



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 chooses to pay taxes as a Pass-Through Entity must file a return to report the income earned during the corresponding taxable year.

For purposes of this return, the terms partnership and partner, include a partnership, a corporation, or a limited liability company and any partner, stockholder or member that chooses to be taxed as a Pass-Through Entity.

WHEN AND WHERE IT MUST BE FILED?

This return must be filed no later than the 15th day of the third month following the entity's taxable year. Therefore, every entity that files its tax return based on a calendar year, will have until Wednesday, March 15, 2023, to file it.

The return must be filed electronically using any program or application certified by the Department of the Treasury (Department). In addition, the evidence required by the Department to support any item that is included in the return must be submitted electronically through the Internal Revenue Integrated System ("SURI", for its Spanish acronym). Said evidence shall be submitted after the electronically filing of the return, but no later than the fourth business day after the due date prescribed by the Puerto Rico Internal Revenue Code of 2011, as amended (hereinafter "Code"), to file the return, including extensions. In those cases where the Entity files after the due date of the return, the evidence will have to be filed the fourth business day after having electronically filed said return. For additional information on the electronic filing process of this return, please refer to the Internal Revenue Circular Letter No. 23-06 of February 28, 2023 ("IR CL 23-06").

AUTOMATIC EXTENSION OF TIME TO FILE THE RETURN

A six (6) 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 request will be done by electronically filing Form AS 2644 through SURI.

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 their distributable share in the Entity.

Any request for automatic extension of time to file the return, which also extends the corresponding informative returns, may be filed no later than the 15th day of the third month following the close of the taxable year. Therefore, a request for automatic extension of time to file for an entity's tax return with a closing on December 31, 2022, must be filed no later than March 15, 2023. This also applies to any balance due with the return or with the extension request.

For additional information regarding the electronic filing process of the Request for Automatic Extension of Time to File for taxable year 2022, please refer to the IR CL 23-06.

COLUMN OF CENTS

When filing out 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 (787) 622-0123 option number 8 in the directory or send a message through your SURI account.

INFORMATIVE RETURN

Every pass-through entity must complete for each owner 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 only be filed by electronic means. Beginning with taxable year 2021, Forms 480.60 EC that are filed for the Informative Income Tax Return Pass-Through Entity (Form 480.20(EC)) can only be filed electronically through any of the programs certified by the Department as part of the corresponding Form 480.20(EC). For additional information related to the electronic filing of the Informative Return, refer to the Internal Revenue Informative Bulletin No. 22-08 of February 25, 2022.

OTHER FORMS

- **Composite Return Individual Owners of Pass-Through Entities**

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).

- **Pass-Through Entity 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

The entity must indicate the beginning and ending of the taxable year period in the space provided in the heading of the return. Also, in the box for the Taxable Year must select the corresponding alternative. If it is a 52-53 week year, you must enter the date on which the taxable year begins and ends in the space provided. Likewise, if the return is prepared for a period less than twelve months, the "Short Period" option must be selected and the beginning and ending date for the period must be included.

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

Enter in the corresponding box the merchant's registration number assigned by the Department of the Treasury, the complete address where the business or principal industry is located and telephone number, as well as the date and place of creation or incorporation.

Include the type of principal industry or business and the corresponding NAICS code, as shown on the entity's Merchant Registry Certificate.

Indicate if you include Form AS 6045 with the return. You must file this form electronically duly completed and signed as evidence of the return.

Enter in the corresponding space the amount of Forms 480.60 EC (Informative Return – Pass-Through Entity) included with the return.

Indicate if it is a Private Capital Fund under Act 185-2014 or Act 60-2019, as amended.

Indicate if this is the first return filed as a pass-through entity. This being the case, Form AS 6045 must be submitted as evidence with the return duly completed and signed.

Indicate if the entity is a Large Taxpayer, as defined on Section 1010.01 of the Code.

Select in the corresponding box if it is the first or the last return that you are filing and if you have requested a change in period during the taxable year.

Also indicate if the entity is a member of a group of related entities and the group number assigned by the Department of Treasury. This number is assigned when you register the group through SURI following the procedure established in the Internal Revenue Circular Letter No. 20-18 ("IR CL 20-18"). As part of the registration process, each group must designate a principal member, with knowledge of the group's operations and of the entities that compose it who will be responsible for managing and updating the group account in SURI.

For additional information, refer to the instructions for Form AS 2652.1 and to IR CL 20-18.

If you are a member of a group of related entities, it is necessary to enter the group number otherwise the return cannot be processed.

Also, indicate if the entity elected the Optional Tax under Section 1071.10 of the Code. In this case, Schedule BB Pass-Through Entity should be completed.

AMENDED RETURN

If after filing the original return, you find out that you omitted some income, did not claim a certain deduction or credit, or claimed a deduction or credit for which you do not qualify, you must amend the return. Select the oval corresponding to Amended Return in the heading of the return. You must submit a detail explaining why you are amending the return.

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

In the case of amendment to informative returns, you must likewise select the oval corresponding to Amended Return in the heading of the return and include a detail that indicates the reason for which an amended return is filed.

If an informative return is amended to correct demographics data of the partner, member or shareholder who do not have impact on the financial values included in the return, the filing of such amended informative returns does not shall be considered as an amendment to the Informative Income Tax Return Pass-Through Entity, even when it is required to mark the return as amended.

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, as amended (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, as amended (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. Also, indicate in this line if the entity exists as a Designated Entity in an exemption decree under Act 14-2017, as amended (Act 14-2017) or if holds an exemption decree for any exempt activity under Subtitle B of Act 60-2019.

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 CI Pass-Through Entity - Income Tax for Exempt Businesses Under Act 60-2019
- 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, Act 14-2017 and Other Special Acts
- Schedule AA Pass-Through Entity – Determination of Net Income and Income Tax for Exempt Businesses under Act 20-2012

Such Schedules are available at our website www.hacienda.pr.gov under the “Pass-Through Entities” topic in the tax returns area, 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.

Line 4 - Indicate if provisions of your decree were granted under: Special Partnership or Corporation of Individuals

Indicate the applicable option, if any, among special partnership or corporation of individuals.

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 XII of the return and transfer to this line the total of line 5 to the Column of “Amount”.

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-2PR or as compensation for services rendered on Form 480.6SP.

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

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, according to the exemption decree granted to the entity, excluding dividends, long-term capital gains and interest income on deposits in financial institutions.

The amount included on this line comes from the total on line 8, Part XIII of the return.

Line 8 - Eligible distribution of dividends from corporations at 15%

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.

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 derived from 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, 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 pass-through entity owned by the entity

The entity can be an owner in other pass-through entity. This entity will be known as Subsidiary Pass-Through Entity. Enter on this line the distributable share on the income of the subsidiary pass-through entity.

Line 15 - Distributable share on loss from a pass-through entity owned by the entity

The entity can be an owner in other pass-through entity. This entity will be known as Subsidiary Pass-Through Entity. Enter on this line the distributable share on loss of the subsidiary pass-through entity.

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

Enter the total sum of exempt income from Schedule IE Pass-Through Entity, Part II, line 21. You must include with the return Schedule IE Pass-Through Entity duly completed.

Line 19 - Exempt income subject to alternate basic tax

You must determine which of the income reported on Schedule IE Pass-Through Entity is subject to alternate basic tax and enter the total 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 - Adjustments for deductions not allowed for alternate basic tax and alternative minimum tax

Enter here the amount of line 58, Part IX of the return. This amount constitutes, at the entity's individual owner level or corporate partner, an adjustment for non-admissible deductions for alternate basic tax or alternative minimum tax purposes, as applicable.

Line 21 - Other adjustments 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.

Line 22 - Other adjustments for purposes of the alternative minimum tax

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 23 – Charitable contributions

Enter here the total charitable contributions or donations 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 performs 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 24 - Volume of business

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

As provided in 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, the total derived from the sale of goods or products shall be taken into consideration without reducing the cost of such goods or products sold.

Line 25 - Pass-through entity's gross income

Enter the pass-through entity's gross income. The gross income will be determined as follows:

Description	Reference in Return	Amount
Gross operating income	Line 23, Part VIII of the return	
Plus: Distributable share on income from pass-through entities	Line 13, Part VIII of the return	
Plus: Net exempt income	Line 21 less line 16, Part II, Schedule IE Pass-Through Entity	
Pass-through entity's gross income		

Line 25(a) - Gross income from services rendered

Enter here the pass-through entity's gross income as included on line 7, Part VIII of the return.

Line 26 - Gross income of subsidiary pass-through entities

Enter here the gross income informed by the subsidiary pass-through entity, as such term is defined on lines 14 and 15 of this Part II.

This amount will be determined by adding up the gross income informed on lines 25 and 26 of all Forms 480.60EC issued by the subsidiary pass-through entities.

Make sure you have included on lines 14 and 15 of this Part II, the distributable share on gains or losses from subsidiary pass-through entities as reported in a Form 480.60 EC.

Line 26(a) - Gross income from services rendered

Enter here the gross income from services rendered informed by the subsidiary pass-through entity, as such term is defined on lines 14 and 15 of this Part II.

This amount will be determined by adding up the gross income derived from services rendered informed on line 25(a) and 26(a) of all Forms 480.60 EC filed by the subsidiary pass-through entities.

Make sure you have included on lines 14 and 15 of this Part II, the distributable share on gains or losses from subsidiary pass-through entities as reported in a Form 480.60 EC.

Line 27 - Optional tax

Enter here the gross income for which the pass-through entity elected and paid the optional tax as provided in Section 1071.10 of the Code.

In the case where the pass-through entity has elected for the payment of the optional tax, enter the gross income subject to tax on this line. Therefore, line 1 through 16 under the "Amount" column will have zero value and will only be allowed to include the withheld amount on line 5, Part II of the return when the total withholdings of the entity exceed the optional tax determined in Schedule BB Pass-Through Entity.

If the pass-through entity did not indicate the election of the optional tax on the heading of Page 1 of the return, no information will be entered on this line.

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.

Taking into consideration that the return must be filed by electronic means, will be accepted as evidence of authentication, the digital signature of one of the officers mentioned above.

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 OWNERS

Line 1 – Distributable share on net income from the pass-through entity

Enter the total distributable share of the nonresident alien's owners in the net income of a pass-through entity and the corresponding withholding.

PART IV - CREDITS

ACT 52 of June 30, 2022 ("ACT 52-2022") added Section 1051.16 of the Code to authorize the Secretary to create the Tax Credits Manager ("TCM") as part of the electronic system of the Department.

According to the Administrative Determination No. 22-11 ("AD 22-11"), issued by the Department on December 22, 2022, the TCM implementation date for purposes of the determination of Post TCM and Pre TCM Credits, is January 1, 2023.

The amount of credit to be included on the corresponding line of *Column B - Post Tax Credits Manager* must be the amount you are claiming against the tax in the return instead of the total amount of credit available. This is because the amount you enter on this column is the amount for which the credit available in the TCM will be reduced.

As an example, the taxpayer has a Post TCM credit of \$10,000 and the tax determined in the return is \$8,000. Assuming that the taxpayer has no other tax credit, you must enter \$8,000 on the corresponding line of *Column B - Post Tax Credits Manager*. Once you claim this amount on the return, the total credit available in the TCM of \$10,000 will be reduced to \$2,000 (that is, \$10,000 less \$8,000 of credit claimed on the return).

For additional information about the TCM, refer to AD 22- 11, Internal Revenue Circular Letter No. 23-02 ("IR CL 23- 02") and to the next publications to be issued by the Department.

In this part is included the amount of tax credits of the pass-through entity available to be distributed to the entity's partners, members, or shareholders.

In the case that the entity elects the optional tax of Section 1071.10 of the Code, the amount to be included in each line of this Part IV will be the result of the amount of tax credit available as included in the corresponding lines of Part IV of Schedule B Pass-Through Entity less the total tax credit used to pay any balance due on the entity's optional tax.

If the entity is not subject to optional tax, and therefore did not include a Schedule BB Pass-Through Entity with the return, the amount to be included on each line of this Part IV shall be the amount of tax credit available from the entity to be distributed to its owners. In these cases, Part IV of Schedule B Pass-Through Entity will not be completed.

Example: Entity X has investment tax credits from Act 73-2018 in the amount of \$10,000. X elected the optional tax and after completing Schedule BB Pass-Through Entity, the tax due was \$6,000.

X will include \$6,000 on line 14, Part IV of Schedule B Pass-Through Entity to pay the amount of optional tax due shown on Schedule BB Pass-Through Entity. X will include a balance of \$4,000 on line 13 of this Part IV of the return, which is the result of the total available credit of \$10,000 less the \$6,000 claimed as payment of the optional tax on Schedule BB Pass-Through Entity.

For additional detail about these items, refer to instructions of Part IV, Schedule B Pass-Through Entity.

PART V – TAXES PAID TO FOREIGN COUNTRIES AND THE UNITED STATES, ITS STATES, 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, state, territory, or possession indicated, and include on line 2 the taxes paid or accrued to each one of these jurisdictions.

If the entity decides to be taxed under the optional tax, as established on Section 1071.10 of the Code and completes Part III, Schedule BB Pass-Through Entity to determine and claim the credit amount for taxes paid to foreign countries, the United States, its states, territories, and possessions to suffice the payment of the optional tax, this Part V should not be completed.

