



**INFORMATIVE INCOME TAX RETURN  
PASS-THROUGH ENTITY  
FORM 480.20(EC)**

**GENERAL INSTRUCTIONS**

**WHO MUST FILE THIS RETURN?**

Every partnership, corporation or limited liability company engaged in trade or business in Puerto Rico that has a Partnership, Special Partnership or Corporation of Individuals election currently in effect must file a return to report the income earned during the corresponding taxable year.

For purposes of this return, the terms partnership and partner, special partnership and partner, and corporation of individuals and stockholder include a limited liability company and any of its members (if they are under the provisions of Chapter 7 of Subtitle A of the Puerto Rico Internal Revenue Code of 2011, as amended (hereinafter "Code")), a corporation or a limited liability company and any of its stockholders or members (if they are under the benefits of special partnership), or a partnership or to a limited liability company and any of its partners or members (if they are under the benefits of a corporation of individuals).

**WHEN AND WHERE IT MUST BE FILED?**

This return must be filed no later than the 15th day of the third month following the closing of the entity's taxable year. For example, a partnership, special partnership or corporation of individuals (hereinafter "Entity") which accounting year is a calendar year (ending on December 31, 2017) must file the return no later than March 15, 2018.

The return must be filed in the Department of the Treasury, located at 10 Paseo Covadonga, Intendente Ramírez Building in Old San Juan, or sent by mail to the following address:

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

It may also be delivered at the Internal Revenue Collections Office of your municipality

**AUTOMATIC EXTENSION OF TIME TO FILE THE RETURN**

A three (3) month automatic extension of time to file the return will be granted if it is requested no later than the due date to file the return. This will be done using Form AS 2644.

**An extension of time to file the return does not extend the time to the partners, stockholders or members (hereinafter "Owners") for the payment of the tax corresponding to the distributable share of the partner, stockholder or member in the Entity.**

**COLUMN OF CENTS**

While completing the return, the column of cents will not be used. That way we can expedite its processing. **It is important to remind you that it is not about rounding off, but eliminating the cents. See the following example:**

\$480.90 = \$480

\$475.25 = \$475

**TAXPAYER'S ASSISTANCE**

For additional information on the technical content of these instructions or to clarify any doubts, please call the General Consulting Section at **(787) 622-0123 option 8**.

**INFORMATIVE RETURN**

Every partnership, special partnership or corporation of individuals must complete for each partner, stockholder or member an Informative Return – Pass-Through Entity (Form 480.60 EC) and report the distributable share of each owner on the income and expenses, gains or losses and credits generated by the entity during the taxable year. According to Internal Revenue Circular Letter No. 16-04, these Informative Returns must be filed only by electronic means. Copy of these electronically filed informative returns must be included with the filing of Form 480.20(EC).

**OTHER FORMS**

• **Composite Return Partners and Individual Members of Partnerships and Limited Liability Companies**

If it is a partnership owned by more than one nonresident individual partner which only income from Puerto Rico source comes from its distributable share in a partnership engaged in industry or business in Puerto Rico, the partnership can complete Form 482.0(C). For more information, refer to Administrative Determination No. 12-07 of March 14, 2012 (Spanish only).

• **Partnership Informative Income Tax Return - Composite**

If it is a partnership owned by one or more pass-through entities that do not operate in Puerto Rico and do not earn income from Puerto Rico sources other than the income received from the partnership that operates in Puerto Rico, the partnership can file Form 480.10(SC) and the combined Informative Returns – Pass-Through Entity (Form 480.60 EC), subject to the requirements established in Administrative Determination No. 12-07 of March 14, 2012 (Spanish only).

## INSTRUCTIONS TO COMPLETE THE RETURN

### HEADING OF THE RETURN

Indicate by a mark ("✓" or "X") the type of entity for which this return is filed (partnership, special partnership or corporation of individuals).

If the taxable year of the entity is a calendar year (December 31), there is no need to enter the date on which the taxable year begins and ends, only enter the corresponding year. Otherwise, if it is a fiscal year or a 52-53 week year, you must enter the date on which the taxable year begins and ends in the space provided in the entity's return.

Enter in the corresponding space the name, address, employer identification number and merchant's registration number of the entity. **Your employer identification number is required to process the return.**

Enter in the corresponding box the complete address where the business or principal office is located, type of business, as well as the date and place created or incorporated.

Enter in the corresponding box the number of Forms 480.60 EC (Informative Return – Pass-Through Entity) included with the return. A copy of Forms 480.60 EC filed electronically and provided to each owner must be included with the return.

In the case of partnerships, indicate if this is the first return filed as a partnership. If that is the case, you must submit with the return stamped copy of Form AS 6045. Special partnerships and corporations of Individuals must indicate the date of the election to operate as such.

Also indicate if the entity is member of a group of related entities.

### PART I – TYPE OF EXEMPTION

#### Line 1 - Indicate if the entity has a tax exemption decree

Indicate if the entity has an exemption decree under any of the following acts: Tourism Incentives Act of 1983, as amended (Act 52 of 1983), Puerto Rico Tourism Development Act of 1993 (Act 78-1993), Puerto Rico Tourism Development Act of 2010, as amended (Act 74-2010), Puerto Rico Agricultural Tax Incentives Act, as amended (Act 225-1995), Public and Private Sector Co-partnership for New Housing Operation Act (Act 47 of 1987), Puerto Rico Green Energy Incentives Act (Act 83-2010), Film Industry Development Act (Act 362-1999), Economic Incentives for the Puerto Rico Film Industry Act (Act 27-2011), Tax Incentives Act of 1998, as amended (Act 135-1997), Economic Incentives for the Development of Puerto Rico Act (Act 73-2008), Real Property Market Stimulus Act (Act 132-2010), Municipal Economic and Tourism Development Incentives Act (Act 118-2010), Act to Promote the Exportation of Services (Act 20-2012) or any other previous or subsequent act of similar nature.

#### Line 2 – Indicate if the entity chose not to apply the exemption for this year

Indicate if the entity chose not to apply the exemption for the taxable year.

If the entity chose to apply the exemption for the year, it must complete the Schedule corresponding to the current exemption decree. The following Schedules will be used to determine the net income covered by an exemption decree:

- Schedule L Pass-Through Entity – Partially Exempt Income

- Schedule V Pass-Through Entity – Determination of Net Income and Income Tax for Exempt Businesses under Act 135-1997
- Schedule W Pass-Through Entity – Determination of Net Income and Income Tax for Film Entity under Act 362-1999 or Act 27-2011
- Schedule X Pass-Through Entity – Determination of Net Income and Income Tax for Exempt Businesses under Act 73-2008
- Schedule Y Pass-Through Entity – Determination of Net Income and Income Tax for Exempt Businesses under Act 83-2010
- Schedule Z Pass-Through Entity – Determination of Net Income and Income Tax for Exempt Businesses under Act 118-2010, Act 120-2014 and Other Special Acts
- Schedule AA Pass-Through Entity – Determination of Net Income and Income Tax for Exempt Businesses under Act 20-2012

Said Schedules are available at our website [www.hacienda.pr.gov](http://www.hacienda.pr.gov) under the "Pass-Through Entities" topic in the returns area located in the Merchants/Income Tax Section.

#### Line 3 – Indicate if the entity is a stockholder of other entity with an exemption decree currently in effect

Indicate if the entity is a stockholder of other entity with an exemption decree currently in effect.

Enter the name and employer identification number of said entity. If it is more than one, submit detail.

### PART II – DISTRIBUTABLE SHARE PER CATEGORY

Enter the amount derived for each activity and the corresponding tax withheld, if any.

#### Line 1 - Net long-term gain (or loss) on sale or exchange of capital assets

Enter the gain or loss derived from the sale or exchange of capital assets held by the entity for more than one (1) year. You must complete Schedule D Pass-Through Entity, Part II, line 10 and transfer the total to this line.

#### Line 2 - Net short-term gain (or loss) on sale or exchange of capital assets

Enter the gain or loss derived from the sale or exchange of capital assets held by the entity for one (1) year or less. You must complete Schedule D Pass-Through Entity, Part I, line 5 and transfer the total to this line.

#### Line 3 - Net gain (or loss) on sale or exchange of substantially all assets dedicated to an activity under Act 78-1993

Enter the gain or loss derived from the sale or exchange of substantially all assets dedicated to an activity under Act 78-1993. You must complete Schedule D Pass-Through Entity, Part VI, line 16 and transfer the total to this line.

#### Line 4 - Net gain (or loss) on sale or exchange of property used in the business

Enter the gain or loss derived from the sale or exchange of property used in the business other than capital assets. You must complete Schedule D Pass-Through Entity, Part V, line 15 and transfer the total to this line.

**Line 5 - Net income (or loss) from the entity's trade or business**

Enter the net income or net loss from the operations of eligible activities. Do not include the gains or losses from lines 1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16 and 18 of this Part II. You must complete Part VIII of the return and transfer to this line the total of line 34 to the Column of "Amount" and the total of line 35 to the Column of "Tax Withheld".

In the case of special partnerships and corporations of individuals, the amount reflected on this line is used when the taxpayer elects to treat certain items as ordinary income (Section 1114.06(b) or 1115.04(c) of the Puerto Rico Internal Revenue Code of 2011, as amended (Code)) and by nonresident alien shareholders or stockholders.

You can include on this line the distributable share received directly by a Qualified Physician on the net income of a Designated Entity from Professional Medical Services from the effective date of the Tax Exemption Decree granted under Act 14-2017, as amended (Act 14-2017).

For purposes of Act 14-2017, the following terms are defined as:

- a) **Qualified Physician** - an individual resident of Puerto Rico or who will establish his/her residence in Puerto Rico within the term granted in Act 14-2017, duly admitted to the practice of medicine, podiatry, any odontology specialty or is a dental surgeon in Puerto Rico, and who practices his/her profession on a full time basis. It also includes individuals who are studying their medical residency as part of a duly accredited program.
- b) **Medical Services Designated Entity** - any partnership, corporation or limited liability company authorized to do businesses in Puerto Rico, that is taxed as a partnership or corporation of individuals under the Code, provides Professional Medical Services and is directly owned, in whole or in part, by a Qualified Physician.
- c) **Eligible Income** - the net income from Professional Medical Services rendered in Puerto Rico, determined according to the Code, from the Decree's effective date. The Eligible Income includes the distributable share received directly by a Concessionaire in the Designated Entity net income from Professional Medical Services starting on the Decree's effective date.

Do not include on this line that part of the distributable share from operations covered under a decree granted under Act 14-2017 which are reported on Schedule Z Pass-Through Entity.

Enter on line 5(a) the share of the income included on line 5 attributable to services rendered by the owners not reported as salaries on Form 499R-2/W-2PPR or as compensation for services rendered on Form 480.6A or 480.6B.

Include on this line the share of the eligible income considered as compensation for services rendered paid to the Qualified Physician who has a Decree under Act 14-2017.

Enter on line 5(b) the result of the amount on line 5 less the amount on line 5(a).

Include on this line the amount of distributable share attributed to a Qualified Physician with a Decree granted under Act 14-2017.

**Line 6 - Net income (or loss) from partially exempt income**

Enter on this line the sum of the net operating income or losses covered under an exemption decree. Add line 5, Part I of all Schedules L Pass-Through Entity included in the return.

**Line 7 - Net income (or loss) from income subject to a preferential rate**

Enter on this line the sum of all net operating income or losses covered under an exemption decree subject to a fixed tax rate, excluding dividends, long-term capital gains and interest income on deposits in financial institutions.

Enter in the first Column the amount of net taxable income and in the second Column the tax at preferential rate determined according to the exemption decree granted to the entity. You must include on this line the income and tax determined and deposited by the pass-through entity on behalf of its owners, as computed on Schedules V, W, X, Y, Z and AA Pass-Through Entity and which is summarized in Part IX, line 7.

You must complete Part IX of the return and transfer to this line the total of line 7, as applicable.

**Line 8 - Eligible distribution of dividends from corporations**

The owners may claim separately in their returns the dividends received by the entity from eligible dividend distributions, as defined in Section 1023.06 of the Code, according to their distributable share in such dividends, along with the portion of tax withheld. Otherwise, at the election of the partner or stockholder, said income will be included in the special partnership or corporation of individuals income to determine its net income or loss, as provided in Sections 1114.06(b) and 1115.04(c) of the Code, respectively.

Enter on this line the total eligible dividend distributions subject to a 15% income tax received by the entity, along with the 15% tax withheld.

**Line 9 - Distribution of dividends subject to \_\_\_\_% withholding**

Enter on this line the total dividend distributions subject to a preferential rate other than 15% under special legislation, along with the corresponding tax withheld.

Specify the corresponding applicable rate in the space provided for this purpose.

**Line 10 - Interest income from deposits in financial institutions subject to withholding**

Enter the income earned from interest on investments or deposits in cooperatives, savings associations authorized by the Federal Government or by the Government of Puerto Rico, commercial and mutual banks or in banking organizations established in Puerto Rico, as well as the 10% amount withheld, if the election was made.

**Line 11 - Interest income from deposits in financial institutions not subject to withholding**

Enter the taxable interest income received or credited that were not subject to withholding.

**Line 12 - Other interests subject to withholding at 10% rate**

Enter the income from other taxable interests received or credited that were subject to the 10% preferential rate.

**Line 13 - Other interests subject to \_\_\_\_% withholding**

Enter the income from other taxable interests received or credited that were subject to a fixed special tax rate not specified before, as well as the amount withheld.

Specify the corresponding applicable rate in the space provided for this purpose.

**Line 14 - Distributable share on gain from a partnership or special partnership owned by the entity**

The entity can be a partner in a special partnership or other partnership ("inferior partnership" in cases of partnerships and special partnerships). Enter on this line the distributable share on the income of the inferior partnership or special partnership attributable to the entity, as reported on line 5 of Form 480.60 EC received from the inferior partnership.

**Line 15 - Distributable share on loss from a partnership or special partnership owned by the entity**

The entity can be a partner in a special partnership or other partnership (inferior partnership). Enter on this line the distributable share on the loss of the inferior partnership or special partnership attributable to the entity, as reported on line 5 of Form 480.60 EC received from the inferior partnership.

**Line 16 - Others**

Enter the total of other income received by the entity for which a specific item is not provided on the preceding lines. If this line includes income from different concepts, you must include a schedule showing a breakdown of the same as well as any withholding at source made on such income.

**Line 18 - Exempt income (Schedule IE Pass-Through Entity)**

Enter the total sum of exempt income from Schedule IE Pass-Through Entity, Part II, line 22. You must include with the return Schedule IE Pass-Through Entity duly completed.

**Line 19 - Exempt income subject to alternate basic tax (Schedule IE Pass-Through Entity)**

You must determine which of the income reported on Schedule IE Pass-Through Entity is subject to alternate basic tax and enter this amount on this line. You must include with the return Schedule IE Pass-Through Entity duly completed. Also, you must submit a schedule showing a breakdown of the income subject to alternate basic tax included on this line.

**Line 20 - Adjustment for purposes of the alternate basic tax**

Enter here any adjustment to the income from the entity that, at the entity's individual owner level, are considered income subject to alternate basic tax, such as nondeductible expenses for purposes of the alternate basic tax at individual owner level (in the case of partnerships and corporations of individuals) or the adjustment for the determination of the share in the profit or loss from certain special partnerships under the percentage of completion method (in the case of special partnerships). Refer to Regulation No. 8329 of January 9, 2013.

**Line 21 - Adjustment for purposes of the alternative minimum tax**

This line applies only to partnerships and special partnerships.

Enter here any adjustment to the income from the entity that, at the entity's corporate partner level, are considered income subject to alternative minimum tax.

**You must submit a schedule detailing the nature of each item included on this line with the amount of each adjustment per item.** Please refer to Schedule A Corporation and its respective instructions to identify the adjustments subject to alternative minimum tax.

**Line 22 - Charitable contributions**

Only partnerships must indicate charitable contributions on this line.

Enter here the total charitable contributions paid during the taxable year to a nonprofit 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 to:

- the Government 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 Puerto Rican Fund for the Financing of Cultural Affairs of Puerto Rico;
- the Puerto Rico Communitarian Foundation;
- the Corporation of the Symphonic Orchestra of Puerto Rico; and
- the Fund for Services Against Remediable Catastrophic Illnesses.

Qualified entities must have an Administrative Determination issued by the Secretary that accredits them as nonprofit organizations under the provisions of Section 1101.01 of the Code. The Secretary will publish a list of nonprofit entities qualified to receive the contributions.

The contributions made to a municipality that realizes an activity or event of cultural or historic value, as certified by the Institute of Puerto Rican Culture or the Cultural Center of each municipality, or that makes possible the realization of any cultural or historic work, may be claimed as charitable contributions when the amount of such contributions is \$50,000 or more, and are made in connection with the celebration of the centennial foundation of the municipality. The total of said contributions is not subject to the limitations provided by the Code. Likewise, any contribution made to the Puerto Rico Public Broadcasting Corporation, as established in Article 4 of Act 216-1996, as amended, will not be subject to the limits established by the Code. If these types of contributions are included on this line, you must submit a schedule itemizing those contributions.

