



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

# INDIVIDUAL INCOME TAX RETURN 2012

## *MESSAGE FROM THE SECRETARY OF THE TREASURY*

Dear taxpayer:

It is my pleasure to include the second income tax return under the Internal Revenue Code for a New Puerto Rico, corresponding to tax year 2012. The due date for filing the return is April 16, 2013. This booklet will advise you of the most significant changes introduced by the Code with respect to your tax responsibility.

If you have additional questions related to the preparation of your tax return, you can contact our assistance personnel at (787) 722-0216, or by email to [infoserv@hacienda.pr.gov](mailto:infoserv@hacienda.pr.gov). Also, you can visit our Taxpayer Service Centers located at our principal office in San Juan, at our regional offices and at the taxpayer's orientation centers located across Puerto Rico.

As in past years, you will be able to electronically file your tax return through our website [planillas2012.com](http://planillas2012.com). In our website you will find the Internal Revenue Code for a New Puerto Rico, as well as the most recent regulations issued thereunder. In addition, you will find other publications, such as circular letters and informative bulletins.

I encourage you to comply promptly and thoroughly with your tax responsibility. Rising Puerto Rico from its current socioeconomic conditions is the responsibility of all of us. By complying with your tax responsibility, you will be contributing to the welfare of your family as well as that of all of Puerto Rico.

Cordially,

Melba Acosta Febo

**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 16, 2013.

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## FILING REQUIREMENTS

### WHO MUST FILE THE INCOME TAX RETURN?

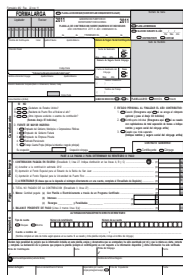


- a) Every individual resident of Puerto Rico who is an individual or married taxpayer, whose gross income for the taxable year, net of exemptions, exceeds \$5,000;
- b) Every individual not resident of Puerto Rico, citizen of the United States, who is an individual or married taxpayer, whose gross income from Puerto Rico sources for the taxable year, net of exemptions, exceeds \$5,000, unless the tax has been totally paid at source;
- c) Every married individual living with spouse, who opts to file a separate tax return and whose gross income for the taxable year, net of exemptions, is \$2,500 or more;
- d) Every nonresident alien who during the taxable year has income from Puerto Rico sources subject to tax, unless the tax has been totally paid at source; or
- e) Every individual who during the taxable year has net income subject to alternate basic tax of \$150,000 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 for the year exceeds \$150,000.
- ↪ You received income from alimony, interest, dividends, sole proprietorship business or from any other source that is not exclusively salaries or pensions.
- ↪ You claim any tax credit, except for the Employment Credit, the Credit for Persons Age 65 or Older, the Compensatory Credit for Low Income Pensioners, the Credit for the Payment of Additional Duties for Luxury Vehicles under Act 42-2005 or the American Opportunity Tax Credit.
- ↪ You are required to pay estimated tax.
- ↪ You are a resident or nonresident individual, who received remuneration for services rendered to teams of the Major League Baseball and the U.S. National Basketball Association for games held in Puerto Rico.
- ↪ You are a non resident alien and are required to file a return.
- ↪ You received income from the sale of capital assets or income subject to tax under preferential tax rates.
- ↪ **Your net income subject to alternate basic tax is \$150,000 or more.**

If you do not meet at least one of 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 16, 2013**.

### WHERE THE RETURN MUST BE FILED?

The return may be filed:

- ↪ electronically using any program or application certified by the Department;
- ↪ by mail sending it to the following address: DEPARTMENT OF THE TREASURY, PO BOX 50072, SAN JUAN PR 00902-6272; or
- ↪ personally at 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 BILL OF RIGHTS

The Taxpayer Bill of Rights grants the following rights under the Code:

To receive a proper, considerate and impartial treatment.

The information submitted will be confidential.

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 a clear and simple explanation of the process to which the taxpayer will be subjected and the rights that assist him.

To be assisted by an attorney, accountant, certified public accountant or any other authorized person, at any moment during the interview.

To 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 subject to the payment of the cost thereof.

To be informed of the nature of your tax liability.

To be advised of your right against self-incrimination by your own testimony, 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.

To consult an attorney, accountant, certified public accountant, or agent authorized to represent you within the Department at any moment during the interview, or to be able to finish the interview even when it has commenced.

To 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.

To claim the benefits of a payment plan if you can't pay the tax liability in full in the corresponding time.

To waive the rights described in the preceding paragraphs, if such waiver is made knowingly and voluntarily.

To grant a written power of attorney 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.

No discrimination on the basis 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 of tax information for these purposes.

The Department's employees will explain to you 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 Rights.

### OFFICE FOR THE PROTECTION OF TAXPAYER RIGHTS

The Office for the Protection of Taxpayer Rights (Ombudsman of the Taxpayer) was created to assure compliance with the provisions of the Taxpayer Bill of Rights. Said office is located at the Department of the Treasury in Old San Juan, Office 105. For assistance, please call (787) 977-6622, (787) 977-6638, or (787) 721-2020, extension 2180.

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 of the rights of the taxpayer made by any employee of the Department.

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



## RELEVANT FACTS

### NEW TAX BENEFITS

- ↵ The additional contribution that individuals age 55 or older may contribute to a Health Savings Account with a High Annual Deductible Medical Plan (Health Savings Account) was increased from \$700 to \$800.
- ↵ All the brackets of net income subject to tax were expanded, reducing the determined tax on all levels of income.
- ↵ The limit of net income subject to tax applicable for the gradual adjustment is increased from \$100,000 to \$200,000. In the case of married taxpayers filing separate returns or electing the optional computation of tax (Schedule CO Individual), the net income levels subject to gradual adjustment will be \$200,000 for each one.
- ↵ The employment credit was increased to 4% of the earned income up to a maximum of \$400 for the year, applicable to individuals whose earned income does not exceed \$25,000.
- ↵ It is provided to claim the Returning Heroes and Wounded Warriors work opportunity tax credit under the VOW to Hire Heroes Act of 2011.
- ↵ Contributions made during the taxable year to the Santa Catalina's Palace Patronage increased from 50% to 100%.
- ↵ A credit is granted for charitable contributions to ex governors foundations equivalent to 100% of the amount contributed during the taxable year.
- ↵ The limit of contributions to a qualified retirement plan under Section 1081.01 of the Code is increased from \$10,000 to \$13,000. Also, for taxable years beginning on January 1, 2013, the limit for such contributions will be \$15,000.
- ↵ The following items are exempt from the payment of income tax:
  - the total net long-term capital gain generated between January 1 and December 31, 2012 from the sale of a **principal residence and qualified property that is not a principal residence**;
  - the total net long-term capital gain generated in the sale of a **new construction property** acquired between September 1, 2010 and December 31, 2012; and
  - fifty percent (50%) of the net long-term capital gain generated in the sale of **qualified property** acquired between September 1, 2010 and December 31, 2012.
- ↵ Every resident individual investor is exempt from the payment of income tax, including the alternate basic tax, on:

- income from interest and dividends generated after becoming resident of Puerto Rico (but before January 1, 2036); and
- the total net long-term capital gain related to any accretion of securities after becoming resident of Puerto Rico (must be recognized before January 1, 2036).

### SIGNIFICANT CHANGES IN THE RETURN

#### ↵ Return

The questionnaire of the return provides to indicate if the taxpayer is a resident individual investor.

Also, line 23 I, Part 3, page 2 of the Long Form provides to claim the new Returning Heroes and Wounded Warriors work opportunity tax credit under the VOW to Hire Heroes Act of 2011. This credit is reimbursable.

#### ↵ Schedule A2 Individual

Lines 2 and 9 were added to indicate the amount of alimony paid.

#### ↵ Schedule B Individual

Lines 13 and 18 are added in Part III to indicate tax withheld on distributable share of revocable trusts or grantor trusts and on income from Major League Baseball teams and the U.S. National Basketball Association, respectively.

#### ↵ Schedule B4 Individual

This new schedule is provided to determine the Returning Heroes and Wounded Warriors work opportunity tax credit under the VOW to Hire Heroes Act of 2011.

#### ↵ Schedule D1 Individual

This schedule was modified to adjust it to the provisions of the Housing Promotion Program Transition Act (Act 216-2011).

#### ↵ Schedule F Individual

Lines 7 and 8 were included in Part VII to indicate the tax withheld on payments for judicial and extrajudicial indemnification and on income from Major League Baseball teams and the U.S. National Basketball Association, respectively.

#### ↵ Schedule F1 Individual

This new schedule is provided to inform the income received by resident individual investors under Act 22-2012.

#### ↵ Schedule IE Individual

Line 32 was added in Part II to include the distributable share on exempt income from flow-through entities.



### ☞ Schedules K, L, M and N Individual

The operating expenses and other deductible costs were relocated for purposes of the alternate basic tax.

### ☞ Schedule O Individual

Lines 8 through 11 are provided in Part I to indicate the distributable share on the adjustments for purposes of the alternate basic tax of flow-through entities.

### ☞ Schedule R1 Individual

This new complementary schedule is provided in the cases where the partner or stockholder has share in more than three partnerships, special partnerships or corporation of individuals.

### ☞ Form AS 6042.1

This new form is provided to determine the tax on non deductible contributions and in over the limit contributions to qualified retirement plans. Also, it will be required to claim the deduction for contributions to qualified pension plans on Schedules K, L, M and N Individual.

#### EVIDENCES OF THE RETURN

**You do not have to include with the return the evidences corresponding to the deductions and exemptions 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 its 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 include his/her registration number. THE CODE PROVIDES CIVIL AND CRIMINAL SANCTIONS TO THOSE SPECIALISTS WHO FAIL TO SUBMIT THIS INFORMATION OR WHO DO NOT MEET OTHER STATUTORY REQUIREMENTS IMPOSED BY THE CODE.**

#### 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 clearly and legibly in the space provided for this purpose in the return's heading. **Do not use** the pre addressed label. Also, you must fill in completely the oval (○) beside "Yes" in the space provided 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 notify it by using Form SC 2898**. This form 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 by accessing our website: [www.hacienda.gobierno.pr](http://www.hacienda.gobierno.pr).

#### AREA CODE

You must indicate the area code (**787** or **939**) in the space 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 act for omissions in fulfilling your tax responsibility. The Department may make the collection in a traditional or electronic manner.

#### FILING 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 the booklet that is received automatically in the mail. This option is available for the individual returns (refund, with payment and without payment). For additional information, visit our webpage: [www.hacienda.gobierno.pr](http://www.hacienda.gobierno.pr).

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





**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 the 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 case of a savings account, you must contact the financial institution to obtain the routing/transit number. **Do not leave blank spaces. Do not use hyphens or other symbols.**

**Account Number** - Enter your 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 may 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.

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.

**EXAMPLE A**

John Doe  
Jane Doe  
Calle Principal # 19  
Ponce PR 00731 0249

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

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\_\_\_\_\_ DOLLARS

ANY BANK  
Any Place, Ponce PR 00731

FOR \_\_\_\_\_

Routing/  
Transit  
Number

Account  
Number

Do not include the  
check number

⑆ 021601244 ⑆ 012 ⑆ 244400 ⑆ 0249

**AUTHORIZATION FOR DIRECT DEPOSIT OF REFUND**

Deposit

Type of account      Routing/Transit Number      Account Number

Checking     Savings   
 0 2 1 6 0 1 2 4 4   
 0 1 2 2 4 4 4 0 0

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)





### ENVELOPE TO SEND THE RETURN

In order to identify the return faster, you must indicate on the envelope 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.

### FORM OF ORGANIZING THE RETURN

To expedite the processing of your Income Tax Return and your refund, it is advisable to staple it in the left superior corner and organize it in the following order:

1. Long Form
2. Income Informative Forms (ie. W-2, 480.6B, 480.7C)
3. Schedules in alphabetical order
4. Copy of the request for extension of time to file return, if applicable
5. Staple the check, if any, in the upper central part of the first page of the return.

### PAYMENT METHODS

You may make your tax payment:

- by electronic debit if you use a program or application certified by the Department to file your return electronically;
- by check or money order payable to the order of the Secretary of the Treasury along the return;
- if you wish to pay by cash, debit card or credit card, you should visit any Internal Revenue Collections Office. Make sure you save and photocopy the payment receipt provided by the Collector.

### 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 will 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 child support, your refund may be withheld. If you understand that such 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.

### FEDERAL EMPLOYEES - Exclusion of the Cost of Living Allowance (COLA)

The COLA received by civilian employees of the Federal Government is excluded from 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.

### 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 exemption 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 10 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 ten 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 10 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, the tax declared on the return which payment has been extended, shall be exempt from the payment of interest.

For more details, please refer to Section 6080.16 of the Code.

### TAXPAYER'S SERVICE FACILITIES

In the Taxpayer Service Centers, besides **informing about the status of your refund**, other services are offered such as: Tax Return Filing Certifications, Return Copies, assistance for Cases of Inheritance and Donations, Individuals, Corporations or Partnerships and Professional Services Withholding Waivers.



Following are the postal address and telephone number of the Calls and Correspondence Center and the location of each one of our Service Centers:

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

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

☞ **San Juan Services Center - Mercantil Plaza**  
Mercantil Plaza Building  
255 Ponce de León Ave.  
Stop 27½, Hato Rey

☞ **Aguadilla Service Center**  
Punta Borinquen Shopping Center  
Bert St., East Parade St. Intersection  
Malezas Abajo Ward, Ramey Base

☞ **Arecibo Service Center**  
Governmental Center  
372 José A. Cedeño Ave.  
Building B, Office 106

☞ **Bayamón Services Center**  
Road #2  
2nd Floor, Gutiérrez Building

☞ **Caguas Services Center**  
Goyco Street, Acosta Corner  
1st Floor, Governmental Building, Office 110

☞ **Mayagüez Services Center**  
Governmental Center  
50 Nenadich Street, Office 102

☞ **Ponce Services Center**  
Governmental Center  
2440 Las Américas Ave., Office 409

#### TECHNICAL ASSISTANCE

For additional information on the technical contents of this booklet or to clarify any doubts, please call **(787) 722-0216, option number 8 in the directory.**

#### HACIENDA MAKING CONNECTION

Access the Department of the Treasury's website: **[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

☞ Programs for the preparation of Informative Returns and Withholding Statements for the year 2012.

☞ Virtual Internal Revenue Collections Office / Payments Online

☞ Puerto Rico Internal Revenue Code of 1994, as amended

☞ Act 1-2011, Puerto Rico Internal Revenue Code of 2011, as amended

☞ Forms, Returns and Informative Booklets, such as:

- Income Tax Return of Taxable Corporations
- *Modelo SC 2800 - Planilla de Contribución sobre Caudal Relicto* (Spanish only)
- *Modelo SC 2800 A - Planilla Corta de Contribución sobre Caudal Relicto* (Spanish only)
- *Modelo SC 2800 B - Planilla de Contribución sobre Caudal Relicto (Causantes fallecidos a partir del 1 de enero de 2011)* (Spanish only)
- *Modelo SC 2788 - Planilla de Contribución sobre Donaciones* (Spanish only)
- *Modelo SC 2788 A - Panilla de Contribución sobre Donaciones (Aplica a donaciones efectuadas a partir del 1 de abril de 2011)* (Spanish only)
- Informative Booklet to Provide Orientation about your Income Tax Return (Spanish and English)
- Informative Booklet to Provide Guidance 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 de 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)



## SUGGESTIONS TO AVOID MISTAKES WHEN FILING YOUR RETURN

1. Write all the information in a clearly and legibly way, and fill in the ovals completely.
2. ***Make sure to write your social security number on the return and schedules.***
3. Verify that your **social security number** is the one shown on the Withholding Statement.
4. Make sure to include your date of birth and that of your spouse (if applicable), as it is essential to grant the Credit for persons age 65 or older.
5. Notify your change of address writing clearly and legibly the new address in the space provided for this purpose in the heading of the return.
6. In the case of a married couple filing jointly, the return may be filed under the name of any of the spouses.
7. Do not include estimated tax payments or excess tax paid in previous years credited to estimated tax in Part II of Schedule B Individual. The same will be reflected in Part III of that Schedule.
8. Married couples who choose the optional computation of tax in the case of married individuals living together and filing a joint return (optional computation), must make sure to fill in completely the oval provided to indicate this option in the questionnaire of the return and to include Schedule CO Individual.
9. **Include all Withholding Statements (Forms 499R-2/W-2PR, W-2 or 480.7C) with your return.**
10. **Contributions made to Qualified Plans of private company employers** (Part 15, Withholding Statement) are excluded from the salaries (Part 11). Therefore, **do not consider them again as a deduction.**
11. Complete in **Schedule A1 Individual** all the information related to your dependents.
12. **Do not include your spouse on Schedule A1 Individual as a dependent. For tax purposes, a married taxpayer may not include a spouse as a dependent.**
13. Sign your return with **ink** and in the case of a joint return, make sure that **both spouses sign it.**
14. Use the correct tax return that applies to you: Short Form or Long Form.
15. Make sure to indicate on the envelope the concept applicable to your return: **Refund, Total Payment, Payment of the First Installment (Deferred Payment), 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 assistance through the Volunteer Income Tax Assistance Program Centers (VITA), contact the Internal Revenue Service at (1) (800) 829-1040.**



## INSTRUCTIONS TO COMPLETE THE LONG FORM RETURN

### 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 commonwealth of Puerto Rico the total 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 Puerto Rico income tax return, the income from sources within Puerto Rico earned after the change of residence.

### NAME, ADDRESS AND SOCIAL SECURITY NUMBER

The mailing label located on the back of the instruction booklet that is received automatically by mail, 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.

### 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 excluded or exempt income during the year (Example: social security income, prizes from the Lottery of Puerto Rico or from racetrack winnings). **You must submit Schedule IE Individual with a detail of the same.** Indicate also if you are a resident individual investor. **Submit Schedule F1 Individual.**

### HIGHEST SOURCE OF INCOME

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



## OCCUPATION

Inform the nature of you 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 65.

## FILING STATUS AT THE END OF THE TAXABLE YEAR

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

- 1) **Married** - This filing status is for every individual that at the end of the year is legally married and living together with his or her spouse.

However, those individuals that, before their marriage, executed a prenuptial agreement expressly stipulating that the economic regime of the married couple is one of complete separation of property, will not be considered married for income tax purposes. Consequently, each spouse will be taxed separately as an **individual taxpayer** for income tax purposes.

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 individual taxpayer, from the date of the death up to the end of the year. **You must submit your spouse's name and social security number.**

**If you choose the optional computation of tax in the case of married individuals living together and filing a joint return, fill in completely the corresponding oval and go to Schedule CO Individual.**

- 2) **Individual Taxpayer** - This filing status is for those individuals who at the end of the taxable year:
- a) are not married, because they have never married, are widowed or divorced; or
  - b) are married, but, before their marriage, executed a prenuptial agreement expressly stipulating that the economic regime of the married couple is one of complete separation of property (**you must provide your spouse's name and social security number**); or
  - c) are married, but not living with the spouse. An individual will be considered as not living with his/her spouse if at the end of the taxable year, he or she did not live with the spouse, and during an uninterrupted period of 12 months that includes the date of the end of the taxable year, he or she did not live in the same household as the spouse during an uninterrupted period of 183 days. **You must provide your spouse's name and social security number.**

- 3) **Married filing separately** - This filing status is for individuals that at the end of the taxable year are legally married, living together, and choose to file separately. If you file under this status, you should include your own income as provided under Section 1021.03 of the Code. Also, certain deductions must be allocated 50% to each spouse and others may be claimed fully by the spouse to whom they relate. **You must provide your spouse's name and social security number.**

## OPTIONAL COMPUTATION OF TAX

If you choose the **optional computation of tax** in the case of married individuals living together and filing a joint return, **fill in completely the corresponding oval** in the married filing status. Do not complete Parts 1 and 2 or lines 13 to 18 of Part 3, page 2 of the return. **Go to Schedule CO Individual** and refer to the instructions of said schedule.