PART VI - BREAKDOWN OF THE PURCHASE OF TAX CREDITS

In the case of purchase of Post TCM credits, you must refer to AD 22-11, IR CL 23-02 and the next publications to be issued by the Department for additional details.

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 8 and 19 to Part IV of this return, lines 6 and 15, respectively.

PART VII - TAX COMPUTATION ON BUILT-IN GAINS

The tax on built-in gains applies to every entity that was previously 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 (37.5%). Refer to Section 1115.08 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 GROSS OPERATING INCOME

Enter on line 1 the net sales of goods or products only. Do not include in this line income derived from manufacturing and sale of services during the year. The latest must be included on lines 4 and 7 of this Part VIII, respectively. Enter the cost of sales and manufacturing on lines 2 and 5, as applicable. Determine the same in Part X of the return. Also, include the gross profit on the sales and manufacturing on lines 3 and 6, as applicable. To determine the gross profit margin percentage for taxable year 2022 in the case of income from sale of goods, divide line 3 by line 1. In the case of manufacturing income, divide line 6 by line 4. To determine the corresponding amount for taxable year 2021, use the data from the 2021 return.

Enter on line 7 the gross income from the sale of services, including commissions. Indicate in the space provided on this line if the services were provided directly by the entity or if they were derived through pass-through entities. The entities that have income from services rendered reported on this line, will be the only ones that may request the Department to issue a Waiver Certificate from Withholding at Source. If the entity does not report income from services rendered, it will not be able to enjoy the benefits of the Waiver Certificate.

Enter on line 10 the rental income. If the rental income is derived from the lease of a residential New Construction Property or Qualified Property, said income is fully exempt under the provisions of Act 132-2010, as amended. This exemption applies from January 1, 2011, to December 31, 2025, 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 13. For more details, refer to Act 132-2010 and its corresponding regulations.

Enter on line 11 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 13 the income derived from the distributable share on income from pass-through entities. Schedule R and Schedule R1 Pass-Through Entity must be completed and included with the return.

Enter on line 14 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 17 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 18 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 7 (Gross profit from sale of services) of this Part VIII.

Enter on line 19 the amount reported as income from other payments that are included in Box 12 of Form 480.6A and in Box 9 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 20 any other income earned or received not included on the previous lines. Include with the return a schedule with a breakdown of this income.

Enter on line 22 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. Also, in the parenthesis provided in this line, indicate the portion of the deduction that is attributable to the services income, if any. 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.**

PART IX - DEDUCTIONS

To determine the alternative minimum net income subject to alternative minimum tax and the net income subject to alternate basic tax, only certain items can be claimed against the gross income and subject to, as indicated below, some of them are evidenced with informative returns or have been validated with an Agreed-Upon Procedures, or in the case of pass-through entities with a volume of business of less than \$1 million, a Due Diligence Checklist by Accredited Agent - Tax Return Specialist (Schedule DCC Pass-Through Entity). For this, two columns are provided to indicate the admissible deductions against the net income subject to normal tax and the admissible deductions for purpose of the alternative minimum tax or alternate basic tax, respectively. In addition, the deductions are divided into three groups: (A) Deductions that must be reported on informative returns, (B) Deductions not reported on informative returns, and (C) Other deductions.

A. Deductions that must be reported on informative returns

Those taxpayers whose taxable year is natural and use the cash basis method can include the amount of the expenses reported in the informative returns issued for the 2022 taxable year as an admissible deduction for the determination of both, the net income subject to normal tax and alternative minimum tax. In case of the normal tax, you can deduct those payments for services not reported in informative returns because they did not exceed \$500 during the taxable year. Nevertheless, you can only deduct such payments for purpose of determining the net income subject to the alternative minimum tax if they were included in a duly filed informative return.

It is important to note that in case of taxpayers that use the accrual basis method or who have a taxable economic year, they must reconcile, according to the provisions of Section 1063.01(a) of the Code, the amount reported in the duly filed informative returns, with the expense claimed as deduction in the return. In this case, taxpayers can claim as deduction the amount of expense registered in their books for purposes of the normal tax and alternative minimum tax. For this purpose, refer to the templates of expenses reconciliation available through your return preparation program provider or in the Department's website.

You must complete separate reconciliations for the admissible expenses provided in each column of this section, the Normal Tax and the Alternate Basic or Alternative Minimum Tax columns.

This reconciliation will not be required in case that the taxpayer submits, together with the income tax return, the audited financial statement as established by Section 1061.15(a)(3) or (4) of the Code and submits the Supplementary Information as established by Section 1061.15(b) of the Code.

Line 1 - Compensation to directors

Enter on this line the total compensation paid to directors of the entity during the year, including the total, if applicable, that has been determined in Part XIV, page 5 of the return.

Line 2 - Compensation to officers

Enter on this line the total compensation paid during the year to the officers of the entity, including the total, if applicable, that has been determined in Part XV, page 5 of the return.

Line 3 - Salaries, commissions, and bonuses to employees

Enter on this line the total 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 time of filing the income tax return the full amount of tax withheld from salaries paid to employees corresponding to the taxable year has not been remitted to the Department of the Treasury.

Enter on the Alternate Basic or Alternative Minimum Tax column 125% of the deduction for salaries paid and reported on the withholding statement as provided by Section 1062.01(n)(2) of the Code corresponding to the taxable year for which the pass-through entity income tax return is filed.

Line 4 - Salaries paid to young university students and Department of the Treasury's Internship Program

If qualified to claim this deduction, write on the parenthesis provided on this line the total amount of salaries paid and informed on the withholding statements.

A private business employer may take a deduction of 150% of the amount included the line (Total \$_____) for each university student that is employed for at least 20 hours a week for 9 months of the taxable year or at least 800 hours during the taxable year, as long as the salary paid to the university student is greater than ten (10) dollars per hour and this salary is duly reported on a withholding statement. Provided that, in the case of students that come from the internship program of the Department of the Treasury, the deduction will be 200% of the amount included on line (Total\$_____) if in compliance with the requirements stated on the previous sentence.

On the Alternate Basic or Alternative Minimum Tax column, enter the 125% of the deduction for salaries paid and reported on withholding statements. For these purposes, use the amounts included on lines (Total \$_____) for each category.

The term "university student" means a student who has studied during that calendar year for at least an academic semester at post-secondary levels, as a regular student, in a university institution or technical professional post-secondary institution recognized as such by educational authorities in Puerto Rico or by those of the corresponding country, until obtaining the university degree or technical professional degree or has finished studies within a period not greater than twelve (12) months from the date the employment began. Section 1033.21 of the Code does not establish an age requirement for purpose of this deduction.

Line 5 - Payments for services rendered in Puerto Rico

Enter on this line the total professional services paid to service providers engaged in trade or business in Puerto Rico.

To claim this deduction, the taxpayer must file before the Department of the Treasury, the Informative Return - Services Rendered (Form 480.6SP), related to the services paid during the taxable year.

Line 6 - Payments for services rendered outside Puerto Rico

Enter on this line the total amount of services rendered that are directly related to the operation of the industry or business and that are duly reported on Informative Return - Payments to Nonresidents or for Services from Sources Outside Puerto Rico (Form 480.6C)

Line 7 - Services subcontracted

Include in this line the total amount paid to any person subcontracted to provide services as part of the operation of the industry or business. In order to claim this deduction, you must have filed Form 480.6SP and indicated the amounts corresponding to subcontracted services.

Line 8 - Lease, rent and fees paid

Enter on this line the amount paid for lease, rent and fees that have been duly informed in Form 480.6A for the taxable year for which the income tax return is being filed. Segregate in the spaces provided in this line, the portion corresponding to personal property and real property.

Line 9 - Insurance premiums (Except contributions to health or accident plans)

Enter on this line the amounts paid during the taxable year for property, contingency and public liability insurance ("malpractice") directly related to the entity's trade or business operations.

For alternate basic or alternative minimum tax purposes, these payments will be deducted if they have been duly reported on the Optional Informative Return - Advertising, Insurance Premiums, Telecommunication, Internet Access and Cable or Satellite Television Services (Form 480.7E), or if the Annual Return of Payments Received for Advertising, Insurance Premiums, Telecommunications, Internet Access and Cable or Satellite Television Services (Form 480.7F) has been received from the insurer.

Line 10 - Telecommunication services

Enter on this line payments for telecommunications services, as defined in Section 4010.01(kk) of the Code, directly related to the entity's trade or business operations. For the deduction to be admitted for alternate basic or alternative minimum tax purposes, these payments need to be duly reported on Form 480.7E or received from the provider Form 480.7F.

Line 11 - Internet and cable or satellite television services

Include in this line the payments for internet access services and cable or satellite television services directly related to your trade or business operations. For the deduction to be admitted for alternate basic or alternative minimum tax purposes, these payments need to be duly reported on Form 480.7E or received from the provider Form 480.7F.

Line 12 - Bundles

Enter on this line the payments made for the set or combination of services for which its value cannot be segregated or assigned. For the deduction to be admitted for alternate basic or alternative minimum tax purposes, these payments need to be duly reported on Form 480.7E or received from the provider Form 480.7F.

Line 13 - Advertising

Enter on this line the total payments made for advertising, promotion, publicity, and marketing directly related to the operation of the industry or business. For the deduction to be admitted for alternate basic or alternative minimum

tax purposes, these payments need to be duly reported on Form 480.7E or received from the provider Form 480.7F.

Line 14 - Royalties

Enter on this line the payments made for the use or privilege of use of an intangible, such as patents, copyrights, goodwill, franchises, licenses, or other similar property. These amounts must have been reported on Form 480.6A.

Line 15 - Payments for virtual and technological tools and other subscriptions

Enter on this line the total payments made for licenses and subscriptions for the use of programs, platforms, applications and information systems, among others, including the amounts paid for subscriptions that allow access to wholesale establishments (membership clubs) and for electronic or printed publications, that are directly related to the entity's trade or business and that have been duly reported on Form 480.6A.

Line 16 - Professional association fees and memberships paid for the benefit of employees

Enter on this line the total payments made to professional associations by concept of association fees and memberships for the benefit of the employees, that have been duly reported on Form 480.6A.

Line 17 - Homeowners association fees

Enter on this line the total payments made to resident or condominium associations by concept of maintenance fees with respect to the installations used in the entity's trade or business, that have been duly reported on Form 480.6A.

Line 18 - Payments for judicial or extrajudicial indemnification

Enter on this line the total payments made by concept of indemnification under a judgement handed down by the court or under an extrajudicial claim that are directly related to the entity's trade or business, when the withholding provided in Section 1062.02 of the Code has been made, as applicable, and the corresponding deposits and payments have been reported on Form 480.6B.

Line 19 - Certain other expenses

The total of those expenses for which a specific space is not provided in this part, and which have been duly reported in an informative return will be allowed as a deduction. A schedule for these expenses should be kept for record.

B. Deductions not reported on informative returns

Enter on lines 21 through 31 those deductions not reported in informative returns, allowable for net income determination purposes in columns of Regular Tax and Alternate Basic or Alternative Minimum Tax, as applicable.

Line 21 - Interests on business debts

Enter on the corresponding space the amount paid for mortgage interests, interests paid for automobile leases, and other interests, then enter the total in the columns of Regular Tax and Alternate Basic or Alternative Minimum Tax.

Mortgage: Enter on this line the amount of mortgage interests paid that are not points. If the entity has a fiscal year, enter the total amount paid or incurred during the taxable year.

Automobile leases: Enter on this line the total amount paid for the concept of financial leasing of automobiles (that are essentially a purchase). If the entity has a fiscal year, enter the total amount paid or incurred during the taxable year.

Other: A deduction will be allowed for interest expense on the acquisition of inventory or other personal or real property used in trade or business.

Line 22 - Taxes, patents and licenses

Enter on the corresponding space the amounts paid for real and personal property tax, patents, licenses, State Insurance Fund Policy, sales and use tax, and the special contribution for professional and advisory services under Act 48-2013, as amended, among others, paid as part of the entity's trade or business.

Line 22(d) - Sales and use tax

Enter on this line the amount of sales and use tax payments made by the entity during the taxable year not claimed as credit on 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) purchases 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 corporation has not claimed credit for this tax paid.

Line 22(e) - Special contribution for professional and advisory services under Act 48-2013, as amended

Every entity that has entered into a professional, advisory, advertising, training, or consulting services contract with an agency, dependency or Puerto Rico Governmental instrumentality, public corporation, the Legislative Branch, Office of the Comptroller, the Ombudsman Office and the Judicial Branch will be subject to an amount withheld at source as Special Contribution under Act 48-2013, as amended. This amount is equivalent to one point five percent (1.5%) of the total contract amount.

This contribution will be considered as an ordinary and necessary expense; therefore, it is deductible as such if it is reported in Form 480.6SP. If the entity has a fiscal year, enter the total amount contributed during the taxable year.

For additional information about the scope of this withholding, refer to Administrative Determination No. 13-14 of August 28, 2013, and the Central Accounting Circular Letters issued by the Department regarding this purpose.

Line 23 - Depreciation and amortization

Flexible depreciation

Enter the amount of flexible depreciation you are entitled and submit copy of the authorization for the flexible depreciation option. **The detail of the flexible depreciation will be included in Part (b) of Schedule E - Depreciation.**

Accelerated depreciation

In order to be entitled to this deduction, an election to use the accelerated depreciation method must be exercised with the return. Said election may be exercised only with respect to property acquired through purchase during taxable years beginning after June 30, 1995. Once the option is exercised, it is irrevocable. This depreciation method does not apply to automobiles, property used outside Puerto Rico, property used by exempt entities, property totally or partially used in activities under the Industrial

Tax, or Tourism Incentives acts, Tourism Development Act, Agricultural Tax Incentives Act, or any other act of similar nature, or to intangible property.