**Line 23 - Volume of business**

Enter here the total volume of business of the entity in order to determine the requirement to file financial statements.

According to the provisions of Section 1061.15 of the Code, the term "volume of business" means gross income, as defined in Section 1031.01 of the Code, except that in the case of gains or income described in Section 1031.01(a)(2)(A) of the Code, it will include the total amount derived from the sale of goods or products without deducting the cost of such goods or products sold.

**SIGNATURE AND OATH OF THE RETURN**

The return must be signed and sworn by a managing partner or principal officer of the entity for which this Pass-Through Entity Informative Income Tax Return is prepared.



**SIGNATURE OF THE RETURN BY THE SPECIALISTS**

The Tax Return Specialist must declare under penalty of perjury that he/she examined the return and to the best of his/her knowledge and belief, the return is correct and complete.

If the return is prepared by an accounting firm duly registered as a specialist, it must include the registration number and be signed by the authorized person.

**Indicate if you paid for the preparation of the return and make sure that the specialist signs the return and includes 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 ANY OTHER REQUIREMENTS ESTABLISHED BY THE CODE.

**PART III - NONRESIDENT ALIENS PARTNERS OR STOCKHOLDERS****Line 1 – Distributable share on net income from the special partnership or corporation of individuals**

Enter the total distributable share of the nonresident aliens partners or stockholders in the net income of a special partnership or corporation of individuals and the corresponding withholding.

**PART IV - CREDITS**

On March 7, 2017, the Financial Advisory Authority and Fiscal Agency of Puerto Rico ("AAFAF", for its Spanish acronym) issued Administrative Order No. OA-2017-01 by which it ordered the Secretary of Treasury ("Secretary") to carry out an inventory of the tax credits granted and to require the holders of tax credits to report the amount granted of said credits, in the manner that the Secretary establishes for said purposes. The administrative order also establishes that, any credit holder that does not show evidence issued by the Secretary of compliance with the information requirement, will not be able to claim said tax credits. Subsequently, AAFAF has issued several resolutions regarding the use and availability of tax credits.

In turn, on April 20, 2017, the Department of the Treasury ("Department") issued the Internal Revenue Informative Bulletin No. 17-08 to notify that the requirement to carry out the inventory of tax credits would be met by electronic filing Form 480.71.1 - Informative Return for Tax Credits Holders ("Form 480.71.1"). For these purposes, the Department established that the requirement imposed by AAFAF to submit evidence of compliance with the information requirement in order to claim the tax credits, would be met by electronic filing Form 480.71.1. Therefore, in order to claim a tax credit, it must be included in Form 480.71.1 that the credit holder submitted to the Department.

**Every pass-through entity that reports the distributable share of a tax credit to its owners, must accompany with its Informative Return copy of Form 480.71.1 duly filed in the Department.**

**A. Credits Subject to Moratorium****Line 1 - Credit attributable to losses or for investment in Capital Investment, Tourism or other funds or direct investment**

Enter the amount of credit determined on Schedules Q and Q1 included with this return, attributable to losses or for investment in Capital Investment, Tourism, other funds or direct investments.

**Line 2 - Credit for construction investment in urban centers (Act 212-2002)**

Enter the amount of credit for construction investment in urban centers. Every person that carries out a construction or improvement project in an 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.

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

**Line 3 - Credit for merchants affected by urban centers revitalization (Act 212-2002)**

Enter the amount of the Tax Credit for Merchants Affected by Urban Centers 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 from 50% of the gross sales generated during the construction period.

To claim this credit, you 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 additional details, refer to Act 212-2002, as amended, and the corresponding regulations.

**Line 4 – Credit for purchases of products manufactured in Puerto Rico and Puerto Rican agricultural products**

Enter the amount determined in Part IV, line 3 of Schedule B1 Pass-Through Entity and submit such schedule with the return.

**Line 5 - Credit for the establishment of an eligible conservation easement or donation of eligible land (Act 183- 2001)**

Enter the amount of credit for the establishment and donation of a conservation easement, equal to 50% of the value of the eligible conservation easement. To claim this credit you must obtain a certification issued by Secretary of the Treasury.

For additional details, refer to Act No. 183-2001, as amended, and Internal Revenue Circular Letter No. 05-04 of March 23, 2005.

**Line 6 - Credit for the purchase of tax credits**

Enter here the total of taxable credits acquired by the entity during the year by purchase, exchange or transfer from the primary investor and that are subject to moratorium under Sections 1051.11 and 1051.12 of the Code.

The owners of an entity will be entitled to claim their distributable share on tax credits acquired by the entity through the purchase, exchange or transfer from investors that generated the credits under any of the acts that allow tax credits. The entity, as the buyer of the credits, and its owners, are subject to the limitations imposed to the investor from whom the credits were acquired with respect to the taxable years in which those credits can be considered, and the maximum amount of the credits to be claimed in each taxable year.

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

The Pass-Through Entity must also include a schedule indicating the following:

- Total of tax credit acquired as per the sworn statement notifying its purchase;
- The amount of such credit that the Pass-Through Entity has distributed per taxable year, including the current taxable year;
- The name of each partner, member or stockholder with their social security or employer identification number;
- The share percentage on the pass-through entity of each one of such owners; and
- The amount of credit attributed in the current taxable year to each one of such partners, members or stockholders.

**You must complete Part VI of the return.**

**Line 7 - Other credits not included on the preceding lines**

Enter on this line the total amount of other credits subject to moratorium not included on the preceding lines. If on this line you included credits from different concepts, you must submit a schedule showing a breakdown of such credits.

**B. Credits Not Subject to Moratorium**

**Line 8 - Credit for tax withheld at source from Industrial Development dividends (Act No. 8 of 1987)**

The owners of an entity will be entitled to claim, according to the percentage applicable to the distributable share in the entity, a credit as established in Section 4(a) of the Incentives Act, against the tax due for the year in which the entity received as an investor, a distribution from Industrial Development income.

Enter on this line the tax withheld at source to the entity on dividends from Industrial Development income.

**Line 9 - Credit for increase in investment**

Enter the amount of credit attributable to the dividends from industrial development income received corresponding to the 3% of the investment made by the subsidiary in the acquisition, construction and expansion of buildings and other structures used in the manufacture in excess of the investment in such properties owned by the subsidiary as of March 31, 1977.

**Line 10 – Credit for investment in Film Industry Development (Act 27-2011)**

Enter the amount of credit to be claimed for investment in a Film Entity engaged in a Film Project and/or Infrastructure Project under Act 27-2011.

The credit will be subject to the request and the approval by the Secretary of the Treasury of an administrative determination under Act 27-2011 and its regulation. For additional details, refer to Act 27-2011.

**Line 11 – Credit for purchase or transmission of television programming made in P.R. (Section 1051.14)**

Enter the amount of credit to be claimed for the purchase or transmission of television programming made in Puerto Rico, according to Section 1051.14 of the Code.

The credit will be subject to the entity obtaining a Certification of Compliance issued by the Department of Economic Development, according to the provisions of Section 1051.14 of the Code and any regulations issued in this regard.

**Line 12 – Credit for contributions to former governors foundations**

Enter the amount of credit for contributions to former governors foundations equivalent to 100% of the amount contributed during the taxable year to such foundations for its 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 for the construction, operation and all necessary expenses for the true fulfillment of the purposes of Act 290-2000 and Act 302-2012. The tax credits to be granted cannot exceed \$1,000,000 in aggregate, for any taxable year.

This credit will be in lieu of the deduction for charitable contributions provided in Part II, line 22 in case of partnerships or Part XI, line 50 in case of special partnerships and corporations of individuals.

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.

**Line 13 - Credit to investors who acquire an exempt business that is in the process of closing its operations in Puerto Rico (Act 109-2001)**

Enter the amount of credit for investment in an exempt business that is in the process of closing its operations in Puerto Rico. Every investor may claim an industrial investment credit equal to 50% of its eligible investment.

The credit must 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.

The part of the credit not used in a 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 14 - Credit for contributions to Santa Catalina's Palace Patronage and/or Patronage of the State Capitol of the Legislative Assembly**

Enter the 100% of contributions made to Santa Catalina's Palace Patronage and/or to the Patronage of the State Capitol of Legislative Assembly (Patronages). The tax credits to be granted cannot exceed \$2,500,000 for any taxable year.

To claim this tax credit you must submit the certification issued by the Patronages 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 Patronages generate a tax credit. Therefore, such contribution cannot be claimed as part of the deduction for charitable contributions.**

**Line 15 - Credit for investment Act 73-2008**

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.

To claim this tax credit the taxpayer must submit with the return copy of the Administrative Determination issued by the Department of the Treasury granting the credit.

The credit not used in a 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 – Credit for investment Act 83-2010**

Enter the amount of credit to be claimed for investment in research and development activities of green energy sources under Act 83-2010, better known as the Puerto Rico Green Energy Incentives Act. This amount must be equal to 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.

To claim this credit the taxpayer must submit with the return copy of the certification issued by the Puerto Rico Industrial Development Company.

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 - Credit for the purchase of tax credits**

The owners of an entity will be entitled to claim their distributable share on tax credits acquired by the entity through the purchase, exchange or transfer from investors that generated the credits under any of the acts that allow tax credits. The entity, as the buyer of the credits, and its owners, are subject to the limitations imposed to the investor from whom the credits were acquired with respect to the taxable years in which those credits can be considered, and the maximum amount of the credits to be claimed in each taxable year.

Enter here the total of tax credits acquired by the entity during the year by purchase, exchange or transfer from the primary investor and that are not subject to moratorium under Sections 1051.11 and 1051.12 of the Code.

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

The Pass-Through Entity must also include a schedule indicating the following:

- Total of taxable credit acquired as per the sworn statement filed notifying its purchase;
- The amount of such credit that the Pass-Through Entity has distributed per taxable year, including the current taxable year;
- The name of each partner, member or stockholder with their social security or employer identification number;
- The share percentage on the pass-through entity of each one of such owners; and
- The amount of credit attributed in the current taxable year to each one of such partners, members or stockholders.

**You must complete Part VI of the return.**

#### **Line 18 - Other credits not included on the preceding lines**

Enter on this line the total amount of other tax credits not subject to moratorium not included on the preceding lines. If on this line you included credits from different concepts, you must submit a schedule showing a breakdown of such credits.

### **PART V – TAXES PAID TO FOREIGN COUNTRIES AND THE UNITED STATES, ITS TERRITORIES AND POSSESSIONS**

Enter in this part the net income from sources outside of Puerto Rico derived by the entity and the taxes paid outside of Puerto Rico on said net income. Use line 1 to determine the net income derived by the entity from sources of each country, territory or possession indicated, and include on line 2 the taxes paid or accrued to each one of these jurisdictions.

### **PART VI - BREAKDOWN OF THE PURCHASE OF TAX CREDITS**

Check the box that corresponds to the act (or acts) under which you acquired the credit and indicate the amount. Transfer the amount of lines 9 and 18 to Part IV, lines 6 and 17 of the return, respectively.

### **PART VII - TAX COMPUTATION ON BUILT-IN GAINS**

The tax on built-in gains applies to every entity that previously was subject to tax as a regular corporation. The tax is imposed when the entity sells or disposes the assets acquired through the conversion within the period of 10 years from the first day of the first taxable year that the entity is treated, for tax purposes, as a Pass-Through Entity.

The increase in accumulated value during the period after the conversion, which the entity realizes as gain when disposing the asset, is not subject to this tax.

The built-in gain is taxable at the maximum applicable tax rate to corporations (39%). Refer to Section 1114.12(c) of the Code.

#### **Line 1 – Tax liability**

Enter the tax on built-in gain determined for the year, as computed on Schedule GI Pass-Through Entity, Part IV, line 14.

#### **Line 2 – Amount paid**

Enter the amount paid for purposes of the built-in gain.

### **PART VIII – DETERMINATION OF THE NET OPERATING INCOME (OR LOSS)**

Enter on line 1 **only** the net sales of goods or products. Do not include on this line income received during the year from sale of services. They must be included on line 10 of this Part VIII.

Enter the manufacturing and sales costs, as well as the gross profit from sales. Check the applicable box to indicate your inventory appraisal method at the beginning and end of the year.

Itemize the other direct costs totalized on line 5, in Part X. Note that the depreciation of assets used in manufacture will be included in Part X, line 15 of Other Direct Costs. The depreciation of assets, other than the ones used in manufacture, must be entered in Part XI, line 25.

Enter on line 10 the gross income earned from the sale of services rendered.

Enter on line 13 the rental income. If the rental income is derived from the lease of a New Construction Property or Qualified Residential Property, it is fully exempt under the provisions of Act 132-2010. This exemption applies from January 1, 2011 to December 31, 2020, regardless of the date on which the contract has been subscribed. Do not include on this line the income received for this concept, include it on Schedule IE Pass-Through Entity, Part II, line 14. For more details refer to Act 132-2010 and its corresponding regulations.

Enter on line 14 the eligible interests that you elected to pay taxes at the regular tax rates and at the 10% preferential rate, among others.

Enter on line 15 the income earned from commissions.

Enter on line 17 the net income from the distributable share of the entity in partnerships and special partnerships. You must complete and include with the return a Schedule R Pass-Through Entity.

Enter on line 19 the net income derived from an international financial entity that operates as a bank unit. Said net income determined according to the provisions of Section 1031.05 of the Code, derived from activities described in Article 12(a) of Act 273-2012 that exceeds 20% of the total net income derived by the bank of which it operates as a unit, will be subject to the tax rates provided in the Code for corporations and partnerships.

Enter on line 22 the amount reported as income from debt discharge as reported on Form 480.6A. In the case of entities that have a taxable year different to a year ending on December 31, they must include the amount of income from debt discharge that corresponds to the taxable year for which the return is being filed.

Enter on line 23 the gross income earned from the realization of public shows. The determined amount cannot be part of the gross income reported on lines 1 (Net sales of goods or products) or 10 (Gross profit from sale of services) of this Part VIII.

Enter on line 24 the amount reported as income from other payments that are included in Box 10 of Form 480.6A and in Box 11 of Form 480.6B. In the case of entities with a taxable year different to a year ending on December 31, they will include the total of other payments that corresponds to the taxable year for which the return is being filed.

Enter on line 27 the first \$500,000 of gross income generated by a new business created by a young entrepreneur whose age ranges between 16 and 35 years. Such new business should have granted a Special Agreement for the Creation of Young Companies (Agreement) with the Puerto Rico Trade and Export Company, in order to benefit from the exemption during the first 3 years following the year in which the Agreement is signed. **In order to claim this exemption, copy of the Agreement must be included with the income tax return.**

This benefit is limited to only one new business for each young entrepreneur and cannot benefit from any other act that grants economic or fiscal incentives to promote a commercial, industrial or touristic operation in Puerto Rico. Any amount in excess of \$500,000 will pay taxes at the ordinary rates. For purposes of determining the first \$500,000 of gross income generated by the new business, you must aggregate the gross income of a controlled group of corporations according to Section 1010.04 of the Code and a group of related entities according to Section 1010.05 of the Code.

In the case of entities that, as provided by Act 185-2014, as amended, are considered as accredited investors, they may claim on line 31 a deduction for their initial investment in a private equity fund (PEF) or in a Puerto Rico private equity fund (PEF-PR). For these purposes, the entity will be considered as an accredited investor if at the moment of the initial investment in a PEF or PEF-PR:

- It is a bank, insurance company, registered investment company, development company business, small business investment company, international banking entity (IBE) or international financial entity (IFE). It shall be understood that the IBE and IFE will be Accredited Investors irrespective of what is established by the International Banking Center Regulatory Act and the International Financial Center Regulatory Act, respectively;

- It is an employee benefits plan as defined in the Employee Retirement Income Security Act of 1974 (known as "ERISA"), only if a bank, insurance company or registered investment advisor makes investment decisions, or if the plan has total assets of more than five million dollars (\$5,000,000);
- It is a nonprofit organization, corporation or association with assets in excess of five million dollars (\$5,000,000);
- It is a trust with assets of more than five million dollars (\$5,000,000), which has not been formed to acquire the securities offered and for which a sophisticated person makes the purchase; or
- It is a business in which all the capital owners are accredited investors and comply with the requirements established in Article 5(n) of Act 185-2014.

The allowable amount as deduction will be the following:

- If the initial investment was made in a PEF, the maximum amount of deduction will be 30% of the initial investment provided that such amount will not exceed 15% of the net income before the deduction.
- If the initial investment was made in a PEF-PR, the maximum amount of deduction will be 60% of the initial investment provided that such amount will not exceed 30% of the net income before the deduction.

The amount of the deduction not claimed in the first year can be carried forward for a maximum period of 10 years if the investment was made in a PEF and 15 years if the investment was made in a PEF-PR.

For additional details, refer to Act 185-2014, as amended.

In the case of pass-through entities that qualify to claim this deduction, they must complete the following worksheet to determine the maximum amount allowable as deduction for initial investment in a PEF or PEF-PR.