## 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 is contracted by a governmental organism indicate so in the Questionnaire, page 1 of the return.**

Since sometimes the tax return for the last filing year cannot 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 Ramírez Building in Old San Juan, at the District Offices, at the Internal Revenue Collections Offices, and at the Orientation and Return Preparation Centers.





## REFUND

### Line 1 – Overpayment of Tax

An overpayment of tax or refund arises when the total tax withheld, refundable credits and amount paid with the automatic extension (if any) exceeds the tax determined. This amount comes from Part 3, page 2 of the return and arises when line 26 is greater than the sum of lines 24 and 25.

**Any overpayment of income tax will be applied against any exigible tax liability imposed by the Code.**

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

In the absence of liability from previous years, you may elect to contribute all or part of the overpayment of tax to the 2013 estimated tax, the San Juan Bay Estuary Special Fund or the Special Fund for the University of Puerto Rico.

If you elect to do so, enter the amount that you want to credit to your estimated tax for the taxable year 2013 on line 1A, or the amount you wish to contribute to any of these Funds on lines 1B and 1C, respectively. Enter any balance to be refunded on line 1D.

You must keep for your records evidence of the estimated tax payments (copy of canceled or substitute checks, copy of money orders, etc.).

## PAYMENT

### Line 2 – Amount of Tax Due

If the tax determined exceeds the total tax withheld, refundable credits and amount paid with the automatic extension (if any), there is a total tax due. This amount comes from Part 3, page 2 of the return and results when line 26 is less than the sum of lines 24 and 25.

### Line 3 - Amount paid

You may pay your tax by sending the payment with the return or through electronic debit if you use a program or application certified by the Department. 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 3(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 are not required to make estimated tax payments, you may elect to pay the total tax due (line 2) in two equal installments. The first installment must be paid not later than the date established by the Code to file the return (April 15, when the return is filed on a calendar year basis) and the second installment must be paid on or before the 15th day of the 6th month following that date (October 15, when the return is filed on a calendar year basis). **You will lose the option to pay the tax in two installments if you do not include with your return at least half of the tax balance due.**

If you made a payment with your application for automatic extension and this was less than 50% of the balance of the tax due determined after subtracting withholdings and credits (Line 22 less lines 23A to 23 I of Part 3), you must pay with the return the amount of tax due (Line 2, page 1). This amount will be assessed by interest and surcharges from the original due date of the return to the date of payment.

If you made a payment with your request for automatic extension of time on or before the date in which you should have filed the return, and the payment was 50% or more of the balance of tax due determined after subtracting withholdings and credits (Line 22 less lines 23A to 23 I of Part 3), you are allowed the two installments payment option. This means that no payment is required when filing the return. The second installment is due on or before October 15, if you file your return on a calendar year basis. If you file on a fiscal year basis, the second installment is due on the fifteenth day of the sixth month following the due date to file the return.

If you decide to pay the tax due in two installments, enter the amount you are paying with your return on line 3(a).

The tax payment that accompanies the return must be made by check or money order payable to the Secretary of the Treasury. **In the same, indicate your social security number and Form 482.0 - 2012.**

If you wish to pay in cash or credit or debit card, you can do so at any of our Internal Revenue Collections Offices. Make sure you keep and photocopy the receipt given by the Collector.

## INTEREST, SURCHARGES AND PENALTIES

### Interest

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

### Surcharges

When the payment of interest is applicable, a surcharge of 5% of the amount due will be assessed, if the delay in payment 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, he or she shall be guilty of a third degree felony.

#### Line 4 - Balance of Tax Due

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

**Remember that if you are required to pay estimated tax, you must pay the total amount of tax due (line 2) not later than the date in which the tax return must be filed.**

### DEPOSIT

#### 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 fill out this part.

**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. In the case of a savings account, you must contact 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 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.**

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

### SIGNATURE OF THE RETURN

The return will not be considered filed and will not be processed 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 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 IMPOSED BY THE CODE.

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 registration number and be signed by the authorized person.

### PART 1 - ADJUSTED GROSS INCOME

#### CHILD INCOME (Section 1032.05)

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 \$5,000 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 \$7,500.

#### 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 1, 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 Guidance on the Income Tax Responsibilities of Federal, Military and Other Employees".





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

**Remember to enter the Cost of Living Allowance (COLA) received on line 12, Part II of Schedule IE Individual.**

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

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

If you received a total distribution from a qualified pension plan due to separation from service, use Schedule D Individual to inform it and transfer it to Part 1, line 2A of the return. If you generated a net gain or loss on the sale or exchange of capital assets or a lump sum distribution of a variable annuity contract, use Schedule D Individual to determine it and transfer it to Part 1, line 2B of the return. (See instructions of Schedule D Individual).

Use Schedule F Individual to inform income from interest, corporate dividends, distributions and government plans transfers, income from prizes or contests, income from judicial or extrajudicial indemnification, miscellaneous income and income from Major League Baseball and the U.S. National Basketball Association teams, distributions of 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 1, lines 2C to 2G on page 2 of your return. (See instructions of Schedule F Individual).

If you received dividends from an investment in a Capital Investment Fund or Tourism Fund, use Schedule Q1 to determine this income. This schedule with its instructions is available on the Forms and Publications Division of the Department of Treasury or at the webpage: [www.hacienda.gobierno.pr](http://www.hacienda.gobierno.pr).

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

**If such activities are not your main source of income, transfer only the profits determined on the Schedule to Part 1, lines 2 I to 2L to page 2 of your return. If you had losses, enter zero on lines 2 I to 2L.**

If you had a long-term capital gain in Capital Investment Funds, use Schedule Q1 to determine it and transfer it to Part 1, line 2N of your return.

If you received a distributive share of benefits in partnerships, special partnerships and corporations of individuals, use Schedule R Individual and Schedule R1 Individual, if necessary, to determine this income. (See instructions of Schedule R Individual).

**Enter on line 2P the alimony income received due to divorce or separation that does not constitutes child support for the spouse that made the payment. You must provide the social security number of the person making the payment.**

## 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. Nevertheless, the excess of expenses generated in the sale of a qualified property between January 1 and December 31, 2012, may be claimed as a deduction up to \$5,000 in each one of the following fifteen 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 \$20,000 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 for assets division, voluntary payments not included in a court decree or agreement for separation support, or child support payments, are not deductible.

**PART 2 – DEDUCTIONS, EXEMPTIONS AND INCOME SUBJECT TO TAX**

**Line 6 – Total Deductions**

Enter the total number of deductions corresponding to individual taxpayers, as determined on Schedule A Individual, Part I, line 11. **Remember not to submit evidence of the deductions with the return. However, you must keep the evidence for these deductions for your records for at least 6 years, in case they may be eventually requested by the Department.**

For additional information, you can refer to the instructions of Schedule A Individual.

**Line 7 – Special Deduction for Certain Individuals**

You may qualify to claim all or part of this special deduction if your principal source of income is:

- wages, commissions, salaries and tips;
- income from annuities or pensions;
- alimony;
- gains, profits and income from professions, trades, industries, businesses, commerce or sales, or from dealings of real or personal property, arising from the possession or use of interest in such property; or
- gains, profits and income from the sale or other disposition of all property that does not constitutes inventory held by the taxpayer.

If you derive net income from concepts different from the described above in excess of \$5,000, no deduction will be allowed. Unemployment benefits are not considered for the limit of \$5,000.

For the tax year 2012, the special deduction will be \$7,850, if the total adjusted gross income plus exempt income received does not exceed \$20,000. If such amount exceeds \$20,000,

the admissible deduction will be reduced by forty two (42) cents per dollar in excess of \$20,000 until it reaches zero. This deduction may not reduce the net income to less than zero.

Married couples filing jointly **who choose the optional computation of tax** (Section 1021.03 of the Code), will have available the deduction for each spouse individually.

Fill out the following Worksheet to determine the special deduction you may claim.

1.	Did you receive income from concepts other than the ones enumerated before in excess of \$5,000? If you answered "Yes", do not continue. You do not qualify to claim the Special Deduction. Enter \$0 on line 7 of the return or line 9 of Schedule CO Individual, as applicable. If you answered "Yes", continue to step 2.
2.	Enter your Adjusted Gross Income (Line 5 of Part 1 of page 2 of the return or line 6 of Schedule CO Individual, Column B or C, as applicable) ..... \$ _____
3.	Enter the amount of exempt income (Line 34, first Column of Part II of Schedule IE Individual) \$ _____
4.	Total (Add lines 2 and 3) ..... \$ _____
	<ul style="list-style-type: none"> <li>• If this amount is \$20,000 or less, enter \$7,850 on line 7 of the return (Line 9 of Schedule CO Individual, Column B or C, as applicable)</li> <li>• If this amount is \$38,690 or more, do not continue. You do not qualify to claim the Special Deduction. Enter \$0 on line 7 of the return (Line 9 of Schedule CO Individual, Column B or C, as applicable)</li> <li>• If this amount is greater than \$20,000 and less than \$38,690, continue with step 5.</li> </ul>
5.	Limitation to the Special Deduction
	a) Limit ..... (20,000)
	b) Difference (Line 4 minus line 5(a)) ..... \$ _____
	c) Multiply by .42 ..... x .42
	d) Result (Multiply line 5(b) by line 5(c)) .... \$ _____
	e) Maximum deduction ..... 7,850
	f) Enter the amount of line 5(d) ..... \$( _____ )
	g) Subtract line 5(f) from line 5(e). This is your Special Deduction. Enter this amount on line 7 of the return (Line 9 of Schedule CO Individual, Column B or C, as applicable) ... \$ _____



**Line 8 – Personal Exemption**

Enter the amount of your personal exemption corresponding to your filing status. If you are married living with spouse filing jointly, enter \$7,000; individual taxpayer, enter \$3,500; if married filing separately, enter \$3,500.

**Line 9 – Exemption for Dependents**

Enter in the spaces provided on lines 9A and 9B, the number of dependents claimed according to their category. Indicate in line 9A the dependents with respect to whom exemption may be claimed completely (\$2,500 per dependent), and on line 9B those which exemption is only claimed in half under the special rule of parents with joint custody or married filing separate returns (\$1,250 per dependent).

Multiply the amount of dependents claimed on each category (line 9A by \$2,500 and line 9B by \$1,250) and enter the result in the space provided for the total exemption for dependents.

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 include on **Schedule A1 Individual**, the name, date of birth, relationship, and social security number of each dependent claimed. If you do not complete such part, nor meet these requirements, the exemption may be disallowed. If the dependent does not have a social security number, you must request one at your nearest Social Security Office.

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

**Line 10 – Additional Personal Exemption for Veterans**

Enter the amount of **\$1,500** if you are veteran of the United States Armed Forces. If married filing jointly and both spouses are veterans, the additional personal exemption is \$3,000. **Keep for your records copy of Form DD-214 (Discharge from U.S. Armed Forces).**

**PART 3 - COMPUTATION OF TAX, CREDITS AND TAX WITHHOLDINGS OR PAYMENTS**

**Line 13 – Tax**

Once the net taxable income is determined you, shall compute the tax and fill out completely the oval corresponding to the method used to determine the same:

Oval 1 - Tax according to tables

Oval 2 - Tax at preferential rates

Oval 3 - Tax for nonresident aliens

Oval 4 - Schedule B4 Individual

If you are a resident of Puerto Rico, you must determine your tax using the following table.

Enter the total tax determined on this line and fill in Oval 1.

**TAX COMPUTATION TABLE**

**Normal tax to individuals for the tax years beginning after December 31, 2011 but before January 1, 2013:**

If your net taxable income (line 12, Part 2 of the return or line 14 of Schedule CO Individual) is	Your tax will be:
Not over \$6,500	0%
Over \$6,500, but not over \$23,000	7% of the excess over \$6,500
Over \$23,000, but not over \$41,300	\$1,155 plus 14% of the excess over \$23,000
Over \$41,300, but not over \$61,300	\$3,717 plus 25% of the excess over \$41,300
In excess of \$61,300	\$8,717 plus 33% of the excess over \$61,300

**Preferential rates**

If you are a resident of Puerto Rico and derived income subject to preferential rates such as interest, dividends or long-term capital gains, among others, you must complete Schedule A2 Individual. On this Schedule you shall determine the tax on income that is subject to a preferential rate and the regular tax on any other income, and you can compare this amount with the regular tax on total income so you can choose the most beneficial alternative.

Also, if your income subject to preferential rates is \$20,000 or more, it is required that you allocate the total admissible deductions as computed on Schedule A Individual according to the different types of income.

Complete Schedule A2 Individual and transfer the amount of tax from line 15 of this Schedule to Part 3, line 13 of the return and fill in Oval 2. **Submit Schedule A2 Individual with your return.**

**Nonresident alien**

If you are a nonresident alien not engaged in trade or business in Puerto Rico, income from sources within Puerto Rico will be taxed at a flat rate of 29% except in the case of dividends, that will be taxed at 10% and the income attributable to the distributable share of a stockholder in a corporation of individuals which will be taxed at 33%. Enter the tax determined on this line and fill in Oval 3.

If you are a nonresident alien engaged in trade or business in Puerto Rico, all income from sources within Puerto Rico, as well as those related to the operation of the trade or business in Puerto Rico, will be taxed at normal tax rates.



**Schedule B4 Individual**

If you are an employer claiming the Returning Heroes and Wounded Warriors work opportunity tax credit provided by the VOW to Hire Heroes Act of 2011, enter the tax determined according to the normal tax computation table for individuals and fill in Oval 4. **Do not complete lines 14 through 21 of the return, complete Schedule B4 Individual and submit it with the return.**

**Line 14 - Gradual Adjustment Amount**

If the net taxable income is more than \$200,000, 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 16 - Credit for taxes paid to foreign countries, the United States, its territories and possessions**

Enter the amount of credit for taxes paid to foreign countries, the United States, its territories and possessions, as determined on Schedule C Individual. For specifications of how to determine this amount, refer to the instructions of Schedule C Individual.

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

If the net income subject to alternate basic tax is \$150,000 or more 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 8.

**Line 23D – Employment Credit**

Every individual resident of Puerto Rico who generates earned income of \$25,000 or less 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 4% of the earned income up to a maximum of \$400. If the earned income exceeds \$10,000 but is not over

\$25,000, the maximum credit of \$400 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**, including unemployment benefits, if any, received during the year by the taxpayer. 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 pensions or annuities, taxable income under Section 1091.01 (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 1031.01) from interest or dividends, rents or royalties, the sale of capital assets, alimony payments received from 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, the Special Fund for the University of Puerto Rico 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, for 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 worksheets provided below, to determine the amount of credit that you may claim. Use **Table I** if your personal status is individual taxpayer or married filing separately. 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 an Individual Taxpayer or Married Person Filing Separately</b>	
1. Enter the total of lines 1B and 1C from Part 1 of the return and line 13, first Column of Part II of Schedule IE Individual. If the total is \$25,000 or more, do not continue and enter zero ("0") on line 23(D), Part 3 of the return .	\$ _____
2. Enter the amount of other income not considered earned income (lines 2A through 2P, minus line 4, Part 1 of the return plus line 34 minus line 13, first Column, Part II of Schedule IE Individual): \$ _____. If this amount is more than \$2,200, do not continue and enter zero ("0") on line 23(D), Part 3 of the return.	\$ _____
3. If line 1 is \$10,000 or less, multiply it by 4%. Otherwise, go to line 5 .....	\$ _____
4. Enter the smallest amount between line 3 and \$400. Transfer to line 23(D), Part 3 of the return .....	\$ _____
5. If line 1 is more than \$10,000 but less than \$25,000, enter here and on line 23(D), Part 3 of the return the product of the following calculation: * \$400 - [(line 1 of this worksheet - \$10,000) x 2%] $\$400 - [ (\$ \text{_____} - \$10,000) \times 2\% ]$ $\$400 - [ \$ \text{_____} \times 2\% ]$ $\$400 - \$ \text{_____} = \text{.....}$	\$ _____
* For purposes of this calculation, do not consider cents. * If the result of this calculation is zero ("0") or negative, enter zero on line 23(D), Part 3 of the return.	





Table II

<b>Worksheet to Determine the Employment Credit for Married Person Living with Spouse and Filing Jointly</b>	
<b>Part I – Primary Taxpayer</b>	
1. Portion of lines 1B and 1C, Part 1 of the return and of line 13, first Column, Part II of Schedule IE Individual attributable to the <b>primary taxpayer</b> (or total of lines 1B and 2B of Schedule CO Individual plus line 13, first Column, Part II of Schedule IE Individual, if you choose the optional computation of tax). If the total is more than \$25,000, 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>primary taxpayer</b> (lines 2A through 2P, minus line 4, Part 1 of the return plus line 34 minus line 13, first Column, Part II of Schedule IE Individual of the primary taxpayer): \$ _____. 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.  <b>(If you choose the optional computation of tax, refer to the following instruction)</b> Enter the amount of other income not considered earned income attributable to the <b>primary taxpayer</b> (lines 3A through 3P, minus line 5, Column B of Schedule CO Individual and line 34 minus line 13, first Column, Part II of Schedule IE Individual corresponding to the primary taxpayer):\$ _____. 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 4%. Otherwise, go to line 5 .....	\$ _____
4. Enter the smallest amount between line 3 and \$400. Transfer to line 1, Part III of this worksheet .....	\$ _____
5. If line 1 is more than \$10,000 but not more than \$25,000, enter here and on line 1, Part III of this worksheet the product of the following calculation: * \$400 - [(line 1 of this Part I - \$10,000) x 2%] \$400 - [ (\$ _____ - \$10,000) x 2%] \$400 - [ \$ _____ x 2%] \$400 - \$ _____ = .....	\$ _____
* 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.	
<b>Part II - Spouse</b>	
1. Portion of lines 1B and 1C, Part 1 of the return and of line 13, first Column, Part II of Schedule IE Individual attributable to the <b>spouse</b> (or total of lines 1C and 2C of Schedule CO Individual plus line 13, first Column, Part II of Schedule IE Individual, if you choose the optional computation of tax). If the total is more than \$25,000, 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>spouse</b> (lines 2A through 2P, minus line 4, Part 1 of the return plus line 34 minus line 13, first Column, Part II of Schedule IE Individual of the spouse): \$ _____. 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.  <b>(If you choose the optional computation of tax, refer to the following instruction)</b> Enter the amount of other income not considered earned income attributable to the <b>spouse</b> (lines 3A through 3P, minus line 5, Column C of Schedule CO Individual and line 34 minus line 13, first Column, Part II of Schedule IE Individual corresponding to the spouse):\$ _____. 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 4%. Otherwise, go to line 5 .....	\$ _____
4. Enter the smallest amount between line 3 and \$400. Transfer to line 2, Part III of this worksheet .....	\$ _____
5. If line 1 is more than \$10,000 but not more than \$25,000, enter here and on line 2, Part III of this worksheet the product of the following calculation: * \$400 - [(line 1 of this Part II - \$10,000) x 2%] \$400 - [ (\$ _____ - \$10,000) x 2%] \$400 - [ \$ _____ x 2%] \$400 - \$ _____ = .....	\$ _____
* 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.	
<b>Part III – Total Credit to be Claimed</b>	
1. Credit attributable to the primary taxpayer .....	\$ _____
2. Credit attributable to the spouse .....	\$ _____
3. Total credit to be claimed (enter here and on line 23(D), Part 3 of the return, the sum of lines 1 and 2) .....	\$ _____



**Line 23E – Credit for Persons Age 65 or Older**

Every taxpayer who is an individual may claim a reimbursable personal compensatory credit of \$400 if:

- on the last day of the taxable year he or she is age 65 or older,
- his/her gross income, adding the excluded items under Section 1031.01(b), does not exceed \$15,000, and
- is not claimed as a dependent by any other taxpayer for the taxable year.