Also, Act 212-2002, as amended (Act 212), provides a type of accelerated depreciation, where the constructed structure, that constitutes housing, can be depreciated using the straight-line method over a 7-year period. However, this deduction is available to persons that invest in housing construction or improvement in an urban center and who have not benefited from the credit provided in Article 4.03E or 4.03F of Act 212. For additional details, refer to Act 212, Internal Revenue Circular Letter No. 08-14 of October 31, 2008 and its regulatory provisions. **The detail of accelerated depreciation shall be included in Part (c) of Schedule E - Depreciation.**

Current depreciation, amortization, automobiles, and vehicles under financial leases

Submit a detail of the current depreciation, amortization, automobiles, and vehicles under financial leases in Parts (a), (d), (e) and (f), respectively, of Schedule E - Depreciation.

In relation to automobiles depreciation, the maximum basis to depreciate an automobile acquired and used in a trade or business or for the production of income is \$30,000; the deduction shall not exceed \$6,000 annually per automobile.

For depreciation purposes, the useful life of an automobile used exclusively in selling activities is 3 years, and 5 years for every other purpose.

The \$30,000 basis limitation and useful life term does not apply to those automobiles acquired by corporations engaged in the car leasing, or transportation of passengers or cargo businesses.

Also, a deduction for goodwill amortization is granted, as long as the goodwill is purchased from third parties through purchase 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.

In the case of intangible property, other than goodwill, acquired by purchase or developed after December 31, 2009, an amortization deduction is granted, using the straight-line method based on a useful life of fifteen (15) years or the useful life of the property, whichever is less.

Line 24 - Depreciation for business with a volume of \$3,000,000 or less

Every entity which generates gross income of under \$3,000,000 during a taxable year, may elect to deduct the total cost, including installation, of computer systems equipment in the year of its acquisition and installation. Equipment previously depreciated by an owner of such entity or acquired from a related person will not qualify for the acceleration of the depreciation allowance. It may also be depreciated under the straight-line method, based on a useful life of 2 years, the ground transportation equipment, except automobiles, and environmental conservation equipment. Also, for taxable years beginning after December 31, 2018, a depreciation expense may be determined based on a useful life of 2 years for machinery and equipment, furniture and fixtures, and any other fixed asset to be used in the trade or business, not including real property, automobiles and property subject to the aforementioned terms.

Complete this Schedule only if you are going to elect the acceleration of the depreciation of the assets described above on this Schedule. This election is irrevocable, and you should consider that once you exercise it, the depreciation amount on these assets computed for book purposes, will not be deductible to determine the net income subject to tax on subsequent year tax returns.

The detail of depreciation shall be included in Schedule E1.

Line 25 - Electric power

Enter on this line the total payments made to the Electric Power Authority or any other supplier for the use or consumption of electricity and other charges billed that are directly related to your trade or business operations.

Line 26 - Water and sewage

Enter on this line the total payments made to the Aqueduct and Sewerage Authority for the use or consumption of water, sewerage and other charges billed that are directly related to the entity's trade or business operations.

Line 27 - Contributions to health or accident plans

Enter the amount contributed to health or accident plans of employees to cover personal injuries or sickness, either by insurance or any other way that complies with the provisions of Section 1032.08 of the Code.

Line 30 - Contributions to pension or other qualified plans

Enter the amount contributed to pension, stock bonus, profit sharing or other qualified plans approved by the Secretary of the Treasury. This deduction is subject to certain limitations. See Section 1033.09 of the Code.

To claim this deduction, you must complete and include with the return Form AS 6042.1 - Deduction for Contributions to Qualified Retirement Plans and Tax on Certain Contributions. For additional details, see Regulation No. 8324 of January 9, 2013, and Internal Revenue Circular Letter No. 19-17 of December 28, 2019.

Line 31 - Deduction for employers who employ handicapped persons and breastfeeding period

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. Valid 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:

- 1) evidence that proves the handicapped person has been employed at least 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 with its rules and procedures, the person for whom the deduction is claimed is a severely handicapped person.

Deduction for Breastfeeding Period Concession

Every employer may claim annually, as an operating expense of the industry or business, an amount equal to one month of salary for each employee to whom the right to nurse their babies or extract their breast milk have been granted during one hour within each full time working day. This time period (one hour) may be divided in two periods of 30 minutes or three periods of 20 minutes. In the case of companies considered as small businesses by the Federal Small Business Administration, the period will be half an hour of each full time working day, which can be divided in two periods of 15 minutes.

C. Other deductions

Enter in the spaces provided on lines 33 through 53 and line 56 those admissible deductions for the purpose of determining the

net income in the columns of Regular Tax and Alternate Basic or Alternative Minimum Tax, as applicable. Must indicate if Audited Financial Statements, Agreed Upon Procedures Report ("AUP") or Due diligence checklist by accredited agent - tax returns specialist ("DDC") is being included with the tax return.

In order to claim any amount on lines 33 through 53 and line 56 as admissible deduction for the determination of the net income subject to alternate basic or alternative minimum tax, and in case that the return be filed without a financial statement as established by Section 1061.15(a) of the Code together with the Supplementary Information required by Section 1061.15(b) of the Code, the taxpayer must submit with the income tax return an Agreed Upon Procedures, according to the provisions of the Internal Revenue Circular Letter No. 19-14 of December 9, 2019. In the cases were the volume of business of the pass-through entity is less than \$1 million, the Due Diligence Checklist by Accredited Agent - Tax Returns Specialist will be accepted (Schedule DDC Pass-Through Entity).

In order to enter any amount in the Alternate Basic or Alternative Minimum tax column, the taxpayer must check the oval of ("AUP") or ("DDC") provided in the corresponding line of each deduction validated in the Agreed Upon Procedures ("AUP") or Schedule DDC Pass-Through Entity submitted with the return. Only the expenses submitted to the AUP and DDC can be deductible for purposes of the alternate basic or alternative minimum tax.

If the pass-through entity indicates that audited financial statements are included with the return, expenses can be claimed in the Alternate Basic or Alternative Minimum tax columns without the necessity of filling the ovals for AUP or DDC.

Every taxpayer who chooses to submit financial statements and the supplementary information with the tax return must ensure that questions number 5 and 6 of the Questionnaire, Part XXI, Page 7 of the return are correctly answered in order to enter the amounts in the Alternate Basic or Alternative Minimum tax columns.

If you do not select the corresponding oval, and the Agreed Upon Procedures is not submitted, you will not be able to claim the deductions provided in this section for purpose of determining the net income subject to alternate basic or alternative minimum tax.

Line 33 - Automobile expenses

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

- 1) the expense determined based on a standard mileage rate of sixty cents (\$0.60) for each mile that the taxpayer uses in its industry or business or for the production of income; or
- 2) the actual expenses related to the use and maintenance of an automobile incurred by the taxpayer in its industry or business or production of income, including those expenses that are duly documented by the employees under an expenses reimbursement plan established by their employer.

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

However, those taxpayers who, as part of their business operations use five (5) automobiles or more, such as automobile fleet, they will not be able to use the alternative of the standard mileage rate to determine the expense incurred or paid for the use and maintenance of an automobile. In these

cases, the deduction to be claimed by these taxpayers shall be limited to the actual expense incurred in the operation of all the automobiles used. Therefore, taxpayers who claim expenses for automobile fleets will not be able to determine their deduction under the standard mileage rate alternative.

The expense related to the use and maintenance of automobiles 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, rental payments on ordinary leases or financial leases which are claimed on line 23 and detailed on Schedule E. Also, do not include expenses related to the use of tolls or parking, they must be included 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, and 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 you incurred expenses for vehicles which are not considered automobiles according to the above definition, you should claim them on line 34.

Regulation No. 9311 of September 30, 2021 amended several articles of Regulation No. 8049 of 2011 related to the requirements to be able to claim the deduction for automobiles use and maintenance expenses incurred or paid. For additional details, see Regulation No. 9311.

Line 34 - Other motor vehicle expenses

If you incurred expenses related to the use and maintenance of vehicles which are not considered automobiles, according to the definition of the previous line, they should be claimed on this line.

Line 35 - Repairs and maintenance

On this line, you may claim the expenses which constitute repairs and not improvements to the assets. Excessive repair expenses will be subject to review.

Line 36 - Travel expenses

You may deduct up to 50% of the expenses actually paid or incurred for travel and lodging expenses that are directly related to the trade or business for the production of income. Expenses that are not ordinary and necessary expenses of the industry or business shall not be considered as part of this expenses. Indicate in the parenthesis provided the total expense amount.

Line 37 - Meal and entertainment expenses

You may deduct 25% 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. Indicate in the parenthesis provided the total expense amount.

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

For more information, please refer to Regulation No. 6091 of February 7, 2000.

Line 44 - Office expenses

Enter on this line the office expense payments that are directly related with your trade or business for the production of income.

Line 46 - Bad debts

Enter the accounts receivable that are considered uncollectible. For taxable years beginning after June 30, 1995, corporations will not be able to use the reserve method to compute the deduction for bad debts.

Instead, they may claim a deduction only for the debts that become uncollectible within the taxable year (direct write-off method).

Also, the amounts owed to related persons who are foreign or nonresidents not engaged in trade or business in Puerto Rico will not be deductible as well. Paragraph (c) of Section 1040.04 of the Code - Period for which deductions and credits are claimed, establishes the following:

Amounts owed to related persons who are foreign, or nonresidents not engaged in trade or business in Puerto Rico.

1) In general - Any amount due to a related person (as defined in Section 1010.05 of the Code) who is foreign, or nonresident not engaged in trade or business in Puerto Rico and that is, otherwise deductible under Section 1033.01 of the Code, shall not be deductible by the taxpayer until that amount is paid to any of said related persons.

2) Amounts covered by this paragraph - This paragraph applies to those amounts, that would otherwise be deductible, and that are of the type described in Sections 1091.01(a)(1)(A)(i) and 1092.01(a)(1)(A)(i) of the Code.

Line 47 - Contributions to educational contribution accounts for the employee's 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**, subject to the provisions of 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 409-2000 and Regulation No. 6419 of March 27, 2002.

Line 48 - Expenses incurred or paid to stockholders, persons or related entities outside of Puerto Rico

Enter the deductible portion (49%) from the "Total" line of:

- the expenses incurred or paid to a related person not engaged in trade or business in Puerto Rico, if such payments are attributable to the conduct of a trade or business in Puerto Rico and are not subject to withholding at source under the Code during the taxable year in which they are incurred or paid, or
- the expenses incurred or paid to a home office located outside of Puerto Rico, by a foreign corporation engaged in trade or business in Puerto Rico through a branch.

For these purposes, the applicable regulations to determine the members of a controlled group of corporations or group of related entities, established in Sections 1010.04 and 1010.05 of the Code, will be applicable at the moment of determining the relation between the entity and its stockholders and affiliates.

The nondeductible portion (51%) will be reported in Part XVII, line 4(d). This amount together with the deduction must be the same as the amount included in the Total space for provided on this line.

In those cases, where the entity has filed a waiver request for evaluation by the Secretary in order to determine whether any of the expenses described above should be excluded from the deductible expense limitation established by Section 1033.17(a)(17) of the Code, and the same has been approved, it may exclude from such limitation part of its expenses. This means that the entity may deduct 60% of the total expenses included in the application, while the remaining 40% will be subject to the limitation (49%). This exclusion shall apply only for a maximum of three taxable years, in applications filed for taxable years beginning after December 31, 2014 and before January 1st, 2019.

For taxable years beginning after December 31, 2018, the limitation (49%) on deductible expenses will not apply if the entity submits to the Secretary, along with the return, Form AS 6175 - Certification of Compliance and Transfer Pricing Studies Availability (Form AS 6175).

In both cases, the above limitation will not apply and these expenses must be reported on line 49.

Line 49 - Deduction for expenses incurred or paid to stockholders, persons, or related entities, fully deductible

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, by any provision of law or because the taxpayer's request and the Department approved a waiver to be excluded from the limitation.

In case that you include Form AS 6175 with your return you must be sure to answer "Yes" in question 19(a) of the Questionnaire in part XXI, page 7 of the return.

In case that the Department has granted a waiver to exclude you from the limitation, you must be sure to answer "Yes" in question 19(b) of the Questionnaire in Part XXI, page 7 of the return and must include with the return copy of the administrative determination which granted you the waiver.

Line 50 - Losses from fire, storm, other casualties, or theft

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

Line 52 - Expenses in property leased to the Puerto Rico Industrial Development Company or Warehouse of the Puerto Rico Trade and Export Company

Any 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 capitalized expenses incurred in the construction or improvements, remodeling or repair of eligible property or the leased warehouse, as well as the acquisition of machinery and equipment to be permanently or temporary 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 expense 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 expense 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. Neither will this deduction apply if the investment has generated other special deductions or tax credits.

Line 53 - Other deductions

Special Deduction for Research and Development Activities

Every person affiliated to an exempt business under the Tax Incentives Act of 1998 or under previous tax incentives acts, will be entitled to claim a special deduction equal to the total expenses incurred in Puerto Rico in activities related to investigation, experimentation, medical studies, health studies, clinical studies and basic sciences studies guided to the development of new products, new uses or indications for such products, to the improvements of the same, or to the study of diseases, in excess of the annual average of such expenses incurred during the three taxable years ended prior to January 1, 2004, or those parts of said period that may be applicable and which are deductible in the taxable year.