You must submit with your return the following documents:

- (1) An official certification issued by the PEF or PEF-PR, printed with the fund's letterhead and signed by a managing partner or principal officer of the same, that indicate the following information:
  - Name and employer identification number of the PEF or PEF-PR;
  - If the fund is PEF or PEF-PR;
  - Name and employer identification number of the resident investor to whom the certification is issued; and
  - The amount of the committed capital as initial investment that was contributed during the taxable year by the resident investor for which the certification is issued, including any amount that has been contributed after the end of the taxable year but before the resident investor files the income tax return for such taxable year. This amount will be included on line 1 of the worksheet to be completed.
- (2) A schedule that includes the completed worksheet showing how this deduction was determined.
- (3) Copy of the Sworn Statement filed under which the Fund made the election under Act 185-2014.
- (4) In those cases in which the taxpayer is claiming a deduction from previous years, a detail indicating the taxable year in which the deduction was generated, the amount of deduction generated by the investor, the amount of such deduction that was claimed in previous years, the amount of deduction available for the taxable year, and the expiration date of any available unclaimed balance to be used in subsequent years.



**Determination of the Deduction:**

1. Amount of capital committed as initial investment that qualifies as contributed during the taxable year (From the certification issued by the PEF or FEP-PR) ..... \$ \_\_\_\_\_
2. Applicable percentage:
  - If the investment was in a PEF, enter 30% \_\_\_\_\_ %
  - If the investment was in a PEF-PR, enter 60% ..... %
3. Amount of deduction for initial investment contributed during the year (Multiply line 1 by the applicable percentage on line 2) ..... \$ \_\_\_\_\_
4. Amount of deduction not claimed in previous years ..... \$ \_\_\_\_\_
5. Total deduction for investment in a PEF or PEF-PR (Add lines 3 and 4) ..... \$ \_\_\_\_\_

**Deduction Limitation:**

Net Income per Return	Proportion of Income
-----------------------------	-------------------------

6. Net income (Add the net income that results on each one of the following Schedules of the return, without considering the deduction for initial investment in a PEF or PEF-PR):
 

Page 3, Part VIII, line 30 .....	\$ _____	_____ %
Schedule L Pass-Through Entity – Part I, line 5 .....	\$ _____	_____ %
Schedule V Pass-Through Entity – Part II, line 12 .....	\$ _____	_____ %
Schedule W Pass-Through Entity – Part I, line 3 .....	\$ _____	_____ %
Schedule X Pass-Through Entity – Part II, line 9 or Part III, line 9, as applicable .....	\$ _____	_____ %
Schedule Y Pass-Through Entity – Part I, line 5 .....	\$ _____	_____ %
Schedule Z Pass-Through Entity – Part I, line 3 .....	\$ _____	_____ %
Schedule AA Pass-Through Entity – Part II, line 5 .....	\$ _____	_____ %
Total net income without considering the deduction for initial investment in a PEF or PEF-PR .....	\$ _____	_____ %
7. Applicable percentage:
  - If the investment was in a PEF, enter 15% \_\_\_\_\_ %
  - If the investment was in a PEF-PR, enter 30% ..... %
8. Maximum amount allowable as deduction (Multiply the total net income of line 6 by the applicable percentage on line 7) ..... \$ \_\_\_\_\_
9. Allowable deduction on this return (Enter the smaller between lines 5 and 8) ..... \$ \_\_\_\_\_
10. Distribute the deduction among the corresponding Schedules (Multiply the amount determined on line 9 by the percentage that represents the net income, without considering this deduction, of each Schedule as determined on line 6). Transfer the amount determined to page 3, Part VIII, line 31 or to the line of “Other deductions” of the applicable Schedule. You must submit a schedule with a breakdown of the total items included on the line of “Other deductions”, including the amount corresponding to this deduction:
 

Page 3, Part VIII, line 31 .....	\$ _____
Schedule L Pass-Through Entity - Part IV, line 49.....	\$ _____
Schedule V Pass-Through Entity - Part V, line 45.....	\$ _____
Schedule W Pass-Through Entity - Part IV, line 35.....	\$ _____
Schedule X Pass-Through Entity - Part VI, line 45.....	\$ _____
Schedule Y Pass-Through Entity - Part IV, line 45.....	\$ _____
Schedule Z Pass-Through Entity - Part IV, line 35.....	\$ _____
Schedule AA Pass-Through Entity - Part V, line 45.....	\$ _____

Total allowable deduction on this return (This amount must be equal to the amount determined on line 9) ..... \$ \_\_\_\_\_

Enter on line 33 the total income, gains or losses that you have had the obligation to report individually to the partner or stockholder and that have been reported as such on lines 1 through 4 and 6 through 16 of Part II of the return.

Enter on line 35 the result of the multiplication of line 34 by the corresponding income tax rate of the proportional share of the partner or stockholder in the income of the pass-through entity. As a general rule, such rate will be 30% of the estimated amount of the distributable share on the income of the entity of an owner who is an individual resident, nonresident United States citizen, an estate or trust resident Puerto Rico, or a domestic corporation or foreign corporation engaged in trade or business in Puerto Rico, as applicable, according to the provisions of Sections 1062.04, 1062.05 and 1062.07 of the Code.

However, when it is demonstrated to the satisfaction of the Secretary, or the Secretary determines that the above provided withholding will cause undue burdens without leading to a practical purpose, because the amount withheld will have to be refunded to the taxpayers, or that such withholding will result excessive, the Secretary may, under such rules and regulations enacted, release the withholding agent from making such withholding in whole or in part.

It is important to point out that, under certain circumstances, this tax may be determined irrespective of whether the entity reflects a loss on line 34 of this part.

#### **PART IX – DISTRIBUTABLE SHARE ON NET INCOME SUBJECT TO PREFERENTIAL RATES**

Indicate in this part the net income and income tax for the cases in which the entity operates under an exemption decree under the Puerto Rico incentives acts.

In the Column of “Net Income” you must indicate, as applicable, the amount from:

- Schedule V Pass-Through Entity, Part II, line 12
- Schedule W Pass-Through Entity, Part I, line 3
- Schedule X Pass-Through Entity, Part II or III, line 9
- Schedule Y Pass-Through Entity, Part I, line 5
- Schedule Z Pass-Through Entity, Part I, line 3
- Schedule AA Pass-Through Entity, Part II, line 5

In the Column of “Tax Determined” you must indicate, as applicable, the amount from:

- Schedule V Pass-Through Entity, Part III, line 4
- Schedule W Pass-Through Entity, Part II, line 5
- Schedule X Pass-Through Entity, Part IV, line 9
- Schedule Y Pass-Through Entity, Part II, line 9
- Schedule Z Pass-Through Entity, Part II, line 5
- Schedule AA Pass-Through Entity, Part III, line 5

The total of the tax indicated on line 7 of this part, shall be paid by the entity on behalf of the owners.

#### **PART X – OTHER DIRECT COSTS**

Enter the Other Direct Costs. The total of these costs, as indicated on line 17 of this part, must be the same as the amount in Part VIII, line 5 of the return.

#### **PART XI - DEDUCTIONS**

The income and expenses to be included in the corresponding lines of Parts VIII, X and XI of the return are related to activities conducted by the

entity that are **not** covered under acts that provide for partially exempt income or preferential tax rate. The breakdown of the partially exempt income will be detailed on Schedules L, V, W, X, Y, Z or AA Pass-Through Entity.

On lines 1 through 48 and 50 of this Part XI, enter the deductions related to your operations. Following we provide information regarding some of those deductions.

#### **Lines 1 and 2 - Compensation to directors and officers**

Enter on these lines the total amount of compensation paid to Officers and Directors of the Pass-Through Entity during the year, as determined in Parts XII and XIII, page 4 of the return.

Enter the total compensation paid or accrued to all directors and officials of the entity reported as salaries on Form 499R-2/W-2PR or as compensation for services rendered on Form 480.6A or 480.6B. Payments for services rendered or in the form of interests for the use of capital, will be considered as paid to one that is not an owner of the entity, as long as they are determined without considering the entity's income. On the other hand, the owner must include said payments as taxable income according to the accounting method used to recognize the income. Detail the corresponding information in Parts XII and XIII of the return, as applicable.

#### **Line 3 - Salaries, commissions and bonuses to employees**

Enter on this line the total of salaries, commissions and bonuses paid to employees of the entity during the taxable year.

No deduction shall be allowed for salaries paid if at the moment of filing the return the full amount of tax withheld from salaries paid to employees during the taxable year has not been remitted to the Department of the Treasury.

#### **Line 10 - Interests paid for automobiles financing leases**

Enter on this line the total amounts included in the Column of “Amount of Payment that Constitutes Interest” on Form 480.7D. If the entity has a fiscal year enter the total amount paid or incurred during the taxable year.

#### **Line 11 - Mortgage Interests**

Enter on this line the amount of mortgage interests included in Box 1 (Interest Paid by Borrower) of Form 480.7A. If the entity has a fiscal year enter the total amount paid or incurred during the taxable year.

#### **Line 12 – Other interests**

Enter the interests paid or accrued during the year. In case of a financial institution, no deduction shall be allowed for that portion of exempt interest expenses attributable to exempt obligations acquired after December 31, 1987.

#### **Lines 13 and 14 – Rent of tangible personal property and real property**

Enter the cost for the leasing of structures or equipment, excluding automobile leases. Expenses related to automobile leases must be included on line 25.

#### **Line 16 - Other taxes, patents and licenses**

Submit a schedule with a breakdown of the excise taxes, licenses or other taxes paid by the entity. Sales and use tax payments realized during the year cannot be included as part of this deduction.

## Line 17 - Sales and use tax

Enter on this line the portion of the sales and use tax payments made by the pass-through entity during the taxable year not claimed as credit in the sales and use tax monthly returns filed by the entity. The tax to be claimed takes into consideration such amount paid in: (1) imports, (2) subcontracts, (3) purchase of tangible personal property and taxable services to Puerto Rico residents, (4) purchase of designated professional services, and (5) reverse charge in the purchase of services and goods (including designated professional services) to persons not engaged in trade or business in Puerto Rico.

This deduction will proceed as long as the entity has not claimed a credit for this tax paid.

Submit a schedule detailing the sales and use tax paid by the entity.

## Line 18 - Losses from fire, storm, other casualties or theft

It will be allowed as a deduction the losses incurred during the year not compensated by an insurance company or other.

## Line 19 - Automobile expenses (Mileage)

The taxpayer has the option to claim on this line the deduction for expenses incurred or paid for the use and maintenance of an automobile based in one of the following alternatives:

- the expense calculated based on a standard mileage rate of sixty cents (\$0.60) per each mile used by the taxpayer in the industry or business or for the production of income; or
- the real expenses for the use and maintenance of an automobile incurred by the taxpayer in the industry or business or for the production of income, including those duly documented by the employees under a reimbursement plan established by the employer.

Nevertheless, once any of the alternatives is selected, the taxpayer will be required to use the same during the entire taxable period.

The automobile use and maintenance expense includes repairs, insurances, gasoline, oil and filter changes, cleaning, tires, annual license fees and other expenses of a similar nature. This expense does not include depreciation, ordinary leases or financial leases payments, which are claimed on line 25 submitting Schedule E. Also, do not include expenses related to the use of tolls or parkings, they must be claimed as miscellaneous expenses.

For these purposes, the term “automobile” 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 or public vehicles;
- funeral cars, flower carriages, buses, ambulances, motorcycles, trucks, vans and any other similar vehicle used primarily for transport of cargo; and
- cars rented or held for rental by persons regularly engaged in the business of car leasing.

If the entity incurred in expenses for vehicles which are not considered automobiles according to the above definition, you should claim them on line 20 and submit the detail.

Administrative Determination No. 15-01 of January 9, 2015, repealed several articles of Regulation 8297 of December 18, 2012, related to the

requirements to claim the deduction for expenses incurred or paid for the use and maintenance of automobile. For additional details, see Administrative Determination No. 15-01.

## Line 20 - Other motor vehicle expenses

If the entity incurred in expenses related to the use and maintenance of vehicles which are not considered automobiles, according to the definition of the previous line, claim them on this line.

## Line 21 - Meal and entertainment expenses

You may deduct up to 50% of the expenses actually paid or incurred, up to a limit of 25% of the gross income for the taxable year, for meal and entertainment expenses directly related with your trade or business or for the production of income.

**You cannot include as part of such expenses, the items that do not constitute ordinary and necessary expenses of your trade or business.**

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

For additional details, refer to Regulation No. 6091 of February 7, 2000.

## Line 23 - Professional services

Enter on this line the total of professional services paid to service providers who are engaged in trade or business in Puerto Rico. Do not include the purchase of services or designated professional services to persons not engaged in trade or business in Puerto Rico, since this item will be included on line 44 of this Part XI.

To claim this deduction it is necessary that the taxpayer files with the Department of the Treasury the Informative Returns related to the services paid during the taxable year.

## Line 24 - Contributions to pension or other qualified plans

Enter the amount contributed to pension, profit sharing or other qualified plans approved by the Secretary of the Treasury. This deduction is subject to certain limitations.

To claim this deduction for your contributions to any of those plans, you must keep in your records the information required by regulations. You must complete Form AS 6042.1 and submit it with your return in order to be entitled to the deduction. Said form will be required to determine the tax on nondeductible contributions and excess contributions to qualified retirement plans. This tax must be paid with the filing of this return.

These plans are subject to a periodic investigation to determine if they are in compliance with the applicable provisions of the Code. If such provisions are not met, the Secretary may cancel the plan and reject the deduction.

## Line 25 – Depreciation and amortization

**Submit a detail of the depreciation and amortization on Schedule E - Depreciation.**

In the case of automobiles, the depreciation or lease expense (including operating lease) is limited to the smaller of the amount paid or \$6,000 annually for a maximum of 5 years. In the case of automobiles used by sellers, the deductible amount cannot exceed \$10,000 annually for a maximum period of 3 years.

This deduction will be allowed only for that part used in the trade or business, or for the production of income.

The basis limitation (\$30,000) and useful life term do not apply to those automobiles acquired by an entity engaged in the leasing or transportation of passengers or cargo businesses.

The Code allows a deduction for goodwill amortization, as long as the goodwill is purchased from third parties during taxable years beginning after June 30, 1995. The deduction will be determined using the straight-line method and a useful life of 15 years.

Also, the Code provides a deduction for amortization of intangible property, other than goodwill, acquired through purchase or developed in taxable years beginning after December 31, 2009. The deduction will be determined using the straight-line method and a useful life of 15 years or the intangible's useful life, whichever is less.

#### **Line 26 - Bad debts**

For taxable years beginning after June 30, 1995, the reserve method to compute the deduction for bad debts cannot be used. Instead, the entity may claim a deduction only for the debts that become uncollectible within the taxable year (*direct write-off method*).

#### **Line 27 - Repairs**

On this line, claim the expenses which constitute repairs and not improvements to the assets of the entity. Excessive repair expenses will be subject to investigation.

#### **Line 28 – Royalties**

Enter the royalty expenses incurred or paid during the year.

#### **Line 29 – Management fees**

Enter the total of management fees or any other expenses related to the administration of the entity incurred or paid during the year.

#### **Line 30 - Deduction for employers who employ handicapped persons**

Enter \$400 for each severely handicapped person employed for at least 20 hours per week during 9 months of the taxable year. The deduction is allowed for a maximum of 5 severely handicapped persons. In force regulations of the Vocational Rehabilitation Program of the Department of the Family will be used to determine the severely handicapped condition.

**The employer that claims this deduction must submit with the return the following:**

1. a certification indicating that the handicapped person has been employed at least during 9 months of the taxable year for which the deduction is claimed; and
2. a certification issued by the Secretary of the Department of the Family stating that, in accordance to its rules and procedures, the person for whom the deduction is claimed is a severely handicapped person.

#### **Line 31 - Contributions to educational contribution accounts for the employees' beneficiaries**

Enter the amount of contributions to educational contribution accounts for the employees' eligible beneficiaries up to the maximum amount of **\$500** for

**each beneficiary**, as provided by Section 1081.05 of the Code. Employer's contributions will be considered as ordinary and necessary expenses of the industry or business, and can be deducted as such in the year they are made. These contributions must be included as part of the employee's income by the employer in the year they are made, and can be claimed as a deduction by the employee in the same year. The trust's constitutive instrument must state that the participants will be those individuals that through a contract or application claim the benefits provided by such trust.

**For additional details, refer to Act No. 409- 2000 and Regulation No. 6419 of March 27, 2002.**

#### **Line 32 – Expenses in properties leased to the Puerto Rico Industrial Development Company or Warehouse of the Puerto Rico Trade and Export Company**

Every Eligible Business, according to Act 1-2013 (known as "Jobs Now Act"), that leases any building to the Puerto Rico Industrial Development Company or Warehouse of the Puerto Rico Trade and Export Company, in addition to any other deduction provided by law, will be able to deduct an amount equal to the total of capitalized expenses incurred in the improvements, remodeling or repair of eligible property or the leased warehouse, as well as the acquisition of machinery and equipment to be permanently or temporarily installed in the eligible property or warehouse, as long as the improvement, remodeling, repairs, machinery and equipment are to be used in the eligible business operations subject to the lease. Also, the improvements, remodeling, repairs, and the machinery and equipment should not have been used or depreciated previously.