In the case of married taxpayers, each one is entitled to claim this credit, provided that the aggregate income of both spouses does not exceed \$30,000.

Complete the following worksheet in order to determine if you are eligible to claim the Credit for Persons Age 65 or Older:

1. Were you or your spouse (if applicable) born on or before December 31, 1947? If you answered "No", do not continue. You are not eligible to claim the Credit for Persons Age 65 or Older. Enter \$0 on line 23(E) of the return. If you answered "Yes", continue to step 2.
2. Determine your income from all sources:
  - a) If your personal status is individual taxpayer or married and you did **NOT** choose the Optional Computation of Tax (Schedule CO Individual), add line 3 of Part 1 of the return, line 2 of Parts I, II and VII of Schedule F Individual, line 27 of Part III of Schedules K, L and M Individual, line 23 of Part III of Schedule N Individual, and line 1 of Part III minus line 9 of Part I of Schedule IE Individual.
    - If this amount is \$15,000 or less and your personal status is individual taxpayer, enter \$400 on line 23(E) of the return.
    - If this amount is \$30,000 or less and your personal status is married filing jointly, enter \$800 on line 23(E) of the return if both are age 65 years or older, or enter \$400 if only one is age 65 or older.
  - b) If your personal status is married and you choose the Optional Computation of Tax (Schedule CO Individual), add line 4 of Schedule CO Individual, Columns B and C, as applicable, line 2 of Parts I, II and III of Schedule F Individual of the Taxpayer or Spouse, as applicable, line 27 of Part III of Schedules K, L and M Individual of the Taxpayer or Spouse, as applicable, line 23 of Part III of Schedule N Individual of the Taxpayer or Spouse, as applicable, and line 1 of Part III minus line 9 of Part I of Schedule IE Individual of the Taxpayer or Spouse, as applicable.
    - If the sum of these amounts for both spouses is \$30,000 or less, enter \$800 on line 23(E) of the return if both are age 65 or older, or enter \$400 if only one is age 65 or older.

**Line 23F – 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 23G– Credit for the Payment of Additional Duties on Luxury Vehicles under Act 42-2005**

The amount of the credit to be claimed will be equal to the amount of the duty paid for the government label (*marbete*) for the luxury vehicle plus 5% annual interest on that amount from March 16, 2007 to December 31, 2011, minus 33% for attorney's fees. People who were part of the first list claimed 50% of the credit in the 2011 return and the remaining 50% will be claimed in the 2012 return. On the other hand, people who were identified for the second list will claim 50% of the credit in the 2012 return and the remaining 50% in the 2013 return. Enter on this line, the amount that was notified to you by the Department of Treasury for tax year 2012. **In order to claim this credit, the social security of the taxpayer and the spouse, as applicable, must be entered on this line.**

**Line 23H – American Opportunity Tax Credit**

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

**Line 23 I – Returning Heroes and Wounded Warriors work opportunity tax credit**

Enter the amount previously determined on Schedule B4 Individual, Part II, line 17.

**Line 23J - Amount paid with automatic extension of time**

If for any reason you understand that you will not be able to file your return on time, you may request an automatic extension of time on or before the due date to file the return. The request will be done by filing **Form SC 2644** (in case of military personnel active in combat zone, refer to RELEVANT FACTS).

**A taxpayer that has the obligation to pay estimated tax, must pay the total tax with the request of extension of time.** If you do not have the obligation to pay estimated tax, you must pay with the request of 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 when filing Form SC 2644.



**Line 24 - Amount of Tax Due**

Compare the amount on lines 22 and 23K. If line 22 is larger than line 23K, there is a balance of tax due. Enter the difference on this line. If the amount on line 23K is larger than the amount on line 22, you have a tax overpayment. Enter this difference on line 26.

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

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





## INSTRUCTIONS TO COMPLETE THE SCHEDULES

### SCHEDULE A INDIVIDUAL – DEDUCTIONS APPLICABLE TO TAXPAYERS WHO ARE INDIVIDUALS

Use this Schedule to determine the total deductions applicable to taxpayers that are individuals. **Remember not to submit evidence of the deduction with the return. However, you must keep the evidence of these deductions for your records for at least 6 years**, in case that they may be eventually requested by the Department.

**Line 1** - Enter the amount of home mortgage interest paid to acquire, refinance, improve or construct a property that constitutes a qualified residence. There shall be allowed as a deduction the lesser of the total mortgage interest paid or 30% of the taxpayer's adjusted gross income (Part 1, line 5 of the return) increased by any other income excluded or exempted from adjusted gross income, including child support payments (Schedule IE Individual, Part III, line 1) that is received during the taxable year for which the deduction is claimed.

This limitation will not apply under the following circumstances:

- when the total interest paid does not exceed 30% of the adjusted gross income of the taxpayer plus any other income excluded or exempted from the adjusted gross income, including child support payments, for any of the preceding three (3) taxable years before the year for which the deduction is claimed; or
- when the taxpayer or his/her spouse is 65 or older at the end of the taxable year.

If you qualify for the first exception, complete question C of the questionnaire, page 1 of the return and fill in completely the oval provided on line 1(c), Part I of this Schedule.

If you qualify for the second exception, make sure to indicate the date of birth for you and your spouse (if applicable) on page 1 of the return.

**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) you 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 only own 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 to that in writing.

**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 losses on 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, you must keep for your records 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, or that choose the optional computation of tax, each spouse may claim 50% of this deduction.

**Line 3** - Enter the total medical expenses paid not compensated by insurance or in any other form, which exceed 6% of your adjusted gross income. Transfer to this line the amount of Part III, line 3 of this Schedule.

#### Medical expenses are:

- 1) professional services rendered by physicians, dentists, radiologists, clinical pathologists, surgeons, nurses or hospitals, within or outside Puerto Rico;
- 2) health or accident insurance premiums;
- 3) medicines for human consumption, destined to used in the diagnosis, cure, mitigation, treatment or prevention of illnesses, that were acquired solely and exclusively by medical prescription, if they have been prescribed by a doctor authorized to practice the medical profession in Puerto Rico and were dispatched by a pharmacist licensed in Puerto Rico; and
- 4) expenses incurred in the acquisition of any technological assistance equipment for persons with disabilities, specialized treatments or chronic illnesses.

For purposes of this deduction, the term **technological assistance equipment** means: any object, equipment or system part, purchased by the consumer, or provided by any agency or governmental dependency, that is original, modified or adapted, and that is used to maintain, increase or improve the capability of persons with disabilities. This includes but is not limited to: wheelchairs, motorized wheelchairs, motorized equipment used for mobility, adapted computers, electronic communication equipment, adapted computer programs, mechanic equipment used to read, hearing aids, among others.

The parent, tutor, or person responsible for the individual with the disability, specialized treatment or chronic illness, may claim this deduction or the individual in his/her own capacity.

You must keep for your records the invoice or receipt that indicates the cost of the equipment and a medical certificate that indicates that the equipment is necessary for the condition or illness of the patient, also the copy of the canceled or substitute checks, or receipts evidencing the payments made for medical assistance.

In the case of persons who qualify to deduct the cost incurred in a medical insurance for himself or his family as part of the industry or business expenses, he/she cannot claim simultaneously such expense as part of the deduction for medical expenses.

**Line 4** - You may deduct, subject to certain limitations, the charitable contributions paid during the taxable year to a non-profit religious, charitable, scientific, literary, educational or museological organizations, or to organizations for the prevention of cruelty or abuse of children, the elderly or disabled, or to animals, organizations for the prevention of domestic violence or hate crimes, 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 contribute may benefit any private shareholder or individual.

You may also claim a deduction for contributions 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;
- university level accredited educational institutions established in Puerto Rico;
- the José Jaime Pierluisi Foundation;
- the Fund for the Financing of Cultural Affairs of Puerto Rico;
- the Puerto Rico Communitarian Foundation;
- the Corporation of the Symphonic Orchestra of Puerto Rico;
- the Fund for Services Against Remediable Catastrophic Illnesses.

The Secretary will publish a list of non for profit entities qualified to receive the contribution.

The allowable deduction is the total amount of the charitable contributions paid, not to exceed 50% of your adjusted gross income. These will be itemized in Part III, Column (B) of this Schedule.

However, the allowable deduction may not exceed 30% of your adjusted gross income 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. If the fair market value of the contributed property exceeds the adjusted basis in the hands of the donor (determined under Section 1034.02 of the Code) by more than 25%, you will be allowed a deduction for the fair market value of the property donated, up to 30% of your adjusted gross income for the taxable year. Itemize these contributions in Part III, Column (C) of this Schedule.

It is important to point out that in order to claim the deduction for charitable contributions made to private museological institutions, they have to be conditioned to a provision that any type of future negotiation with the work or contributed object is forbidden, and that in case of dissolution of the private museological institution, the title of the art work or museological value objects contributed will be transferred to the Commonwealth of Puerto Rico and will become part of the National Collection of the Institute of Puerto Rican Culture.

If the charitable contributions is made to a museum located in Puerto Rico that is dully accredited by the American Association of Museums, the deduction will the fair market value up to 50% of the adjusted gross income of the taxpayer and will not be subject to the previous limitations. The charitable contributions in excess of the limit allowed may be carried over to the five subsequent taxable years.

You may claim an unlimited deduction for charitable contributions, if the amount of qualified charitable contributions 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 charitable contributions.

**Net income** is the adjusted gross income less the applicable deductions to taxpayers that are individuals, the special deduction for certain individuals and the exemptions (additional for veterans, personal and per dependents), as applicable.

The contributions of historic or cultural value made to a municipality, 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 contribution when the amount is \$50,000 or more, and is made in connection with the celebration of the centennial establishment of the municipality. The total of said contributions is not subject to the aforementioned limitations. Itemize these contributions in Part III, Column (D) of this Schedule.

To claim these charitable contributions, complete Part III of this Schedule and transfer to this line the total amount determined on line 8.

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

**Line 5** - 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 or if you choose the optional computation of the tax) 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 next two consecutive 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 a disaster area by the Governor of Puerto Rico, and you must have claimed at the appropriate place within the time limit to do so, the benefits from the assistance programs approved for disaster events.**

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

**Line 6** - 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 7** - 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 less.

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, including those who choose the optional computation of tax (Schedule CO Individual), each one may establish, individually, his/her own IRA, or one of the spouses may establish an IRA for himself/herself and another IRA in the name of the other spouse, without considering if he/she receives income. The contribution cannot exceed \$10,000 or the aggregate adjusted gross income from salaries and 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 or more at the end of the taxable year. **Also, no deduction will be allowed if the income received during the year is from pensions or annuities.**

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 and inform if the contributions correspond to the taxpayer or the spouse.**

If the taxpayer participates in a pension plan qualified by the Department of the Treasury and the IRS (dual qualified plan) or is a federal employee, the sum of the contribution to the pension plan plus the contribution to the IRA cannot exceed \$18,000. In other words, the sum of his/her contribution to the pension plan (Part 15 of Form 499R-2/W-2PR or the corresponding part of Federal W-2 Form) plus the contribution to the IRA cannot exceed \$18,000.

**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 8** - In the case of an eligible individual, enter the contributions made during the taxable year by him/her or by 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 \$3,100. On the other hand, if you have a family coverage, the contribution cannot exceed \$6,200. Individuals, who reach the age of 55 before the close of the taxable year, can make an additional contribution of up to \$800 for the 2012 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 coverage under a family insurance plan, both will be treated as if they only have the family coverage.

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.

Do not include on this line amounts paid for medical assistance expenses, including health or accident insurance premiums. Such amounts are claimed as part of the medical expenses on line 3 of this Part I, subject to certain requirements and limitations.

**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, the effective date and the type of coverage.**

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

**Line 9** - 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 cannot exceed \$500 for each beneficiary.

The account must be established by the individual who has the custody and parental rights over 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 by the end of such taxable year.

The taxpayer can make the contribution to the 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.

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

**You must keep for your records the certification issued by the institution which has the account where the contribution was made.**

**Line 10** - Enter the amount of interest paid or accrued during the taxable year over debts incurred for student loans **to cover expenses of the taxpayer, the spouse, or dependent** for registration, tuition and textbooks at university level, as well as expenses for transportation, meals and lodging in those cases in which the student 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.**

## **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 Part I, line 9 of this Schedule.**

## **PART III - MEDICAL EXPENSES AND CHARITABLE CONTRIBUTIONS**

Use this Part 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 these deductions in the instructions to complete Part I, lines 3 and 4 of this Schedule.

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.** In the case of charitable contributions, you must indicate also the employer identification number of the entity to which the payment is made.

Transfer the amount of the allowable deduction for medical expenses from line 3 to Part I, line 3 of this Schedule or line 7C of Schedule CO Individual if you choose the optional computation of tax. Transfer the total amount of the allowable deduction for charitable contributions from line 8 to Part I, line 4 of this Schedule or line 7D of Schedule CO Individual if you choose the optional computation of tax.

**SCHEDULE A1 - DEPENDENTS INFORMATION**

In order to process the information of your dependents, and claim the exemption, you must complete this Schedule and submit it with your return.

**PART I - DEPENDENT'S INFORMATION**

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; or
- 5) a 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 a **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 (\$2,500). Nevertheless, if the dependent is your child and also a

regular student, he/she may earn gross income of up to **\$7,500**, and still you have the right to claim him/her as a dependent.

In the case of children from divorced or separated parents, the exemption for dependent will be claimed by the parent who has the legal custody of the child. 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 - Transfer of Claim for 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).

However, in the case of parents that are separated, divorced or do not have a right to file as married, and that have **joint custody** of their child, the dependent exemption will be divided in half between both parents. The joint custody must have been declared by a competent court or must comply with the definition established under Act 223-2011. In order for each parent to be able to claim half of the exemption, **fill out completely the oval in the column of Joint Custody**. However, one of the parents may claim the total exemption if the other parent releases in writing half of the exemption by using Schedule CH Individual, which should be included with the return.

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

**Aliens who are not residents 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 that entitles you to claim the exemption for those dependents.

In the space provided, **fill in completely the oval that indicates "joint custody" (if applicable) and 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 dependents 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 may 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.



## SCHEDULE A2 INDIVIDUAL - INCOME TAX SUBJECT TO PREFERENTIAL RATES

Complete this schedule if during the taxable year you received income subject to preferential rates such as net long-term capital gain, interest paid or credited on deposits held on certain financial institutions or dividend distributions of certain corporations. Also, if your income subject to preferential rates is equal to or greater than \$ 20,000, this Schedule provides for the calculation of the limitation of Deductions Applicable to Individuals taxpayers required by Section 1033.20 of the Code.

If you are a married taxpayer which elected the optional computation of tax and received income subject to preferential rates required to be attributable to each spouse based on 50% of the total (e.g. interest and dividends), you must complete a Schedule A2 for each spouse. Identify on the superior part if the Schedule belongs to the taxpayer, spouse or both, as applicable.

**Line 1** - Transfer the Adjusted Gross Income determined in Part 1, line 5 of the return. The Adjusted Gross Income must consider all income subject to preferential rates, as informed on the other corresponding Schedules of the return.

**Line 4** – Transfer to Column A and to the corresponding Columns from B to E the different types of income subject to preferential rates as identified on lines 4(a) through 4(i). In Column B, include the income subject to a rate of 20%, in Column C, those subject to a rate of 17% and in Column D, those subject to a rate of 10%.

If you received income subject to a rate that is not 10%, 17% or 20% under any special law, include the same in Column E. Specify the applicable rate in the blank space provided for it. If you received income subject to more than one rate that is not 10%, 17% or 20%, complete an additional Schedule, and include such income in another Column E and enter the corresponding preferential rate.

**Line 4(a)** - Transfer to Column A of this line the amount shown on line 34 of Part V of Schedule D Individual if it is a **gain**. As a general rule, the rate on capital gains is 10%. In Column D, include the amount shown on line 33, Column B of Part V of Schedule D Individual, if any. However, if all or part of the long-term capital gain was generated under a special act at a different rate, include in Column E, the amount shown on line 33, Column C of Part V of Schedule D Individual, if any.

**Line 4(d)** - Transfer to Column A of this line the amount shown on line 4, Column E of Part I of Schedule F Individual. Interest on IRA distributions to Government pensioners are taxed at a preferential rate of 10%. Therefore, include the same in Column D of this schedule.

**Line 4(h)** - Transfer to Column A of this line the amount shown on Schedule D Individual, Part IV, line 27. As a general rule, the applicable rate for total distributions from pension plans is 20%, therefore, include this amount in Column B. However, these distributions may be subject to a preferential rate of 10% if they meet certain requirements set forth in Section 1081.01 (b) of the Code (see instructions of Part IV of Schedule D Individual). If the distribution is from an employee's trust which meets these requirements, include the amount in Column D.

**Line 4(i)** - Include on this line any other income subject to preferential rates not specified in lines 4(a) through 4(h) and distribute it in the corresponding Column, under the applicable preferential rate.

Among others, also include on this line the distributions and transfers of Governmental Plans reported on Schedule F Individual, Part III, line 2, Columns E or F. The lump-sum distributions of Savings Account Plans of \$10,000 or more and the transfers from such plans to Non Deductible Individual Retirement Accounts are subject to a preferential rate of 10%. Include these amounts in Column D.

**Line 5** - Add line 4(j) of Columns B through E (you can also add lines 4(a) through 4(i) of Column A). This is your total income subject to preferential rates. If this amount is **less than \$20,000**, the Deductions Applicable to Individual Taxpayers are **not subject to limitation**. Therefore, enter on line 7, 100% in Column A and 0% in Columns B through E. Also, enter the total amount shown on line 8(a) on line 8(b), Column A.

**Line 6** – The Adjusted Gross Income specified on line 3 minus total income subject to preferential rates specified on line 5, is the income that is subject to regular tax according to the tables.

**Line 7** - If your total income subject to preferential rates on line 5 is **\$20,000 or more**, calculate on this line the proportion of each income subject to preferential rates and the remaining income subject to regular tax in relation to total Adjusted Gross Income. Divide line 6 by line 3 and line 4(j) of each Column from B to E by line 3. Enter the applicable percentage **rounded to the nearest whole number** in the corresponding column of this line.

**Line 8(a)** - Transfer to this line the Applicable Deductions to Individual Taxpayers as identified on Schedule A Individual, Part I, line 11 or Schedule CO Individual, lines 7G and 8F. These are the only deductions that are subject to the limitation proportional to the income subject to the preferential rates.

**Line 8(b)** - Multiply line 8(a) by the applicable percentage determined on line 7 for each Column. This amount reflects the portion of Deductions Applicable to Individuals Taxpayers that are attributed to each type of income subject to regular rates and preferential rates.

**Lines 8(c) to 8(f)** - Transfer the corresponding amounts from Part 2 of the return or the corresponding lines of Schedule CO Individual, as specified. These deductions and exemptions are **not** subject to the limitation or the proportional distribution. Therefore, all will be reduced from the income subject to regular rates.

**Line 8(g)** - Add the total of deductions and exemptions. For Columns B through E, this total will be equal to the amount determined on line 8(b), which is the proportion of Deductions Applicable to Individual Taxpayers that are applicable to each type of income subject to preferential rates.

**Line 9** - Distribute among Columns A through E, as it is more beneficial to you, the amount of alimony paid indicated in Part 1, line 4 of page 2 of the return or line 5, Column B or C of Schedule CO Individual.

**Line 10** - For Column A, subtract lines 8(g) and 9 from line 6. For Columns B through E, subtract lines 8(g) and 9 from line 4(j) of each individual column.



**Line 11** - Determine the tax applicable to the income on line 10 according to the corresponding rate. For Column A, use the regular tax table available on page 18. For Column B, multiply the income on line 10 by 20%. For Column C, multiply the income on line 10 by 17%. For Column D, multiply the income on line 10 by 10%. For Column E, multiply the income on line 10 by the rate specified in that column, which may not be 10%, 17% or 20%.