For these purposes "affiliated person" means any juridical person that:

- (a) is controlled directly or indirectly in 50% or more of the total value of their stocks or shares by a corporation, and
- (b) at the same time, said corporation owns directly or indirectly 50% or more of the total value of the stocks or shares of an exempt business.

For additional details refer to Act 135-1999, as amended, and the Internal Revenue Circular Letter No. 04-05 of November 10, 2004.

Additional deduction for New Employment - Act 212

Every industry or business that meets the requirements established in Act 212-2002, as amended (Act 212), that creates new employments as part of an urban center revitalization process, will be entitled to a special additional deduction equivalent to 5% of the minimum salary applicable to each new employment created. Also, the transfer of your business with a minimum of 5 employees to an urban center will entitle you to an additional deduction equivalent to 15% of the payroll expenses related to the employees transferred during the year in which the business was transferred. This deduction will be limited to 50% of the net income according to the Code, adjusted by the special deductions provided by Act 212, without considering this deduction.

These deductions will be available for a term of 5 years from the taxable year in which the taxpayer applies for these benefits. You must keep for your records a certification issued by the Territorial Ordinance Office or from the City Planning Director indicating the name, social security number and minimum salary for each new employment created; or name and account number of the transferred business, its previous location, name and social security number of the transferred employees and the amount of payroll related to said employees. For both deductions you must also specify the taxable year in which you applied for these benefits and their due dates.

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

For additional details, refer to Act 212 and its regulatory provisions.

Other deductions

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

As a general rule, expenses related to the ownership, use, maintenance and depreciation of vessels, aircrafts, or residential property outside of Puerto Rico are not deductible under Section 1033.17 of the Code.

Line 56 - Charitable contributions

The deduction corresponding to charitable contributions will be included on line 23, Part II of the return.

Line 58 - Adjustment for deductions not allowed for alternate basic tax and alternative minimum tax

Enter on this line the difference between the amount on line 55 on the Regular Tax column and line 55 under the Alternate Basic or Alternative Minimum Tax column. The total shall be transferred to Part II, line 20 of the return.

PART X - COST OF GOODS SOLD

Choose the applicable box to indicate the inventory appraisal method at the beginning and end of the year (Cost or cost or market value, whichever is less).

On September 30, 2021, Regulation No. 9310 - Cost of Goods Sold was issued. Said Regulation adds Articles 1031.01(a)(2)-1 to 1031.01(a)(2)-11 under the provisions of Section 1031.01 of the Code to Regulation No. 8049 of 2011, better known as the Internal Revenue Code Regulation of 2011. The articles of this regulation discuss the applicable rules for the determination of trade and business income for inventory sales activities, in addition to providing the rules for the determination of the cost of goods sold for the following industries:

- Wholesale and Retail Resellers
- Manufacturing
- Services
- Agriculture
- Development of Computer Programs
- Works Construction Projects
- Sale of Real Estate
- Entertainment

Article 1031.01(a)(2)-11 establishes that the method adopted to recognize the cost of goods sold of a business and the balance of inventories must be applied consistently from year to year. This ensures that the results of business operations can be distributed fairly among the annual accounting periods. It is for this reason that taxpayers will be required to determine in their income tax return the percentage of gross profit margin corresponding to the operations of the current year as well as the margin determined for the immediately previous year to demonstrate consistency in the application of accounting methods in determining the cost of goods sold. Pursuant to the authority conferred to the Secretary in Subtitle F of the Code, the Secretary may invalidate any expense claimed under Section 1031.01(a)(2) of the Code that does not comply with the requirements of said section and the regulations.

Itemize the other direct cost reported on line 4 of this part in Part XI of the return. The flexible depreciation of assets used on manufacturing will be included on the other direct costs on line 4 and Part XI, line 15. The flexible depreciation of other assets that are not used for manufacturing will be entered in Part IX, line 23 of the return.

Include on line 7 the total cost of goods sold or direct costs of production (Subtract line 6 from line 5).

PART XI - OTHER DIRECT COSTS

Those cost items for which this Part XI does not provides specific lines, will be totaled and entered as other direct costs on line 16. Submit with the return a schedule itemizing those costs. The total of these costs should be entered on line 17 of this part and must be transferred to Part X, line 4 of the return.

PART XII - DETERMINATION OF THE NET OPERATING INCOME (OR LOSS)**Line 2 - Allowable deduction for investment in a Private Equity Fund**

In the case of entities that, according to the provisions of Act 185-2014 or Act 60-2019, as amended, are considered as accredited investors, they may claim a deduction for their initial investment in a private equity fund (PEF) or a Puerto Rico private equity fund (PEF-PR). For these purposes, the entity will be considered as an accredited investor if at the time of making the initial investment in a PEF or PEF-PR is:

- 1) 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 independently of what is established by the International Banking Center Regulatory Act and the International Financial Center Regulatory Act, respectively;
- 2) A nonprofit organization, corporation, or association with assets in excess of five million dollars (\$5,000,000); or
- 3) A business in which all the capital owners are accredited investors.

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 and Act 60-2019, 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 a 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 under which the Fund made the election under Act 185-2014, as amended or Act 60-2019, as amended, or through SURI according to the provisions of Internal Revenue Circular Letter No. 19-03 of February 5, 2019.
- (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 PEF-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 the 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
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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 5, Part XII, line 1	\$		%
Schedule CI Pass-Through Entity - Part IV, line 11	\$		%
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 5, Part XII, line 2 or to the “Other deductions” line of the applicable Schedule. You must submit a schedule with a breakdown of the total items included on the “Other deductions” line, including the amount corresponding to this deduction:

Page 5, Part XII, line 2	\$		\$
Schedule CI Pass-Through Entity - Part III, line 53	\$		\$
Schedule L Pass-Through Entity - Part V, line 53.....	\$		\$
Schedule V Pass-Through Entity - Part V, line 53.....	\$		\$
Schedule W Pass-Through Entity - Part IV, line 53.....	\$		\$
Schedule X Pass-Through Entity - Part VI, line 53.....	\$		\$
Schedule Y Pass-Through Entity - Part IV, line 53.....	\$		\$
Schedule Z Pass-Through Entity - Part IV, line 53.....	\$		\$
Schedule AA Pass-Through Entity - Part V, line 53.....	\$		\$
- Total allowable deduction on this return (This amount must be equal to the amount determined on line 9) \$ _____

Line 4 - Total income, gain or losses reported to the owner separately

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

Line 6 - Income tax on the owner's proportional share of the pass-through entity's income

Enter on this line the result of the multiplication of line 5 by the corresponding income tax rate of the proportional share of the owner 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 according to the provisions of Section 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 5 of this part.

PART XIII – DISTRIBUTABLE SHARE ON NET INCOME SUBJECT TO PREFERENTIAL RATES

Indicate in this part the net income and income tax in those 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 CI Pass-Through Entity, Part IV, line 11
- 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 "Tax Determined" Column you must indicate, as applicable, the amount from:

- Schedule CI Pass-Through Entity, Part V, line 5
- 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

Also indicate, in the space provided under each line for each schedule corresponding to an exemption decree under the Puerto Rico incentives act, the net income and income tax over income derived through subsidiary pass-through entities, as reported on line 1, Columns C and D, Part VIII of Form 480.60 EC received by the pass-through entity.

The total of the tax indicated on line 8 of this part, shall be paid by the entity on behalf of the owners.

In the case that the result of more than one operation subject to a preferential rate is included in the same schedule or the distributable share on the net income (or loss) subject to preferential rate of two or more subsidiary pass-through entities, the pass-through entity must prepare a detail including the case number, net income (or loss) subject to preferential rate and the preferential rate of each operation covered by an exemption decree under the Puerto Rico incentive acts.

PART XIV - 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 IX, line 1.

PART XV - 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 IX, line 2.

PARTS XVI AND XVII - 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 considered as not filed.**

If the volume of business of the entity is equal to or greater than \$10,000,000, 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 is equal or greater than \$3,000,000 but does not exceed \$10,000,000, the entity may choose to submit, instead of Audited Financial Statements, an Agreed Upon Procedures Report signed by a CPA 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 withholding on payments for services rendered.

For additional information about the filing requirement of Audited Financial Statements, refer to Section 1061.15 of the Code.

PART XVIII - 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 XIX - COMPUTATION OF GROSS INCOME PERCENTAGE DERIVED FROM ELIGIBLE ACTIVITIES

For taxable year 2022, it will not be necessary to complete this Part XIX.

PART XX - COMPUTATION OF GROSS INCOME PERCENTAGE DERIVED FROM TRADE OR BUSINESS

For taxable year 2022, it will not be necessary to complete this Part XX.

PART XXI - QUESTIONNAIRE

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

It is important to point out that no question must be left without answering. In case that any question is not applicable, you must check under "N/A".

Line 4(a) – Indicate if you filed the applicable informative returns, for example, Form 480.6A (Informative Return – Other Income Not Subject to Withholding) and Form 480.6B (Informative Return – Other Income Subject to Withholding) and Form 480.6SP (Informative Return-Services Rendered), among others.

Line 5 - Is provided to indicate if the required reports are included when the entity's volume of business or the aggregated volume of business of the related group of entities, if the entity is a member of such group, is equal or greater than \$10 million.

Line 5(a) - Indicate if audited financial statements are included, as provided by Section 1061.15 of the Code. The number of the CPA Association stamp must be included.

Line 5(b) - Indicate if the Uncertain Tax Positions Report is included. It is required for taxpayers who are required to file financial statements under Section 1061.15 of the Code.

Line 5(c) - Indicate if audited financial statements or agreed upon procedures report signed by a CPA licensed in Puerto Rico are included, as provided by Section 1061.15(a)(5)(A)(ii) of the Code, when the entity is a member of a related group of entities and the volume of business of the entity does not exceed \$3 million. The number of the CPA Association stamp must be included.

Line 5(d) - Indicate if audited financial statements are included, as provided by Section 1061.15(a)(5)(A)(i) of the Code, when the entity is a member of a related group of entities and the volume of business of the entity does not exceed \$3 million. The number of the CPA Association stamp must be included.

Line 6(a) - Indicate if audited financial statements or agreed upon procedures report signed by a CPA licensed in Puerto Rico are included, as provided by Section 1061.15(a)(3) of the Code, when the volume of business of the entity is \$3 million or more, but less than \$10 million. The number of the CPA Association stamp must be included.

Line 12 – Enter the corresponding amount of charitable contributions to municipalities included in Part II, line 23 or Part IX, line 56 of the return.

Line 22 – If you indicate in the Heading of page 1 of the return that the entity is a Private Capital Fund under Act 185-2014 or Act 60-2019, indicate in this line the creation and election dates of the fund. Also, indicate if you comply with the eligibility requirements established in Act 185-2014 and Act 60-2019 for the taxable year to which you are filing this return.

Line 23 - If the entity is filing a return for a period less than twelve months as a consequence of a change in accounting period, indicate if the change in accounting period was requested. The filing date of the request and approval of the change should be included. Also, you must submit as evidence copy of the Administrative Determination issued by the Department approving the change in period.

INSTRUCTIONS TO COMPLETE THE SCHEDULES

SCHEDULE B PASS-THROUGH ENTITY - OTHER PAYMENTS AND WITHHOLDINGS, RECONCILIATION OF ESTIMATED PAYMENTS AND RECAPTURE OF CREDITS CLAIMED IN EXCESS

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 on payments for services rendered. In order to claim this credit, you must submit Form 480.6SP. 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. You must include a schedule detailing the following information regarding each Form 480.6SP for which you claim credit for tax withheld: (1) taxable year as indicated on Form 480.6SP, (2) employer identification number of the withholding agent, (3) name of the withholding agent, (4) control number of Form 480.6SP, (5) electronic filing confirmation number of Form 480.6SP, (6) total amount withheld according to Form 480.6SP, and (7) amount withheld claimed in the current taxable year return. 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. You must include a schedule detailing 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 include a schedule detailing the following information regarding each Form 480.60 EC for which you claim credit for tax withheld: (1) name of the pass-through entity, (2) employer identification number of the pass-through entity, (3) control number of Form 480.60 EC, (4) electronic filing confirmation number of Form 480.60 EC, (5) total amount withheld according to Form 480.60 EC.

Line 5 - Enter the tax withheld reported on the Informative Return - Revocable Trust or Grantor Trust (Form 480.60 F). You must include a schedule detailing the following information regarding each Form 480.60 F for which you claim credit for tax withheld: (1) name of the entity, (2) employer identification number of the entity, (3) control number of Form 480.60 F, (4) electronic filing confirmation number of Form 480.60 F, (5) total amount withheld according to Form 480.60 F.

Line 6 - Enter the tax withheld on eligible interests reported on the Informative Return - Other Income Subject to Withholding (Form 480.6B). You must include a schedule detailing the following information regarding each Form 480.6B for which you claim credit for tax withheld: (1) taxable year as indicated on Form 480.6B, (2) employer identification number of the withholding agent, (3) name of the withholding agent, (4) control number of Form 480.6B, (5) electronic filing confirmation number of Form 480.6B, (6) total amount withheld according to Form 480.6B, and (7) amount withheld claimed in the current taxable year return.