The total of the eligible investment for this deduction in excess of the eligible business net income in the year of the expenses may be claimed as deduction in the subsequent taxable years, until totally used. A deduction will not be allowed for this concept in relation to the portion of expenses or investment on which the eligible business has received economic incentives from the Puerto Rico Industrial Development Company or from any other agency, governmental instrumentality or municipality of the Government of Puerto Rico. Also, this deduction will not apply if the investment has generated other special deductions or tax credits.

#### **Line 33 – Expenses incurred or paid to stockholders, or related persons or entities outside of Puerto Rico**

Enter the deductible portion (that is, 49% of the total) of those expenses attributable to the conduct of a trade or business in Puerto Rico and that are not subject to income tax or withholding at source under the Code in the taxable year in which they are incurred or paid, if those expenses:

- are expenses incurred or paid to a partner or stockholder that owns 50% or more of the interest in a pass-through entity; or
- are expenses incurred or paid to any related person or entity affiliated to the pass-through entity. For these purposes the applicable rules to determine the members of a controlled group of corporations or of a group of related entities, provided in Sections 1010.04 and 1010.05 of the Code, shall be applicable at the moment of determining the relationship of the Entity with its members and affiliates.

The non-deductible portion (51%) shall be reported in Part XV, line 4(d). This amount along with the deduction must be the same as the amount to be included in the space of Total provided on this line.

#### **Line 34 - Fully deductible expenses incurred or paid to stockholders, or related persons or entities**

Enter the total expenses, as described on the previous line, if the entity is



excluded from the limitation (49%) established by Section 1033.17(a)(17) of the Code, either by any disposition of law or because the entity has filed and the Department of Treasury has approved a waiver to be excluded from such limitation.

**Line 44 - Expenses incurred or paid for services received from persons not engaged in trade or business in Puerto Rico**

Enter the total of services, including designated professional services paid to persons not engaged in trade or business in Puerto Rico. In this case the taxpayer must have determined and remitted to the Department of the Treasury the sales and use tax related to these services. In the case that the sales and use tax related to these services has not been remitted, the taxpayer will not be able to claim the payment of these services as a deduction on the return.

**Line 46 - Expenses related to licenses and software that are not subject to amortization or depreciation**

Enter the total expenses related to licenses and software that do not imply an increase in the value of the equipment to which they were installed and that are considered operating expenses.

**Line 47 - Expenses incurred or paid for qualified disaster assistance payment to employees**

Enter the amount of Qualified Disaster Assistance Payments (Qualified Payments) made in benefit of your employees and independent contractors who are individuals, in order to provide assistance and support in the process of repairing, mitigating or compensating any damage and loss suffered as a result of hurricane María.

In order to claim a deduction for this concept, the payments must meet the requirements and limitations established in Administrative Determination No. 17-21 of October 4, 2017 ("AD 17-21"). Also, the employer or withholding agent must have submitted a Sworn Statement in the Department with the required information of said qualified payments, as established in AD 17-21.

Any amount related to Qualified Payments that have been made in relation to the income concepts reported on lines 1, 2, 3 and 23 of this Part XI, should not be included on such lines. The total of said Qualified Payments must be included on this line 47.

**For additional information, refer to AD 17-21 and informative booklet "Preguntas y Respuestas - Pagos Cualificados por Concepto de Asistencia por Desastre bajo la Determinación Administrativa Núm. 17-21" (Spanish only).**

**Line 48 – Other deductions**

Those expense items for which this Part XI does not provide specific lines, will be totaled and entered as Other Deductions. **Submit with the return a schedule itemizing those deductions.**

No deductions will be allowed for expenses connected with the ownership, use and maintenance of vessels, except for the expenses of vessels engaged in commercial fishing, transportation or commercial tourism if the entity derived more than 80% of its total income from said activities.

A deduction will neither be allowed for expenses related to the ownership, use and maintenance of aircrafts, unless the entity has derived more than 80% of its total income from activities exclusively related to the transportation of passengers or leasing.

Likewise, no deduction will be allowed for expenses related to the ownership,

use, maintenance and depreciation of residential property (located within or outside of Puerto Rico), unless the entity has derived more than 80% of its total income from activities exclusively related to the rental of property to non related persons.

**Line 50 – Charitable contributions**

Only special partnerships and corporations of individuals may claim a deduction for charitable contributions on this line.

For details about items that constitute charitable contributions and the applicable limitations, refer to instructions of Part II, line 22 of the return.

**PART XII - COMPENSATION TO DIRECTORS**

Include the compensation that the directors of the entity received as salaries or other allowances. Do not include the distributions made to the owners during the year.

Enter the total compensation to directors in Part XI, line 1.

**PART XIII - COMPENSATION TO OFFICERS**

Include the compensation that the officers of the entity received as salaries or other allowances. Do not include the distributions made to the owners during the year.

Enter the total compensation to officers in Part XI, line 2.

**PARTS XIV AND XV - COMPARATIVE BALANCE SHEET AND RECONCILIATION OF NET INCOME (OR LOSS) PER BOOKS WITH NET TAXABLE INCOME (OR LOSS) PER RETURN**

These statements must be completed in all of its parts in order for the return to be considered filed. Therefore, you cannot submit these statements in loose sheets. **Any return that does not comply with these requirements will be returned.**

If the volume of business of the entity exceeds \$3,000,000, it is required to submit Financial Statements Audited by a Certified Public Accountant licensed in Puerto Rico.

If the volume of business of the entity exceeds \$1,000,000 but does not exceed \$3,000,000, the entity may choose to submit Financial Statements Audited and Certified by a Certified Public Accountant licensed in Puerto Rico. By doing so, and if the entity is up to date with its tax responsibility, it shall be entitled to a waiver from the 7% withholding on payments for services rendered.

**PART XVI - ANALYSIS OF UNDISTRIBUTED PROFITS PER BOOKS**

Enter the profits not distributed to the owners at the closing of the taxable year of the entity.

**PART XVII - COMPUTATION OF GROSS INCOME PERCENTAGE DERIVED FROM ELIGIBLE ACTIVITIES (Applies only to special partnerships)**

Determine the percentage of the gross income earned by the special partnership from:

1. Puerto Rico sources
2. Eligible activities as defined in Section 1114.01(a) of the Code

Section 1114.01 of the Code requires that at least 70% of the gross income generated by a special partnership is income from Puerto Rico sources and 70% of the gross income is derived from the conduct of one of the eligible activities. A termination to that effect will be effective on the first day of the taxable year in which the special partnership does not meet this requirement.

The special partnership that does not meet these requirements will be subject to tax during said taxable year according to the type of entity that it legally is:

- Corporation – The entity will be subject to tax as a regular corporation.
- Partnership – The entity will be subject to tax as a partnership under the provisions of Chapter 7 of the Code. See Administrative Determination No. 12-04 (Spanish only).
- Limited Liability Company – The entity will be subject to tax as a regular corporation, except in the case of those limited liability companies that, as provided by Section 1010.01(a)(3)(A) of the Code are considered partnerships subject to the provisions of Chapter 7 of Subtitle A of the Code. See Section 1010.01(a)(3) of the Code and Administrative Determination No. 12-09 (Spanish only).

**Line 4(a)** – Indicate if you filed the applicable informative returns, for example, Form 480.6A (Informative Return – Income Not Subject to Withholding) and Form 480.6B (Informative Return – Income Subject to Withholding).

**Line 12** – Enter the corresponding amount of charitable contributions to municipalities included in Part II, line 22 or Part XI, line 50 of the return.

## PART XVIII - COMPUTATION OF GROSS INCOME PERCENTAGE DERIVED FROM TRADE OR BUSINESS (Applies only to corporations of individuals)

Determine the percentage of the gross income earned by the corporation of individuals from:

1. Income from the conduct of a trade or business exclusively in Puerto Rico
2. Income from non related activities (including income from sources outside of Puerto Rico)

Section 1115.02 of the Code requires that at least 90% of the gross income generated by a corporation of individuals is derived from the conduct of a trade or business in Puerto Rico. A termination to that effect will be effective on the first day of the taxable year in which the corporation does not meet this requirement.

This part of the return must be completed in all parts, to evidence that the corporation of individuals meets the requirement of gross income derived from the conduct of a trade or business in Puerto Rico.

The corporation of individuals that does not meet this requirement will be subject to tax during said taxable year according to the type of entity that it legally is:

- Corporation – The entity will be subject to tax as a regular corporation.
- Partnership – The entity will be subject to tax as a partnership under the provisions of Chapter 7 of the Code. See Administrative Determination No. 12-04 (Spanish only).
- Limited Liability Company – The entity will be subject to tax as a regular corporation, except in the case of those limited liability companies that, as provided by Section 1010.01(a)(3)(A) of the Code are considered partnerships subject to the provisions of Chapter 7 of Subtitle A of the Code. See Section 1010.01(a)(3) of the Code and Administrative Determination No. 12-09 (Spanish only).

## PART XIX - QUESTIONNAIRE

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

## INSTRUCTIONS TO COMPLETE THE SCHEDULES

### SCHEDULE B PASS-THROUGH ENTITY - OTHER PAYMENTS AND WITHHOLDINGS AND RECONCILIATION OF ESTIMATED PAYMENTS

#### PART I - OTHER PAYMENTS AND WITHHOLDINGS

Enter on lines 1 through 8 the amount of tax withheld or paid regarding the type of income described on these lines.

**Line 2** - Enter the amount withheld over payments for services rendered. In order to claim this credit, you must submit Form 480.6B. Otherwise, you must submit a Sworn Statement indicating the name, address, employer identification number and telephone number of the person who made the payment or deposit, the total amount of the deposits and the tax withheld. Indicate also the amount of Informative Returns included with the return.

**Line 3** - Enter the total tax withheld at source, as reported on Forms 480.6C received by the entity for the taxable year. If the entity has a fiscal year, the total credit for the amount withheld on Forms 480.6C will be claimed on the return according to the amounts actually withheld during your fiscal year. In these cases, you must include with your return, a schedule with a breakdown of the following information regarding each one of Forms 480.6C for which you claim a credit for tax withheld: (1) taxable year as indicated in Form 480.6C, (2) employer identification number of the withholding agent, (3) withholding agent's name, (4) control number of Form 480.6C, (5) electronic filing confirmation number of Form 480.6C, (6) total amount withheld according to Form 480.6C, and (7) amount withheld claimed on the current taxable year return. Also indicate, the amount of Informative Returns included with the return.

**Line 4** - Enter the tax withheld reported on the Informative Return - Pass-Through Entity (Form 480.60 EC). You must submit this form with the return.

**Line 5** - Enter the tax withheld reported on the Informative Return - Revocable Trust or Grantor Trust (Form 480.60 F). You must submit this form with the return.

**Line 6** - Enter the tax withheld on eligible interests reported on the Informative Return - Income Subject to Withholding (Form 480.6B). You must submit this form with the return.

**Line 7** - Enter the tax withheld on dividends from corporations reported on Form 480.6B. You must submit this form with the return.

**Line 8** - Enter any other payment or withholding not specified on the preceding lines. Submit a detail and evidence of the payment or withholding.

#### PART II - RECONCILIATION OF ESTIMATED PAYMENTS ON INCOME TAX ATTRIBUTABLE TO THE DISTRIBUTABLE SHARE OF THE OWNERS OF THE PASS-THROUGH ENTITY

Indicate the due date, payment date and the amount corresponding to each installment of the income tax estimated payments attributable to the distributable share of the entity's owners made during the taxable year.

If the distributable share of the income tax withheld (as reported in Part II, line 17, Column of "Tax Withheld" of the return) exceeds the total of the installments paid and the taxes withheld at source, the balance (difference) shall be deposited no later than the due date of this return, without including an extension of time. For this purpose use Form 480.9A (Payment Voucher of Tax Withheld).

### SCHEDULE B1 PASS-THROUGH ENTITY - CREDITS FOR PURCHASE OF PRODUCTS MANUFACTURED IN PUERTO RICO AND PUERTO RICAN AGRICULTURAL PRODUCTS

#### PART I - CREDIT FOR INCREASE IN PURCHASES OF PUERTO RICAN AGRICULTURAL PRODUCTS (SECTION 1051.07)

Section 1051.07 of the Puerto Rico Internal Revenue Code of 2011, as amended (Code), provides a credit to all eligible business that increases its purchases of Puerto Rican agricultural products to replace imported products available for sale on the local market.

The credit shall be no less than 5% and up to a maximum of 20% of the increase in purchases of agricultural products harvested, produced and elaborated in Puerto Rico during the taxable year in which the credit is claimed, over the average of purchases of such products during the 3 preceding taxable years, or such part of that period that is applicable, or, in some cases, the average of the 3 taxable years ending with the close of the taxable year that ended during calendar year 2003.

For purposes of the credit under Section 1051.07 of the Code, an eligible business is the one that acquires Puerto Rican agricultural products through a contract between such business, the Secretary of Agriculture and an Agricultural Production Group promoted by the Department of Agriculture or an Agricultural Sector organized under the Puerto Rico Agriculture and Livestock Industry Regulating Act or with a Qualified Farmer.

Enter in the spaces provided, the name of each Agricultural Production Group, Agricultural Sector or Qualified Farmer from which you made the purchases; the number of each contract with the Department of Agriculture; the purchases increase; the percentage granted; and the amount of each credit according to the Tax Credit Certification issued by the Department of Agriculture.

**Line 2** - Enter the amount of credit under Section 1051.07 of the Code, from previous years that was not used (carryover) due to the 25% limitation on the tax of the eligible business. Submit a detailed schedule to reflect the composition of such carryover.

#### PART II - CREDIT FOR PURCHASE OF PRODUCTS MANUFACTURED IN PUERTO RICO (SECTION 1051.09)

Section 1051.09 of the Code provides a credit against income tax of those eligible businesses that purchase eligible products manufactured in Puerto Rico, including component parts and accessories.

The credit is equal to 10% of the increase in purchases of such products during the taxable year in which it is claimed, over the average purchases made for the 3 years, out of the 10 preceding taxable years, in which the purchases were lower, that is, excluding the 7 years of higher purchases.

Eligible businesses for purposes of the credit under Section 1051.09 of the Code are: (1) manufacturing businesses, and (2) any other company engaged in trade or business in Puerto Rico which annual sales volume does not exceed \$5,000,000. However, businesses that have a tax exemption decree are not considered eligible businesses.

Eligible products are only those manufactured in Puerto Rico by a manufacturing business that, individually or in the aggregate with its affiliates, has had a net sales volume (within or outside of Puerto Rico) of one hundred million (100,000,000) dollars or less for calendar year 2010. A product will be treated as a product manufactured in Puerto Rico only if more than thirty (30) percent of its value has been added in Puerto Rico.

Enter in the spaces provided, for each manufacturing business from which the products were acquired, the name, employer identification number, manufacturing business identification number, and the value (cost) of each purchase. In case of manufacturing businesses with a tax exemption decree, the manufacturing business identification number will be the decree number. If the seller does not have a decree, enter the number assigned by the Industrial Development Company. Also, indicate if the manufacturer provided you with a certification to the effect that the product(s) acquired are eligible products. Do not include purchases of products that have been manufactured in Puerto Rico by businesses related to the business claiming the credit.

The eligible business must keep the necessary records evidencing the value of purchases for which the credit is claimed, as well as any certification issued by the manufacturer or other evidence of the nature of the eligible products purchased.

### **PART III - CREDIT FOR PURCHASE OF PRODUCTS MANUFACTURED IN PUERTO RICO (TUNA PROCESSING) (SECTION 1051.09)**

The credit provided in Section 1051.09 of the Code is also available for purchases of tuna packaged and processed in Puerto Rico. In this case, the credit is 10% of the total amount of the purchases of such products made during the taxable year in which it is claimed, regardless of the volume of business of the processing plant or its affiliates. Tuna products are treated as manufactured (packaged and processed) in Puerto Rico only if more than thirty (30) percent of its value has been added in Puerto Rico.

Enter in the spaces provided, for each tuna manufacturing business (packing and processing) from which the products were acquired, the name, employer identification number, manufacturing business identification number, and the value (cost) of each purchase. In case of manufacturing businesses with a tax exemption decree, the manufacturing business identification number will be the decree number. If the manufacturer does not have a decree, enter the number assigned by the Industrial Development Company. Also, indicate if the manufacturer provided you with a certification to the effect that the product(s) acquired are eligible products. Do not include purchases of products that have been manufactured in Puerto Rico by businesses related to the business claiming the credit.

The eligible business must keep the necessary records evidencing the value of purchases of the products for which the credit is claimed, as well as any certification issued by the manufacturer or other evidence of the nature of the eligible products purchased.

**Line 4** - Enter the amount of credits under Section 1040D of the Puerto Rico Internal Revenue Code of 1994, as amended (1994 Code), and Section 1051.09 of the Code not used in previous years (carryover). Submit a detailed schedule to reflect the composition of the carryover.