**Line 14** - Determine the tax applicable to the income on line 13 (line 12 of Part 2 of the return) according to the regular tax table available on page 18. This is your tax amount without considering preferential rates applicable to certain income.

**Line 15** - Compare the tax determined on line 12 with the one determined on line 14 and choose the smaller amount. Transfer this amount to page 2, Part 3, line 13 of the return or line 15, Column B or C of Schedule CO Individual, if you elected for the optional computation of tax in the case of married taxpayers. Fill in completely the oval corresponding to the selected line as indicated on the Schedule.

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

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

**PART I - RECAPTURE OF INVESTMENT CREDITS 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 claimed in excess belongs to. 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 78-1993, as amended), Solid Waste Authority Act (Act No. 70 of June 23, 1978, as amended), Agricultural Incentives Act (Act 225-1995, 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 178-2000), Act for the Development of the Film Industry (Act 362-1999), Puerto Rico Film Industry Economic Incentives Act (Act 27-2011), Act for Tax Credits for Investment in Housing Infrastructure (Act 98-2001, as amended), Act for Tax Credits for Investment in the Construction or Rehabilitation of Rental Housing Projects for Low or Moderate Income Families (Act 140-2001), Act for Credit to Investors in an exempt business that is in the process of closing its operations in Puerto Rico (Act 109-2001) and Conservation Easement Act (Act 183-2001, 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 condo hotels, 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 aforementioned 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 178-2000 (theatrical business), Act 140-2001 (rental housing), and Act 109-2001 (business closing operations), if any unit or business is withdrawn from the program, cease its operations or does 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:

$$\text{Income Tax Owed} = \frac{\text{Total investment credit claimed per unit or business}}{10} \times \text{Balance of the 10 year period}$$

In case of owners of a levied property or donors of a conservation easement, in case of an eligible land, they shall be subject to the recapture of the tax credits granted, in the event that the obligations included in the constitution deed of the conservation easement or donation of an eligible land are not fulfilled, as applicable, but only in those cases in which it is impossible to return the land to its original condition. 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 3, line 20 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 the Administrative Determination or Certification under which they were granted.

**Line 1** - Enter the tax withheld on dividends from Industrial Development income under Act No. 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 135-1997.

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

**Line 2** - 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 27-2011.

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 27-2011 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 27-2011.

**Line 3** - 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 4** - 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.**

If 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 1113.14 of the Code for qualifications and requirements to benefit from this credit.

**Line 5** - 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 conveyer 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 6** - 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 98-2001 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 98-2011 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 98-2001 and its regulations.

**Line 7** - Enter the amount of credit for investment in the construction or rehabilitation of rental housing projects for low or moderate income families.

Act 140-2001 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 140-2001 and its regulations.

**Line 8** - 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 212-2002, as amended, and the corresponding regulations.



**Line 9** - 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 cannot 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 Trade and Export Company in which the taxpayer is identified as a merchant affected by the construction work.**

**For other requirements and additional details, refer to Act 212-2002, as amended, and the corresponding regulations.**

**Line 10** - 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 109-2001 and the corresponding regulations.**

**Line 11** - 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 12** - Enter 100% of contributions made to the Santa Catalina's Palace Patronage (Patronage). However, the tax credits to be granted cannot exceed \$2,500,000 for any taxable year.

To claim this tax credit you must accompany the certification issued by the Patronage as evidence that the contribution was made and accepted. Such part of the credit not used in the taxable year in which the contribution was made, may be carried over to subsequent taxable years, until totally used.

**Remember that contributions to the Patronage generate a tax credit. Therefore, such contribution cannot be claimed as part of the deductions for charitable contributions on Schedule A Individual.**

**Line 13** - 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 183-2001, as amended, and to the Internal Revenue Circular Letter No. 05-04 of March 23, 2005.**

**Line 14** - 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 516-2004, 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 516-2004 which grants this benefit.

**Line 15** - Enter the amount of credit to be claimed for industrial investment under Section 6 of Act 73-2008. 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 73-2008 and the corresponding regulations.

**Line 16** - Enter the amount of credit to be claimed for investment in research and development of green energy sources under Act 83-2010, know as Puerto Rico Green Energy Incentives Act. This amount must equal 50% of the special eligible investment and will be claimed in two or more installments: the first half in the year in which the eligible investment is made 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. This credit does not generate a refund.

For additional details, refer to Act 83- 2010.

**Line 17** - Enter the amount of credit for alternate basic tax paid and not used in previous taxable years. To claim this credit, the sum of the regular tax and the gradual adjustment of the current taxable year must be greater than the alternate basic tax for the same year. If you paid taxes to the United States, its possessions or to any foreign country, the regular tax and alternate basic tax must be reduced by the applicable amount of credit for taxes paid to such countries.



The amount of credit for alternate basic tax paid from previous taxable years equals the sum of the excess of alternate basic tax over the regular tax determined annually for each one of the taxable years beginning after December 31, 2008 and reduced by the amount of credits for alternate basic tax already used. If you paid taxes to the United States, its possessions or any foreign country, the regular tax and the alternate basic tax must be reduced by the applicable amount of credit for taxes paid to such countries.

The credit for alternate basic tax paid from previous taxable years can not be more than the excess of net regular tax on the net alternate basic tax determined for the current year. Any balance of credit not claimed may be carried over to subsequent years until totally used.

Include with the return a schedule detailing the computation of the credit per year, the amount to be claimed and any carryover to subsequent years.

**For additional details, refer to paragraph (6) of Section 1021.02(a) of the Code and Regulation No. 7887 of July 7, 2010.**

**Line 19** – Enter the total amount of other credits not included on the preceding lines, for example, the credit for charitable contributions to former governors foundations, provided as follows.

A credit equivalent to 100% of the amount contributed during the taxable year to former governors foundations is granted, for operating expenses and those expenses related to the purposes for which they were created and/or those charitable contributions to a Depository of Files and Relics of Former Governors and Former First Ladies of Puerto Rico constituted according to the provisions of Act 290-2000 by itself or as a whole with public or private Higher Education entities, to pay the construction, operation and all necessary expenses for the true fulfillment of the purposes of Act 290-2000. The tax credits to be granted cannot exceed \$1,000,000 in aggregate, for any tax year.

**This credit will be instead of the deduction for charitable contributions provided on Schedule A Individual.**

To claim this tax credit you must submit the certification issued by the recipient entity as evidence that the contribution was made and accepted. Such part of the credit not used in the taxable year in which the contribution was made, may be carried over to subsequent taxable years, until totally used.

**If on this line are included credits for different concepts, submit a schedule showing a breakdown of such credits. Also submit documents or evidences to support them.**

**Line 21-** If you claim the Returning Heroes and Wounded Warriors work opportunity tax credit, as determined on Schedule B4 Individual, you must subtract such credit from the total tax determined. Use the following Worksheet to determine the amount that you must enter on this line.

1. Total tax determined before the credit (Schedule B4 Individual, Part II, line 6) .....	\$ _____
2. Total tax determined individually corresponding to the spouse for whom the credit is <b>not</b> determined (Schedule CO Individual, line 21, Column B or C. Complete only if your are married and choose the optional computation of tax) .....	\$ _____
3. Total tax determined (Add lines 1 and 2) .....	\$ _____
4. Returning Heroes and Wounded Warriors work opportunity tax credit (Schedule B4 Individual, Part I, line 4) .....	\$ _____
5. Tax determined after the credit (Subtract line 4 from line 3):	
• If it is zero or less, enter zero. Do not complete the rest of this Worksheet. Also, enter zero on Schedule B Individual, Part II, line 21 and fill in (○) "Schedule B4 Individual".	
• If it is more than zero, continue on line 6 .....	\$ _____
6. Credit for taxes paid to foreign countries, the United States, its territories and possessions (Schedule C Individual, Part III, line 6(b) of both spouses) .....	\$ _____
7. Net tax (Subtract line 6 from line 5. If it is zero or less, enter zero. Transfer to Schedule B Individual, Part II, line 21 and fill in (○) "Schedule B4 Individual") .....	\$ _____

**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** – Enter the amount of tax overpaid according to the return of the previous year that you request to be credited to the estimated tax for the current year. 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 7. 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 5. 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 480.60 CI). You must submit this form with the return.

**Line 11** - Enter the tax withheld reported on the Informative Return - Special Partnership (Form 480.60 SE). You must submit this form with the return.

**Line 12** - Enter the tax withheld reported on the Informative Return - Partnership (Form 480.60 S). You must submit this form with your return.

**Line 13** - Enter the tax withheld reported on the Informative Return - Revocable Trusts or Grantor Trusts (Form 480.60 F). You must submit this form with your return.

**Line 14** - 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 15** - Enter the 10% tax withheld on IRA distributions to Government pensioners. Submit Form 480.7.

**Line 16** - Enter the withholding of 20% or 10%, as applicable, on the total distributions from qualified retirement plans received within a single taxable year due to separation from service or termination of the plan. **For more details, refer to the instructions of Schedule D Individual, Part IV.**

Also, enter the 10% withholding on other distributions that are not total or loans to the participant such as withdrawals made before the separation from service or partial distributions made after separation from service. **For details, refer to the instructions of Schedule F Individual, Part VI.**

Include the Informative Return - Retirement Plans and Annuities (Form 480.7C).

**Line 17** - 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 III.**

**Line 18** - Enter on this line the 20% tax withheld on income from Major League baseball teams and the U.S. National Basketball Association. You must submit Form 480.6B.

**Line 19** - 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, 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.

As general rule, the term **eligible educational institution** means 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 individual taxpayer; or over \$160,000, and is married, the credit is reduced in proportion to the excess of such amounts over \$10,000 or \$20,000, respectively. This credit is refundable. If you file under the status of married filing separately, you cannot claim this credit.





## 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** for each. 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 on the Schedule.

In the case of taxpayers who claim dependents under joint custody, the determination of the credit will be based in 50% for each, unless one of them can show that paid 100% of the qualified education expenses. The total of these expenses cannot exceed \$4,000 per student. Therefore, if both parents claim the credit for an eligible student that is a dependent under joint custody, the limit amount in Column (C) will be \$2,000 and \$ 1,000 in Column (D).

## PART II – CREDIT LIMITATION

Calculate the proportional credit limitation based on your adjusted gross income. If your personal status is individual taxpayer and your adjusted gross income is \$90,000 or more, you are not entitled to claim this credit. If your personal status is married 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 FOREIGN COUNTRIES, THE UNITED STATES, ITS TERRITORIES AND POSSESSIONS

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

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

- 1) Paid or accrued income tax in one or more of such jurisdictions.
- 2) Included in your Puerto Rico income tax return the taxable income from one or more of such jurisdictions.
- 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 any eligible jurisdiction). If the payment receipt or tax return is in a foreign language, you must keep for your records a certified translation of it.

If you received income from sources in or paid contributions to more than one foreign country, territory or possession of the United States, you shall provide the information separately for each foreign country, territory or possession in Parts I, II and III of Schedule C Individual, indicating the name of each country, territory or possession in columns A, B and C. If you received income from sources in or paid contributions for more than 3 jurisdictions as well as the United States, submit additional Schedules C Individual.

An individual resident of Puerto Rico that is obliged to file a return and pay income taxes to the United States for income other than from sources within Puerto Rico or the United States will include in the column labeled “United States” such income from sources outside of Puerto Rico and the United States, as income from sources of that jurisdiction, as well as the losses, expenses and deductions associated with it.

Include in the column labeled “Total” the total amount of items of income and expenses, losses and deductions from sources outside of Puerto Rico. For individuals residing in Puerto Rico who are U.S. citizens or permanent resident aliens in the United States (United States Permanent Resident Card, USCIS Form I-551, also known as “green card”), the amount informed in the United States column is the same as that reported in the Total column.

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

**Line 1** - Enter the taxable gross income derived from sources in each of the applicable jurisdictions, itemized by types of income listed on lines (a) through (h), and total them on line 1(i).

### Taxable Gross Income

For purposes of Part I of Schedule C, the term “taxable gross income” means gross income of the taxpayer that is subject to income tax in Puerto Rico, so it will not include any exempt items under Section 1031.02 of the Code. Include in the appropriate column all items of taxable gross income earned from sources in the pertinent jurisdiction, even if such item of income was not subject to tax in that jurisdiction. Remember that on property sales, the gross income is determined by subtracting the cost or adjusted basis of property sold from the sales price.

### Sources of Income

As a general rule, 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 - If the property sold was acquired by purchase of unrelated individuals, it is determined based on where you transfer the title to the goods; to determine the source of income from the sale of inventory produced by the seller, or acquired by purchase from related persons, see Sections 1035.04 and 1035.05 of the Code.
- (5) Profit on the sale of personal property - It is determined based on the residence of the seller; certain exceptions apply in the case of depreciable and intangible property, as well as sales through offices or other places of business outside of Puerto Rico
- (6) Profit on the sale of real property - It is determined by the place where such property is located.

For additional information on how to determine the source of income, see Sections 1035.01 to 1035.07 of the Code.

**Line 2** - Reduce the taxable gross income reflected on line 1(i) of each column by:

- (1) Expenses directly related to the production of such income,
- (2) The losses from sources of the relevant jurisdiction, and
- (3) A proportion of the other expenses or deductions not related to a category of income.

The expenses or deductions to be included in line 2(c)(i) include the personal exemptions and those for dependents, but **DO NOT** include losses accrued from sources in Puerto Rico, or expenses or deductions directly related to income from sources in Puerto Rico or items excluded from income or exempt from income tax under the Code or special laws.

Include on line 2(c)(ii) the taxable gross income of the taxpayer from all sources, including sources in Puerto Rico.

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

Indicate the date of payment and the total tax paid or accrued in each jurisdiction. If the tax was paid or accrued in a foreign currency, you must convert such amount to U.S. dollars at the date of the payment exchange rate. You must keep for your records a schedule indicating the currency exchange to U.S. dollars.

In the case of the taxes paid or accrued to the United States, it shall be calculated **after** having claimed the Foreign Tax Credit for taxes paid to foreign countries or territories and possessions of the United States, **including Puerto Rico**, on income from sources outside the United States included in the federal return.

## **PART III - DETERMINATION OF CREDIT**

**Line 2** - Include on line 2 the taxpayer's net income from all sources, increased by the income subject to preferential rates, net of expenses attributable to such income in accordance with Section 1033.20 of the Code.

**Line 4** - Include on this line the sum of lines 13 and 14 of Part 3, page 2 of the return or lines 15 and 16, Column B or C of Schedule CO accordingly.

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 foreign countries, the United States, its territories and possessions.**

Transfer the total credit determined on line 6(b) to Part 3, line 16 of the return or line 18, column B or C of Schedule CO Individual, as applicable.

### **Alternate Basic Tax**

If you are subject to the alternate basic tax, you need to calculate the amount determined on this Schedule using such tax and the net income subject to alternate basic tax. In Part I, include the income from sources outside of Puerto Rico that were considered to determine the net income subject to alternate basic tax. Also, you need to make the following adjustments:

- Part I, lines 1(a) to 1(i) of Schedule C Individual - replace by the corresponding items of gross income of the taxpayer that is subject to alternate basic tax; include in the corresponding column all items of gross income subject to alternate basic tax from sources in the relevant jurisdiction, even if such item of income was not subject to tax in that jurisdiction.
- Part I, line 2(c)(ii) of Schedule C Individual - replace by the total gross income of the taxpayer that is subject to alternate basic tax.
- Part III, line 2 of Schedule C Individual - replace by line 15 of Part I of Schedule O Individual.
- Part III, line 4 of Schedule C Individual - replace by line 5 of Part II of Schedule O Individual.

Determine the amount of the credit on Schedule C Individual recalculated with the previous adjustments, enter the same on this line and fill in the oval at the top identifying that the Schedule was recomputed for purposes of the alternate basic tax. Include with your return both Schedules C Individual, calculated for the regular tax and recalculated to the alternate basic tax.

### **Taxpayers that choose the Optional Computation of Tax**

Married taxpayers which choose the Optional Computation of Tax (Schedule CO Individual) in which either or both have paid or accrued income tax in one or more jurisdictions outside of Puerto Rico and has been included on the Puerto Rico Return as taxable income from that jurisdiction, will determine the Credit for Taxes Paid to Foreign Countries, the United States, its Territories and Possessions individually. Each spouse will complete a Schedule C Individual identifying it at the top, as applicable. Enter the amount determined on Schedule CO Individual, line 18, column B or C, as appropriate. Include with your return both Schedules C Individual, for the taxpayer and spouse.



Also, if either or both spouses are subject to the alternate basic tax it will be necessary to recalculate the credit for taxes paid to Foreign Countries, the United States, its Territories and Possessions individually as indicated above in the instructions related to the basic alternate tax. Identify each Schedule C Individual for the taxpayer and spouse, as applicable, and fill out completely the oval at the top that identifies the Schedule was recalculated for purposes of the alternate basic tax. Include with your return both Schedules C Individual, one for each spouse, as applicable, the one calculated for the regular tax and the recalculated for the alternate basic tax.

### 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 the custody or will be divided in half between the parents that have joint custody. In the case of joint custody, you should fill out the oval for these purposes.

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 or shared custody if:

- 1) the parent with the right to custody or with joint 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 or has joint 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, including those with joint custody, for the current taxable year if you complete and sign this Schedule and provide it to the parent that will claim the exemption for such dependents. **The parent that does not have a right to the custody or that only has joint custody must submit a copy of this Schedule with his/her tax return for the taxable year in which the exemption was released, so that he/she may claim the total exemption.**

### 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 and filing a joint return. This computation allows each spouse to determine the tax individually.

If you choose this computation, **do not complete Part 1 and 2, or lines 13 through 18 of Part 3 of the return.** The following instructions detail how the income, deductions, personal exemption, additional personal exemption for veterans, exemption for dependents and special deduction for certain individuals 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 1, 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 earned by each spouse individually. Enter in Columns B and C, as it corresponds to the taxpayer and his/her 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.

You can also refer to the Informative Booklet to Provide Guidance 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 3P 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 profits from partnerships, special partnerships and 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, and total distributions from qualified plans.

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 total not due to separation from service).





On the other hand, the income from interest, dividends from corporations, 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 1 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 1, line 4 of the return.

### Line 7 – Deductions Allocated in Half (50%) of the Total

For taxpayers that choose the optional computation of tax, the following deductions will be attributed 50% to each spouse: mortgage interest, casualty loss on your principal residence, medical expenses, charitable contributions, and loss of personal property due to certain fortuitous causes. Therefore, once the amount of total deductions is determined on line 7F, enter 50% of said amount in Columns B and C of line 7G.

For detailed information of the deductions to be claimed on lines 7A through 7E, you can refer to the instructions of Schedule A Individual, Part I, lines 1 through 5. **It is not necessary to complete Schedule A Individual, except Part III, if you claim deductions for medical expenses or donations**

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

### Line 8 – Deductions Individually Allocated

For taxpayers that choose the optional computation of tax, the following deductions will be claimed individually by the spouse to whom they correspond: contributions to governmental pension or retirement plans, to individual retirement accounts, to health savings accounts with a high annual deductible medical plan, and to educational contribution accounts, as well as interest

paid on student loans at university level, up to the limits and subject to the provisions of the Code. Therefore, enter in Columns B and C the amount of each deduction, as applicable to the taxpayer and to the spouse.

For detailed information of the deductions to be claimed on lines 8A through 8E, you can refer to the instructions of Schedule A Individual, Part I, lines 6 through 10. **It is not necessary to complete Schedule A Individual. The information of the beneficiaries of educational contribution accounts will be detailed on line 23.**

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

### Line 9 – Special Deduction for Certain Individuals

You may qualify to claim all or part of this special deduction if your principal source of income is from:

- wages, commissions, allowances and tips;
- annuities or pensions;
- alimony;
- gains, profits and income from professions, trades, industries, business, commerce or sales, or operations on real or personal property, arising from the possession or use of interest in such property, or
- gains, profits and income from the sale or other disposition of all property that does not constitute inventory held by the taxpayer.