Line 7 - Enter the tax withheld on dividends from corporations reported on Form 480.6B. You must include a schedule detailing the following information regarding each Form 480.6B for which you claim credit for tax withheld: (1) taxable year as indicated on Form 480.6B, (2) employer identification number of the withholding agent, (3) name of the withholding agent, (4) control number of Form 480.6B, (5) electronic filing confirmation number of Form 480.6B, (6) total amount withheld according to Form 480.6B, and (7) amount withheld claimed in the current taxable year 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, "Tax Withheld" Column of the return) exceeds the total of the installments paid and the taxes withheld at source, the balance (difference) shall be electronically deposited no later than the due date of this return, without including extensions. This payment can only be made through SURI.

PART III - RECAPTURE OF CREDIT CLAIMED IN EXCESS

In Columns A, B and C you must enter the name and the employer identification number of the entity to which the investment credit or the donation of a conservation easement claimed in excess belongs, and indicate the Act that regulates the investment or donation made.

The total investment carried out by the entity in the project is subject to the revision of the Secretary or Director of each Agency or Department, or of the Board. If the investment credit claimed by the investors exceeds the investment credit computed by the Secretary, the Director or the Board, this excess shall be due as income tax. In some cases, this debt must be paid by the investors in one installment, and in other cases in two installments beginning with the first taxable year following the date in which the nonfulfillment or revocation of the credits is determined, or any other date provided by law. The Director, the Secretaries or the Board will notify the Secretary of the Treasury the excess of credit claimed by the investors.

Line 1 - Enter the credit claimed in excess in previous years as a result of the intervention of the Secretary or Director of the Agency or Department, or the Board who regulates the Act under which the credit was granted.

Line 3 - Multiply line 1 by 50% and enter the result. In case that part of the excess was paid in the previous year, enter the balance owed. You must deposit this amount electronically through SURI.

Line 4 - If this is the first year that you make the recapture, subtract line 3 from line 1 and enter the difference. This will be the tax debt to be paid for next year. If this is the second year of recapture, subtract lines 2 and 3 from line 1.

PART IV - TAX CREDITS

This part will be used only in the cases that the entity chooses the optional tax of Section 1071.10 of the Code (Schedule BB Pass-Through Entity).

Act 52-2022 added Section 1051.16 of the Code to authorize the Secretary to create the Tax Credits Manager ("TCM") as part of the electronic system of the Department.

According to the AD 22-11, the TCM implementation date for purposes of the determination of Post TCM and Pre TCM Credits, is January 1, 2023.

The amount of credit to be included on the corresponding line of *Column A - Pre Tax Credits Manager* and *Column B - Post Tax Credits Manager* must be the amount you are claiming against the optional tax of Schedule BB Pass-Through Entity instead of the total amount of credit available. This is because the amount you enter on this column is the amount for which the credit available in the TCM will be reduced.

As an example, the taxpayer has a Post TCM credit of \$10,000 and the tax determined in the return is \$8,000. Assuming that the taxpayer has no other tax credit, he/she must enter \$8,000 on the corresponding line of *Column B - Post Tax Credits Manager*. Once you claim this amount on the return, the total credit available in the TCM of \$10,000 will be reduced to \$2,000 (that is, \$10,000 less \$8,000 of credit claimed on the return).

For additional information about the TCM, refer to AD 22- 11, IR CL 23- 02 and to the next publications to be issued by the Department.

The credits provided below may be claimed subject to the rules of use established in the special act under which they are granted and the applicable provisions of the Code. However, the credits covered under Section 1051.12(a)(4), (5) and (7) of the Code will be subject to the limitation of use provided in Section 1051.13 of the Code.

Credits acquired through purchase may only be claimed on lines 6 and 16 of this Part IV, as applicable. Lines 1 through 5, 7, 9 through 15 and 17 of this Part IV must only be used to claim credits generated during the current taxable year.

A. CREDITS SUBJECT TO THE LIMITATION PROVIDED BY SECTION 1051.13 OF THE CODE

Line 1 - Credit attributable to losses or for investment in Capital Investment, Tourism, 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 investment in housing infrastructure (Act 98-2001, as amended)

Enter the amount of the credit for housing infrastructure investment recommended by the designated officials of the Housing Department and the Department of the Treasury.

Act 98-2001, as amended, grants a credit for infrastructure investment to the developers of housing projects. It will be subject to the taxpayer's request and the approval by the Secretary of an administrative determination under Act 98-2001 and the applicable regulations. You must submit with the return a copy of the Administrative Determination issued by the Department.

For additional details, refer to Act 98-2001 and its regulations.

Line 3 - Credit for investment in the acquisition, construction, or rehabilitation of affordable rental housing to the elderly (Chapter 2 of Act 140-2001, as amended)

Enter the amount of credit for investment in the acquisition, construction, or rehabilitation of affordable rental housing to the elderly.

Act 140-2001, in this chapter 2, provides that every owner of an affordable rental housing project for the elderly may qualify for a tax credit. The petitioner must file an application with the Housing Finance Authority.

The tax credit will be subject to the taxpayer's request and the approval by the Secretary of an administrative determination. You must submit with the return a copy of the Administrative Determination issued by the Department.

Line 4 - 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. You must submit as evidence copy of the Administrative Determination issued by the Department.

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

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 and submits a copy with your return.

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

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 subject to the limitation under the provisions of the Code.

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

The Pass-Through Entity must also include with the return 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 V of this Schedule.

Line 7 - Other credits subject to limitation not included on the preceding lines

Enter on this line the total amount of other tax credits subject to limitation not included on the preceding lines. If on this line you included credits from different concepts, you must submit a schedule showing a breakdown of such credits. You must submit evidence of the credit that is being claimed, for example, the Administrative Determination issued by the Department granting the credit.

B. CREDITS NOT SUBJECT TO THE LIMITATION PROVIDED BY SECTION 1051.13 OF THE CODE

Line 9 - 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 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.

You must submit with the return copy of the certification issued by the Department of Economic Development of Puerto Rico, or the Administrative Determination issued by the Department.

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 Section 1051.10 of the Code. The tax credits to be granted cannot exceed \$500,000 in aggregate for any taxable year.

This credit will be in lieu of the deduction for charitable contributions provided in Part II, line 23.

To claim this tax credit, you must submit the certification issued by the recipient entity as evidence that the contribution was made and accepted; that the foundation is actively operating at the time of receiving the contribution; that has a Certificate of Validity of Tax Exemption issued by the Department of the Treasury; and that is in compliance with the annual report submitted to

the Legislative Funding Commission for Community Impact (as provided by Section 1051.10(b) of the Code). 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.

For additional details, refer to Administrative Determination No. 19-09 of December 28, 2019.

Line 13 - Credit for contributions to the Patronage of Santa Catalina's Palace or Patronage of the State Capitol of the Legislative Assembly

Act 52-2022 amended the provisions of Section 1051.06 of the Code to establish that the credit for contributions to the Santa Catalina's Palace Patronage or to the Patronage of the State Capitol of the Legislative Assembly will not be available as of the taxable year 2022.

Line 14 - Credit for investment (Section 6 of 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 15 - Credit for investment in opportunity zone (Act 60-2019)

Enter the amount of credit to be claimed for investment in opportunity zones. This amount must be equal to the eligible percentage of your investment and will be claimed as follow:

- **If the eligible investment was made in the same year the construction of the Project was completed or the exempt business begun operations (if the priority project do not require construction):**

The tax credit will be claimed in four (4) installments: 25% in the year the construction of the Project was completed or the exempt business begun operations, whatever comes later, and 25% of the balance of such credit in the next three (3) subsequent years.

- **In case the eligible investment is made after finalizing the construction of the Priority Project or after the exempt business have begun operations:**

The tax credit will be claimed in four (4) installments: 25% in the year in which a significant expansion in the constructed real property or in the exempt business is made, whatever the case is, and as per the Secretary of Economic Development's definition of the term by regulation, administrative determination, circular letter or informative bulletin issued for these purposes, and 25% of the balance of such credit in the next three (3) subsequent years.

All the eligible investment made during the investor's tax year shall qualify for a tax credit in such taxable year, as long as it is in compliance with all the requirements.

Such investment credit can be used against any tax determined by the investor under Subtitle A of the Code, including the alternate basic tax applicable to individuals and the alternative minimum tax applicable to corporations.

Any investment credit not used in a taxable year may be carried forward to subsequent tax years until totally used.

The entity must submit as evidence copy of the Administrative Determination issued by the Department of Economic Development and Commerce granting the referred credit.

In addition, the entity must also include with the return of each year in which the credit is claimed, a schedule detailing the year in which the credit is available to be used, the taxable years during which it has been claimed, its expiration date, the total amount of the credit and the amounts claimed in previous years.

For additional details, refer to Act 60-2019.

Line 16 - 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 limitation under the provisions 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 filed notifying the same to the Secretary.

The Pass-Through Entity must also include with the return 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 V of this Schedule.

Line 17 - Other credits not subject to limitation not included on the preceding lines

Enter on this line the total amount of other tax credits not subject to limitation 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 - BREAKDOWN OF THE PURCHASE OF TAX CREDITS

This part will be used only in the cases that the entity chooses the optional tax of Section 1071.10 of the Code (Schedule BB Pass-Through Entity).

In the case of the purchase of Post TCM credits, to get additional details, you must refer to AD 22-11, IR CL 23- 02 and to upcoming publications that will be issued by the Department.

Select the box corresponding to the act (or acts) under which the credit was acquired and indicate the amount of the same. Transfer the amount on lines 8 and 19 to Part IV of this Schedule, lines 6 and 16, respectively.

SCHEDULE CI PASS-THROUGH ENTITY - INCOME TAX FOR EXEMPT BUSINESSES UNDER ACT 60-2019

Use this schedule to determine the income tax attributable to the partners with operations covered by an exemption decree for exempt activities under Subtitle B of Act 60-2019.

Indicate in the corresponding spaces the type of business, case number, income effective period, and the actual and required number of employees directly related to the exempt activities. Also, you must indicate in the space provided, the type of exempt activity under Subtitle B of Act 60-2019.

PART IV - DETERMINATION OF THE NET INCOME (OR LOSS) SUBJECT TO TAX

Line 4 - Enter here the prior year net operational losses considering the limitations and dispositions applicable to the exempt activity for which this Schedule is being completed. You must submit a detail that includes the year, amount of the incurred loss and not used in that year, amount of loss in subsequent years, loss carryover to the current year, and its expiration date.

Line 6 - Exemptions applicable to the different exempt activities based on percentages of exemption or fixed amounts as provided by the provisions of the Code for each exempt activity will be claimed on this line.

Line 7 - Enter on this line the exempt amount of \$1,200,000 only available for those entities that are considered International Insurer.

Is important that, in these cases, the heading of the schedule indicates that the exempt activity is covered under Chapter 4 and that at the same time is an International Insurer.

Line 8 - Enter on this line the amount of special deduction for investment in buildings, structure, machinery, and equipment available for manufacturing activities and green energy.

PART V - TAX COMPUTATION

Line 1 - Enter here the income tax determined over the net income of the eligible activity and indicate the applicable tax rate for each exempt activity under Act 60-2019.

Select the "4%" option to determine the income tax over the net income of the activities that are subject to the special tax rate by means of the tax grant.

Those industries that are required to tax its net income under the provisions of the Code, must select the "Code" option available on this line.

The entity will also have the option of determining the income tax over the net income of the eligible activity at a fixed tax rate different from the special tax rate of 4%, by selecting the "Fixed rate" option. Must indicate the

applicable percentage according to the exempt activity under Subtitle B of Act 60-2019.

Line 2 - On this line the entity will determine the tax on base period average income determined in Part I of this schedule.

Line 4 - Must submit a schedule showing a breakdown of the credits applicable to the exempt activity that can be claimed against the income tax determined on line 3.

Line 5 - The amount on this line must be transferred to line 1, Part XIII of the Return, under the "Tax Determined" column.

PART VI - COST OF GOODS SOLD

Select the corresponding box to indicate the method used to value the inventory at the beginning and end of the year (cost or, cost or market value, whichever is less).

On September 30, 2021, Regulation No. 9310 - Cost of Goods Sold was issued. Said Regulation adds Articles 1031.01(a)(2)-1 to 1031.01(a)(2)-11 under the provisions of Section 1031.01 of the Code to Regulation No. 8049 of 2011, better known as the Internal Revenue Code Regulation of 2011. The articles of this regulation discuss the applicable rules for the determination of trade and business income for inventory sales activities, in addition to providing the rules for the determination of the cost of goods sold for the following industries:

- Wholesale and Retail Resellers
- Manufacturing
- Services
- Agriculture
- Development of Computer Programs
- Works Construction Projects
- Sale of Real Estate
- Entertainment

Article 1031.01(a)(2)-11 establishes that the method adopted to recognize the cost of goods sold of a business and the balance of inventories must be applied consistently from year to year. This ensures that the results of business operations can be distributed fairly among the annual accounting periods. It is for this reason that taxpayers will be required to determine in their income tax return the percentage of gross profit margin corresponding to the operations of the current year as well as the margin determined for the immediately previous year to demonstrate consistency in the application accounting methods in determining the cost of goods sold. Pursuant to the authority conferred to the Secretary in Subtitle F of the Code, the Secretary may invalidate any expense claimed under Section 1031.01(a)(2) of the Code that does not comply with the requirements of said section and the regulations.