### **SCHEDULE D PASS-THROUGH ENTITY - GAINS AND LOSSES FROM SALE OR EXCHANGE OF PROPERTY**

Use this Schedule to determine the gains or losses from the sale, exchange or disposal of capital assets and the income tax subject to preferential rates.

A capital asset may be defined as a property acquired for investment owned by the taxpayer (related or not to its industry or business), but does not include: (a) goods of the taxpayer's business or other property of similar nature that can be properly included in the taxpayer's inventory, if it was in existence at the close of the taxable year, or property owned by the taxpayer primarily for the sale to customers during the ordinary course of its trade or business, or (b) property used in its trade or business subject to the allowance for current depreciation, or real property used in its trade or business.

**Capital gain or losses are classified as short or long-term, according to the period held.** It is considered as a **short-term** gain or loss if the

capital assets were held for no more than 1 year. On the other hand, it is considered as **long-term** gain or loss if the capital assets were held for more than 1 year.

To determine short and 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 the information in Columns (A) through (F) of Parts I, III, IV, V and VI, and from Columns (A) through (G) of Part II with respect to the properties.

As a general rule, **the adjusted basis of the property** is its original cost plus the cost of the permanent improvements, less depreciation. Do not include lodging expenses (i.e. hotels) nor travel expenses (i.e. airline tickets).

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

The adjusted basis must include the increase in accumulated value of the included capital assets for which a special tax was prepaid:

- 10% during the period of **July 1 to December 31, 2006**, as provided in Section 1121A of the 1994 Code, and
- 12% during the period of **July 1, 2014 and April 30, 2015**, as provided in Section 1023.22 of the Code.

Those taxpayers who elected to prepay the special tax rate of 10% or 12%, as applicable, must indicate so by filling in the oval in Parts II and III of this Schedule. **You must keep for your records Form AS 2731 with the corresponding Schedule.**

Any amount or increase in value of the included capital assets generated after the election provided by Sections 1121A of the 1994 Code and 1023.22 of the Code, must be taxed according to the law provisions in force at the moment in which the sale, exchange or other disposal of such capital assets finally takes place.

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

### **Recognition of loss:**

**Losses generated in the sale of capital assets for which the 10% or 12% 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 entity. According to the above, such loss will be adjusted by a formula or fraction, where the numerator will be the 10% or 12% rates, as applicable, 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, see Regulation No. 7188 of August 4, 2006.

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

Acts 132 and 216 provide, among others, the following tax benefits for certain capital gains or losses:

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



- the net long-term capital gain realized in the sale of **new construction property** acquired by the seller between **September 1, 2010 and June 30, 2013**, will be totally exempt from the payment of income tax.
- the net long-term capital gain realized in the sale of **qualified property** acquired by the seller between **September 1, 2010 and June 30, 2013**, will be 50% exempt from the payment of income tax.
- the net long-term capital gain realized in the sale of **eligible housing** acquired by the seller or by a qualified institutional investor between **July 1, 2013 and December 31, 2017**, will be exempt from the payment of alternative minimum tax. This exemption applies equally to the purchaser who purchases an eligible unit from a qualified institutional investor, provided that it is the first sale that the investor makes after the initial acquisition.

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

- capital losses realized between **September 1, 2010 and June 30, 2017**, 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, the following terms means:

(a) **“Qualified property”**

- 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
- every existing nonresidential real property located in Puerto Rico that was sold between September 1, 2010 and June 30, 2013 and which sales price did not exceed \$3,000,000.

(b) **“New construction property”**

- all newly built residential real property located in Puerto Rico, suitable for family living that has not been occupied 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 been previously occupied; or

- every house model consisting of a ground level, two levels or an elevated level that is pre-designed or prefabricated 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 that it starts building with the appropriate Construction Permit issued by the Permits Management Office (OGPE) between September 1, 2010 and June 30, 2013 and which construction is completed on or before March 31, 2013 with the proper filing of the Application of Use Permit at the OGPE.

(c) **“Developer”**

Every natural or legal person, with the proper developer license, issued by the Department of Consumer Affairs, which is engaged in the construction business as an employer or principal responsible for the promotion, design, sales, construction of infrastructure works and housing projects, either single or multi-story type. For purposes of this Act, the term “Developer” shall also include those financial institutions or any natural or legal persons that by virtue of a judicial or extrajudicial proceeding, or by agreement of payment or similar transaction, becomes the successor in interest of a Developer.

(d) **“Eligible Housing”**

Property of new construction, as defined in the previous subparagraph (b).

(e) **“Qualified Institutional Investor”**

Every individual or legal person resident of Puerto Rico, or any individual or legal person nonresident of Puerto Rico, which is engaged in the construction business that invests in a single act or separate acts, exclusively on eligible housing units, a minimum of \$1,000,000 or acquires no less than 5 eligible housing units.

The benefits provided by Act 132 and Act 216 will be available only to the first seller and corresponding first buyer of each new construction unit or qualified property, and will not apply to any acquirer in a subsequent transfer, even if it took place before June 30, 2013. Also, the benefits will not apply if the transferor of the property is considered a related person of the transferee of such property.

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 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 ONE YEAR OR LESS)**

**Line 3** - If you elected to pay taxes by categories of income, the distributable share on the net short-term capital gain (or loss) derived from a partnership or special partnership, enter the amount reported on line 2, Part III of Form 480.60 EC, as applicable.

**PART II – LONG-TERM CAPITAL ASSETS GAINS AND LOSSES (HELD MORE THAN ONE YEAR)**

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 new construction property, as applicable. The total exempt gain will be declared for informative purpose only, therefore, they shall not be included in Column (G). In the case of gains that are only 50% exempt, you should include in Column (G) the 50% of Column (F). Furthermore, the losses determined in Column (F) must also be included in Column (G). In this way, they may be applied against other gains, if any, or carried over to future years.

**Line 8** – If you elected to pay taxes by category over the distributable share on the net long-term capital gain (or loss) from a partnership or special partnership, enter the amount reported on line 1, Part III of Form 480.60 EC, as applicable.

### PART III – LONG-TERM CAPITAL ASSETS GAINS AND LOSSES REALIZED UNDER SPECIAL LEGISLATION

You must inform in this part **only** the long-term capital gain and loss derived from the sale of shares or other property of 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.

**Lines 11, 12 and 13** – Enter the amount of Column (F). Indicate 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 – GAIN (OR LOSS) FROM PROPERTY USED IN THE BUSINESS OTHER THAN CAPITAL ASSET

The term property used in the trade or business means property that is used in the trade or business that is subject to the allowance for current depreciation, held for more than 1 year, and real property used in the trade or business held for more than 1 year, which is property not included in the taxpayer's inventory if in existence at the close of the taxable year, or property held by the taxpayer primarily for the sale to customers in the ordinary course of its trade or business.

The Code provides for a special treatment for gains and losses derived from the sale or exchange of depreciable property used in the trade or business held for more than 1 year, and for gains and losses from a compulsory or involuntary conversion of such depreciable property and of capital assets, held for more than 1 year. Such gains could be treated as long-term capital gains and taxed at a rate of 20%, or the normal tax rates, whichever is lower.

### PART V - GAINS (OR LOSSES) FROM PROPERTY USED IN THE BUSINESS AND TAXABLE AS LONG-TERM CAPITAL GAIN

In this part shall be determined the gain derived from the sale or exchange of property used in the trade or business for which an election was made to be taxed as a long-term capital gain.

This amount must be transferred to line 12, Part VIII, page 3 of the return and subtracted as part of the amounts included on line 33, Part VIII, page 3 of the return. Also, this gain will be reported separately on line 4, Part II, page 1 of the return.

### PART VI – NET GAIN (OR LOSS) ON SALE OR EXCHANGE OF SUBSTANTIALLY ALL ASSETS DEDICATED TO AN ACTIVITY UNDER ACT 78-1993

In this part shall be determined the gain or loss derived from the sale or exchange of substantially all the assets used in the business under the provisions of Act 78-1993.

### SCHEDULE GI PASS-THROUGH ENTITY - TAX DETERMINATION ON BUILT-IN GAINS

This Schedule must be used when the requirements indicated in the instructions for Part VII of the return are met.

Fill in the corresponding box in Parts I through III, if you prepaid under the provisions of Section 1023.22 of the Code, the special tax on built-in gains. Also, you must include the built-in gain on which you prepaid in the corresponding column.

You must include with the return, copy of Form SC 2731, "Election for Prepayment of Special Tax on the Increase in Accumulated Value of Certain

Assets (Including Capital Assets)" with the corresponding schedules and evidence of payment.

### SCHEDULE IE PASS-THROUGH ENTITY – EXCLUDED AND EXEMPT INCOME

Complete this Schedule to inform the excluded and exempt income received during the taxable year.

### PART I – EXCLUSIONS FROM GROSS INCOME

**Line 1** – Enter the amounts 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 goods acquired through donation, legacy or inheritance. The income derived from such goods is not considered excluded and therefore, should be included as gross income. If the donation, legacy or inheritance is paid in installments, include as income the portion that is considered to be derived from the goods. (Section 1031.01(b)(2) of the Code).

**Line 3** - Indicate the amounts received under any plantation insurance, excluding fire insurance as a result of losses incurred by the insured.

**Line 4** - Enter the income from debt discharge, in whole or in part, if the discharge occurs under any of the following circumstances:

- filing for bankruptcy under Title 11 of the United States of America Code approved by a court with competent jurisdiction; or
- insolvency of the taxpayer (the liabilities exceed the fair market value of the assets).

If debt discharge is not due to the above circumstances, the income from it is considered taxable income and must be included in Part VIII of the return.

The amount excluded from 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 basis of any assets constituting collateral of the debt subject to the discharge, or the basis of all other assets of the taxpayer, in that order.

Provide the information from the Informative Return – Excluded and Exempt Income and Exempt Income Subject to Alternate Basic Tax (Form 480.6D).

**Line 5** – Enter the total amount of other exclusions from gross income for which a specific line is not provided on this Schedule. Also, enter the amounts excluded from gross income granted under special acts.

The entity must include with the return a schedule with a breakdown of the type of exclusion from net income and the amount of such income received during the taxable year.

### PART II - EXEMPTIONS FROM GROSS INCOME

**Line 1(C)** - Enter the income received from interests on securities issued under the Agricultural Loans Act of 1971, as amended, including obligations issued by 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. This item is subject to the payment of alternate basic tax.

**Line 1(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 no 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 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, as amended;
- on new residential property located in Puerto Rico issued after July 31, 1997 and before January 1, 2014 and secured by the National Housing Act of 1934 or the Servicemen's Readjustment Act of 1944. For those granted after January 1, 2014, see instructions for Part I, line 4 of this Schedule;
- originated to provide permanent financing for the construction or acquisition of social interest housing; and
- secured under the Bankhead-Jones Farm Tenant Act of 1937, as amended.

This item is subject to the payment of alternate basic tax.

**Line 1(E)** - Enter the income received from interests on loans issued by a commercial bank or any banking or financial organism established in Puerto Rico to an employees-owned special corporation, which proceeds are used by such special corporation for one of the following purposes:

- finance the acquisition, development, construction, expansion, rehabilitation or improvement of real property located in Puerto Rico to be used for commercial purposes by the special corporation, provided that the loan does not exceed the cost of the property or the improvements to be made on it;
- finance the acquisition of machinery or other tangible personal property to be used for commercial purposes by the special corporation in its business operations in Puerto Rico, provided that the loan does not exceed the purchase price of such property, or
- finance the acquisition of capital stocks in a corporation that is treated for Puerto Rico income tax purposes as a purchase of the assets of such corporation.

**Line 1(F)** - Enter the income received from interests on loans issued by a commercial bank or any other banking or financial organism established in Puerto Rico to a person for the acquisition and payment of membership certificates as an ordinary, extraordinary or corporate member, as applicable, in an employees-owned special corporation. This item is subject to the payment of alternate basic tax.

**Line 1(G)** - Enter the income received from interests on loans issued by a commercial bank or any other banking or financial organism established in Puerto Rico to a person for the purchase or investment in itself and for itself of preferred shares of an employees-owned special corporation. This item is subject to the payment of alternate basic tax.

**Line 1(H)** - Enter the income received from interests on loans of up to \$250,000 in the aggregate per exempt business granted to small and medium businesses as such term is defined in Act 73-2008, known as the "Economic Incentives for the Development of Puerto Rico Act" for its establishment or expansion, provided that the loan meets the requirements of the act known as the Community Reinvestment Act of 1977, Pub. Law 95-128, 91 Stat. 1147, as amended, and the requirements established by the

Commissioner of Financial Institutions by regulations. This item is subject to the payment of alternate basic tax.

**Line 1(I)** - Enter the income received from interests on loans of up to \$250,000 in the aggregate per exempt business granted to shareholders of exempt businesses to be used in the initial capitalization or a subsequent capital requirement of a small or medium business which enjoys tax exemption, as such term is defined in Section 2(i) of Act 73-2008, known as the Economic Incentives for the Development of Puerto Rico Act. This item is subject to the payment of alternate basic tax.

**Line 1(J)** – Enter the total amount of other interests subject to alternate basic tax reported in Box 10 of Form 480.6D. Provide Form 480.6D. This item is subject to the payment of alternate basic tax.

**Line 1(K)** – Enter the total amount of other interests not subject to alternate basic tax reported in Box 11 of Form 480.6D. Provide Form 480.6D.

**Line 1(L)** – Enter the total amount of other interests subject to alternate basic tax **not** reported on Form 480.6D. Provide the form or document in which they were reported. This item is subject to the payment of alternate basic tax.

**Line 1(M)** – Enter the total amount of other interests not subject to alternate basic tax **not** reported on Form 480.6D. Provide the form or document in which they were reported.

**Line 2(A)** - Enter the distributions of dividends reported in Boxes 12 and 16 of Form 480.6D. Provide Form 480.6D. This item is subject to the payment of alternate basic tax.

**Line 2(B)** - Enter the distributions of dividends reported in Boxes 13, 14, 15 and 17 of Form 480.6D. Provide Form 480.6D.

**Line 2(C)** - Enter the amount of dividends **not** reported on Form 480.6D and that are subject to the payment of alternate basic tax.

The taxpayer must include with the return a detailed breakdown with the name of the person who made the payment, employer identification number of that person, account number (if applicable) and the amount of dividends received during the year that are subject to the payment of alternate basic tax and were not reported on a Form 480.6D.

**Line 2(D)** - Enter the amount of dividend distributions **not** reported on Form 480.6D and that are **not** subject to the payment of alternate basic tax.

The taxpayer must include with the return a detailed breakdown with the name of the person who made the payment, employer identification number of that person, account number (if applicable) and the amount of dividends received during the year that are **not** subject to the payment of alternate basic tax and were **not** reported on a Form 480.6D.

**Line 3** - Enter the amount received for recovery of bad debts, previous taxes, surcharges and other items. For more information, see Section 1031.02(a)(8) of the Code. This item is subject to the payment of alternate basic tax.

**Line 4** - Enter the income from news agencies or unions or other press services, received from journalistic or broadcast companies, for rents or royalties for the use or publication or the right to use or publish in Puerto Rico, literary or artistic property of such agencies or unions.

**Line 5** - Enter the amount received for certain exempt income related to the operation of an employees-owned special corporation, such as 90 percent of the rental of real and personal property used by the corporation in its

development, organization, construction, establishment or operation. For more information, see Section 1031.02(a)(17) of the Code.

**Line 6** - Enter the income received or accrued in connection with the celebration of sports games organized by international associations and federations. This provision applies to teams from the Major League Baseball (MLB) and the National Basketball Association of America (NBA) in connection with the celebration of games in Puerto Rico. For more information, see Section 1031.02(a)(21) of the Code. This item is subject to the payment of alternate basic tax.

**Line 7** - Enter the income derived by the International Insurer or a Holding Company of the International Insurer, subject to the provisions of Article 61.240 of the Puerto Rico Insurance Code, including the income derived from the liquidation or dissolution of the operations in Puerto Rico.

**Line 8** - Enter the amount of income received from the rental of buildings in historic areas as established by the Institute of Puerto Rican Culture or the Planning Board. This item is subject to the payment of alternate basic tax.

**Line 10** - Enter the income derived from buildings leased to the Government of Puerto Rico for public hospitals, convalescence or nursing homes and public schools, exclusively for those buildings that had a lease in effect as of November 22, 2010.

**Line 11** - Enter the income derived by the taxpayer from the resale of personal property or services which acquisition by the taxpayer was subject to taxation under Section 3070.01 of the Code or Section 2101 of the 1994 Code.

**Line 12** - Enter the distributions of amounts previously reported as eligible deemed distributions under Section 1023.06(j) of the Code.

**Line 13** - Enter the distributions of dividends or profits from industrial development income of exempt businesses or in liquidation under the Economic Incentives for the Development of Puerto Rico Act (Act 73-2008) and the Tax Incentives Act of 1998 (Act 135-1997). For the treatment of such current or liquidation distributions, see Internal Revenue Circular Letter No. 09-06 of July 22, 2009.