No deduction shall be allowed if you generate net income for concepts other than those described above in excess of \$ 5,000

In the case of married taxpayers filing jointly **that choose the optional computation of tax**, the deduction is available to each spouse individually.

For the tax year 2012, the special deduction will be \$7,850, if the total adjusted gross income and exempt income received is not more than \$20,000. If the amount is more than \$20,000, the admissible deduction will be reduced by forty two (42) cents per each dollar in excess of \$20,000 until it reaches zero. This deduction may not decrease the net income to less than zero.

For additional information and the worksheet to determine the special deduction that may be claimed, refer to the instructions of line 7, Part 2 of the return.

### Line 10 – Personal Exemption

The amount of \$3,500 pre-printed in Columns B and C corresponds to the personal exemption that each spouse may claim under the optional computation of tax.

### Line 11 - Exemption for Dependents

Enter in the spaces provided on lines 11A and 11B, the number of dependents claimed according to their category. Enter on line 11A the dependents for whom exemption is claimed



completely (\$2,500 per dependent), and on line 11B those for whom only half of the exemption is claimed under the special rule of parents with joint custody (\$1,250 per dependent).

Multiply the amount of dependents claimed on each line by \$2,500 or \$1,250 as applicable. Add lines 11A and 11B and indicate the total on line 11C. Enter in each of the Columns B and C of line 11D 50% of line 11C. It is necessary that you detail the information of the dependents that you claim on Schedule A1 Individual. For additional information, see instructions of Schedule A1 Individual.

#### Line 12 – Additional Personal Exemption for Veterans

Enter in Column B and C, as applicable to the taxpayer or the spouse, the amount of **\$1,500**, if veteran of the United States Armed Forces.

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

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

#### Line 15 – Tax

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

#### Tax Tables

Use the Table for the Tax Computation provided on page 18 of the instructions. Determine your tax individually considering your Net Taxable Income, as determined on line 14, Columns B and C, respectively. Enter the tax determined for each column on this line and fill in Oval 1.

#### Preferential Rates

If you are a resident of Puerto Rico and derived income subject to preferential rates such as interest, dividends or long-term capital gains, among others, you must complete Schedule A2 Individual. In this Schedule you will determine the tax on income that is subject to a preferential rate and the regular tax on any income and you can compare them with the regular tax on total income so you can choose the most beneficial alternative.

Also, if your income subject to preferential rates is \$ 20,000 or more, it is required that you pro-rate the total allowable deductions as computed on Schedule A Individual according to the different types of income.

If you use Schedule A2 Individual, transfer the tax amount from line 15 of the Schedule to the Columns B and C, as applicable, of this line and fill in completely Oval 2. **Complete a Schedule A2 Individual for each spouse, properly identify on the top to which spouse it belongs to, and include 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%, except in the case

of dividends, taxed at 10% and revenues attributable to the distributive share of a shareholder in a corporation of individuals which are taxed at 33%. 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.

#### Schedule B4 Individual

If you are an employer claiming the Returning Heroes and Wounded Warriors work opportunity tax credit under the VOW to Hire Heroes Act of 2011, enter the tax determined according to the normal tax computation table for individuals and fill in Oval 4. **Do not complete lines 16 through 21 of Schedule CO Individual, complete Schedule B4 Individual and submit it with the return.**

#### Line 16 - Gradual Adjustment Amount

If the net taxable income of either or both spouses is more than \$ 200,000, determined on an individual basis, you must complete Schedule P Individual. Individually determine the gradual adjustment amount on said Schedule (See Instructions Schedule P Individual). Enter in Columns B and C, as applicable, the amount determined on Schedule P Individual, line 7. **Submit with the return the Schedules used.**

#### Line 18 - Credit for Taxes Paid to Foreign Countries, the United States, its territories and possessions

When either spouse or both have paid or accrued income tax in one or more jurisdictions outside of Puerto Rico and has been included the Puerto Rico return as taxable income from that jurisdiction, you will determine the Credit for Taxes Paid to Foreign Countries, the United States, its Territories and Possessions individually. Each spouse will complete a Schedule C with the income, deductions and contributions that apply individually. Properly identify on the top, to which spouse it belongs to. If both taxpayers have credit, submit both Schedules.

If either spouse is subject to the alternate basic tax (line 20), you must recalculate the Credit for Taxes Paid to Foreign Countries, the United States, its Territories and Possessions and also submit the recomputed Schedule C Individual, as applicable.

**For more information on calculating the credit, see instructions of Schedule C Individual.**

#### Line 20 - Excess of Alternate Basic Tax over Regular Tax

If the net income subject to alternate basic tax of either or both spouses is \$ 150,000 or more, determined on an individual basis, you must complete Schedule O Individual. **To determine individually whether you are subject to the Alternate Basic Tax or not, complete and submit the Schedule O Individual used (See Instructions of Schedule O Individual).** Enter in Columns B and C, as it corresponds, the amount determined on Schedule O Individual, Part II, line 8.



## Line 22 – Total Tax Determined

Enter the sum of Columns B and C of line 21. Transfer this amount to Part 3, line 19 of the return.

## Line 23 - Beneficiaries of Educational Contribution Accounts

In the space provided, **enter the full name, relationship, date of birth and social security number** of beneficiaries for whom you made contributions to an Educational Contribution Account. Also indicate the name and employer identification number of the financial institution and the account number where contributions were made. **You should also enter the amount of the contribution.**

For additional information, refer to the instructions of Schedule A Individual, Part I, line 9.

### SCHEDULE D INDIVIDUAL - CAPITAL ASSETS GAINS AND LOSSES, TOTAL DISTRIBUTIONS OF QUALIFIED RETIREMENT PLANS AND VARIABLE ANNUITY ACCOUNTS

Use this Schedule to determine capital gains or losses on the sale or exchange of capital assets and to report total 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 and III, and Columns (A) through (G) of Part II.

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

In case that the eligible person to claim the 10% or any other preferential 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.

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 Puerto Rico Internal Revenue Code of 1994, as amended (1994 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 1994 Code.

Those taxpayers who benefited from the 5% special tax rate, must indicate it by filling in the oval in Parts II and III of this Schedule. **You must keep for your records Form 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 1994 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. They 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 carryover 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.

**Provisions applicable under Act 132-2010, as amended (Act 132), best known as the Real Property Market Stimulus Act and Act 216-2011, as amended (Act 216), best known as the Housing Promotion Program Transition Act:**

## Sale of Qualified Property

Act 216 provides, among others, the following tax benefits for certain capital gains or losses generated between **January 1 and December 31, 2012**:

- (a) Exemption over net long-term capital gain

The total net long-term capital gain realized in the sale of **qualified property that is not a principal residence** between **January 1 and December 31, 2012**, will be totally exempt from the payment of income tax.



## (b) Use of the realized loss in the sale of qualified property

The limit of capital losses allowed against ordinary income for a particular taxable year, if they were realized between **January 1 and December 31, 2012**, will be \$5,000. Such loss may be carried over up to a maximum of **15 years**. If you realized a loss on the sale of qualified property, submit with the return a schedule detailing the origination date of such losses, the amounts and the years in which they were claimed and the balance to be claimed in future years.

For purposes of Act 132 and Act 216, "**qualified property**" means:

- (a) every existing residential real property located in Puerto Rico suitable for family living, not occupied or occupied for residential purposes, that is not a New Construction Property, or
- (b) every existing nonresidential real property located in Puerto Rico that is sold between January 1, 2012 and June 30, 2013 and which sale price does not exceed \$3,000,000.

The benefits provided by Act 132 and Act 216 will be available only to the first seller and corresponding first buyer of each qualified property, and will not apply to any acquirer in a subsequent transfer, even if it takes place before December 31, 2012. Also, the benefits will not apply if the transferor of the property is considered a related person of the transferee of such property.

**Sale of New Construction Property or Qualified Property acquired between September 1, 2010 and December 31, 2012**

## (a) Exemption of net long-term capital gain

The net long-term capital gain generated from the sale of **new construction property that has been acquired between September 1, 2010 and December 31, 2012**, will be fully exempt from income tax.

For purposes of Act 132 and Act 216, "**new construction property**" means:

1. all residential real property of new construction located in Puerto Rico, suitable for family living that has not been subject to occupation and that is acquired from a Developer. For real property to be considered as New Construction Property, the seller of the real property shall certify in writing to the purchaser, by affidavit, on or before the date of acquisition, that the real property is of new construction and has not previously been occupied, or
2. every house model consisting of a ground level, of two levels or an elevated level that is pre-designed or pre-fabricated in reinforced concrete purchased from a bona fide pre-design or pre-fabrication company and which plans have been approved by the Regulations and Permits Administration (ARPE) on or before December 30, 2009,

except by means of a waiver from Secretary of the Department of Consumer Affairs.

For the pre-designed or pre-fabricated home to be considered of New Construction Property, the acquirer must submit a copy of the sales contract executed between the purchaser and the pre-design or pre-fabrication company and start building with the appropriate Construction Permit issued by ARPE or its successor agency between September 1, 2010 and June 30, 2012 and complete the construction on or before March 31, 2013 with proper filing of the Application of Use Permit at ARPE or its successor agency.

The net long-term capital gain generated from the sale of **qualified property that is not a principal residence acquired between September 1, 2010 and December 31, 2012**, will be 50% exempt from the payment of income tax

To be entitled to these benefits, you must include with the return corresponding to the year of the sale, copy of the Certification issued by the Department of the Treasury for such purposes.

For provisions regarding **principal residence** refer to instructions of Schedule D1 Individual.

**For additional information, refer to Act 132, Act 216, Regulation No. 7923 of September 7, 2010, Regulation No. 8127 of December 23, 2011 and Executive Order 2012-27 of June 8, 2012.**

**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 2** - Enter the net short-term capital gain or the sale of your principal residence and/or sole proprietorship business.

**Line 3** - Enter the distributable share on the net short-term capital gain from a revocable trust or grantor trust, determined on Form 480.60 F. You must submit this form with your return.

**Line 4** - If you elected to pay tax using the bracket method, enter the amount determined on Form 480.60 S, regarding the distributable share in the net short-term capital gain (or loss) derived from a partnership. You must submit this form with your return.

**Line 5** - If you elected to pay taxes using the bracket method, enter the amount determined on Form 480.60 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 480.60 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 net gain (or loss) in investment funds or attributable to direct investment and not through a Capital Investment Fund. Also enter the amount determined on the Informative Return - Employess Owned Special Corporation (Form 480.6 CPT). You must submit this form with your return.

**Line 8** - Enter the amount of net capital loss not claimed on previous years. You must submit a detailed schedule with the amount and year in which the net capital loss was realized.

**Line 9** - 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 10; Schedule L Individual, Part II, line 12; Schedule M Individual, Part II, line 6; 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 1 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.

In order to be entitled to the benefits provided by Act 132 and Act 216, the taxpayer must inform in Column (F) the long-term capital gains and losses of qualified property or property of new construction realized between January 1 and December 31, 2012. The gains will be kept for informative purposes only, therefore, they should not be included in Column (G). On the other hand, the losses determined in Column (F) must also be included in Column (G). This way, they may be applied against other gains, if any, deducted from other income or carried over to future years.

**Line 11** - Add the amounts indicated in Column (G) and enter the result on this line.

**Lines 14, 15 and 16** - Refer to the instructions of lines 4, 5, and 6 of Part I, respectively.

**Line 17** - Enter the lump-sum distributions (amounts payable during the same taxable year) under a variable annuity contract that were received by the **taxpayer**. You can choose in Schedule A2 Individual, to treat this distribution as a long-term capital gain subject to the preferential rate of 10% under Section 1023.08 of the Code.

**Line 18** - Enter the lump-sum distributions under a variable annuity contract received by your **spouse**. You can choose in Schedule A2 Individual, to treat this distribution as a capital gain subject to the preferential rate of 10% under Section 1023.08 of the Code.

**Line 19** - Refer to the instructions of line 7, Part I.

**Line 20** - Refer to the instructions of line 9, 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 22** - 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**

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 or termination of plan. 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 87-2006, 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) cannot be less than zero ("0").

**Line 23** - 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 25. These distributions are taxable at the 20% preferential tax rate.

**Line 24** - 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 25. These distributions are taxable at the 20% preferential tax rate.

**Line 25** - 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 1112.01 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%** preferential tax rate.

**Line 26** – Enter the distributions received by your **spouse** and that at the same time meet the requirements established on line 25. These distributions are taxable at the **10%** special tax rate.

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

**Line 28** - Enter here **only** the net capital gains determined on lines 10, 21 and 22.

Column A - Enter the net short-term capital gain, if any, determined in Part I, line 10, Column (F).

Column B - Enter the net long-term capital gain, if any, determined in Part II, line 21, Column (G).

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 22, Column (F).

**Line 29** - Enter here **only** the net capital losses determined on lines 10, 21 and 22.

Column A - Enter the net short-term capital loss, if any, determined in Part I, line 10, Column (F).

Column B - Enter the net long-term capital loss, if any, determined in Part II, line 21, Column (G).

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 22, Column (F).

**Line 30** - This line must be used **when any** of Columns B and C reflect a loss on line 29. Such loss will be applied proportionally to the gain, if any, reflected in the other Column of line 28, except Column A. If the other Column does not reflect a gain on line 28, enter zero in the box.

**Line 32** - If line 29, Column A reflects a loss, apply the same proportionally to the gains, if any, reflected on line 28. If no Column reflected gains on line 28, enter zero.

On this line, the net short-term capital loss reflected on line 29, Column A, is applied proportionally to the long-term capital gains reflected on line 28, Columns B and C, after having applied proportionally the net long-term capital losses of the other categories.

**Line 36** - 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 A2 Individual and to Part 1, line 2B of the return or to line 3B of Schedule CO Individual, as applicable. **On the other hand, the net short-term capital**

**gain must be transferred only to Part 1, line 2B of the return or to line 3B of Schedule CO Individual, as applicable. Therefore, do not transfer this amount to Schedule A2 Individual.** That is because the short-term capital gain is taxed at the regular tax rates. **To determine the amounts to be transferred, see instructions for line 4 (a) of Schedule A2 Individual.**

If the amount on line 35 is a net capital loss, then continue with line 37.

**Line 37** - If the amount on line 35 of this schedule is a loss, enter on this line and in Part 1, line 2B of the return or on line 3B of Schedule CO Individual, as applicable, the smaller of the following: (a) the amount of the loss reflected on line 35, 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 five years. **In case of net capital loss realized during taxable years beginning after December 31, 2005 and before December 31, 2012, the carry over period shall be 10 years.**

Nevertheless, if a loss was realized under the provisions of Act 132 or Act 216, instead of the \$1,000 limitation you may claim up to \$5,000 only with respect to the loss realized in the sale of a qualified property. Any loss related to such property that is not used may be carried over for a period of 15 years. Such loss may be used against any capital gain derived in the future, and if there is any remaining loss, you may claim up to \$5,000 as a deduction in each one of the subsequent 15 years.

You cannot claim more than the limit of \$1,000 with respect to any loss that is not a loss realized in the sale of qualified property according to Act 132 or Act 216.

#### **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.

**Under the Act 216-2011, if you sold your principal residence on or after November 1, 2011, the total net long-term capital gain is exempt from income tax, including the alternate basic tax.**

**For these purposes, is considered "primary residence" a housing unit that has been occupied continuously by the seller and/or your family for the last 2 years preceding the sale.**

**It is a requirement that you complete this Schedule even if the gain is exempt.**

#### **PART I - COMPUTATION OF GAIN**

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



**Line 2** – If you answered “Yes”, complete the rest of the Schedule to determine the total net gain that is exempt from the payment of taxes. If you answered “No”, go to Schedule D Individual, Part I or II, as applicable.

**Line 3** - If you used funds from your Individual Retirement Account (IRA) to purchase your principal residence, these funds are taxable when the residence is sold. Enter the amount withdrawn from the IRA to purchase the residence. Transfer to Schedule F Individual, Part IV.

**Line 4** - Enter the selling price of your 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 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. Include fixing-up expenses that you paid in order to sell the residence on this line.

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 line 7.

**Line 7** - Enter the adjusted basis of the residence sold. The adjusted basis is the original cost of the 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 Puerto Rico Internal Revenue Code of 1994, as amended. 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 8** – Enter the gain realized on the sale. If the gain was realized on the sale of a principal residence under the provisions of Act 216-2011, the same is exempt from the payment of income tax. Transfer this amount to Schedule IE Individual, Part II, line 10.

It is important to point out that if your principal residence does not comply with the definition provided by Act 216-2011 but you are interested to benefit from the provisions of Sections 1034.04(m) and 1031.02(a)(16) of the Code related to the

gain deferral and the once in a life exemption for taxpayers age 60 or older, respectively, refer to Schedule D3 Individual available in our webpage under the “Schedules” topic.

## 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.

The same will be used to inform each of the properties for which you claim depreciation. There are spaces for current, flexible and accelerated depreciation; amortization, automobiles and vehicles under financial leases.

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.

For properties acquired from January 1, 2010, it is allowed to use the provisions of the Federal Internal Revenue Code and its Regulation in those cases in which Section 1033.07 or 1040.12 of the Code does not establish depreciation periods for certain tangible property.

### 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.**

### Line (e) – Vehicles

For property that is a vehicle it is allowed a deduction for depreciation up to \$ 6,000 annually per vehicle, up to a maximum of \$ 30,000 for the car's life.

If the taxpayer is a seller, the amount of the depreciation deduction can not exceed \$ 10,000 per year per vehicle, up to a maximum of \$ 30,000 for the car's useful life.



If the car is used by the taxpayer in his trade or business or for the production of income and is also used for personal purposes, the amount of this deduction will be reduced by the amount of its personal use.

In the case of cars under operating leases, the amount of rent paid during the taxable year shall be allowed as a deduction for **depreciation** up to a maximum of \$ 6,000 annually per car or \$ 10,000 if the taxpayer is a seller. Include on this line, the lease rental payments for vehicles under operating leases up to the limits indicated above. Do not include them as a deduction for rent, interest, costs of motor vehicles or any other item other than depreciation on the Schedules K, L, M or N.

#### Line (f) - Vehicles under financial leases

In the case of leased cars **that are essentially equivalent to a purchase**, instead of current depreciation, it is allowed a deduction for the use of the vehicle for the amount paid during the taxable year up to \$ 6,000 per year car, up to a maximum of \$ 30,000 for the lifetime of the automobile. See Section 1033.07 (a)(3)(D) for the definition of a lease that is essentially equivalent to a purchase.

If the taxpayer is a seller, it be allowed as a deduction the amount paid for the lease of the car during the taxable year for an amount not exceeding \$ 10,000 per year per car, up to a maximum of \$ 30,000 for the car's useful life.

Enter on this line the amount of lease payments that are substantially equivalent to a purchase, subject to the limitations indicated above. Do not include as part of the payments the interest portion. **Include with your return Form 480.7D.**

**Do not include on this line regular lease payments for leased cars ("operating leases"). These are reported on line (e).**

**Include 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, distributions and transfers from governmental plans, distributions from Individual Retirement Accounts and Educational Contribution Account, distributions from deferred compensation plans and distributions from qualified retirement plans (partial or lump-sum not due to separation from service) income from prizes and contests, judicial or extrajudicial indemnifications, income from Major League baseball teams and the U.S. National Basketball Association, and any other miscellaneous income that is not provided a specific line on the return.

If you choose the optional computation of tax in the case of married individuals living together, filing a joint return and the income reported on this Schedule **is only from dividends from corporations 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 exemption 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 distributions of 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 incomes are attributed to the spouse which receives or earns 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, or upon new mortgages on residential property located in Puerto Rico, if you elected to pay the preferential tax rate of 10%.

The term **eligible interest** means any interest in bonds, notes or other obligations issued by a corporation or partnership domestic or foreign 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 preferential 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 10.31.02 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 1033.17(f) of the Code.