Detail the other direct costs of line 4 of this part in Part VII of the Schedule.

Enter on line 7 the total cost of goods sold or direct costs of production (Subtract line 6 from line 5).

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 a **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 10% or 12% special tax rate, 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 on 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, 2020**, 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 December 31, 2020**, 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, provided that only for the means 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.

Also, the benefits under Act 216-2011 previously provided, shall not be applicable or recognized for properties acquired for a sale price that exceeds three hundred thousand dollars (\$300,000.00).

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, Executive Order 2012-27 of June 8, 2012, and to Act 60-2019.

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 pass-through entity, 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 pass-through entity, 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 **only** inform in this part the long-term capital gain or 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 tax decree number 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 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 20% rate, 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 you shall determine 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 9, Part VIII, page 3 of the return and subtracted as part of the amounts included on line 4, Part XII, page 5 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 you shall determine 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 DDC - DUE DILIGENCE CHECKLIST BY ACCREDITED AGENT - TAX RETURNS

Use this schedule to exercise the option provided by Section 1021.02(a)(2)(D) of the Code, which provides for the taxpayer to submit, together with the return, a due diligence checklist, instead of an Agreed Upon Procedures Report ("AUP") prepared by a CPA. This option is available for pass-through entities with a volume of business of less than \$1 million.

Schedule DDC Pass-Through Entity will be completed and certified by an Accredited Agent - Tax Returns Specialist that meets the requirements established by Section 6074.01 of the Code. On the indicated spaces, should provide the name and employer identification number of the entity, and the name and number of the Accredited Agent- Tax Returns Specialist. The Accredited Agent - Tax Returns Specialist Number will be the Specialist ID assigned by the Tax Practice and Regulation Division of the Department.

If for the taxable year the entity includes with the return audited financial statements or an AUP, the completion of this schedule is not required.

PART I - DETAIL OF DEDUCTIONS

The concepts of expenses and amounts claimed as deduction of the return included on this part are required to verification. If this requirement is met, they will be able to be claimed as a deduction on the return of the pass-through entity for purposes of determining the net income subject to alternate basic or alternative minimum tax.

PART II - DUE DILIGENCE REQUIREMENTS

The Accredited Agent - Tax Returns Specialist must answer each of the questions numbered in this part in order to confirm that he fulfilled the requirements of due diligence, as required by Sections 1071.02(a)(11)(D), 1115.04(b)(11) and 1114.06(a)(11)(C) of the Code.

PART III - CERTIFICATION

On this part the Accredited Agent - Tax Returns Specialist certifies that the due diligence requirements have been met, and that as required by Sections 1071.02, 1114.06 and 1115.04 of the Code, by means of its signature, declares under penalty of perjury that he has examined the information included in the schedule and that it is true, correct, and complete. Also accepts that, the failure to meet all the due diligence requirements mentioned above, will be subject to the suspension of his Accredited Agent - Tax Returns Specialist license by the Department and that in the case that the Department determines that any of the amounts included in the schedule and claimed as a deduction by the taxpayer are not supported with documentary evidence, he will be subject to the payment of the fine and any applicable penalties provided in Section 6074.03 of the Code.

For additional information, refer to the Internal Revenue Circular Letter No. 21-03.

SCHEDULE E - DEPRECIATION

Use this Schedule to provide detailed information related to the depreciation and amortization expense.

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

On this schedule you must provide the following information:

- classification of the property;
- acquisition date ;

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

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

Line (b) - Flexible Depreciation

In order to be entitled to claim flexible depreciation in lieu of current depreciation, the Code requires you to make an option through a sworn statement to be filed no later than 30 days after the close of the taxable year. Said option may be exercised only for property acquired by the taxpayer prior to June 30, 1995.

Line (c) - Accelerated Depreciation

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

Refer to the Code and its regulations in order to determine who qualifies for the deduction under the flexible and accelerated depreciation methods and the requirements that must be met in order to enjoy this deduction.

Line (d) - Amortization

In case of property that constitutes goodwill acquired by purchase during taxable years beginning after June 30, 1995, a deduction for amortization will be granted using the straight-line method and a useful life of fifteen (15) years.

In case of intangible property, except goodwill, acquired by purchase or developed in taxable years after December 31, 2009, a deduction for amortization will be granted, using the straight-line method and a useful life of fifteen (15) years or the useful life of such intangible property, whichever is less.

Line (e) - Automobiles

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

In the case of automobiles used by sellers, the amount of the depreciation deduction cannot exceed \$10,000 annually per automobile, up to a maximum of \$30,000 for the automobile's useful life.

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

In the case of automobiles under operating leases, the amount of rent paid during the taxable year shall be allowed as a deduction for **depreciation** up to a maximum of \$6,000 annually per automobile or \$10,000 if used by a seller. Include on this line, the lease rental payments for automobiles under operating leases up to the limits indicated above. Do not include them as a deduction for rent, interests, motor vehicles expenses or any other item other than depreciation.

Line (f) - Vehicles under financial lease

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

In the case of automobiles used by sellers, it will be allowed as a deduction the amount paid for the lease of the automobile during the taxable year for an amount not exceeding \$10,000 annually per automobile, up to a maximum of \$30,000 for the automobile useful life.

Enter on this line the amount of automobile lease payments that are substantially equivalent to a purchase, subject to the limits previously indicated. Do not include as part of the payments the interest portion. Also, indicate the number of vehicles for which you made lease payments. **You must provide with the return the information required on Form 480.7D.**

Do not include on this line regular automobiles lease payments ("operating leases"). These are reported on line (e).

Include this Schedule with your return.

SCHEDULE E1 - DEPRECIATION FOR BUSINESS WITH VOLUME OF \$3,000,000 OR LESS

Complete this Schedule to provide detailed information related to the depreciation expense for entities with a volume of business of \$3,000,000 or less.

It will be used to inform each of the properties for which you claim depreciation. These properties are: computer systems equipment, ground transportation equipment (except automobiles) and machinery and equipment, furniture and fixtures and any other assets being used in the business. You should select the oval in each part. Also, you must fill in the oval provided in each section, as applicable, to make the election for this depreciation.

On this schedule you must provide the following information:

- classification of the property;
- acquisition date;
- allowable cost or basis;
- depreciation claimed in previous years; and
- depreciation claimed in the current year.

Line (a) - Computer systems (Section 1033.07(a)(1)(G))

You may elect to deduct the total cost, including installation, of computer systems equipment in the year of its acquisition and installation. Equipment previously depreciated or acquired from a related person will not qualify for the acceleration of the depreciation allowance.

Line (b) - Ground transportation equipment, except automobiles (Section 1033.07(a)(1)(H))

The depreciation deduction will be determined based on a useful life of two (2) years for ground transportation equipment, except automobiles (as defined in Section 1033.07(a)(3)(B) of the Code), and environmental conservation equipment.

Line (c) - Machinery and equipment, furniture and fixtures, and any other fixed asset to be used in the industry or business

For taxable years beginning after December 31, 2018, the depreciation deduction for machinery and equipment, furniture and fixtures and any other assets, except automobiles, real property, or property subject to the terms of lines (a) and (b) of this schedule, being used in the business, will be based on a useful life of two (2) years.

Complete this Schedule only if you are going to elect the acceleration of the depreciation of the assets previously described. This election is irrevocable and you should consider that once exercised, the amount of depreciation computed on the books on these assets will not be deductible to determine the net income subject to tax on subsequent year's returns.

Submit this Schedule with the return.

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.

Indicate 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 net income or loss from sources outside Puerto Rico not related with the trade or business in Puerto Rico of the foreign corporation.

Line 6 - Enter the amount received for any subsidy or stimulus paid by the Federal Government as a consequence of COVID-19. Include a schedule showing a breakdown with the description of the Federal Government program that allowed access to this benefit, the amount received and any other required information.

Line 7 - Enter the amount received for any subsidy or stimulus paid by the Government of Puerto Rico as a consequence of COVID-19. Include a schedule showing a breakdown with the description of the Government of Puerto Rico program that allowed access to this benefit, the amount received and any other required information.

Line 8 - Enter the total amount received from interest on mortgages on residential property located in Puerto Rico granted after January 1, 2014 (including mortgages over new construction and that have been granted at the same time as the first transfer of the mortgaged property to a new owner), and secured or guaranteed by the National Housing Act of 1934 or the Act Servicemen's Readjustment Act of 1944, as amended.

Line 9 - Enter the total of other exclusions from gross income for which a specific line is not provided on this Schedule. Also, enter amounts excluded from gross income under special laws. For additional information, see Section 1031.01(b) of the Code.

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 5 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 employee-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 amount of interest received on bonds, notes or other obligations of an exempt business for the development, construction or rehabilitation of, or improvements to an exempt business, as defined in

Section 6070.55 of Act 60- 2019, conditioned on that the funds being totally used for the development, construction, or rehabilitation of, or improvements to an exempt business and/or to the payment of existing debts of said exempt business, as long as the funds from those existing debts have been used originally for development, construction or rehabilitation of, or improvements to said exempt business. Provide the required information from Form 480.6D.

Line 1(K) - 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(L) - 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(M) - Enter the total amount of other interest's 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.

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

Line 1(N) - 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.

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

Line 2(A) - Enter the distributions of dividends reported in Boxes 12 and 17 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, 16 and 18 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 received for tickets from vessel owners' associations and mutual protection and indemnity.

Line 9 - 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 10 - 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 11 - Enter the distributions of amounts previously reported as eligible deemed distributions under Section 1023.06(j) of the Code.

Line 12 - 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 13 - Enter the net income from residential property rented under the Real Property Market Stimulus Act (Act 132-2010, as amended).

Line 14 - 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 15 - 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 16 - 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 1U, as applicable.

Transfer to line 16(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 1V, as applicable.

Line 17 - Enter here the total amount of income reported in Box 22 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 18 - Enter here the total amount of income reported in Box 23 of Form 480.6D.

Line 19 - 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.

The entity must include with the return a schedule with a breakdown of the type of exemption from gross income or exempt income and the amount of such income received during the taxable year.

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 not subject to alternate basic tax and were **not** reported on Form 480.6D.

The entity must include with the return a schedule with a breakdown of the type of exemption from gross income or exempt income and the amount of such income received during the taxable year.

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 165-1996, Act 74-2010, Act 132-2010, 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 must include with the return a copy of the bona fide farmer certificate in force.

Every business that produces rental income under the rental housing projects for elderly persons under Act 165-1996, must include with the return copy of the Compliance Certification issued by the Secretary of the Housing Department.

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 13.

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 exemption percentage you are entitled to claim according to your Resolution under the Tourism Incentives Act 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 income received by owner of the rental housing projects for elderly persons by ninety percent (90%) and enter the amount in 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 owners 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.

PARTS II, III, IV AND V - GROSS PROFIT ON SALES OR PRODUCTION AND OTHER INCOME, COST OF GOOD SOLD, OTHER DIRECT COST AND DEDUCTIONS

Enter the amounts related to the partially exempt income. For information regarding these items, refer to instructions of Parts VIII, IX, X and XI of the return.

SCHEDULE R PASS-THROUGH ENTITY – PASS-THROUGH ENTITY (RECONCILIATION)

Complete Schedule R Pass-Through Entity, if the entity is an owner in one or more pass-through entity following the instructions for each line. This schedule contains a reconciliation of the information provided in all Schedules R-1 Pass-Through Entity submitted with the return.

Part I of Schedule R Pass-Through Entity is used to determine in the aggregate the total distributable share in the gross income of the pass-through entities.

Part II of this Schedule is used to determine the net income or loss of the entity's share in one or more pass-through entity.

PART I - QUESTIONNAIRE

The amounts to be included in this Part I will be transferred to Schedule R1 Pass-Through Entity and will be used to determine the total distributable share on the gross income of pass-through entities.

PART II - NET INCOME OR LOSS IN PASS-THROUGH ENTITIES

The amounts to be included in this Part II will be transferred from Schedule R1 Pass-Through Entity and will be used to determine the total income or losses from pass-through entities.

SCHEDULE R1 PASS-THROUGH ENTITY - PASS-THROUGH ENTITIES

Part I of Schedule R1 Pass-Through Entity is used each year to detail general information on the pass-through entity or trust and determine the taxpayer's adjusted base in each pass-through entity.

Part II of the Schedule is used to determine the net income or loss from the owner's share in one or more pass-through entity, including those losses carried over from previous years.

You must complete this Schedule annually, regardless of whether the pass-through entity or trust has or has not derived gains or had losses.

PART I - ADJUSTED BASIS DETERMINATION OF THE OWNER IN ONE OR MORE PASS-THROUGH ENTITIES

Line A - You must indicate the type of form from which the information to be included in this schedule comes: Form 480.60 EC, Form K-1 or Form 480.60F.

Line B - Indicate if the taxable year of the pass-through entity or trust is natural or economic.

Line C - You must indicate if the entity chose the optional tax under Section 1071.10 of the Code. As provided in this Section, the owners will not be responsible for paying the income tax of the entity for the year of the election, and for these purposes, the distributable share received by the owner will be considered an exclusion from gross income, although it will be considered to determine the tax basis of the owner's participation in the company. Likewise, the distributable share on the gross income of this entity will not be considered for purposes of determining the gross income of the pass-through entity. Therefore, lines H through K of this Part I should not include quantity.

Line D - Include on this line the name of the entity.

Line E - You must include the employer identification number of the entity.