**Line 14** - Enter the net income from residential property rented under the Real Property Market Stimulus Act (Act 132-2010, as amended).

**Line 15** - Enter the income received by designers or translators for its work in the preparation of books up to \$6,000, under Act 516-2004.

**Line 16** - Enter the gross income, up to \$500,000, generated by a new business created by a young entrepreneur whose age fluctuates between 16 and 35 years. Such new business will have to be in the first three years of operation with a special agreement for the creation of young businesses. For additional details, refer to Act 135-2014 (Act for the Incentives and Financing of Young Entrepreneurs).

**Line 17** - Enter the amount received for the distributable share on exempt income from pass-through entities and revocable trusts or grantor trusts. Transfer to this line, the amount indicated on Form 480.60 EC, Part III, line 17 and on Form 480.60 F, Part III, line 1T, as applicable.

Transfer to line 17(A) the amount of exempt income subject to alternate basic tax indicated on Form 480.60 EC, Part III, line 18 and on Form 480.60 F, Part III, line 1U, as applicable.

**Line 18** - Enter here the total amount of income reported in Box 19 of Form 480.6D. You must include such amount together with the other income subject to alternate basic tax on line 19, Part II, page 1 of the return.

**Line 19** - Enter here the total amount of income reported in Box 20 of Form 480.6D.

**Line 20** - Enter here the amount of other exemptions from gross income for which a specific line is not provided on this Schedule, even if the same are granted by special acts, that are subject to alternate basic tax and were **not** reported on Form 480.6D. Provide the form or document in which they were reported.

**Line 21** - Enter here the amount of other exemptions from gross income for which a specific line is not provided on this Schedule, even if the same are granted by special acts, that are not subject to alternate basic tax and were **not** reported on Form 480.6D. Provide the form or document in which they were reported.

## SCHEDULE L PASS-THROUGH ENTITY – PARTIALLY EXEMPT INCOME

This Schedule must be used by those entities operating under Act 52 of 1983, Act 47 of 1987, Act 78-1993, Act 225-1995, Act 74-2010, Act 132-2010, under Section 1033.12 of the Code or under any other act that provides any exemption percent on the income. Check the box corresponding to the act under which the entity operates.

For each applicable act, a Schedule L Pass-Through Entity must be completed and included with the return.

In the case of an entity operating under Act 52 of 1983 or Act 78-1993, and has made the election under Article 5(b) or 3(a)(1)(D) respectively, you must submit with the return a copy of the notification addressed to the Secretary of the Treasury making the election.

Any exempt business under Act 78-1993 or Act 74-2010, must include with the return a copy of the order issued by the Tourism Company Director indicating the beginning date of the exemption.

Businesses operating under Act 225-1995 or under Section 1033.12 of the Code, must include with the return a copy of the bona fide farmer certificate in force.

If the business generates exempt income from the lease of residential property, exempt under Act 132-2010, you must complete this Schedule and transfer the rental income to Schedule IE Pass-Through Entity, Part II, line 14.

## PART I - NET INCOME (OR LOSS)

**Line 3** - It shall be added as part of the income determined on this line the base period average income included in Part II, line 11 of Schedule V Pass-Through Entity.

**Line 4** - Enter in the space provided the percentage of the exemption you are entitled to claim according to your Resolution under the Tourism Incentives or Tourism Development Act or Agriculture Incentives Act.

Multiply the net operating income from the touristic or agricultural eligible activities, whichever applies, by the applicable exemption percentage. Enter the amount on this line.

Multiply the base period average income related to renegotiated decrees under Act 135-1997, whichever applies, by the applicable exemption percentage. Enter the amount on this line.

**Line 5** - The net operating losses under the tourism incentives or tourism development acts may be deductible only against income from touristic activities. The net losses from operations that are not covered under any of



the previously mentioned incentives acts, can be claimed only against the totally taxable income. **A schedule must be included with the return to sustain the deduction claimed.**

The excess of losses from touristic activities from previous years may be carried forward and claimed only as a deduction against income from touristic activities by the stockholders of the entity. Said loss may be deductible up to an amount equal to the percentage of income from the touristic activity that would have been taxable. The losses will be carried forward in the same order that they are incurred.

A net income or loss generated by an entity in a year in which an election for a flexible exemption under Article 3(a)(1)(D) of Act 78-1993 is in force, will be considered as a net income or loss from the entity's eligible activity.

Add line 5, Part I of each Schedule L Pass-Through Entity used and enter the total in Part II, line 6 of the return.

#### PART IV - DEDUCTIONS

On lines 1 through 49 you should enter the deductions related to the partially exempt income. For information regarding expense items, refer to instructions of Part XI of the return.

#### SCHEDULE R PASS-THROUGH ENTITY – PARTNERSHIPS AND SPECIAL PARTNERSHIPS

Complete Schedule R Pass-Through Entity, if the entity (that is a partnership or special partnership) is a partner in one or more partnerships or special partnerships. If you have a share in more than three partnerships or special partnerships, you must also complete and submit with the return the amount of Schedules R1 Pass-Through Entity that are necessary.

Part I of Schedule R Pass-Through Entity is used every year to determine the taxpayer's adjusted basis in each partnership or special partnership. In addition, you must indicate the type of form from which the information to be included on this schedule comes (Form 480.60 EC or K-1), type of taxable year (calendar or fiscal), name and employer identification number of the entity, and the control number and electronic filing confirmation number of Form 480.60 EC received, as applicable.

Part II of this Schedule is used to determine the net income or loss of the partner's share in one or more partnerships and special partnerships, including those losses carried over from previous years. Part III provides to determine the amount of aggregated net income or aggregated net loss of partnerships and special partnerships.

You must complete this Schedule annually, whether or not the partnership or special partnership has 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 Pass-Through Entity.

The basis of a partner's interest 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 items or transactions made during the taxable year that the determination is made and others included on the previous year income tax return.

##### Line 2 - Basis increase

- (a) Enter the partner's distributable share in the pass-through entity's income and profits for the current year. This amount must be the same as the one shown on line 7, Part II of this schedule.

- (b) Enter the capital contributions made by the partner to the pass-through entity during the current year, as shown in column (a), Part II of Form 480.60 EC.
- (c) Enter the partner's distributable share in the pass-through entity's gain from the sale or exchange of capital assets for the current year.
- (d) Enter the partner's distributable share in the pass-through entity's exempt income for the current year.
- (e) Enter the proportion of income or profit attributable to your share as partner in 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 profits like for example, the distributable share in the dividends and interests received by the partnership or special partnership.

##### Line 3 - Basis decrease

- (a) Enter the distributable share in the loss attributable to the partner in the previous year according to the provisions of the Code and Regulations related to partnerships, special partnerships and corporations of individuals.
- (b) Enter the distributable share in the partnership or special partnership's capital loss.
- (c) Enter the distributions made to the partner by the partnership or special partnership, whether in cash or in property, including tax exempt income.
- (d) Enter the amount claimed as credit against the income tax in the previous taxable year for investments made in 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) Enter the amount claimed as credit against the 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) Enter any expense from the partnership or special partnership not allowed as a deduction while determining your net income and that is not capitalized.
- (g) Enter the distributable share in the 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**, enter the charitable contributions made to eligible entities.
- (i) Enter the partner's debts assumed and guaranteed by the partnership.

**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

Partnerships, special partnerships and corporations of individuals that have share in one or more partnerships or special partnerships, must determine the net income or loss of the taxable year in such partnerships or special partnerships according to the provision of the Code and the Regulations.

**Line 6** - Enter on this line the amount determined in Part I, line 4. If the special partnership or partnership has an exemption decree under the Puerto Rico Tourism Incentives Act or the Puerto Rico Tourism Development Act, you may use the debts of the special partnership or partnership, as reported on line F, Part I of Form 480.60 EC, in proportion to your share, to increase its adjusted basis on line 6(b), only to claim losses of the special partnership or partnership from this activity.

Also, include on line 6(c) the portion of the partnership's current debts assumed by the partner that are guaranteed by such partner as established on Form 480.60 EC, Part I, line E.

**Line 7** - Enter the partner's distributable share in the income and profits derived from the special partnership or partnership during the year. This amount is reflected on Form 480.60 EC. Exclude the net income subject to special tax rate derived from operations of a business with a tax exemption decree.

**Line 8** - Enter the smaller of the amounts on lines 5(c) and 6(d). This will be the maximum amount of losses from partnerships and special partnerships that will be used to determine the aggregated net loss from partnerships and special partnerships to be used against the aggregated net income of these pass-through entities.

**Line 9** - Enter the sum of income reported on line 7, Columns A through C.

### **PART III – SUMMARY OF THE DISTRIBUTABLE SHARE ON INCOME AND LOSSES FROM PARTNERSHIPS AND SPECIAL PARTNERSHIPS**

**Line 1** - Transfer to this line the aggregated net income determined on lines 9 and 10 of Part II in relation to all partnerships and special partnerships in which you have participation. Transfer the total of this line to Part II, line 14, page 1 of the return.

**Line 2** - Transfer to this line the aggregated net loss determined on lines 11 and 12 of Part II in relation to all partnerships and special partnerships in which you have participation. Transfer the total of this line to Part II, line 15, page 1 of the return.

#### **SCHEDULE R1 PASS-THROUGH ENTITY – PARTNERSHIPS AND SPECIAL PARTNERSHIPS (COMPLEMENTARY)**

Complete Schedule R1 Pass-Through Entity, if the entity is a partner of more than three partnerships or special partnerships. As Schedule R Pass-Through Entity, Schedule R1 Pass-Through Entity is used each year to determine the adjusted basis and the net profit or loss on the partner's share in each partnership or special partnership, including the loss carryover from previous years.

Use the amount of Schedules R1 Pass-Through Entity as needed. For additional information, see instructions of Schedule R Pass-Through Entity.

#### **SCHEDULE V PASS-THROUGH ENTITY - DETERMINATION OF NET INCOME AND INCOME TAX FOR EXEMPT BUSINESSES UNDER ACT 135-1997**

Use this Schedule to determine the tax responsibility attributable to partners with operations covered by an exemption decree issued under Act 135-1997.

Indicate in the corresponding boxes the enforcement period for income, and the current and required number of jobs directly related with manufacture or designated service.

### **PART II - NET INCOME SUBJECT TO TAX**

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

**Line 4** - Enter here the net operating losses from the preceding year, including the share on losses from special partnerships that own or operate tourism businesses under Act No. 78. You must submit a schedule with the case number, amount of the loss and carryover computation.

The amount of net loss on operations to be carried forward shall be determined in accordance to the provisions of Section 1033.14 of the Code, except that in addition to the exceptions, additions and limitations provided in this section, the loss shall be adjusted by income from eligible activities under subsection (j) of Section 2 of this Act.

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

This deduction will be used only in the taxable year in which you earn the industrial development income against which the deduction is claimed and it cannot be carried forward to subsequent taxable years.

**Line 11** - Applies only to exempt businesses which renegotiated their decrees under Act 135-1997. This amount shall be added to the net income reported in Part I, line 3 of Schedule L Pass-Through Entity.

**Line 12** - If line 12 is **less** than line 11, transfer the net operating income of the year (Part II, line 1 of this schedule) to Part I, line 3 of Schedule L Pass-Through Entity, if the preceding renegotiated decree was issued under Act No. 8 of 1987, and complete the schedule applying the percentage of exemption granted by the decree. If the base period average income corresponds to activities not covered by a decree, transfer this amount to Part VIII, line 25, page 3 of the return.

If line 12 is **more** than line 11, add the base period income included on line 11 to the net income reported in Part I, line 3 of Schedule L Pass-Through Entity, if the preceding renegotiated decree was issued under Act No. 8 of 1987. In these cases, you must transfer the amount on line 12 to Part IX, line 1, Column of "Net Income" of the return.

### **PART III - TAX COMPUTATION**

#### **Line 3 – Credits**

On March 7, 2017, the Financial Advisory Authority and Fiscal Agency of Puerto Rico ("AAFAF", for its Spanish acronym) issued Administrative Order No. OA-2017-01 by which it ordered the Secretary of Treasury ("Secretary") to carry out an inventory of the tax credits granted and to require the holders of tax credits to report the amount granted of said credits, in the manner that the Secretary establishes for said purposes. The administrative order also establishes that, any credit holder that does not show evidence issued by the Secretary of compliance with the information requirement, will not be able to claim said tax credits. Subsequently, AAFAF has issued several resolutions regarding the use and availability of tax credits.

For its part, on April 20, 2017, the Department of the Treasury ("Department") issued the Internal Revenue Informative Bulletin No. 17-08 to notify that the requirement to carry out the inventory of tax credits would be met by electronic

filing Form 480.71.1 - Informative Return for Tax Credits Holders ("Form 480.71.1"). For these purposes, the Department established that the requirement imposed by AAFAF to submit evidence of compliance with the information requirement in order to claim the tax credits, would be met by electronic filing Form 480.71.1. Therefore, in order to claim a tax credit, it must be included in Form 480.71.1 that the credit holder submitted to the Department.

**Every pass-through entity that reports the distributable share of a tax credit to its owners, must accompany with its Informative Return copy of Form 480.71.1 duly filed in the Department.**

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

**Line 3(a)** - Enter the credit granted as a result of an adjustment made by the Federal Internal Revenue Service or by means of Closing Agreement. In the case of credits of foreign entities which operations were covered by Section 936 of the Federal Internal Revenue Code of 1986, as amended, they are limited to 50% of the tax determined for each year. Also include on this line credits granted by means of Closing Agreement as a result of a mutual agreement procedure between the competent authorities of the corresponding jurisdictions. In the case of credits granted by means of Closing Agreement, they will only be claimed up to the limit established in the Closing Agreement.

**Line 3(b)** - Any exempt business with a decree granted under Act 135-1997, that is a subsidiary of a U.S. parent company, that reflects a loss in the consolidated federal return or is under bankruptcy proceedings under federal regulations, will be allowed to claim a credit against the fixed tax applicable to the industrial development income (IDI) earned during the taxable year of the loss. For additional information, refer to Section 5(a) of Act 135-1997.

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

**Lines 3(d) through 3(i)** - Refer to the instructions of Schedule X1 Pass-Through Entity.

**SCHEDULE V1 PASS-THROUGH ENTITY - COMPUTATION OF THE SPECIAL DEDUCTIONS FOR EXEMPT BUSINESSES UNDER ACT 135-1997**

Use this Schedule for the computation of the allowable special deductions for exempt businesses under Act 135-1997.

**PART I - COMPUTATION OF THE SPECIAL DEDUCTIONS**

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

**PAYROLL DEDUCTION**

In addition to other deduction provided by law, every exempt business with a decree under this act engaged in the manufacture and that generates a net

income from its exempt operations (computed without taking into consideration the benefit of the special deductions provided in Section 4 of the act) of less than \$30,000 per production job, will be allowed to claim a special payroll deduction equivalent to 15% of the production payroll of the exempt business, up to 50% of the IDI, computed without the benefit of the production payroll special deduction.

The exempt business that has a decree under this act engaged in manufacture, which IDI computed without the benefit of the special deductions provided in Section 4 on any taxable year is less than \$500,000, and has kept an average employment of 15 or more persons during said taxable year, is allowed to deduct the first \$100,000 of said income in order to be totally exempt from the payment of the IDI fixed tax rate provided in Section 3(a) of this act. For additional information, refer to Section 4(a) of Act 135-1997.

**HUMAN RESOURCES TRAINING AND IMPROVEMENT EXPENSES DEDUCTION**

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

**RESEARCH AND DEVELOPMENT EXPENSES DEDUCTION**

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

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

Every exempt business that has a decree under Act 135-1997, is allowed to elect to deduct on the taxable year incurred, instead of any expense capitalization required by the Code, the total expenses incurred after the effective date of such act, in the purchase, acquisition or construction of buildings, structures, machinery and equipment, as long as said buildings, structures, machinery and equipment have not been used or depreciated previously by any other business or person in Puerto Rico, and are used in the manufacture of products or to render the services for which said benefits were provided under the act.

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

**SCHEDULE W PASS-THROUGH ENTITY - DETERMINATION OF NET INCOME AND INCOME TAX FOR FILM ENTITY UNDER ACT 362-1999 OR ACT 27-2011**

Use this Schedule to determine the tax responsibility attributable to the partners of an entity considered as a film entity with an exemption decree under Act 362-1999 or Act 27-2011.

**PART I - NET INCOME SUBJECT TO TAX**

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



used only against income from the Film Project or Infrastructure Project, whichever applies.

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

**Line 3** - Transfer this amount to Part IX, line 2, Column of "Net Income" of the return.

## PART II - COMPUTATION OF TAX

**Line 4** - The Film Entity's income derived directly from Film Projects or Infrastructure Projects will be subject to a fixed income tax according to the decree approved under Act 362-1999 or Act 27-2001, instead of any other tax, if any, provided by law.

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

### SCHEDULE X PASS-THROUGH ENTITY – DETERMINATION OF NET INCOME AND INCOME TAX FOR EXEMPT BUSINESSES UNDER ACT 73-2008

Use this Schedule to determine the tax responsibility attributable to the partners of the entity with operations covered by a decree issued under Act 73-2008.