This information is obtained from Part 7 of Form 480.6B (Informative Return – Income Subject to Withholding). Submit said form with your return.



**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 preferential 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 preferential tax rate of 10% over the excess of \$2,000, **without including** taxable interest from an Individual Retirement Account or an Educational Contribution Account. This information is obtained from Part 6 of Form 480.6B. Submit said form with your return.

**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 preferential tax rate of 10% over the excess of \$2,000.

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

**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.

**Line 2** - Include in this line according to each category of interest, the ordinary and necessary expenses paid or incurred to generate them such as bank charges, brokerage commissions, etc. These may not exceed the total income generated included on line 1 for each category of interest.

**Line 3** - Interest received from financial institutions engaged in trade or business in Puerto Rico is exempt up to \$ 2,000 or \$4,000 for married taxpayers. This exemption will be claimed on Schedule F Individual, Part I, line 3, Column B, C, D or E. The total amount of the sum of all columns on line 3 should not exceed \$ 2,000 or \$ 4,000 for married taxpayers. In the case of married taxpayers filing separately or if the optional computation of tax is chosen, the exemption cannot exceed \$ 2,000 for each one.

**Line 4** - Determine the amount of taxable interest each category by subtracting the total expenses (line 2) and the exemption (line 3) if applicable. **Net interest income in Columns A through C and E will be transferred to lines 4(b) through 4(e), as applicable, of Schedule A2 Individual to determine the contribution at the corresponding preferential rate.**

**Line 5** - Add the total net interest of each Column, **including interest subject to preferential rates**, and transfer it to Part

1, line 2C of the return or line 3C, Columns B and C of Schedule CO Individual.

**Lines 6 and 7** - **The tax withheld from interest shall be credited against your tax liability. Transfer the amounts withheld to Schedule B Individual, Part III, line 4. Submit with your return the corresponding Informative Returns (Form 480.6B, 480.7).**

## PART II - CORPORATE DIVIDENDS

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

**Column A** - You must include dividends from corporations 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 in a domestic corporation, 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.

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

**Line 2** - Include in this line according to each category of dividends, the ordinary and necessary expenses paid or incurred to generate them such as bank charges, brokerage commissions, etc. These may not exceed the total income included on line 1 for each category of dividends.

**Line 3** - Determine the amount of taxable dividends for each category by subtracting from the total the expenses (line 2). **The net dividend income in Column A will be transferred to line 4(f) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**

**Line 4** - Add the total net dividend for each Column, **including dividends subject to preferential rates**, and transfer it to Part 1, line 2D of the return or line 3D, Columns B and C of Schedule CO Individual.

**Line 5** - **The tax withheld from dividends will be credited against your tax liability. Transfer the amounts withheld to Schedule B Individual, Part III, line 5. Submit Form 480.6B with your return.**

## PART III - 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 the 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 Puerto Rico Internal Revenue Code of 1994, as amended (1994 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).

**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.

**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% preferential tax had been withheld at source. **Transfer this amount to line 4(i) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**

**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% preferential tax rate. **Transfer this amount to line 4(i) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**

**Line 3** - Add the total distributions and transfers from government plans of Columns C through F, **including distributions and transfers subject to preferential rates**, and transfer it to Part 1, line 2E of the return or line 3E, Columns B and C of Schedule CO Individual.

**Line 4** - Enter the 10% of the tax withholding applicable to lump-sum distributions of \$10,000 or more (line 2E) or rollovers under Section 1081.03 of the Code (line 2F), as applicable. **Transfer the withholding amount to Schedule B Individual, Part III, line 17. Submit with your return the corresponding Informative Returns (Form W-2, 480.7C).**

#### **PART IV - 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 1994 Code. **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.**

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 F, as applicable. The difference between Column A and Column B can not be less than zero ("0").

**Column C** - Enter that part of the distribution received from an Individual Retirement Account (IRA) or an Educational Contribution Account that constitutes interest earned on funds. **These interests will be transferred to the corresponding column of Part I of this Schedule.**

**Column D** - 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 preferential tax rate of 10%. That part of the distribution which constitutes your contribution to the IRA, must be reported in Column F. **Do not include the interest received in this part. The same must be reported in Column C.**

**Column E** - 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 1023.04 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 preferential tax rate of 17%.

**Column F** - Enter the remainder of the distribution received from an Individual Retirement Account (IRA) or an Educational Contribution Account which does not correspond to the columns above.

**Line 1** - Total the amounts included in Columns A through F. **Transfer the total of Columns D and E to line 4(i) of Schedule A2 individual to determine the tax at the corresponding preferential rate.**

**Line 2** - Add the total distributions from Individual Retirement Accounts (IRA) or Educational Contribution Accounts of Columns D through F, **including distributions or portion thereof subject to preferential rates**, and transfer it to Part 1, line 2F of the return or line 3F, Columns B and C of Schedule CO Individual.





The 10% tax withheld (IRA distributions to Government pensioners) or 17% (IRA or Educational Contribution Account distributions consisting of income from sources within Puerto Rico) will be credited against your tax liability.

Transfer the amounts withheld to Schedule B Individual, Part III, lines 14 or 15, as applicable.

Submit with your return the Informative Return - Individual Retirement Account (Form 480.7) or the Informative Return - Educational Contribution Account (Form 480.7B), as applicable.

#### PART V - 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 Section 1012D of the 1994 Code. **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 1B** - The **basis** of the distribution includes any amount for which you prepaid the tax under Section 1012D 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 VII, line 4 of this Schedule.

#### PART VI - DISTRIBUTIONS FROM QUALIFIED RETIREMENT PLANS (PARTIAL OR LUMP-SUM NOT DUE TO SEPARATION FROM SERVICE OR PLAN TERMINATION)

Enter in the indicated space the date and total amount of the partial or total distribution not due to separation from service or plan termination, from a qualified retirement plan. Indicate, also, if the distribution includes a portion for which the tax was prepaid under Section 1165(b)(9) of the 1994 Code. **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 1B** - The **basis** of the distribution includes any amount for which you prepaid the tax under Section 1165(b)(9) 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 VII, line 5 of this Schedule.

**Line 2** - Enter the 10% of the tax withholding applicable to partial or total distributions not due to separation from service or plan termination. **Transfer the withholding amount to Schedule B Individual, Part III, line 16. Submit with your return the corresponding Informative Returns (Form W-2, 480.7C).**

#### PART VII - MISCELLANEOUS INCOME

If you chose the optional computation of tax and either spouse received income from a judicial or extra-judicial compensation or remuneration received from a Major League baseball team or the U.S. National Basketball Association, you must complete a Schedule F for each spouse.

**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 judgment issued by the Court or under an extrajudicial claim, that constitute taxable income. **If you choose the optional computation of tax, this income is attributed to the spouse individually, as applicable.**

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. **If you choose the optional computation of tax, this income is attributed to the spouse individually, as applicable.** (Submit Form 480.6B). Enter the tax withheld on Schedule B Individual, Part III, line 18.

**Line 2** - Include in this line according to each income category of Columns A through C, the ordinary and necessary expenses paid or incurred to generate them such as bank charges, brokerage commissions, fees, etc. These may not exceed the total income included on line 1 for each income category.

**Line 3** - Determine the amount of taxable income for each category by subtracting from the total (line 1) the expenses (line 2). **The income from a Major League baseball team or the U.S. National Basketball Association will be transferred to line 4(g) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**



**Line 6** - Add the subtotal of Columns A through D of line 3 and lines 4 and 5. Transfer this amount to Part I, line 2G of the return or line Schedule 3G of Schedule CO Individual, Columns B and C, as applicable.

**Line 7** - Enter the 7% of tax withheld on payments from judicial or extrajudicial indemnification. **Transfer the amount withheld to Schedule B Individual, Part III, line 9. Submit form 480.6B with your return.**

**Line 8** - Enter the 20% of tax withheld on income from Mayor League baseball teams and the U.S. National Basketball Association. **Transfer the amount withheld to Schedule B Individual, Part III, line 18. Submit form 480.6B with your return.**

### SCHEDULE F1 INDIVIDUAL - DETAIL OF INCOME UNDER ACT 22-2012

Use this Schedule to inform passive income from interest, dividends and long-term capital gains earned by a resident individual investor with respect to his/her investments. Such exemption will be in effect until December 31, 2035.

For purposes of Act 22-2012, "resident individual investor" means a resident individual, as defined in Section 1010.01(a)(30) of the Code, who was not a resident of Puerto Rico during the last 15 years before January 17, 2012 and who becomes resident of Puerto Rico not later than the taxable year ending on December 31, 2035.

#### PARTS I AND II - INTEREST AND DIVIDENDS

Describe the name of the person who made the payment, employer identification number of said person, the account number and the amount received.

It shall be totally exempt from the payment of income tax for Puerto Rico, including the alternate basic tax, the income from all sources earned by a resident individual investor, after becoming resident of Puerto Rico but before January 1, 2036, consisting of:

- interest and dividends, including but not limited to, interest and dividends from a registered investment company described in Section 1112.01 of the Code, and
- interest, financing charges, dividends or share in partnerships benefits received from international banking entities duly authorized according to the Banking Center Regulatory Act

Transfer the total of line 1, Parts I and II to Schedule IE Individual, Part II, line 33, first Column.

#### PART III - CAPITAL ASSETS GAINS AND LOSSES

You must inform in this part the long-term capital gains and lossess derived from:

##### Accretion before becoming resident of Puerto Rico

The total net long-term capital gain derived by a resident individual investor related to any accretion in securities owned

before he/she became resident of Puerto Rico, that is recognized after 10 years of becoming resident of Puerto Rico and before January 1, 2036, will be subject to the payment of a 5% tax, in lieu of any other tax provided by the Code. If such accretion is recognized at any other moment, the net long term capital gain related to such securities, shall be subject to the payment on income tax according to the tax treatment provided by the Code. The amount of this net long term capital gain shall be limited to the share of the gain related to the accretion on the securities while the resident individual investor was living out of Puerto Rico.

##### Accretion after becoming resident of Puerto Rico

The total net long-term capital gain derived by a resident individual investor related to any accretion in securities owned after he/she became resident of Puerto Rico, that is recognized before January 1, 2036, will be totally exempt from the payment of income tax for Puerto Rico, including the alternate basic tax provided by the Code. If such accretion is recognized after December 31, 2035, the net long-term capital gain related to such securities, will be subject to the payment on income tax according to the tax treatment provided by the Code. The amount of this net long-term capital gain is in relation to the share of the gain related to the accretion of the securities, including the securities owned by the resident individual investor at the moment of becoming resident of Puerto Rico as well as the ones that he/she acquires after becoming resident of Puerto Rico.

Transfer the total of line 1, Column (E) to Schedule D Individual, Part III, line 22. Transfer the total of line 1, Column (F) to Schedule IE Individual, Part II, line 33, first Column. For additional information refer to Act 22-2012.

### 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 deferral 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 consumer's 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 postponement.

**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 10** - Enter the gain realized on the sale. If the gain was realized on the sale of a qualified property under the provisions of Act 132-2010 of Act 216-2011, the same is exempt from the payment of income tax, therefore, you shall not complete the rest of this Schedule. For the definition of qualified property refer to the instructions of Schedule D Individual.

**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 from qualified pension plans under Section 1081.01 of the Code or granted by the government of Puerto Rico, the United States and instrumentalities or political subdivisions of both governments. 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 you receive benefits from the Social Security Administration, do not complete this Schedule because such benefits are not taxable in Puerto Rico. Also, 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 of the Long Form, 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 already have recovered the cost of your 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 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. In the case of contributions to a qualified pension plan under Section 1081.01 of the Code, the cost of the pension includes after-tax contributions. As general rule, said cost can be found on Form 499R-2/W-2PR, Part 6 or on Form 480.7C, Part 3. Also, include those amounts over which you prepaid the 5% special tax under Sections 1081.01(b)(9) of the Code or Section 1012D of the Puerto Rico Internal Revenue Code of 1994, as amended.

**Line 2** - Enter the amount of pension received in each of the previous years and totalize the amounts in the boxed area.

**Line 3(a)** - Enter the amount of taxable pension received in each of the previous years and totalize the amounts in the boxed area.

**Line 3(b)** - Enter the amount of tax exempt pension received in each of the previous years and totalize the amounts in the boxed area.

### PART II - TAXABLE INCOME

**Line 7** - Enter the total amount received from annuities or pensions during the taxable year. This information appears on Form 499R-2/W-2PR, Part 11 or on Form 480.7C, Part 13.

**Line 8** - Enter \$11,000 if you are under age 60, or enter \$15,000 if you are age 60 or older.

This deduction only applies if the pension received is derived from a qualified pension plan under Section 1081.01 of the Code or from the retirement systems subsidized by the Government of Puerto Rico, the United States and instrumentalities or political subdivisions of both governments.

If the taxpayer receives more than one annuity or pension, the exemption will apply for each annuity or pension separately.

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. Make sure to write your date of birth on page 1 of the tax return.**

**Line 12** - Enter the amount of line 11 or 3% of the annuity's cost, whichever is greater, until you have recovered the total cost of your annuity or pension. This amount cannot be greater 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 during which the pension was received. Enter on line 12 of this Schedule and in Part 1, line 2H of the return, the amount determined from the above computation, or the amount entered on line 11 of this Schedule, whichever is greater, but not greater than the amount of line 9. If you choose the optional computation of tax, transfer this amount to Schedule CO Individual, line 3H, Column B or C, as applicable, corresponding to the taxpayer or his/her spouse.

**Line 13** - Enter the income tax withheld, if any, and transfer this amount to Part 3, line 23B of your return.

**Submit with your return the Withholding Statement (Form 499R-2/W-2PR) or Informative Return 480.7C and this Schedule.**

## SCHEDULE IE INDIVIDUAL - EXCLUDED AND EXEMPT INCOME

Complete this Schedule to inform the excluded and exempt income received during the taxable year. The total amount of exclusions and exemptions of gross income will be considered in the calculation of the limitation of 30% of income for mortgage interests deduction. Also, this schedule will be used to determine the excluded and exempt income subject to basic alternative tax.

Married taxpayers filing jointly that choose the optional computation of tax, shall complete and submit with the return a **Schedule IE Individual for each spouse**. Fill out completely the oval that identifies the taxpayer or the spouse, as applicable. Otherwise, fill out the oval that indicates "both".

### PART I - EXCLUSIONS FROM NET INCOME

**Line 1** - Enter the income received under a life insurance contract whether in lump sum or installments, by reason of death or terminal illness of the policy holder. In the case of payments for terminal illness, previous authorization from the Secretary is required to claim the exemption and the policy holder should have less than a year of life expectancy. For more information, see Section 1031.01(b)(1) of the Code.





**Line 2** – Enter the value of property acquired through donation, legacy or inheritance. The income derived from such property is not considered excluded and therefore, should be included as net income. If the donation, legacy or inheritance is paid in installments, include as income the portion that is considered to be derived from the property. (Section 1031.01(b)(2) of the Code).

**Line 3** – Enter the amounts received through medical or accident insurance, under labor compensation acts, judicial or extra judicial indemnifications and amounts received through pensions, annuities, or analog concessions for **personal physical lesions or physical illnesses** or by reason of occupational or non occupational disability.

**Line 5** – Enter the income derived from the discharge of debt, in whole or in part, if the discharge is done under one of the following circumstances:

- bankruptcy under Title 11 of the Code of the United States approved by a court with competent jurisdiction;
- taxpayer insolvency (liabilities exceed the fair market value of the assets);
- the debt is from a student loan the terms of which allow for discharge in exchange for work for a period of time in certain professions or for specific employers.

If the debt discharge is not due to one of the preceding circumstances, the income derived from it is considered taxable income and shall be included on Schedule F Individual of the Long Form.

The excluded amount of income for debt discharge will reduce the net operating loss incurred or available in the year of the discharge, the net capital loss incurred or available in the year of the discharge, the tax basis of the asset that constitutes the collateral of the debt subject to discharge, or the tax basis of any other asset in the hands of the taxpayer, in that order.

**Line 7** – Enter the income derived from meal or trip allowances paid for voluntary services under the Voluntary Act of Puerto Rico (Act 261-2004). This amount shall not exceed \$1,500. Any excess over such amount is included as taxable income. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.

**Line 8** – Enter the income received for **child support**. Do not include on this line payments received from alimony due to divorce or separation provided under Section 1033.13 of the Code. If you received payment from alimony due to divorce or separation, enter it on line 2(P), Part 1 of the Long Form.

**Line 9** – Enter the amount paid by an employer to an employee as a reimbursement for expenses related to trips, meals, lodging, entertainment (not sumptuous or extravagant) and other expenses related to the employment, provided the reimbursement was done pursuant to a reimbursement plan established by the employer that complies with the requirements established by the Secretary.

**Line 10** – Enter the total amount of other exclusions of gross income for which a line is not specifically provided on this Schedule, such as study scholarships, literary, scientific, artistic or other awards.

Also, enter amounts excluded from gross income under special laws.

If you choose the optional computation of tax, indicate on lines 1 through 4 and 7 through 9 the total amount received by each spouse in his or her individual capacity. Enter on line 5 and 6 the amount of income received from each concept in a 50% proportion for each spouse. On the other hand, indicate on line 10 the total amount received by each spouse in his or her individual capacity or in a 50% proportion, as applicable.

## PART II - EXEMPTIONS FROM GROSS INCOME

**Line 2(C)** - Enter the income received from interest of securities issued under the Agricultural Loans Act of 1971, as amended, including obligations issued under any subsidiary of the Farm Credit Banks of Baltimore which funds are used to finance, directly or indirectly, agricultural loans and farmers in Puerto Rico. For more information, refer to Section 1031.02(a)(3)(C) of the Code. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to basic alternative tax. Submit the Informative Return – Exempt Income and Exempt Income Subject to Alternate Basic Tax (Form 480.6D).

**Line 2(D)** – Enter the interest income received from any of the following mortgages:

- secured by the National Housing Act of 1934, as amended, that have been issued not later than February 15, 1973 and possessed by residents of Puerto Rico on May 5, 1973 and issued within the 180 days following February 15, 1973 to be acquired by a resident of Puerto Rico;
- on certain mortgages on residential property located in Puerto Rico issued after June 30, 1983 and before August 1, 1997, secured by the National Housing Act of 1934 or the Servicemen's Readjustment Act of 1944;
- on certain mortgages on new residential property located in Puerto Rico issued after July 31, 1997 and secured by the National Housing Act of 1934 or the Servicemen's Readjustment Act of 1944;
- on mortgages originated to provide permanent financing for the construction or acquisition of social interest housing;
- on mortgages secured under the Bankhead-Jones Farm Tenant Act of 1937, as amended.

Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to basic alternative tax. Submit Form 480.6D.

**Line 2(E)** – Enter the interest income received from obligations secured by the Servicemen's Readjustment Act of 1944 that were issued not later than February 15, 1973 and possessed by residents of Puerto Rico on May 5, 1973 and issued within the 180 days following February 15, 1973 to be acquired by a resident of Puerto Rico. Enter the amount in the column of items considered for the mortgage interest limitation, as well as the column of items subject to alternate basic tax. Submit Form 480.6D.

**Line 2(F)** – Enter the interest income up to \$5,000 received from obligations secured by cooperative associations. Enter the amount in the column of items considered for the mortgage





interest limitation as well as the column of items subject to alternate basic tax. Submit Form 480.6D.

**Line 2(G)** – Enter the amount claimed as an exclusion up to \$2,000 (\$4,000 in case of married filing jointly) for interest received from deposit accounts in Puerto Rico. Transfer to this line the amount entered on Schedule F Individual, Part I, line 3. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.

**Line 2(H)** – Enter the interest income received from obligations issued by the Puerto Rico Conservation Trust, the Puerto Rico Housing and Human Development Trust, the San Juan Monuments Patronage and the Puerto Rico Education and Rehabilitation Society ("SER de Puerto Rico") (See Section 1031.02(a)(3)(L) of the Code).

