the following taxable year.

If the obligation to pay estimated tax arises for the first time after the last day of the third month and prior to the first day of the sixth month of the taxable year, the installments will be:

- 1<sup>st</sup> installment: 15th day of the sixth month
- 2<sup>nd</sup> installment: 15th day of the ninth month
- 3<sup>rd</sup> installment: 15th day of the first month of the following taxable year.

If the obligation to pay estimated tax arises for the first time after the last day of the fifth month and prior to the first day of the ninth month of the taxable year, the installments will be:

- 1<sup>st</sup> installment: 15th day of the ninth month
- 2<sup>nd</sup> installment: 15th day of the first month of the following taxable year.

If the obligation to pay estimated tax arises for the first time after the last day of the eighth month of the taxable year, the estimated tax will be paid in its entirety on the 15th day of the first month of the following taxable year.

The estimated tax installments will be paid together with a payment coupon (Forms 480.E-1 or 480.E-2). Taxpayers who paid the estimated tax in the previous year, will receive a booklet containing 4 coupons (Forms 480.E-2) with their name, address and social security or employer identification number. Taxpayers who have not received the coupons booklet, must visit the Taxpayer Service Center (Office 101) of the Department of the Treasury in Old San Juan, where the payment coupons (Forms 480.E-1) will be prepared. For additional information, please call (787) 722-0216.

The estimated tax payments will be made in the participating banks (if you have the pre-printed coupon), through Payments Online, the Internal Revenue Collections Offices or you can mail it to the Returns Processing Bureau to the following address:

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

Payments with checks in participating banks must be made payable to the order of such banks. Payments with managers checks, checks or money orders at the Internal Revenue Collections Offices will be made payable to the Secretary of the Treasury.

#### CHANGES IN THE ESTIMATED TAX COMPUTATION

If there is any change in the estimated tax computation as a result of a change in income, personal exemption, exemption for dependents or for any other reason, the remaining installments must be proportionally increased or reduced to reflect the increase or reduction in the estimated tax. On the other hand, if on or before January 15 of the following taxable year the final income tax return had been filed and the income tax balance is paid, then

- 1) if you are not required to make estimated tax payments during the taxable year but you are required to pay it on or before said January 15, such return will be considered as such payment; and
- 2) if the tax determined in the return, reduced by the deductions and credits provided in the Code or special laws for the taxable year is larger than the tax estimated by the taxpayer, such return will be considered as a change in the computation of the estimated tax.

#### FARMERS

If 2/3 or more of an individual estimated gross income was derived from agricultural activities, the payment of estimated tax will be due on January 15 of the following year, if the income tax return is filed on a calendar year basis, or not later than the 15th day of the month in which the following taxable year begins, if the income tax return is filed on a fiscal year basis.



Farmers who file the income tax return not later than January 31 of the following year (if they file on a calendar year basis) or not later than the last day of the month in which the following taxable year begins (if they file on a fiscal year basis) and pay in its entirety the total amount determined on the income tax return not later than said date, it will be considered as if the estimated tax payment would have been done not later than January 15.

## **PENALTIES**

The Code establishes a 10% penalty of the amount not paid of any estimated tax installment. For this purposes, the estimated tax will be the smaller of:

- 1) 90% of the tax for the taxable year, or
- 2) the total income tax determined as it results from the preceding year's income tax return.

## Occupational Codes

OCCUPATION	CODE	OCCUPATION	CODE
Accounts Adjuster	5243	Language Pathologist	6240
Accountant or Auditor	5412	Lawyer	5411
Advertising Agent	5417	Legislator and Mayor	9300
Architect	5415	Locksmith	5616
Artist, Actor, Dancer, Singer	7115	Mason	2381
Automotive Body and Related Repairer	4800	Mechanic and Automotive Technician	3321
Aviculturist	1123	Medical Assistant	6209
Butcher	4452	Medical Propagandist	6211
Cabinetmaker	3323	Medical Technologist	6216
Carpenter	3322	Military Man (Soldier)	8101
Carrier Worker	8102	Nurse	6212
Cashier	4213	Pharmaceutical Equipment Operator	6215
Computer Programmer	5110	Pharmacist or Pharmacy Assistant	6213
Construction Painter	2383	Pilot	8102
Construction Worker	2382	Planner	5421
Contractor	2360	Plumber	2384
Cook (Food Preparation Worker)	4212	Police Officer – State and Municipal	9315
Correction Officer and Jailer	9315	Postman and Messenger	3333
Customer Service Representative	4302	Private Guard	4300
Data Entry Operator	5108	Professional Athlete	7112
Drafter	5416	Professional Therapist	6217
Driver (Other)	4856	Professor – University	6112
Economist	5420	Psychologist	5422
Electric Equipment Operator	5111	Radio and Television Announcer	5131
Electrician	3324	Radiologist	6214
Embalmer and Gravedigger	8123	Real Estate Agent and Broker	5312
Engineer	5414	Refrigeration Technician	8106
Farmer	1110	Retail Sales Representative	4610
Financial Institution Clerk	5223	Retired – Pensioner	8130
Financial Manager and Supervisor	5222	Sales Manager and Supervisor	4214
Fireman	9314	Salesperson – Retail	4611
Flight Attendant	6115	Salesperson – Wholesale	4311
Forensic Pathologist	8124	School Administrator	6111
Garbage Man	8112	Scientist	5419
Gardener	8103	Secretary	8104
General Manager and Supervisor	4216	Securities Agent and Broker	5231
General Office Clerk	8111	Social Worker	6245
Generalist Physician	6208	Solderer	3119
Hairstylist, Barber and Cosmetologist	8121	Specialist Physician	6210
Heavy Equipment Operator	4857	Tapestry Maker	3120
Household and Domestic Services	8105	Teacher	6110
Industrial Equipment Operator	3101	Telephonic Equipment Operator	5112
Industrial Mechanic	3110	Teller	5221
Industry Manager and Supervisor	3100	Travel Agent	5615
Information Systems Manager	5109	Truck Driver	4855
Insurance Agent and Broker	5242	Veterinarian	5418
Janitor	5617	Waiter	4215
Judge	9301	Wholesale Representative	4310
Land Surveyor	5413	Other Work or Profession	8110



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WRITE YOUR PERSONAL INFORMATION CORRECTLY ON YOUR TAX RETURN.

**IMPORTANT NOTICE:**

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