Indicate in the corresponding boxes the enforcement period for income, and the current and required number of jobs directly related with manufacture or designated service.

## PART II – NET INCOME SUBJECT TO TAX (APPLIES ONLY TO RENEGOTIATED DECREES UNDER SECTION 13(b)(1))

**Line 2** – Enter the income from qualified investments under Section 2(j) of Act 73-2008.

**Line 4** – Enter here the net operating losses from the preceding year, including the share in losses from special partnerships that own or operate tourism businesses under Act No. 78. You must submit a schedule with the case number, amount of the loss and carryover computation.

The amount of net loss on operations to be carried forward shall be determined in accordance with the provisions of Section 1033.14 of the Code, except that in addition to the exceptions, additions and limitations provided in this section, the loss shall be adjusted by income from eligible activities under subsection (j) of Section 2 of this Act.

**Line 6** – Every exempt business with a decree granted under Act 73-2008, is allowed to elect to deduct on the taxable year incurred, instead of any expense capitalization required by the Code, the total expenses incurred after the effective date of such act, in the purchase, acquisition or construction of buildings, structures, machinery and equipment, as long as said buildings, structures, machinery and equipment have not been used or depreciated previously by any other business or person in Puerto Rico, and are used in the manufacture of products or to render the services for which said benefits were provided under the act.

In case the exempt business claims this deduction, it will not be able to claim deduction for depreciation of such assets.

**Line 8** – Applies only to exempt businesses which renegotiated their decrees under Section 13(b)(1) of Act 73-2008. Transfer this amount to Schedule V Pass-Through Entity, Part II, line 10.

**Line 9** – If line 9 is **less** than line 8, enter the net operating income of the year (Part II, line 1 of this schedule) on Schedule V Pass-Through Entity, Part II, line 1, if the preceding renegotiated decree was issued under Act 135-1997, and complete the Schedule.

If line 9 is **more** than line 8, enter the base period income on Schedule V Pass-Through Entity, Part II, line 10 if the preceding renegotiated decree was issued under Act 135-1997, and complete the schedule starting from said line 10.

Transfer the amount of this line to Part IX, line 3, Column of "Net Income" of the return, provided that line 9 is more than line 8.

## PART III – NET INCOME SUBJECT TO TAX (EXCEPT RENEGOTIATED DECREES UNDER SECTION 13(b)(1))

**Line 2** – Enter the income from qualified investments under Section 2(j) of Act 73-2008 (Act).

**Line 4** – Refer to the instructions of Part II, line 4 of this Schedule.

**Line 7** – Subtract the industrial development income (IDI) subject to the tax rates applicable under the Code, according to Sections 3(f) and 3(g) of the Act.

During the first four (4) years of the enforcement of this Act, according to the provisions of Section 3(f), the fixed income tax rates provided in the same will be applied gradually to the IDI, as follows:

Year	IDI subject to fixed tax rate under Act No. 73	IDI subject to tax rates under the Code
1	25%	75%
2	50%	50%
3	75%	25%
4	100%	0%

On the other hand, an eligible business that at the date of its incentives application, is dedicated to the activity for which the benefits of this Act are granted, as provided by Section 3(g), will be able to enjoy the fixed tax rate on industrial development income provided by Section 3, only regarding the increase that the net income from such activity generates over the average net income of the last three (3) taxable years previous to the date of submitting the application (base period income).

The base period income will be subject to the income tax rates provided by the Code. This income will be adjusted, reducing such amount by 25% annually, until it is reduced to zero for the fourth taxable year of application of the terms provided in the exempt business decree under this Act.

**Line 8** – Refer to the instructions of line 6, Part II of this Schedule.

**Line 9** - Transfer this amount to Part IX, line 3, Column of "Net Income" of the return.

## PART IV – TAX COMPUTATION

**Line 1** – Check the corresponding tax rate, as provided in your exemption decree granted under Act 73-2008.



Act 73-2008 (Act) provides, among other things, that any exempt business with a decree granted under this Act, that is located or locates its operations in a municipality classified as low industrial development zone or intermediate industrial development zone, as provided by Section 11 of the Act, may reduce the established fixed income tax rate by an additional .5%. In those cases in which an exempt business with a decree granted under this Act maintains operations in more than one industrial zone, such exempt business shall enjoy said reduction regarding the industrial development income attributable to its operations in the low industrial development zone or intermediate industrial development zone, according to the rules of attribution provided by regulation.

### Line 3 – Credits

On March 7, 2017, the Financial Advisory Authority and Fiscal Agency of Puerto Rico ("AAFAF", for its Spanish acronym) issued Administrative Order No. OA-2017-01 by which it ordered the Secretary of Treasury ("Secretary") to carry out an inventory of the tax credits granted and to require the holders of tax credits to report the amount granted of said credits, in the manner that the Secretary establishes for said purposes. The administrative order also establishes that, any credit holder that does not show evidence issued by the Secretary of compliance with the information requirement, will not be able to claim said tax credits. Subsequently, AAFAF has issued several resolutions regarding the use and availability of tax credits.

For its part, on April 20, 2017, the Department of the Treasury ("Department") issued the Internal Revenue Informative Bulletin No. 17-08 to notify that the requirement to carry out the inventory of tax credits would be met by electronic filing Form 480.71.1 - Informative Return for Tax Credits Holders ("Form 480.71.1"). For these purposes, the Department established that the requirement imposed by AAFAF to submit evidence of compliance with the information requirement in order to claim the tax credits, would be met by electronic filing Form 480.71.1. Therefore, in order to claim a tax credit, it must be included in Form 480.71.1 that the credit holder submitted to the Department.

**Every pass-through entity that reports the distributable share of a tax credit to its owners, must accompany with its Informative Return copy of Form 480.71.1 duly filed in the Department.**

In case of exempt businesses which renegotiated their decrees under Act 73-2008 and are entitled to claim the same credits against the base period income tax and over the fixed rate under Act 73-2008, said credits can be claimed, at the exempt business option, up to the total amount allowed by law, against the base period income tax or against the fixed rate; or allocated, up to the amount allowed by law, between the base period income tax and the fixed tax rate. The sum of the allocated amounts cannot exceed the total amount of the credit.

**Lines 3(a) through 3(h) – Refer to the instructions of Schedule X1 Pass-Through Entity.**

**Line 5 –** Every exempt business under Act 73-2008 will be subject to a minimum tax. In the case of a small or medium business, such tax will be 1% of the net industrial development income of the business. For a local investment business, it will be 3% of the net industrial development income. In the other cases, it will be the fixed income tax rate provided by law applicable to the business multiplied by the net industrial development income, excluding the income under subsection (j) of Section 2 of the Act.

**Line 7 –** Subtract the tax withheld on royalty payments made during the year.

**Line 8 –** The payment required for minimum tax will be equal to the excess of the minimum tax over the net tentative tax. As the net tentative tax exceeds the minimum tax, the exempt business will not have to make a payment for minimum tax.

## SCHEDULE X1 PASS-THROUGH ENTITY – COMPUTATION OF TAX CREDITS FOR EXEMPT BUSINESSES UNDER ACT 73-2008

Use this Schedule for the computation of the allowable tax credits for exempt businesses under Act 73-2008.

### PART I – CREDIT FOR PURCHASE OF PRODUCTS MANUFACTURED IN PUERTO RICO

Enter in the spaces provided, for each manufacturing business from which the products were acquired, the name, employer identification number, manufacturing business identification number, and the value (cost) of each purchase (include a schedule if you acquire the products from more than one business). In case of manufacturing businesses with a tax exemption decree, the manufacturing business identification number will be the decree number. If the business does not have a decree, enter the number assigned by the Industrial Development Company. The eligible business must keep the necessary records evidencing the value of the purchases for which the credit is claimed. Do not include purchases of products that have been manufactured in Puerto Rico by persons related to the eligible business.

An eligible business, as defined by Act 73-2008, will be entitled to claim a credit against the income tax for the purchases of products manufactured in Puerto Rico, including component parts and accessories, equal to 25% of the purchases of said products during the taxable year in which the credit is claimed, or 35% if the products are made from recycled materials or recycled raw materials. This credit may be claimed up to a maximum of 50% of the income tax liability.

**This credit will not be available and no credit will be granted to those businesses that had claimed any special deduction or credit of similar nature under any other incentives act.**

For additional information, refer to Section 5(a) of Act 73-2008 and the corresponding regulations.

**Line 5 –** In order to determine the total tax to be entered on this line, consider the following lines from other schedules.

If the income reported comes from:	The total tax will be:
Schedule V Pass-Through Entity	Part III, line 2
Schedule X Pass-Through Entity	Part IV, line 2
Schedule Z Pass-Through Entity	Part II, line 5
Schedule AA Pass-Through Entity	Part III, line 5

Please refer to Internal Revenue Circular Letter No. 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

### PART II – JOB CREATION CREDIT

Every exempt business beginning operations after July 1, 2008, will be entitled to claim a credit only against the industrial development income tax, for each job created during its first year of operations. The amount of the credit will depend on the industrial development zone where the exempt business operations are located, as follows:

Area	Credit
Vieques and Culebra	\$5,000
Low Industrial Development Zone	\$2,500
Intermediate Industrial Development Zone	\$1,000
High Industrial Development Zone	\$0

**Line 3(b)** – The generated credit not used during the first year of operations may be carried forward for a period that shall not exceed four years beginning in the first taxable year in which the exempt business generates net income. Detail on this line the amount of credit claimed in each one of the previous taxable years beginning on the date in which the same was generated and enter the total in the box.

**Line 5** – Enter the amount of credit to be claimed against the tax liability for the current year. Transfer to Schedule X Pass-Through Entity, Part IV, line 3(b).

For additional information, refer to Section 5(b) of Act 73-2008 and the corresponding regulations.

Please refer to Internal Revenue Circular Letter No. 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

### **PART III – CREDIT FOR INVESTMENT IN RESEARCH AND DEVELOPMENT, CLINICAL TRIALS, TOXICOLOGY TESTS, INFRASTRUCTURE, RENEWABLE ENERGY OR INTANGIBLE PROPERTY**

Any exempt business with a tax exemption decree may claim a credit for investment equal to 50% of the special eligible investment made in Puerto Rico after the approval of Act 73-2008. The credit may be applied, at the option of the exempt business, against the income tax of the business and/or against the operating expenses of the business related to electric power, water and sewage.

It is important to point out that the Department of the Treasury issued Tax Policy Informative Bulletin No. 16-12 (IB 16-12) to notify that in order for the exempt business to claim this credit against the operating costs related to electric power, water and sewage, the Department must have issued a certification establishing that it has the funds to cover such operating costs, according to Act 22-2016.

The credit may be claimed in two or more installments: up to 50% of said credit may be claimed in the year the eligible investment is made and the balance in subsequent years until totally used, provided that such limitation shall not apply to operating expenses of said exempt business related to electric power, water and sewage.

Every exempt business that claims a credit under these provisions must request an accrediting certificate issued annually by the Puerto Rico Industrial Development Company which certifies the activities of a research and development project realized in Puerto Rico that are eligible to request the tax credit provided in Section 5(c) of Act 73-2008. Said certification must be included with the return as a requirement to grant the credit claimed.

**Line 1** – The term **special eligible investment** means the amount of cash used by the exempt business with a decree issued under any Puerto Rico incentives act, or any entity affiliated to said exempt business in research and development activities, including operating expenses, clinical trials, toxicology tests, infrastructure, renewable energy or intellectual property.

Among the operating expenses the following will be included: payroll, including fringe benefits and professional services; insurance; tax, municipal license and licenses payments; rent; repair and maintenance expenses; net expense of electric power, water and telephone; and materials.

Complete Part IX of the schedule and transfer the total to this line.

**Line 3** – Enter 50% of the total credit generated for investment made in the current year. You may claim a maximum of 50% of the credit against the tax liability in the year the investment was made.

**Line 4** – Enter the amount of credit not used in the previous year, if any.

**Line 5** – This is the amount of credit available that the business may choose to claim against the tax liability for the current year. If you have made an eligible investment during the current year, you shall take into consideration 50% of the allowable credit for this year plus the amount of credit generated not claimed in previous years.

**Line 7(a)** – Enter the amount that you will claim against the tax liability in the current year and transfer to the corresponding schedule of the return.

**Line 7(b)** – If you choose to claim part of your credit against the operating expenses of the current year related with electric power, water and sewage (AEE and AAA), enter on this line the amount claimed against such expenses.

**Line 7(c)** – If you chose to assign, sell or in any way transfer totally or partially your credit, enter on this line the total amount transferred.

**Line 8** – That part of the credit not used in the year in which the investment was made can be carried forward to subsequent years until totally used.

For additional information, refer to Section 5(c) of Act 73-2008 and the corresponding regulations.

Please refer to Internal Revenue Circular Letter No. 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

### **PART IV – CREDIT FOR INVESTMENT IN MACHINERY AND EQUIPMENT FOR THE GENERATION AND EFFICIENT USE OF ENERGY**

Any exempt business with a tax exemption decree may claim a credit against the income tax of 50% of its eligible investment made after May 28, 2008.

In case of an eligible investment made by an exempt business to generate energy for its own consumption, the credit shall not exceed 25% of the income tax. Nevertheless, in order to qualify as an eligible investment, such business must request a certification from the Energy Affairs Administration (EAA) regarding the investment made during the corresponding period.

On the other hand, an eligible investment made by an exempt business engaged in the production, whether on a commercial scale or not, of energy for consumption in Puerto Rico through the use of natural gas or coal, or through the use of renewable sources (businesses under Section 2(d)(1)(H) of Act 73-2008 or a similar provision under previous incentives acts) in order to establish or make a substantial expansion in its energy generating operations, the maximum amount of credit that can be granted will be eight million dollars (\$8,000,000) per establishment or substantial expansion. In the case of an additional eligible investment realized by the same exempt business, such maximum amount will be reduced for the amount of credit claimed by the exempt business in a previous taxable year regarding any previous eligible investment.

Every business under these provisions must request a preliminary certification from the EAA in which there shall be stated that the machinery and equipment that the exempt business intends to acquire meets all the regulations and conditions established and the estimated total of the eligible investment. After the business is established or the substantial expansion is completed, the business must request a final certification from the EAA.

The credit for businesses under **Section 2(d)(1)(H) of Act 73-2008 or a similar provision of previous incentives acts**, will be subject to the taxpayer's request and the approval by the Secretary of the Treasury of an

administrative determination under Act 73-2008 and its corresponding regulations. You must include with the return copy of the determination, along with the information required in the determination letter.

For purposes of this credit, **eligible investment** means, in general terms, the amount of cash used for the acquisition of machinery and equipment to generate energy with alternate fuels to oil.

After the third year Act 73-2008 is in effect, only purchases of machinery and equipment to generate energy from renewable sources shall qualify for the credit.

For additional information, refer to Section 5(d) of Act 73-2008 and the corresponding regulations.

**Line 4** - Refer to the instructions of Part I, line 5 of this Schedule.

Please refer to Internal Revenue Circular Letter No. 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

## PART V – CREDIT TO REDUCE THE COST OF ELECTRIC POWER

Any exempt business that is an industrial customer of the Electric Power Authority (AEE) with an exemption decree, may claim the following credits only against the income tax:

- (a) **Base credit** equal to 3% of the payments made to the AEE for **net consumption** of electric power regarding the eligible business operation during the taxable year.
- (b) If the business maintained an average of 25 employees or more during the taxable year, it may claim an additional credit of 3.5% of the payments made to the AEE regarding the operation of the eligible business.
- (c) If the business has maintained an average payroll of \$500,000 or more during the taxable year, it may claim an additional credit of 3.5% of the payments made to the AEE regarding the operation of the eligible business.

Any business that complies with the requirements provided in paragraphs b and c above, may claim both credits along with the base credit for an annual maximum credit of 10% of the payments made to the AEE regarding the operation of the eligible business.

The maximum credit to be claimed starting in 2013 shall be reduced on a 1% basis per year.

The total credit for energy costs not used in the taxable year in which it was originated may be carried forward to subsequent taxable years.

For additional information, refer to Section 5(e) of Act 73-2008 and the corresponding regulations.

Please refer to Internal Revenue Circular Letter No. 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

## PART VI – CREDIT FOR THE TRANSFER OF INTELLECTUAL PROPERTY

Any exempt business with a tax exemption decree may claim a credit only against the income tax equal to 12% of the payments made to corporations, partnerships or nonresident persons, for the use or right to use in Puerto Rico of intangible property in their exempt operation, provided that the income from such payments is from Puerto Rico sources.

In case of exempt businesses subject to the alternate imposition provided by Section 3(b)(4) of Act 73-2008, the applicable credit will be 2% of the payments made.

The credit generated not used in the taxable year in which it was originated may be carried forward for a period that shall not exceed eight taxable years counted from the closing of the taxable year in which it was originated.

Please refer to Internal Revenue Circular Letter No. 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

## PART VII – CREDIT FOR INVESTMENT IN STRATEGIC PROJECTS

Any exempt business may claim an investment credit equal to 50% of the eligible investment in strategic projects made in Puerto Rico after May 28, 2008.