Line F - Include the control number of Form 480.60EC or Form 480.60F received, as applicable. This requirement does not apply when the pass-through entity receives a Federal Schedule K-1.

Line G - Include the electronic filing confirmation number of Form 480.60 EC or 480.60F received, as applicable. This requirement does not apply when the pass-through entity receives a Federal Schedule K-1.

Line H - You must include the amount corresponding to the distributable share on the gross income related to the services rendered of the entity. In case of having received a Form 480.60EC, you must include on this line the amount reflected on Line 25(a), Part III of the Form. If the pass-through entity receives a Form 480.60F, it must include the amount reflected on line 1(O)(ii) of the Form. In the case of pass-through entities for which a Federal Form K-1 has been received, the taxpayer will have to determine the gross income of said entity and include it as applicable.

Line I - You must include the amount corresponding to the distributable share on the gross income related to the services rendered of subsidiary pass-through entities. In case of having received a Form 480.60EC, you must include on this line the amount reflected on Line 26(a), Part III of the Form. If the pass-through entity receives a Form 480.60F, it must include the amount reflected on line 1(O)(iv) of the Form. In the case of pass-through entities for which a Federal Form K-1 has been received, the taxpayer will have to determine the gross income of said entity and include it as applicable.

Line J - You must include the amount corresponding to the distributable share on the gross income of the entity. If you have received a Form 480.60EC, you must include on this line the amount resulting from subtracting Line 25(a) from Line 25, Part III of the Form. If the pass-through entity receives a Form 480.60F, it must include the amount reflected on line 1(O)(i) of the Form. In the case of pass-through entities for which a Federal Form K-1 has been received, the taxpayer will have to determine the gross income of said entity and include it as applicable.

Line K - You must include the amount corresponding to the distributable share on the gross income of subsidiary pass-through entities. If you have received a Form 480.60EC, you must include on this line the amount resulting from subtracting Line 26(a) from Line 26, Part III of the Form. If the pass-through entity receives a Form 480.60F, it must include the amount reflected on line 1(O)(iii) of the Form. In the case of pass-through entities for which a Federal Form K-1 has been received, the taxpayer will have to determine the gross income of said entity and include it as applicable.

Line 1 - Adjusted basis at the end of the previous taxable year

Enter the amount from Part I, line 4 of previous year Schedule R Pass-Through Entity.

The basis of an owner's interest from a pass-through entity will be the amount of cash, or the adjusted basis of any property that is not considered cash, contributed to said entity.

This basis will be adjusted by the following items or transactions made during the taxable year and others included on the previous year income tax return.

Line 2 - Basis increase

- (a) Enter the owner'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(c), Part II of this schedule.
- (b) Enter the capital contributions made by the owner to the pass-through entity during the current year, as shown in column (a), Part II of Form 480.60 EC.
- (c) Enter the owner'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 owner's distributable share in the pass-through entity's exempt income for the current year.
- (e) Enter other income or profits like for example, the distributable share in the dividends and interests received by the pass-through entity.

Line 3 - Basis decrease

- (a) Enter the distributable share in the loss attributable to the owner in the previous year according to the provisions of the Code and Regulations related to pass-through entities.
- (b) Enter the distributable share in the pass-through entity's capital loss.
- (c) Enter the distributions made to the owner by the pass-through entity, 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 pass-through entities 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 owners related to the pass-through entity'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 an owner .
- (f) Enter any expense from the pass-through entity 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) Enter the charitable contributions made to eligible entities.
- (i) Enter the owner's debts assumed and guaranteed by the entity.

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 PASS-THROUGH ENTITIES

Entities that have share in one or more pass-through entities, must determine the net income or loss of the taxable year in such entities according to the provision of the Code and the Regulations.

Line 5(a) - Enter the owner's distributable share in the loss of the pass-through entities according to the share percentage, as reported in Form 480.60EC, or the loss reported by the trust in Form 480.60 F.

Line 5(b) - Enter the distributable share in the loss of the pass-through entity owned by the entity according to its participation percentage as reported in Form 480.60EC or the loss reported by the trust in Form 480.60F.

Line 5(c) - Enter the carryover losses, which could not be claimed in prior years due to limitation.

Line 6(a) - Enter on this line the amount determined in Part I, line 4.

Line 6(b) - If the pass-through entity 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 pass-through entity, as reported on line F, Part I of Form 480.60 EC, in proportion to your share, to increase its adjusted basis, only to claim losses of the pass-through entity from this activity.

Line 6(c) - Include the portion of the pass-through entity's current debts assumed by the owner that are guaranteed by such owner as established on Form 480.60 EC, Part I, line E.

Line 7(a) - Enter the owner's distributable share in the income and profits derived from the pass-through entity during the year, as reported on Form 480.60 EC, or the distributable share in the income reported by the trust on Form 480.60F.

Line 7(b) - Enter the owner's distributable share in the income and profits derived from the pass-through entity owned by the entity, as reported on Form 480.60 EC, or the distributable share in the income reported by the trust on Form 480.60F.

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

Line 9 – Enter the sum of income reported on line 7(c), Columns A through C. This amount must be transferred to line 1, Part II of Schedule R Pass-Through Entity.

Line 10 - Enter the sum of the losses reported on line 8, Columns A through C. This amount must be transferred to line 2, Part II 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 the owners 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. You must submit a detail that includes the year, amount of incurred loss and not used in that year, amount of loss in subsequent years, loss carryover to the current year, and expiration date.

The amount of net operating loss 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 made 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 20, page 3 of the return.

If line 12 is **greater** 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 XIII, line 2, "Net Income" Column of the return.

PART III - TAX COMPUTATION

Line 3 – Credits

The credits provided below may be claimed subject to the rules of use established in the special act under which they are granted and the applicable provisions of the Code.

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 Section 5(c) of Act 135-1997.

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

Line 4 - This amount must be transferred to line 2, Part XIII of the Return, under the "Tax Determined" column.

PART IV - GROSS PROFIT ON SALES OR PRODUCTION AND OTHER INCOME

Select the corresponding box to indicate the method used to value the inventory at the beginning and end of the year (cost or, cost or market value, whichever is less).

On September 30, 2021, Regulation No. 9310 - Cost of Goods Sold was issued. Said Regulation adds Articles 1031.01(a)(2)-1 to 1031.01(a)(2)-11 under the provisions of Section 1031.01 of the Code to Regulation No. 8049 of 2011, better known as the Internal Revenue Code Regulation of 2011. The articles of this regulation discuss the applicable rules for the determination of trade and business income for inventory sales activities, in addition to providing the rules for the determination of the cost of goods sold for the following industries:

- Wholesale and Retail Resellers
- Manufacturing

- Services
- Agriculture
- Development of Computer Programs
- Works Construction Projects
- Sale of Real Estate
- Entertainment

Article 1031.01(a)(2)-11 establishes that the method adopted to recognize the cost of goods sold of a business and the balance of inventories must be applied consistently from year to year. This ensures that the results of business operations can be distributed fairly among the annual accounting periods. It is for this reason that taxpayers will be required to determine in their income tax return the percentage of gross profit margin corresponding to the operations of the current year as well as the margin determined for the immediately previous year to demonstrate consistency in the application of accounting methods in determining the cost of goods sold. Pursuant to the authority conferred to the Secretary in Subtitle F of the Code, the Secretary may invalidate any expense claimed under Section 1031.01(a)(2) of the Code that does not comply with the requirements of said section and the regulations.

Detail the other direct costs of line 5 of this part, in Part VI of the Schedule.

Enter on line 8 the total cost of goods sold or direct costs of production (Subtract line 7 from line 6).

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 an election to deduct on the taxable year in which 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 owners 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 XIII, line 3, "Net Income" Column 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.

Line 5 - This amount must be transferred to line 3, Part XIII of the Return, under the "Tax Determined" column.

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 owners of the entity with operations covered by a decree issued under Act 73-2008.

Indicate in the corresponding boxes the effective 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. You must submit a detail that includes the year, amount of incurred loss and not used in that year, amount of loss in subsequent years, loss carryover to the current year, and its expiration date.

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 an election to deduct on the taxable year in which 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 **grater** 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 XIII, line 4, “Net Income” Column 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.

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 gradually applied to the IDI, as follows:

Year	IDI subject to fixed tax rate under Act 73-2008	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 XIII, line 4, “Net Income” Column 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 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

The credits provided below may be claimed subject to the rules of use established in the special act under which they are granted and the applicable provisions of the Code.

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.

Line 9 - This amount must be transferred to line 4, Part XIII of the Return, under the "Tax Determined" column.

PART V - GROSS PROFIT ON SALES OR PRODUCTION AND OTHER INCOME

Select the corresponding box to indicate the method used to value the inventory at the beginning and end of the year (cost or, cost or market value, whichever is less).

On September 30, 2021, Regulation No. 9310 - Cost of Goods Sold was issued. Said Regulation adds Articles 1031.01(a)(2)-1 to 1031.01(a)(2)-11 under the provisions of Section 1031.01 of the Code to Regulation No. 8049 of 2011, better known as the Internal Revenue Code Regulation of 2011. The articles of this regulation discuss the applicable rules for the determination of trade and business income for inventory sales activities, in addition to providing the rules for the determination of the cost of goods sold for the following industries:

- Wholesale and Retail Resellers
- Manufacturing
- Services
- Agriculture
- Development of Computer Programs
- Works Construction Projects
- Sale of Real Estate
- Entertainment

Article 1031.01(a)(2)-11 establishes that the method adopted to recognize the cost of goods sold of a business and the balance of inventories must be applied consistently from year to year. This ensures that the results of business operations can be distributed fairly among the annual accounting periods. It is for this reason that taxpayers will be required to determine in their income tax return the percentage of gross profit margin corresponding to the operations of the current year as well as the margin determined for the immediately previous year to demonstrate consistency in the application of accounting methods in determining the cost of goods sold. Pursuant to the authority conferred to the Secretary in Subtitle F of the Code, the Secretary may invalidate any expense claimed under Section 1031.01(a)(2) of the Code that does not comply with the requirements of said section and the regulations.

Detail the other direct costs of line 5 of this part, in Part VII of the Schedule.

Enter on line 8 the total cost of goods sold or direct costs of production (Subtract line 7 from line 6).

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 (IR CL 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 operation 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 1 - Enter the amount of credit not used in the previous year, if any. You must submit a detail that includes the taxable year in which the credit was originated, the amount generated per taxable year, the amount of credit carryover used in previous taxable years, and the balance of credit available for the current taxable year.

Line 2 - 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).

Line 3 - The credit not claimed in the return, may be carried forward for a period that shall not exceed four (4) years beginning in the first taxable year in which the exempt business generates net income.

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

Please refer to IR CL 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

PART III – 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 alternative 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 3 - Refer to the instructions of Part I, line 5 of this Schedule.

Please refer to IR CL 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

PART IV – 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 and that has granted a credit for energy cost, may claim the same only against the income tax.

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. You must submit a detail that includes the taxable year in which the credit was originated, the amount of credit generated per taxable year, the amount of credit carryover used in previous taxable years and the balance of credit available for the current taxable year.

The term of force established for this credit is ten (10) years from July 1, 2008.

The amount of credit generated and not used at the end of the 2017-2018 fiscal year, may be carried only during the following four (4) taxable year.

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

Please refer to IR CL No. 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

PART V – 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 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 and 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. You must submit a detail that includes the taxable year in which the credit was originated, the amount of credit generated per taxable year, the amount of credit carryover used in previous taxable years and the balance of credit available for the current taxable year.

Please refer to IR CL 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

PART VI – INDUSTRIAL INVESTMENT CREDIT

ACT 52-2022 added Section 1051.16 of the Code to authorize the Secretary to create the Tax Credits Manager ("TCM") as part of the electronic system of the Department.

According to the AD 22-11, issued by the Department on December 22, 2022, the TCM implementation date for purposes of the determination of Post TCM and Pre TCM Credits, is January 1, 2023.

The amount of credit to be included on the corresponding line of *Column B - Post Tax Credits Manager* must be the amount you are claiming against the tax in the return instead of the total amount of credit available. This is because the amount you enter on this column is the amount for which the credit available in the TCM will be reduced.

As an example, the taxpayer has a Post TCM credit of \$10,000 and the tax determined in the return is \$8,000. Assuming that the taxpayer has no other tax credit, you must enter \$8,000 on the corresponding line of *Column B - Post Tax Credits Manager*. Once you claim this amount on the return, the total credit available in the TCM of \$10,000 will be reduced to \$2,000 (that is, \$10,000 less \$8,000 of credit claimed on the return).

For additional information about the TCM, refer to AD 22-11, IR CL 23-02 and to the next publications to be issued by the Department.

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 IR CL 11-01 for additional instructions regarding the management of the tax credits granted under Act 73-2008.

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

ACT 52-2022 added Section 1051.16 of the Code to authorize the Secretary to create the Tax Credits Manager ("TCM") as part of the electronic system of the Department.

According to the AD 22-11, issued by the Department on December 22, 2022, the TCM implementation date for purposes of the determination of Post TCM and Pre TCM Credits, is January 1, 2023.

The amount of credit to be included on the corresponding line of *Column B - Post Tax Credits Manager* must be the amount you are claiming against the tax in the return instead of the total amount of credit available. This is because the amount you enter on this column is the amount for which the credit available in the TCM will be reduced.