**Line 3(A)** - Enter the distributions from limited dividends corporations that qualify under Section 1101.01(a)(6)(A) of the Code. The taxpayer must submit with the return a statement evidencing the number of shares owned and the dividends received from those shares during the taxable year. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax. Submit Form 480.6D.

**Line 3(B)** - Enter the dividends received from domestic cooperative associations if the taxpayer that received them is a Puerto Rico resident. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax. Submit Form 480.6D.

**Line 3(C)** - Enter the income received from dividend distributions made by an International Insurer or an International Insurer Holding Company as provided under Article 61.240 of the Puerto Rico Insurance Code. Submit Form 480.6D.

**Line 4** – Enter the fair rental value of housing and its belongings, and the amount of any payments for water, electricity, gas and telephone provided to a priest or minister of any religion properly ordained, as part of their compensation. The expenses may not be sumptuous or extravagant, as determined by the Secretary. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.

**Line 5** - Enter the amount received for the recapture of bad debts, prior taxes, surcharges and other amounts. For more information, see Section 1031.02(a)(8) of the Code. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.

**Line 6** – 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. The exemption applies to remuneration in the form of a monthly allowance and the additional allowance for the cost of housing and meals for a maximum period of 72

months. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax. Submit the Withholding Statement (Form 499R-2/W-2PR) and a copy of the contract.

**Line 8** – Enter exemption of \$11,000 or \$15,000 of the income received from pensions and annuities, up to the limit established in Section 1031.02(a)(13) of the Code according to age. Transfer to this line the amount entered on Schedule H Individual, Part II, line 8. If you received more than one pension or annuity, add all the exemptions claimed on that line of each Schedule H Individual and enter the total amount on this line. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.

**Line 9** - Enter amount received by as pensioner 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 37-2001 and Act 38-2001 and the Medicine Bonus granted by Act 155-2003 and Act 162- 2003. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.

**Line 10** – Enter the amount of the gain on the sale or exchange of the principal residence by certain individuals. For more information, refer to Act 216-2011, Regulation No. 8127 of December 23, 2011 and the Executive Order 2012-27 of June 8, 2012. Transfer to this line the amount entered on Schedule D1 Individual, line 8.

**Line 11** – Enter the amount received from certain exempt income related to the operation of an employees owned special corporation, such as 90% of the rental payments for real and personal property used by the corporation in its development, organization, construction, establishment or operation. For more information refer to Section 1031.02(a)(17) of the Code. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.

**Line 12** - 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 1031.02(a)(18) of the Code). This exemption may be denied if the taxpayer has not complied with its tax obligations for the 4 years prior to the year in which the exemption is claimed. Transfer to this line the amount indicated in the "Wage and Tax Statement -Form W-2" (Federal Form W-2) provided by the Federal Government.

**Line 13** – Enter the amount received for unemployment compensation under an act of the United States, a state of the Union or the Government of Puerto Rico. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.



**Line 14** – Enter the amount received of compensation for active military service rendered by military personnel in a combat zone. This exemption does not apply to military personnel transferred outside Puerto Rico to relieve other personnel that was sent to the combat zone. For more information, see Section 1031.02(a)(20) of the Code. Include Federal Form W-2.

**Line 15** – Enter the income received or earned in relation to the celebration of sports games organized by international associations or federations. This provision applies to Major League Baseball teams and National Basketball Association teams for games celebrated in Puerto Rico. For more information, refer to Section 1031.02(a)(21) of the Code. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.

**Line 16** – Enter the amount received by an eligible researcher or scientist for services rendered to a superior level educational institution to perform eligible scientific research as provided in Section 1031.02(a)(26) of the Code and the regulations issued thereunder. Include with your return the certification issued by the Department of Treasury or Form 480.6D.

**Line 17** – Enter the compensation received by an eligible researcher or scientist for services rendered in the District established under Article 7 of Act 214-2004, as amended. For more information, refer to Section 1031.02(a)(27) of the Code.

**Line 18** – Enter the amount of rents received from the rental of buildings in the historic zone, as established by the Institute of Puerto Rican Culture or the Planning Board. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax.

**Line 19** – Enter the compensation received that was paid by a foreign person to citizens and nonresident aliens for technical services rendered during the realization of cinematographic or film productions.

**Line 20** – Enter the income from sources outside of Puerto Rico received by a United States citizen non resident of Puerto Rico during the entire taxable year or the amounts allocated to the period of non residency of an individual that changes his or her residence to Puerto Rico during the taxable year. Deductions attributable to exempt income will not be allowed.

**Line 21** – Enter the amount of remuneration received by employees of foreign governments or international organizations. For more information, refer to Section 1031.02(a)(34)(E) of the Code.

**Line 22** – Enter the income received from buildings rented to the Government of Puerto Rico for public hospitals, health or convalescent homes, and public schools, solely and exclusively if they had a valid rental contract in executed on or before November 22, 2010.

Enter also the net income from residential property rented under the Real Property Market Stimulus Act (Act 132-2010, as amended). You must include Schedule N Individual with the detail of income and expenses and fill in the oval of Act 132-2010.

**Line 23** – Enter the income derived by the taxpayer from the resale of personal property or services whose acquisition by the taxpayer was subject to tax under Section 3070.01 of the Code or Section 2101 of the Puerto Rico Internal revenue Code of 1994, as amended.

**Line 24** – Enter the amount of accumulated gain from non qualified options to acquire stock over which the taxpayer has prepaid the tax. (See Section 1040.08(e)(1)(A) of the Code). Include Form 480.6D.

**Line 25** – Enter the distributions of amounts previously notified as deemed eligible distributions under Section 1023.06(j) of the Code). Include Form 480.6D

**Line 26** – Enter the amount of distributions from Non Deductible Individual Retirement Accounts. (See Section 1081.03 of the Code). Include Form 480.6D.

**Line 27** – Enter the amount of compensation paid to an employee for liquidation or close of the business, or qualified employees profit sharing programs, when the discharge is for the reasons provided in Article 2(d), (e) and (f) of Act No. 80 of May 30, 1976, as amended. Include Form 480.6D. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column of items subject to alternate basic tax. For more information, refer to the Administrative Determination No. 08-13 of October 31, 2008.

**Line 28** - Enter the dividend or benefit distributions of industrial development income of exempt businesses or of the exempt income from the exempt hospital's operations, or from distributions in liquidation under the Industrial Incentives Acts. For the treatment of such current or in liquidation distributions, see Internal Revenue Circular Letters No. 09-06 of July 22, 2009 and No. 12-07 of October 10, 2012.

**Line 29** – Enter the amount of wages received by public employees for overtime work in emergency situations under Act 324-2004. Enter the amount in the column of items considered for the mortgage interest limitation as well as the column for items subject to alternate basic tax. Include Form 499R-2/W-2PR.

**Line 30** – Enter the income from copyrights up to \$10,000 under the Puerto Rico Integral Development of the Book Industry Incentives Act (Act 516-2004).

**Line 31** - Enter the income received by a designer or translator for its work in the preparation of books up to \$6,000, under Act 516-2004.

**Line 32** – Enter the amount received for the distributable share on exempt income from partnerships, special partnerships, corporations of individuals, and revocable trust or grantor trusts. Transfer to this line, in the column of items considered for the mortgage interest limitation, the amount indicated in Forms 480.60 S, 480.60 SE and 480.60 CI, Part III, line 12 and in Form 480.60 F, Part III, line 1Q, as applicable. Transfer to the column of items subject to alternate basic tax, the amount indicated in Forms 480.60 S, 480.60 SE and 480.60 CI, Part III, line 13 and in Form 480.60 F, Part III, line 1R, as applicable.



**Line 33** – Enter the total amount of other exemptions from gross income for which there is not a specific line provided on this Schedule, even if they are granted by special acts, such as racetrack winnings or income generated from participants of the Caribbean Series.

**If you choose the optional computation of tax**, enter on lines 1, 4, 6, 8, 9, 12 through 17, 19, 21, 24, 26, 27 and 29 through 32 the total amount received by each spouse in his or her individual capacity. Enter on lines 2, 3, 5, 7, 10, 11, 18, 22, 23, 25 and 28 the amount of income received per each category in a proportion of 50% of the total to each spouse. On the other hand, enter on lines 20 and 33 the total amount received by each spouse in his or her individual capacity or in a proportion of 50% to each one, as applicable.

### PART III – TOTAL

**Line 1** – Add line 11 of Part I and line 34 of Part II of the first column. This is the amount of excluded and exempt income that you will consider for the 30% limitation of income when you claim the deduction for mortgage interest. **You should complete and submit with your return this Schedule to have the right to have this income considered for purposes of such deduction on Schedule A Individual, Part I, line 1(b) (Schedule CO Individual Short Form, line 5(A)(2) or Schedule CO Individual Long Form, line 7(A)(2)).**

**Line 2** – Add line 11 of Part I and line 34 of Part II of the second column. This is the total excluded and exempt income subject to alternate basic tax. Transfer this amount to Schedule O Individual of Long Form, Part I, line 12.

### 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 2, Part 1 of the return or to lines 3 I through 3 L 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 6 of said schedules to page 2, Part 1, line 2K of the return or line 3K, 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 10 of said schedules to page 2, Part 1, line 2 I of the return or to line 3 I, Column B or C of Schedule CO Individual, if you choose the optional computation of tax.

If you have two properties for rent, one for commercial use and other for residential purposes, you shall use two Schedules N Individual to detail the income and expenses of each property and transfer the sum of Part II, line 7 of such Schedule to page 2, Part 1, line 2L of the return or to line 3L, Columns B and C of Schedule CO Individual, if you choose the optional computation of tax.

### Submit the Schedules you use with the return.

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 78-1993 (Puerto Rico Tourism Development Act), Act 75-1995 (Special Act for the Rehabilitation of Río Piedras), Act 14-1996 (Special Act for the Development of Castañer), Act 135-1997 (Tax Incentives Act of 1998), a Film Entity operating under Act 362-1999 (Act for the Film Industry Development), a Theatrical Business operating under Act 178-2000 (Act for the Creation of the Theatrical District of Santurce), Act 73-2008 (Economic Incentives for the Development of Puerto Rico Act), or Act 83-2010 (Puerto Rico Green Energy Incentives 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".

**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 27-2011, as amended.**

**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 11 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 225-1995), 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.**

#### Expenses Related to Certain Concepts

Indicate in this part if you claimed expenses related to the ownership, use, maintenance or depreciation of automobiles, vessels, airships or residential property outside of Puerto Rico. If you answered "Yes" to any of the above, indicate whether 80% or more of the income was derived from:

- fishing, passengers or cargo transportation, or rental of vessels;
- passengers or cargo transportation, or rental of airships or automobiles, or
- property rental to unrelated persons of residential property outside Puerto Rico.

As a general rule, costs related to vessels, airships or residential property outside of Puerto Rico are not deductible under Section 1033.17 of the Code. Automobile expenses are limited, as indicated below in Part III of Operating Expenses and Other Costs.

#### 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.

#### Net Operating Losses from Previous Years.

On Schedule K Individual, Part II, line 7, Schedule L Individual, Part II, line 9, Schedule M Individual Part II, line 5, and Schedule

N Individual, Part II, line 4, you must include the carryover of net operating losses from previous years. On this line you may include the net loss from previous years operations carryover from your principal activity from which the income was derived. If there is a balance of said loss from the activity and **if it is your principal source of income**, said balance will be transferred to Part 1, lines 2I through 2L of the return, as applicable, or to lines 3I through 3L, Column B or C of Schedule CO Individual, if you choose the optional computation of tax. You may carry this loss against the 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 in the **INSTRUCTIONS TO COMPLETE THE LONG FORM RETURN: Part 1, 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 178-2000, 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 it in Part I of this Schedule, Act 178- 2000.

**Line 4** - Enter on this line the amount reported on line 5 (a) of Part III of the corresponding Informative Return (Form 480.60 S, 480.60 SE or 480.60 CI) by a partnership, special partnership or corporation of individuals engaged in trade or business. This constitutes the portion of the entity's net income attributable to the services provided by the partner or shareholder and not paid as wages or compensation for services. This amount may only be used to determine the amount of contribution to a qualified plan for the benefit of an individual ("Keogh"). Therefore, do not consider the total net income generated by the partnership, special partnership or corporation of individuals when making such calculation.

**Line 9** - 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 8 by the corresponding exemption percent granted, and enter the result on this line.

**Line 10** - If you derived a profit in the exploitation of the trade or business, transfer this amount to page 2, Part 1, line 2I of the return or line 3I, Column B or C of Schedule CO Individual, as applicable. If operations resulted in a loss, see full details on the **treatment of losses** of trade or business in the **INSTRUCTIONS FOR LONG FORM: Part 1, line 2 - Other Income (or Losses)**.





If the income is from the exploitation of Film Projects or Infrastructure Projects that meet the requirements of Act 362-1999 (rate of 7%), or derived from a business that has been granted a tax exemption decree under the provisions of Act 135-1997 (rate of 10%, 7%, 4%, 2% or other), or any other incentives law which gain is subject to a preferential rate, also transfer the total gain to the corresponding column of line 4 (i) of Schedule A2 Individual, in accordance to the applicable tax rate.

**Make sure that you indicated in Part I of this Schedule the applicable incentives act and the case or decree number that entitles you to the preferential rate.**

#### Schedule L Individual

**Line 6** - Enter on this line the amount reported on line 5(a) of Part III of the corresponding Informative Return (Form 480.60 S, 480.60 SE or 480.60 CI) by a partnership, special partnership or corporation of individuals engaged in the business of agriculture. This constitutes the portion of the entity's net income attributable to the services provided by the partner or shareholder and not paid as wages or compensation for services. This amount may only be used to determine the amount of contribution to a qualified plan for the benefit of an individual ("Keogh"). Therefore, do not consider the total net income generated by the partnership, special partnership or corporation of individuals when making such calculation.

#### Schedule M Individual

**Line 2** - Enter on this line the amount reported on line 5(a) of Part III of the corresponding Informative Return (Form 480.60 S, 480.60 SE or 480.60 CI) by a partnership, special partnership or corporation of individuals dedicated to the rendering of professional services or commission income. This constitutes the portion of the entity's net income attributable to the services provided by the partner or shareholder and not paid as wages or compensation for services. This amount may only be used to determine the amount of contribution to a qualified plan for the benefit of an individual ("Keogh"). Therefore, do not consider the total net income generated by the partnership, special partnership or corporation of individuals when making such calculation.

#### Schedule N Individual

If the rental income is derived from the lease of a residential New Construction Property or Qualified Residential Property, it is fully exempt under the provisions of Act 132-2010, as amended. This exemption applies from January 1, 2011 onwards until December 31, 2020, regardless of the date the contract is signed. You must include the income in the return, fill in the oval concerning Act 132-2010 on the top part of the Schedule and provide a detail of the physical location of the property. This exempt net income shall be transferred to Schedule IE Individual, Part II, line 22.

For more details, see Act 132-2010 and the corresponding regulations.

**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 a profit on the operation of the rental business, transfer this amount to page 2, Part 1, line 2L of the return or line 3L, Column B or C of Schedule CO Individual, as applicable. If operations resulted in a loss, see the full details on the **treatment of a loss** of trade or business in the **INSTRUCTIONS FOR LONG FORM: Part 1, line 2 - Other Income (or Losses)**.

If the income is derived from a business that has been granted a tax exemption decree under the provisions of Act 135-1997 (rate of 10%, 7%, 4%, 2% or other), or any other incentives act which profit is subject to a preferential rate, transfer also the total gain to the corresponding column of line 4(i) of Schedule A2 Individual, according to the applicable tax rate.

**Make sure that you indicated in Part I of this Schedule, the applicable incentives act and the case or decree number which entitles you to the preferential rate.**

#### 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.**

##### Wages, Commissions and Bonuses to Employees

**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. If you claim the Returning Heroes and Wounded Warriors work opportunity tax credit provided by the VOW to Hire Heroes Act of 2011 (Schedule B4 Individual), you must reduce from the deduction for salaries, the amount of the credit claimed on Schedule B4 Individual, Part I, line 2. Therefore, indicate in the parenthesis provided the total of salaries paid and on line (01) the deductible portion after reducing the total of salaries by the amount of credit claimed.

##### Payroll Expenses

Expenses paid to employees of the industry or business as fringe benefits, such as payments realized to cover health insurance premiums, employer contributions to retirement plans and qualified benefits plans for employees (cafeteria plans), are considered as admissible deductions for the determination of the net income subject to alternate basic tax, for being part of the compensation for such employees.

##### Medical or Hospitalization Insurance

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 a deduction for medical expenses.





**Contributions to Qualified Pension Plans**

The Code allows a deduction for contributions to qualified pension plans under Section 1081.01 of the Code. 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. Also, you must complete and submit with the return Form AS 6042.1 (Deduction for Contributions to Qualified Retirement Plans and on Certain Contributions).

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 or \$50,000, whichever is smaller. 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))	\$

**Professional Services**

This expense shall be allowed as a deduction for purposes of determining the net income subject to alternate basic tax, as long as it is duly reported in the corresponding Informative Returns and the applicable withholding provided by the Code has been made.

**Lease, Rent and Royalties Paid**

Among the deductions allowed there are those related to rent and other payments required as a condition to continue using or owning property that the taxpayer has not acquired, is not acquiring the title or in which does not have share. Payments of rents and royalties include, in addition to the ones realized for the use of tangible real or personal property, payments realized for intangible property, such as royalties, patents, franchises or licenses, when they are realized as a condition to continue using the intangible property in the industry or business. To deduct such expenses for purposes of determining the net income subject to alternate basic tax, they have to be duly reported in the corresponding Informative Return and the corresponding withholding provided by the Code has been made.

**Insurances**

Premiums paid when the insurance is an essential element for the service rendered or the industry, such as mal practice insurance and insurance for inventory or other real or personal property used in the industry or business, will be allowed as a deduction to determine the net income subject to alternate basic tax.

**Automobile and Other Motor Vehicle Expenses**

You may claim on line 12 of Schedule K, L or M Individual, or line 11 of Schedule N Individual, as applicable, a deduction based on

a standard mileage rate, for the expenses related to the use and maintenance of an automobile which are incurred to carry on an industry or business or for the production of income. Include on the mileage line the total miles used in the industry or business or for the production of income and multiply it by sixty cents (\$ 0.60).

The cost of automobile use and maintenance includes repairs, insurance, gasoline, oil and filter changes, cleaning, tires, annual license fees and other costs of a similar nature.

This expense does not include depreciation, rental payments on ordinary leases or financial lease which are claimed on line 11 of Schedules K, L and M Individual or on line 10 of Schedule N Individual, by including Schedule E. Also, do not include expenses related to the use of tolls or parking.

For these purposes, the term "automobile" include any motor vehicle manufactured to transit in public ways and designed for transporting people, but does not include the following:

- ✦ those used directly in the business of transporting passengers or property for which compensation or payment is made, such as limousines, taxis and public vehicles;
- ✦ funeral cars, flower carriages, buses, ambulances, motorcycles, trucks, vans and any other similar vehicle used primarily to transport cargo, and
- ✦ cars rented or held for rental by persons regularly engaged in the business of car leasing.

If you incurred expenses for vehicles which are not considered automobiles according to the above definition, you should claim them on line 13 of Schedules K, L and M Individual or on line 12 of Schedule N Individual.

For additional details, see Regulation No. 8299 of December 18, 2012.

For taxable year 2012, it will be allowed to claim the actual expenses incurred and paid in lieu of the deduction according to the standard mileage rate, as determined by the taxpayer.

**Federal Self-Employment Tax**

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 14, Part III of Schedules K, L and M Individual and on line 13, Part III of Schedule N Individual.