The credit may be applied, at the option of the exempt business, against the income tax and/or against the operating costs of the exempt business related to electric power, water or sewage.

It is important to point out that the Department of the Treasury issued IB 16-12 to notify that in order for the exempt business to claim this credit against the operating costs related to electric power, water and sewage, the Department must have issued a certification establishing that it has the funds to cover such operating costs, according to Act 22-2016.

For purposes of this credit, the term **eligible investment in strategic projects** means the amount of cash from any source of financing, used by the exempt business or any entity affiliated to the exempt business, in activities of design, development and construction of dams and/or reservoirs and all infrastructure necessary for its operation, as well as any infrastructure for the operation of a strategic project.

The credit may be claimed to satisfy up to 50% of the total income tax of the business taxable year. Such limitation shall not apply with respect to the operating costs of the exempt business related to electric power, water and sewage.

**Line 2** – Every credit for eligible investment, including the credit in excess of the percent established on line 5(a) of this Part VII, not used in a taxable year, may be carried forward to subsequent taxable years until totally used.

**Line 4** - Refer to the instructions of Part I, line 5 of this Schedule.

**Line 5(a)** – Enter the amount of credit that you will claim against the tax liability determined for the current year. This amount cannot exceed 50% of the total tax determined to be paid in the year for which you are filing the return. Transfer this amount to the corresponding schedule of your income tax return.

**Line 5(b)** – If you chose to claim part of your credit against the operating costs of the current year related to electric power, water and sewage (AEE and AAA), enter on this line the amount claimed against such costs. Refer to IB 16-12 for additional details regarding the requirements to elect the option to claim the credit against the operating costs related to electric power, water and sewage.

**Line 5(c)** – If you chose to assign, sell or in any way transfer totally or partially your credit, enter on this line the total amount transferred.

For additional information, refer to Section 5(g) of Act 73-2008 and the corresponding regulations.

Please refer to Internal Revenue Circular Letter No. 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.



**PART VIII – INDUSTRIAL INVESTMENT CREDIT**

Any investor may claim a credit for industrial investment equal to 50% of its investment in an exempt business with a decree granted under the incentives acts, that is in the process of closing operations in Puerto Rico, to continue operating it, or for investment in an exempt business considered a small or medium business, among other requirements.

The maximum amount of credit for this concept shall not exceed eight million (\$8,000,000) dollars per exempt business with a decree granted under Act 73-2008.

This credit will be subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination under Act 73-2008 and the corresponding regulations. You must include with the return copy of the administrative determination, along with the information required in such determination.

**Line 3** – Enter the amount of credit not used in the previous year, if any.

**Line 4** – This is the amount of credit available that the business may choose to claim against the tax determined for the current taxable year. If you have made an eligible investment during the current taxable year, you shall take into consideration 50% of the allowable credit for the year plus the amount of credit provided in previous years that was not claimed.

**Line 6(a)** – Enter the amount that you will claim against the tax determined in the current year and transfer to the corresponding schedule of the return.

**Line 6(b)** – If you chose to assign, sell or in any way transfer totally or partially your credit, enter on this line the total amount transferred.

**Line 7** – Such part of the credit not used in the year in which the investment was made may be carried forward to subsequent years until totally used.

For additional information, refer to Section 6 of Act 73-2008 and its corresponding regulations.

Please refer to Internal Revenue Circular Letter No. 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

**SCHEDULE Y PASS-THROUGH ENTITY – DETERMINATION OF NET INCOME AND INCOME TAX FOR EXEMPT BUSINESSES UNDER ACT 83-2010**

Use this Schedule to determine the tax responsibility attributable to the partners of an exempt business under Act 83-2010.

Indicate in the corresponding boxes the enforcement period for income, and the current and required number of jobs directly related with manufacture or designated service.

**PART I – NET INCOME SUBJECT TO TAX**

**Line 2** – Enter here the net operating losses from the preceding year, related to the activities covered by a decree issued under Act 83-2010, including the share on losses from special partnerships that own or operate tourism businesses under Act 78. You must submit a schedule with the case number, amount of the loss and carryover computation.

The amount of net operating loss to be carried forward shall be determined in accordance with the provisions of Section 1033.14 of the Code.

**Line 4** – Every exempt business with a decree granted under Act 83-2010,

is allowed to elect to deduct on the taxable year incurred, instead of any expense capitalization required by the Code, the total expenses incurred after the effective date of such act, in the purchase, acquisition or construction of buildings, structures, machinery and equipment, as long as said buildings, structures, machinery and equipment have not been used or depreciated previously by any other business or person in Puerto Rico, and are used in the manufacture of products or to render the services for which said benefits were provided under the act.

**Line 5** - Transfer this amount to Part IX, line 4, Column of "Net Income" of the return.

**PART II – TAX COMPUTATION****Line 3 – Credits**

On March 7, 2017, the Financial Advisory Authority and Fiscal Agency of Puerto Rico ("AAFAF", for its Spanish acronym) issued Administrative Order No. OA-2017-01 by which it ordered the Secretary of Treasury ("Secretary") to carry out an inventory of the tax credits granted and to require the holders of tax credits to report the amount granted of said credits, in the manner that the Secretary establishes for said purposes. The administrative order also establishes that, any credit holder that does not show evidence issued by the Secretary of compliance with the information requirement, will not be able to claim said tax credits. Subsequently, AAFAF has issued several resolutions regarding the use and availability of tax credits.

For its part, on April 20, 2017, the Department of the Treasury ("Department") issued the Internal Revenue Informative Bulletin No. 17-08 to notify that the requirement to carry out the inventory of tax credits would be met by electronic filing Form 480.71.1 - Informative Return for Tax Credits Holders ("Form 480.71.1"). For these purposes, the Department established that the requirement imposed by AAFAF to submit evidence of compliance with the information requirement in order to claim the tax credits, would be met by electronic filing Form 480.71.1. Therefore, in order to claim a tax credit, it must be included in Form 480.71.1 that the credit holder submitted to the Department.

**Every pass-through entity that reports the distributable share of a tax credit to its owners, must accompany with its Informative Return copy of Form 480.71.1 duly filed in the Department.**

**Lines 3(a) through 3(d)** – Refer to the instructions of Schedule Y1 Pass-Through Entity.

**Line 5** – Every exempt business under Act 83-2010 will be subject to a minimum tax. In the case of an exempt business that belongs directly in at least 50% to individuals residents of Puerto Rico, it will be 3% of the green energy income of the business.

**Line 7** – Subtract the tax withheld on royalty payments made during the year.

**Line 8** – The payment required for minimum tax will be equal to the excess of the minimum tax over the net tentative tax. As the net tentative tax exceeds the minimum tax, the exempt business will not have to make a payment for minimum tax.

**SCHEDULE Y1 PASS-THROUGH ENTITY – COMPUTATION OF TAX CREDITS FOR EXEMPT BUSINESSES UNDER ACT 83-2010**

Use this Schedule for the computation of the tax credits applicable to businesses covered under Act 83-2010.



## PART I – CREDIT FOR PURCHASES OF PRODUCTS MANUFACTURED IN PUERTO RICO

Enter in the spaces provided, for each manufacturing business from which the products were acquired, the name, employer identification number, manufacturing business identification number, and the value (cost) of each purchase (include a schedule if you acquire the products from more than one business). In case of manufacturing businesses with a tax exemption decree, the manufacturing business identification number will be the decree number. If the business does not have a decree, enter the number assigned by the Industrial Development Company. The eligible business must keep the necessary records evidencing the value of the purchases for which the credit is claimed. Do not include purchases of products that have been manufactured in Puerto Rico by persons related to the eligible business.

A business engaged in an eligible activity, as defined by Act 83-2010, will be entitled to claim a credit against the income tax for the purchases of products manufactured in Puerto Rico, including component parts and accessories, equal to 25% of the purchases of said products during the taxable year in which the credit is claimed, or 35% if the products are made from recycled materials or recycled raw materials. This credit may be claimed up to a maximum of 50% of the income tax determined.

**This credit will not be available and no credit will be granted to those businesses that had claimed any special deduction or credit of similar nature under any other incentives act.**

For additional information, refer to Article 2.11(a) of Act 83- 2010 and the corresponding regulations.

**Line 5** – Enter the sum of lines 2 and 3 or line 6, Part II of Schedule Y Pass-Through Entity, whichever is larger.

## PART II – CREDIT FOR JOB CREATION

Every exempt business beginning operations after July 19, 2010, will be entitled to claim a credit only against the green energy income tax, for each job created during its first year of operations. The amount of the credit will depend on the industrial development zone where the exempt business operations are located, as follows:

Area	Credit
Vieques and Culebra	\$5,000
Low Industrial Development Zone	\$2,500
Intermediate Industrial Development Zone	\$1,000
High Industrial Development Zone	\$0

**Line 3(b)** – The credit generated not used during the first year of operations may be carried forward for a period that shall not exceed four years beginning in the first taxable year in which the exempt business generates net income. Detail on this line the amount of credit claimed in each one of the previous taxable years beginning on the date in which the same was generated and enter the total in the box.

**Line 5** – Enter the amount of credit to be claimed against the tax liability for the current year. Transfer to Schedule Y Pass-Through Entity, Part II, line 3(b).

For additional information, refer to Article 2.11(b) of Act 83-2010 and the corresponding regulations.

## PART III - CREDIT FOR INVESTMENT IN RESEARCH AND DEVELOPMENT OF GREEN ENERGY SOURCES

Any exempt business with a tax exemption decree granted under Act 83-

2010, may claim a credit for investment equal to 50% of the special eligible investment made in Puerto Rico after the approval of said act. The credit may be claimed against the green energy income tax.

The credit may be claimed in two or more installments: up to 50% of said credit may be claimed in the year the eligible investment is made and the balance in subsequent years until totally used.

Every exempt business that claims a credit under these provisions must request a certificate issued annually by the Energy Affairs Administration, which certifies the activities of a research and development project carried out in Puerto Rico that are eligible to apply for the tax credit provided in Article 2.11(c) of Act 83-2010. This certificate shall be included with the return as a requirement to grant the tax credit claimed.

**Line 1** – The term **special eligible investment** means the amount of cash used by the exempt business, or any entity affiliated to said exempt business, in research and development activities directly related with the production of green energy, including operating expenses, infrastructure or intellectual property, incurred or used directly in said activities.

Among the operating expenses the following will be included: payroll, including fringe benefits and professional services; insurance; tax, municipal license and licenses payments; rent; repair and maintenance expenses; net expense of electric power, water and telephone; and materials.

**Line 3** – Enter 50% of the total credit generated for investment made in the current year. You may claim a maximum of 50% of the credit against the tax liability in the year the investment was made.

**Line 4** – Enter the amount of credit not used in the previous year, if any.

**Line 5** – This is the amount of credit available that the business may choose to claim against the tax liability for the current year. If you have made an eligible investment during the current year, you shall take into consideration 50% of the allowable credit for this year plus the amount of credit generated not claimed in previous years.

**Line 7(a)** – Enter the amount that you will claim against the tax liability in the current year and transfer to Schedule Y Pass-Through Entity, Part II, line 3(c).

**Line 7(b)** – If you chose to assign, sell or in any way transfer totally or partially your credit, enter on this line the total amount transferred.

**Line 8** – That part of the credit not used in the year in which the investment was made can be carried forward to subsequent years until totally used.

For additional information, refer to Article 2.11(c) of Act 83- 2010 and the corresponding regulations.

## PART IV – CREDIT FOR THE TRANSFER OF INTELLECTUAL PROPERTY

Any exempt business with a tax exemption decree granted under Act 83-2010, may claim a credit only against the green energy income tax equal to 12% of the payments made to corporations, partnerships or nonresident persons, for the use or right to use in Puerto Rico of intangible property in their exempt operation, provided that the income from such payments is from Puerto Rico sources.

The generated credit not used in the taxable year in which it was originated may be carried forward for a period that shall not exceed eight taxable years counted from the closing of the taxable year in which it was originated.

# **SCHEDULE Z PASS-THROUGH ENTITY - DETERMINATION OF NET INCOME AND INCOME TAX FOR EXEMPT BUSINESSES UNDER ACT 118-2010, ACT 120-2014 AND OTHER SPECIAL ACTS**

Use this Schedule to determine the tax responsibility attributable to the partners of an exempt business that derives income from gaming operations in their tourism facilities under Act 118-2010, or a business considered a "new eligible small or medium size business (SMBs)" under the Job Creation and Retention Agreement (Agreement) subscribed by the Puerto Rico Trade and Export Company under the provisions of Act 120-2014, known as "SMBs Job Creation and Retention Incentives Act". This Schedule will be used also by those businesses that operate under any other special act that provides a fixed income tax rate.

In the case of pass-through entities identified as a Designated Entity in a exemption decree under Act 14-2017, this Schedule can be used to determine the distributable share considered Eligible Income under the provisions of Act 14-2017.

For purposes of Act 14-2017, the following terms are defined as:

- a) **Qualified Physician** - an individual resident of Puerto Rico or who will establish his/her residence in Puerto Rico within the term granted in Act 14-2017, duly admitted to the practice of medicine, podiatry, any odontology specialty or is a dental surgeon in Puerto Rico, and who practices his/her profession on a full time basis. It also includes individuals who are studying their medical residency as part of a duly accredited program.
- b) **Medical Services Designated Entity** - any partnership, corporation or limited liability company authorized to do businesses in Puerto Rico, that is taxed as a partnership or corporation of individuals under the Code, provides Professional Medical Services and is directly owned, in whole or in part, by a Qualified Physician.
- c) **Eligible Income** - the net income from Professional Medical Services rendered in Puerto Rico, determined according to the Code, from the Decree's effective date. The Eligible Income includes the distributable share received directly by a Concessionaire in the Designated Entity net income from Professional Medical Services from the Decree's effective date.

The Designated Entity may prepare a Schedule Z Pass-Through Entity for each Qualified Physician. In such schedule it will report individually the distributable share considered Eligible Income for the Qualified Physician and that will be subject to the special tax rate of 4%. In the alternative, the Designated Entity will prepare only one Schedule Z Pass-Through Entity including the distributable share of the entity that is considered Eligible Income for all Qualified Physicians who are members, partners or stockholders of the entity. In case that the Entity decides to prepare only one Schedule Z Pass-Through Entity, it must include with this schedule a breakdown of the following information for each Qualified Physician:

- a) physician's full name;
- b) physician's decree number;
- c) physician's social security number;
- d) applicable tax rate (i.e. 4%);
- e) distributable share percent; and
- f) amount of physician's distributable share considered as Eligible Income.

If you use this Schedule to report the Eligible Income under Act 14-2017, the net income determined on line 3 of Part I must be transferred to line 7, Part II, page 1 of the return.

Do not include on this line that part of the distributable share from operations covered under a decree granted under Act 14-2017 which are reported on line 5, Part II, page 1 of the return.

## **PART I - NET INCOME SUBJECT TO TAX**

**Line 2** - Enter the carryover balance of the net operating loss reflected at the end of the previous year.

**Line 3** - Transfer this amount to Part IX, line 5, Column of "Net Income" of the return.

## **PART II - COMPUTATION OF TAX**

**Line 4** - Check the corresponding tax rate, as established in your exemption decree granted under Act No. 118-2010 or in the Agreement.

## **PART III - GROSS PROFIT ON SALES AND OTHER INCOME**

**Line 1** - Enter on this line the net sales of goods and products or the net income from gaming. The net income from gaming will be equal to the gross income from gaming less the winnings paid. For additional information, refer to Act 118-2010.

# **SCHEDULE AA PASS-THROUGH ENTITY - DETERMINATION OF NET INCOME AND INCOME TAX FOR EXEMPT BUSINESSES UNDER ACT 20-2012**

Use this Schedule to determine the tax responsibility attributable to the partners of the entity with operations covered by an exemption decree under Act 20-2012.

Indicate in the corresponding boxes the enforcement period for income and the current and required number of jobs directly related with the designated service.

## **PART II - NET INCOME SUBJECT TO TAX**

**Line 2** - Enter here the net operating losses from the preceding year.

**Line 4** - Applies only to exempt businesses which negotiated their decrees under Article 4(c) of Act 20-2012.

**Line 5** - Transfer this amount to Part IX, line 6, Column of "Net Income" of the return.

## **PART III - TAX COMPUTATION**

**Line 1** - Check the tax rate corresponding to the services exportation income (SEI), as provided in your exemption decree granted under Act 20-2012.

The amount of loss to be carried forward shall be computed under the provisions of Section 1033.14 of the Code, as amended.

**Line 2** - Check the tax rate corresponding to the Base Period Income, as provided in your exemption decree granted under Act 20-2012.

The income attributable to the Base Period Income will be subject to the income tax rates provided by the Code, except in case of entities with exemption decrees under Act 73-2008 and Act 135-1997, in which case the fixed rate provided in the decree will apply. The Code provides a normal tax rate of 20% plus the surtax.

To determine the surtax, use the following table:

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