As an example, the taxpayer has a Post TCM credit of \$10,000 and the tax determined in the return is \$8,000. Assuming that the taxpayer has no other tax credit, you must enter \$8,000 on the corresponding line of *Column B - Post Tax Credits Manager*. Once you claim this amount on the return, the total credit available in the TCM of \$10,000 will be reduced to \$2,000 (that is, \$10,000 less \$8,000 of credit claimed on the return).

For additional information about the TCM, refer to AD 22-11, IR CL 23-02 and to the next publications to be issued by the Department.

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 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 2 – 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 3 – Enter the amount of credit not used in the previous year, if any. You must submit a detail that includes the taxable year in which the credit was

originated, the amount of credit generated per taxable year, the amount of credit carryover used in previous taxable years and the balance of credit available for the current taxable year.

Line 4 – This is the amount of credit available that the business may choose to claim against the tax liability for the current year.

Line 5(c) – 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 5(d) – 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 6 – 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 IR CL 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 owners 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. 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 an election to deduct on the taxable year in which 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 XIII, line 5, "Net Income" Column of the return.

PART II – TAX COMPUTATION

Line 3 – Credits

The credits provided below may be claimed subject to the rules of use established in the special act under which they are granted and the applicable provisions of the Code.

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 exempt 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.

Line 9 - This amount must be transferred to line 5, Part XIII of the Return, under the "Tax Determined" column.

PART III - GROSS PROFIT ON SALES OR PRODUCTION AND OTHER INCOME

Select the corresponding box to indicate the method used to value the inventory at the beginning and end of the year (cost or, cost or market value, whichever is less).

On September 30, 2021, Regulation No. 9310 - Cost of Goods Sold was issued. Said Regulation adds Articles 1031.01(a)(2)-1 to 1031.01(a)(2)-11 under the provisions of Section 1031.01 of the Code to Regulation No. 8049 of 2011, better known as the Internal Revenue Code Regulation of 2011. The articles of this regulation discuss the applicable rules for the determination of trade and business income for inventory sales activities, in addition to providing the rules for the determination of the cost of goods sold for the following industries:

- Wholesale and Retail Resellers
- Manufacturing
- Services
- Agriculture
- Development of Computer Programs
- Works Construction Projects
- Sale of Real Estate
- Entertainment

Article 1031.01(a)(2)-11 establishes that the method adopted to recognize the cost of goods sold of a business and the balance of inventories must be applied consistently from year to year. This ensures that the results of business operations can be distributed fairly among the annual accounting periods. It is for this reason that taxpayers will be required to determine in their income tax return the percentage of gross profit margin corresponding to the operations of the current year as well as the margin determined for the immediately previous year to demonstrate consistency in the application of accounting methods in determining the cost of goods sold. Pursuant to the authority conferred to the Secretary in Subtitle F of the Code, the Secretary may invalidate any expense claimed under Section 1031.01(a)(2) of the Code that does not comply with the requirements of said section and the regulations.

Detail the other direct costs of line 5 of this part, in Part V of the Schedule.

Enter on line 8 the total cost of goods sold or direct costs of production (Subtract line 7 from line 6).

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 or line 6, Part II of Schedule Y Pass-Through Entity, whichever is greater.

PART II – CREDIT FOR JOB CREATION

Every exempt business beginning operation 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 1 - Enter the amount of credit not used in the previous year, if any. You must submit a detail that includes the taxable year in which the credit was originated, the amount generated per taxable year, the amount of credit carryover used in previous taxable years, and the balance of credit available for the current taxable year.

Line 2 – 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).

Line 3 - The credit not claimed in the return, may be carried forward for a period that shall not exceed four (4) years beginning in the first taxable year in which the exempt business generates net income.

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

PART III – 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. You must submit a detail that includes the taxable year in which the credit was originated, the amount of credit generated per taxable year, the amount of credit carryover used in previous taxable years and the balance of credit available for the current taxable year.

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

ACT 52-2022 added Section 1051.16 of the Code to authorize the Secretary to create the Tax Credits Manager ("TCM") as part of the electronic system of the Department.

According to the AD 22-11, issued by the Department on December 22, 2022, the TCM implementation date for purposes of the determination of Post TCM and Pre TCM Credits, is January 1, 2023.

The amount of credit to be included on the corresponding line of Column B - Post Tax Credits Manager must be the amount you are claiming against the tax in the return instead of the total amount of credit available. This is because the amount you enter on this column is the amount for which the credit available in the TCM will be reduced.

As an example, the taxpayer has a Post TCM credit of \$10,000 and the tax determined in the return is \$8,000. Assuming that the taxpayer has no other tax credit, you must enter \$8,000 on the corresponding line of Column B - Post Tax Credits Manager. Once you claim this amount on the return, the total credit available in the TCM of \$10,000 will be reduced to \$2,000 (that is, \$10,000 less \$8,000 of credit claimed on the return).

For additional information about the TCM, refer to AD 22-11, IR CL 23-02 and to the next publications to be issued by the Department.

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 2 – 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 3 – Enter the amount of credit not used in the previous year, if any. You must submit a detail that includes the taxable year in which the credit was originated, the amount of credit generated per taxable year, the amount of credit carryover used in previous taxable years and the balance of credit available for the current taxable year.

Line 4 – 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 5(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 5(d) – 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 6 – 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.

SCHEDULE Z PASS-THROUGH ENTITY - DETERMINATION OF NET INCOME AND INCOME TAX FOR EXEMPT BUSINESSES UNDER ACT 118-2010, ACT 120-2014, ACT 14-2017, AND OTHER SPECIAL ACTS

Use this Schedule to determine the tax responsibility attributable to the owners 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 must 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 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 and that will be subject to the 4% special tax rate. Also, 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.

In case that you have more than one decree under Act 14-2017, you must indicate the amount in the space provided for it.

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. You must submit a detail that includes the year, amount of the incurred loss and not used in that year, amount of loss in subsequent years, loss carryover to the current year, and its expiration date.

Line 3 - Transfer this amount to Part XIII, line 6, "Net Income" Column 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, in the Agreement or in the exemption decree granted to the Qualified Physicians under Act 14-2017.

Line 5 - This amount must be transferred to line 6, Part XIII of the Return, under the "Tax Determined" column.

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 owners of the entity with operations covered by an exemption decree under Act 20-2012.

Indicate in the corresponding boxes the effective 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. You must submit a detail that includes the year, amount of the incurred loss and not used in that year, amount of loss in subsequent years, loss carryover to the current year, and its expiration date.

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 XIII, line 7, "Net Income" Column 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 18.5% 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

Line 5 - This amount must be transferred to line 7, Part XIII of the Return, under the "Tax Determined" column.

PART IV - GROSS PROFIT ON SALES OR PRODUCTION AND OTHER INCOME

Select the corresponding box to indicate the method used to value the inventory at the beginning and end of the year (cost or, cost or market value, whichever is less).

On September 30, 2021, Regulation No. 9310 - Cost of Goods Sold was issued. Said Regulation adds Articles 1031.01(a)(2)-1 to 1031.01(a)(2)-11 under the provisions of Section 1031.01 of the Code to Regulation No.

8049 of 2011, better known as the Internal Revenue Code Regulation of 2011. The articles of this regulation discuss the applicable rules for the determination of trade and business income for inventory sales activities, in addition to providing the rules for the determination of the cost of goods sold for the following industries:

- Wholesale and Retail Resellers
- Manufacturing
- Services
- Agriculture
- Development of Computer Programs
- Works Construction Projects
- Sale of Real Estate
- Entertainment

Article 1031.01(a)(2)-11 establishes that the method adopted to recognize the cost of goods sold of a business and the balance of inventories must be applied consistently from year to year. This ensures that the results of business operations can be distributed fairly among the annual accounting periods. It is for this reason that taxpayers will be required to determine in their income tax return the percentage of gross profit margin corresponding to the operations of the current year as well as the margin determined for the immediately previous year to demonstrate consistency in the application of accounting methods in determining the cost of goods sold. Pursuant to the authority conferred to the Secretary in Subtitle F of the Code, the Secretary may invalidate any expense claimed under Section 1031.01(a)(2) of the Code that does not comply with the requirements of said section and the regulations.

Detail the other direct costs of line 5 of this part, in Part V of the Schedule.

Enter on line 8 the total cost of goods sold or direct costs of production (Subtract line 7 from line 6).

SCHEDULE BB PASS-THROUGH ENTITY - OPTIONAL TAX FOR PASS-THROUGH ENTITIES THAT RENDER SERVICES (SECTION 1071.10)

Every entity engaged in trade or business in Puerto Rico, whose source of income proceed substantially from the rendering of services, may elect the optional tax as established on Section 1071.10 of the Code.

The entity may elect to apply the **optional tax** as long as it complies with the following requirements:

- At least eighty (80) percent of the total gross income of the entity for the tax year in which it opts to be taxed under the optional tax proceeds from income for services rendered, and
- At least the total tax was withheld at source pursuant to Section 1062.03 of the Code or was covered by the estimated payment provided in Section 1062.07 of the Code.

The eligible entity that elects the optional tax will determine the same by applying the corresponding tax rate provided in Part II of this schedule.

PART I - DETERMINATION OF ELEGIBILITY TO PAY THE OPTIONAL TAX

Line 1(a) - Enter the amount shown on line 7(a), Part VIII of the return.

Line 1(b) - Enter the amount shown on line 3, Part I of Schedule R Pass-Through Entity.

Line 2(a) - Enter the difference from line 7 and 13, Part VIII of the return less line 23, Part VIII of the return.

Line 2(b) - Transfer the amount shown on line 8, Part I of Schedule R Pass-Through Entity.

Line 2(c) - Transfer the amount shown on line 21, Part II of Schedule IE Pass-Through Entity.

Line 2(d) - As part of the computation of other income, you must include in this line the amount of Line 15, Part II of Schedule IE Pass-Through Entity that has been considered on lines 1(a) and 2(a) of this Schedule.

Line 4 - Divide line 1(c) by line 3 of this Part I. If the result is **less** than 80%, the entity is not eligible to be taxed under the optional tax. Do not continue with this schedule.

If the result is **80% or more**, the entity may elect to be taxed under the optional tax. In this case, continue with Part II of this Schedule.

PART II - COMPUTATION OF THE OPTIONAL TAX ON GROSS INCOME

Line 4 - Multiply line 3 of this Part II by the applicable tax rate included below and enter the result on this line.

Optional Tax to entities that render services:

If the gross income is:	The tax shall be:
Not over \$100,000	6%
Over \$100,000 but not over \$200,000	10%
Over \$200,000 but not over \$300,000	13%
Over \$300,000 but not over \$400,000	15%
Over \$400,000 but not over \$500,000	17%
Over \$500,000	20%

Line 5 - The entity may use the amount of credit for taxes paid to foreign countries, the United States, its states, territories, and possessions to satisfy the optional tax determined on line 4 of this Part II. You must complete Part III of this Schedule to determine the total credit to be claimed.

Line 7 - The entity may use the available amount of tax credits in Part IV of Schedule B Pass-Through Entity to satisfy the optional tax included on line 6 of this Part II.

Transfer to this line the amount shown in line 19, Part IV of Schedule B Pass-Through Entity, if any.

Line 9 - If the amount of tax credits available exceeds the optional tax net of the credit for taxes paid to foreign countries, the United States, its states, territories, and possessions, the difference must be entered in this line and transferred to the corresponding lines in Part IV of the return.

Line 10 - If there is a balance of optional tax due after using the available tax credits, if any, transfer the amount from line 3, Part II of Schedule B Pass-Through Entity.

Line 11 - Enter in this line the excess that result when you apply the amount of other payments and withholdings of line 3, Part II, Schedule B Pass-Through Entity to the balance of optional tax before other payments and withholdings of line 8, Part II of this schedule.

This amount must be transferred to line 5, Part II of the return, "Tax Withheld" column.

If when completing Part II of this schedule, the amount of line 10 is less than the amount of line 8 to be eligible to elect the optional tax, the income tax payment should be made with the return no later than the due date to file the same, without considering any extensions.

PART III - DETERMINATION OF THE CREDIT FOR TAXES PAID TO FOREIGN CONTRIES, THE UNITED STATES, ITS STATES, TERRITORIES, AND POSESSIONS

On this part the entity will determine the credit for taxes paid to the United States, its states, territories, and possessions to be claimed to satisfy the optional tax determined on line 1, Part II of this schedule.

A. Taxes Paid to Foreign Countries, the United States, its States, Territories, and Possessions

Indicate the payment date, total tax paid or accrued to every jurisdiction and the type of form in which such tax is reported.

B. Reduction in Credit for Tax Paid or Accrued

In this part will be determined the total adjustment to the taxes paid or accrued to foreign country, state, territory, or possession of the United States when the income from sources outside Puerto Rico includes taxable income from the foreign country but exempt for purposes of Puerto Rico income tax.

Line 1 - Indicate the portion of gross income reported to the foreign country that was subject to income tax in such country and that is part of the tax claimed in Part II, but that is NOT subject to income tax in Puerto Rico.

Line 2 - Indicate the gross income reported to the foreign country that was subject to income tax in such country for which it was determined the income tax claimed on Section A of this Part III.

C. Credit for Taxes Paid to Foreign Countries, the United States, its States, Territories, and Possessions

Determine the credit for which you are entitled and enter the amount, as applicable. The credit cannot be greater than the tax paid or accrued to the foreign countries, the United States, its states, territories, and possessions.

Transfer the total credit determined on line 6(c) to line 5, Part II of this Schedule.