**Direct Essential Costs**

There shall be allowed as a deduction to determine the net income subject to alternate basic tax, any direct essential cost that constitutes an expense for the service rendered or the industry or business only if it is an essential cost of such service or industry. Among these expense items are:

1. Publishing and promotional expenses incurred by businesses engaged in the sale of consumption goods



- or services, including wholesale or retail stores or storages, restaurants and other similar businesses;
2. Interest on debts incurred for the acquisition of inventory or other real or personal property used in the industry or business;
  3. In the case of taxpayers under the accrual method, bad debts write-off from the sale of goods or services by the industry or business;
  4. Expenses for radio, newspaper or television advertising realized by a publishing agency, which are part of the cost for the service rendered; and
  5. Payments realized by travel agencies to airlines, hotels, cruises and other providers of the industry as part of the services provided by such agency.

It is important to point out that the Administrative Determination No. 12-08 of March 30, 2012 and Regulation No. 8329 of January 9, 2013, provides that the following expenses are not considered direct essential costs under any circumstance:

1. travel, meal and entertainment expenses;
2. representation or public relations expenses; and
3. lobbying expenses.

The deduction for direct essential costs shall be claimed on line 15, Part III of Schedules K, L, and M Individual or on line 14, Part III of Schedule N Individual. The taxpayer must include with the return a schedule detailing the nature and amount of the items claimed as a deduction for direct essential costs.

### Meal and Entertainment Expenses

It may be deducted up to 50% of the total amount for **meal and entertainment expenses** incurred or paid during the year. **However, said deduction cannot exceed 25% of the gross income.**

### Other Expenses

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.**

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 212-2002, as amended (Act 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 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 212 and the corresponding regulation.

### SCHEDULE O INDIVIDUAL - ALTERNATE BASIC TAX

Complete this Schedule if you have a net income subject to alternate basic tax of \$150,000 or more. If married filing separately or if you choose the optional computation of tax in the case of married individuals living together and filing a joint return, this limit is determined separately as if it were an individual taxpayer.



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 \$150,000 to \$250,000	10%
Over \$250,000, but not over \$500,000	15%
Over \$500,000	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 are determined separately as if it were an individual taxpayer.

For more details, refer to Regulation No. 8329 of January 9, 2013.

#### PART I – DETERMINATION OF NET INCOME SUBJECT TO ALTERNATE BASIC TAX

**Lines 2 through 5** - To determine the net income subject to alternate basic tax there are only certain deductions allowed related to the industry or business which are claimed on Schedules K, L, M and N Individual. These deductions are previously identified in those Schedules. Therefore, in these lines it is necessary to add the non-allowable deductions to determine the net income subject to alternate basic tax. Transfer from the applicable Schedules the line identified. See Section 1021.02(a)(2)(A)(iii) the Code and the corresponding regulation.

**Line 6** - Enter on this line the total amount of deductions allowed by special acts that have not been considered in the adjustment of lines 2 through 5. For example, 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 212-2002, as amended.

**Line 7** - For purposes of the alternate basic tax, for the taxable years 2009 and 2010, it is required that a partner's share in the profit or loss from a special partnership 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 for those taxable years 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 to determine the net income subject to alternate basic tax must be included on this line.

This adjustment is no longer required under the Code. Nevertheless, for those taxpayers who have made this

adjustment in 2009 and/or 2010, this line is provided to avoid the duplication of the income that was already recognized in those taxable years for purposes of the alternate basic tax, at the moment in which the income is recognized by the special partnership according to the accounting method that was not the percentage of completion.

**Lines 8 through 11** – Transfer to these lines the distributable share in the adjustments for purposes of the alternate basic tax of flow-through entities, according to the identified line of Forms 480.60 S, 480.60 SE, 480.60 CI and 480.60 F.

**Line 12** – Enter the total amount of exclusions and exemptions that are not derived from Subtitle A of the Code, even if they are granted by special laws, except those provided by:

- ☞ Act 225-1995, as amended, known as the Puerto Rico Agricultural Incentives Act;
- ☞ Act 73-2008, as amended, known as the Economic Incentives for the Development of Puerto Rico Act or any other previous or successor law of a similar nature;
- ☞ Act 83-2010, known as the Puerto Rico Green Energy Incentives Act or any other previous or successor law of a similar nature; or
- ☞ Act 78-1993, as amended, known as the Puerto Rico Tourism Development Act of 1993, or any successor law, including the Puerto Rico Tourism Development Act of 2010.

To determine the exclusions and exemptions to the alternate basic tax (Column 2) on Schedule IE Individual, does not consider the income exempt or excluded by the above laws.

Transfer to this line the amount from line 2 of Part III of Schedule IE Individual.

**Line 14** - To determine the net income subject to alternate basic tax, it is allowed to reduce from the same the deductions provided under Sections 1033.15 and 1033.16 of the Code and the allowances for personal exemption and exemption for dependents provided by Section 1033.18 of the Code. Transfer from Part 2, line 11 of the return or from line 13 of Schedule CO Individual, according to the corresponding column, the total applicable deductions to individuals, special deduction, personal exemption and exemption for dependents.

#### PART II - ALTERNATE BASIC TAX COMPUTATION

**Line 6** - To determine the alternate basic tax, you may claim the credit for taxes paid to the United States, its possessions and foreign countries with certain adjustments. Therefore, to determine the credit to be claim on this line it is necessary to recalculate the credit determined on Schedule C Individual for the regular tax (line 3 of Part II of this Schedule) substituting the tax determined by the alternate basic tax and the net income by the net income subject to alternate basic tax.

For details, see the instructions for Schedule C Individual. It is necessary to identify the Schedule C Individual as “computed for the alternate basic tax” on the superior part of it and that you submit both Schedules C Individual with your return.



## SCHEDULE P INDIVIDUAL - GRADUAL ADJUSTMENT

In the case of taxpayers whose net taxable income is over \$200,000, the Code provides for a gradual adjustment to the tax rates lower than 33% and the personal exemption and exemption for dependents. If married filing separately or if you choose the optional computation of tax in the case of married persons living together and filing a joint return, this limit is determined separately as if it were an individual taxpayer.

If the net taxable income in Part 2, line 12 of the return is over \$200,000 or line 14, Column B or C of Schedule CO Individual is over \$200,000, it will be subject to this adjustment.

## SCHEDULE R INDIVIDUAL - PARTNERSHIPS, SPECIAL PARTNERSHIPS AND CORPORATIONS OF INDIVIDUALS

Complete Schedule R Individual, if you are a partner of one or more partnerships or special partnerships or a shareholder of one or more corporations of individuals. **If you have share in more than three partnerships and special partnerships or in more than three corporations of individuals, you must also complete and submit with the return the amount of Schedules R1 Individual that are necessary.**

If you choose the optional computation of tax in the case of married persons living together and filing a joint return, you must complete and include with your return a **Schedule R Individual for each spouse that has participation in any of these entities**. Fill in completely the oval that identifies the taxpayer or his spouse, respectively.

Part I of Schedule R Individual is used every year to determine the taxpayer's adjusted basis in each partnership or special partnership. Part II of this Schedule is used to determine the taxpayer distributive share on the net profit or loss of one or more partnerships or special partnerships, including those losses carried over from previous years. Part II provides for the reduction of losses from the distributive share of earnings and profits attributable to the partner during the year, between the different partnerships and special partnerships.

Part III of Schedule R is used every year to determine the taxpayer's adjusted basis in each corporation of individuals. Part IV of this Schedule is used to determine the taxpayer distributive share on the net profit or loss of one or more corporations of individuals, including those losses carried over from previous years. Part IV provides for the reduction of losses from the distributive share of earnings and profits attributable to the stockholder during the year, between the different corporations of individuals.

Part V provides for the losses of partnerships and special partnerships be reduced by the distributive share of earnings and profits attributable to corporations of individuals or vice versa.

You must complete this Schedule annually irrespective of the fact that the partnership, special partnership or corporation of individuals have derived gains or losses.

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

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

The basis of a partner's share from a partnership or 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 the 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 partnership or 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 Individual 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 profit attributable to your share on the income from agriculture earned by the partnership or special partnership, which is tax exempt under Section 1033.12 of the Code.

(f) Enter other income or profit like for example, the distributable share on the dividends and interest received by the partnership or special partnership.

### Line 3 - Basis reduction

(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 partnership or special partnership's loss included on the income tax return filed on April 15 of the 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) and 8 of Part II and compare with line 3 of Part V from Schedule R Individual included on previous year return. In order to add lines 5(c) and 8 use the parenthesis for line 8, if the excess is a loss. If line 3 of Part V is zero or more than zero, add lines 5(c), 8 and 9 of Part II. For example, if line 5(c) of Part II is \$12,000, line 8 of Part II (\$2,000) and line 9 of Part II \$2,000, the result will be \$12,000 (\$12,000 + (\$2,000) + \$2,000). If line 3 of Part V is less than zero, you must add lines 5(c) and 8 of





Part II and subtract the corresponding share of the available loss of the previous year and not used, reflected on line 3 of Part V.

- (b) The distributable share on the partnership or special partnership's capital loss.
- (c) Distributions made to the partner by the partnership or special partnership, whether in cash or in property, including tax exempt income.
- (d) The amount claimed as credit against the income tax on the previous taxable year for investments made in a partnerships or 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 partnership or special partnership's activities.
- (e) The amount claimed as credit against income tax for withholding of tax at source from the distributable share made to a resident partner (30%) or to a nonresident alien partner (29%).
- (f) Any expense from the partnership or 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.
- (h) **Only in the case of partnerships**, donations contributed to eligible entities

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

## PART II - DETERMINATION OF NET INCOME OR LOSS IN ONE OR MORE SPECIAL PARTNERSHIPS OR PARTNERSHIPS

For taxable years beginning after December 31, 2010, if the special partnership or partnership derived losses, you may not claim them as a deduction against other income other than income derived from other special partnerships, partnerships or corporation of individuals. 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 is claimed.

The adjusted basis limitation will be determined for each one of the special partnerships or partnerships in which the partner invests.

**Line 5(a)** - Enter the amount distributed from the partner's loss in accordance to his/her share percentage in the partnership or special partnership. This amount is informed to the partner on Form 480.60 SE or 480.60 S, respectively.

**Line 5(b)** - Enter the carryover losses which were not claimed in previous years due to the limitation. For the year 2012, this amount must be the same as the one shown on line 3, Part V of

Schedule R Individual included on the income tax return of 2011 taxable year. If a partner possesses shares in losses from more than one partnership or 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 partnership or 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 partnership or special partnership in proportion to your share, to increase your adjusted basis, only to claim losses of the partnership or special partnership from this activity.

**Line 7** - Enter the partner's distributable share on the income and profits derived from the partnership or special partnership during the year. This amount is reflected on Form 480.60 SE or 480.60 S, respectively.

**Line 8** - If the amount on this line is a loss, place it between parentheses.

**Line 9** - Enter the smaller of the amounts on lines 6(c) and 8. This will be the maximum admissible amount to which the partner is entitled to claim, during this taxable year, against income derived from other partnerships or corporation of individuals.

## PART III - ADJUSTED BASIS DETERMINATION OF A STOCKHOLDER IN ONE OR MORE CORPORATIONS OF INDIVIDUALS

**Line 1** - Enter the adjusted basis of the corporation of individuals at the close of the previous taxable year.

The basis of a stockholder's share from a corporation of individuals 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 taxable year of the determination and others included on previous year income tax return.

### Line 2 - Basis increase

(a) Enter the stockholder's distributable share on the 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 corporation of individuals' 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).

(b) through (d) These entries are from the current taxable year.

(e) Enter the proportion of income or profit attributable to your share on the income from agriculture earned by the



corporation of individuals, which is tax exempt under Section 1033.12 of the Code.

- (f) Enter other income or profit like for example, the distributable share on the dividends and interest received by the corporation of individuals.

### Line 3 - Basis reduction

- (a) Enter the distributable share on the loss attributable to the stockholder in the previous year.

For example, in case of a taxpayer with a calendar taxable year, enter the total distributable share on the corporation of individuals's loss included on the income tax return filed on April 15 of the previous year (or later if you requested an extension of time to file your return). To determine the total loss claimed in the previous year tax returns, refer to instructions of Part I, line 3(a) of this Schedule.

- (b) The distributable share on the corporation of individual's capital loss.
- (c) Distributions made to the stockholder by the corporation of individual, whether in cash or in property, including tax exempt income.
- (d) The amount claimed as credit against the income tax on the previous taxable year for investments made in a corporation of individuals 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 stockholders related to the corporation of individual's activities.
- (e) The amount claimed as credit against income tax for withholding of tax at source from the distributable share made to a resident stockholder (30%) or to a nonresident alien stockholder (33%).
- (f) Any expense from the corporation of individuals 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 IV - DETERMINATION OF NET INCOME OR LOSS IN ONE OR MORE CORPORATIONS OF INDIVIDUALS

The adjusted basis limitation will be determined for each one of the corporation of individuals in which the stockholder invests.

**Line 5(a)** - Enter the amount distributed from the stockholder's loss in accordance to his/her share percentage in the corporation of individuals. This amount is informed to the stockholder on Form 480.60 CI.

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

**Line 6** - Enter on this line the amount determined in Part I, line 4. If the corporation of individuals 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 corporation of individuals in proportion to your share, to increase your adjusted basis, only to claim losses of the corporation of individuals from this activity.

**Line 7** - Enter the stockholder's distributable share on the income and profits derived from the corporation of individuals during the year. This amount is reflected on Form 480.60 CI.

**Line 8** - If the amount on this line is a loss, place it between parentheses.

**Line 9** - Enter the smaller of the amounts on lines 6(c) and 8. This will be the maximum admissible amount to which the stockholder is entitled to claim, during this taxable year, against income derived from other special partnerships or corporation of individuals.

### PART V - DISTRIBUTABLE SHARE OF BENEFITS FROM PARTENRSHIPS, SPECIAL PARTNERSHIPS AND CORPORATIONS OF INDIVIDUALS

**Line 1** - Transfer to this line the net profit or loss determined in Part II related to all partnerships and special partnerships for which you have an interest.

**Line 2** - Transfer to this line the net profit or loss determined in Part IV related to all corporation of individuals for which you have an interest.

**Line 3** - Combine the profits and losses from partnerships, special partnerships and corporations of individuals.

If the result is a **net profit**, transfer the amount to Part 1, line 20 of page 2 of the return or to Schedule CO Individual, line 30, Column B or C, as applicable.

If the result is a **net loss**, it is not deductible but you may carry it for future years. The balance of the carry forward loss is attributed proportionally to the loss in each of the entities. The allocation is done using as a factor the adjusted basis of the partner or stockholder interest in each of the entities at the close of the taxable year.

### SCHEDULE R1 INDIVIDUAL - PARTNERSHIPS, SPECIAL PARTNERSHIPS AND CORPORATIONS OF INDIVIDUALS (COMPLEMENTARY)

Complete Schedule R1 Individual, if you are partner of more than three partnerships or special partnerships or stockholder of more than three corporations of individuals. As Schedule R Individual, Schedule R1 Individual is used each year to determine the adjusted basis and the net profit on the taxpayer's share in each partnership, special partnership or corporation of individual, including the loss carryover from previous years.



Use the amount of Schedules R1 Individual needed. For additional information, see instructions of Schedule R Individual.

## 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.

### PART I – DETERMINATION OF THE MINIMUM AMOUNT OF ESTIMATED TAX TO PAY

**Line 2** – Include the total of withholdings and credits provided by the Code or special laws for the taxable year, including the non refunded tax paid in excess corresponding to the previous taxable year. Add line 20, Part II of Schedule B Individual, lines 2 through 19, Part III of Schedule B Individual and lines 16, 23A, 23B y 23D through 23 I of Part 3, page 2 of the return.

**Line 3** – If the amount of estimated tax to be paid is \$1,000 or less, you were not required to pay estimated tax, thus, do not complete this Schedule.

**Line 4** – If you are a farmer and elected the provisions under Section 1061.22 of the Code, then multiply line 1 by 66 2/3%.

**Line 5** – Enter the amount indicated on lines 19 and 20, Part 3, of the preceding taxable year's return.

### PART II – ADDITION TO THE TAX FOR FAILURE TO PAY

#### 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 15th 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.

**Line 8** – If the obligation to pay the estimated tax was met **for the first time** before the first day of the fourth month of the taxable year, enter in each one of the columns 25% of line 7. If the obligation was met **for the first time** after the last day of the third month and before the first day of the sixth month of the taxable year, enter in Columns (b), (c) and (d) 33% of line 7. If the obligation was met **for the first time** after the last day of the fifth month and before the first day of the ninth month of the taxable year, enter in Columns (c) and (d) 50% of line 7. If the obligation was met **for the first time** after the last day of the eighth month, enter in Column (d) 100% of line 7. If there is any change in the computation of the estimated tax, enter the amount of the installment according with the corresponding change.

**Line 9** – Enter in Column (a) the amount of estimated tax paid not later than April 15 of the taxable year (the 15th day of the fourth month of the taxable year if you have a fiscal year); in Column (b), the estimated tax paid after April 15 of the taxable year (the 15th day of the fourth month of the taxable year if you have a fiscal year) and not later than June 15 of the taxable

year (the 15th day of the sixth month of the taxable year if you have a fiscal year); in Column (c), the estimated tax paid after June 15 of the taxable year (the 15th day of the sixth month of the taxable year if you have a fiscal year) and not later than September 15 of the taxable year (the 15th day of the ninth month of the taxable year if you have a fiscal year); and in Column (d), the estimated tax paid after September 15 of the taxable year (the 15th day of the ninth month of the taxable year if you have a fiscal year) and not later than January 15 following the taxable year (the 15th day of the first month following the taxable year if you have a fiscal year).

**Line 10** – If various payments were made in the periods described in the instructions for line 9, indicate the amount and date of the payments.

**Line 11** – To determine the amounts to be entered in Columns (b), (c) and (d), you must complete lines 11 through 17 of previous column.

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.

#### Section B – Penalty

**Line 18** – 10% of the estimated tax of each installment due but not paid will be added to the tax.

**Line 19** – The amount determined on this line reflects the proportion of the penalty attributable to the installments of estimated tax paid after the due date, if applicable.

## OBLIGATION TO PAY ESTIMATED TAX

### IMPORTANT NOTICE

**Starting with taxable year 2010, the requirement to file an Estimated Tax Declaration (Form 480-E) was eliminated. However, the obligation to make the estimated tax payments is still required.**

### WHO HAS THE OBLIGATION TO PAY ESTIMATED TAX?

Any person whose estimated tax for any taxable year is greater than \$ 1,000, except the following:

- those whose gross income was derived solely from wages or pensions subject to withholding tax at source;
- those whose gross income comes solely from remuneration received for services rendered to the Government of the United States subject to withholding tax at source for purposes of the United States Government;
- those whose gross income comes solely from remuneration for services performed in agricultural labor not subject to withholding tax at source under Section 1062.01 of the Code, or



- individuals who in addition to the income listed above receive less than \$ 5,000 in income from other sources.

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:

- 1st installment: 15th day of the fourth month
- 2nd installment: 15th day of the sixth month
- 3rd installment: 15th day of the ninth month
- 4th 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:

- 1st installment: 15th day of the sixth month
- 2nd installment: 15th day of the ninth month
- 3rd 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:

- 1st installment: 15th day of the ninth month
- 2nd 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 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. New taxpayers or those 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. You can also make your payments online without the need of a coupon by using the "Payments Online Services" ("Colecturía Virtual"). For additional information, please call (787) 722-0216.

The estimated tax payments will be made online by using the Payments Online Services, in the participating banks (if you have the pre-printed coupon), 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 on said date, it will be considered as if the estimated tax payment would have been made 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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TAKE OFF AND USE THIS LABEL ON YOUR RETURN IF THE DATA IS CORRECT.  
IF THERE IS ANY INCORRECT INFORMATION ON THE LABEL, DISCARD IT AND  
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.