



## 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 (hereinafter "owner") 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 last 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 Tuesday, March 31, 2026, 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 no later than 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. 26-04 of February 27, 2026.

#### 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 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 last 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, 2025, must be filed no later than March 31, 2026. 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 2025, please refer to the Internal Revenue Circular Letter No. 26-01 of February 5, 2026.

#### 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 pass-through entity owned by more than one nonresident individual owner which only income from Puerto Rico source comes from its distributable share in a pass-through entity engaged in industry or business in Puerto Rico, the entity can complete Form 482.0(C). For more information, refer to Administrative Determination No. 12-07 of March 14, 2012 ("DA 12-07", for its Spanish acronym) (Spanish only).

- **Pass-Through Entity Informative Income Tax Return - Composite**

If it is an entity 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 entity that operates in Puerto Rico, the entity can file Form 480.10(SC) and the combined Informative Returns – Pass-Through Entity (Form 480.60 EC), subject to the requirements established in DA 12-07.

## 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, 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.

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.

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

Also indicate if the entity is a member of a group of related entities and the group number assigned by the Department. 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.

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.

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

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

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.

The entity must indicate if it is a Large Taxpayer, as defined on Section 1010.01 of the Code.

### 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 box 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 box 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 owner 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), 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 the Puerto Rico Incentives Code (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](http://www.hacienda.pr.gov) under the "Pass-Through Entities" topic in the Tax Returns, Forms and Schedules 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 the 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, 18 and 19 of this Part II. You must complete Part XIII of the return and transfer to this line the total of line 7 of Part XIII 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 XIV 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 may be an owner of 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 attributable to the entity.

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

The entity may be an owner of 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 attributable to the 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 22. 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 59, Part X of the return. This amount constitutes, at the entity's individual owner or corporate owner level, 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 owner 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 of the Treasury ("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. You may check if the organization to which you made the charitable contributions is recognized as a nonprofit entity by reviewing the list of nonprofit organizations approved by the Department on the main page in SURI under the Section for Searches.

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, and to the Corporation of the Symphonic Orchestra of Puerto Rico as provided under Section 1033.22 of the Code, will not be subject to the limits established by the Code. To claim these charitable contributions, you must also provide the name of the Corporation, the employer identification number and submit, as evidence with the return, copy of cancelled or substitute checks, receipts, or certifications that demonstrate the payment made.

The amount of admissible deduction for charitable contributions must be determined in Schedule CC (Charitable Contributions). Enter on this line the amount indicated on line 7, Part IV of Schedule CC and include said schedule with the return. For more information, refer to the instructions of Schedule CC.

**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 29, Part IX of the return	
Plus: Distributable share on net income from pass-through entities	Line 17, Part IX of the return	
Plus: Net exempt income	Line 22 less line 16, Part II, Schedule IE Pass-Through Entity	
<b>Pass-through entity's gross income</b> .....		

**Line 25(a) - Gross income from services rendered**

Enter here the pass-through entity's gross income as included on line 11, Part IX 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 22 under the "Amount" column will have zero value and will only be allowed to include the tax withheld 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 owner 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 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 – 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 satisfy the payment of the optional tax, this Part IV should not be completed.

**PART V - CREDITS**

Use this Part to report only those tax credits that are considered Pre Tax Credits Manager, that the entity has available for distribution to its owners and that have **not** been claimed on Schedule CI, V, X, Y or BB Pass-Through Entity.

The Post Tax Credits Manager credits are reported in Part VII of this return, to the extent that they have not been claimed on a Schedule CI, V, X, Y or BB Pass-Through Entity.

Act 52 of June 30, 2022 ("Act 52-2022") added Section 1051.16 to the Code to authorize the Secretary to create the Tax Credits Manager ("TCM") as part of the Department's electronic system. In general terms, the TCM is a tool that, on one hand allows the Department to manage and supervise tax credits and, on the other hand, allows taxpayers to carry out all transactions related to their tax credits. According to Administrative Determination No. 22-11 ("AD 22-11"), issued by the Department on December 22, 2022, the date of implementation of the TCM for purposes of determining the Pre TCM and Post TCM Credits, was January 1, 2023.

Shall be considered a Pre TCM Credit: (1) any tax credit generated in an income tax return corresponding to taxable years beginning before January 1, 2023, including any carryover balance from previous years and; (2) any tax credit, including any carryover balance from previous years, granted through administrative determination or certification issued by any Regulatory Agency, as said term is defined in Section 1051.16(b)(3) of the Code, whose issuance date is prior to January 1, 2023. In the case of Credits for Investment in Research and Development Activities, shall be considered also Pre TCM Credits those registered in the Integrated Tax Credit Portal (CCI Portal, for its Spanish acronym) as of January 18, 2023. **Pre TCM Credits will not be registered in the TCM.**

On lines 1 through 15 of this part, you may identify the Pre TCM Credits as subject or not subject to the limitation provided under Section 1051.13 of the Code. These credits may be claimed subject to the rules of use established by the special act under which they were granted and the applicable provisions under the Code.

However, Pre TCM Credits may be claimed during a period of three (3) taxable years after the TCM implementation date ("Transition Period"). **Any available and unused balance of Pre TCM Credits at the end of the Transition Period cannot be claimed or carried over to subsequent taxable years.**

**As provided on AD 22-11, the first taxable year of the Transition Period was the taxable year 2023, therefore Pre TCM Credits may be claimed up to taxable year 2025. From taxable year 2026, only Post TCM Credits may be claimed.** During the Transition Period and when the act under which the credit was granted allows it, the holder may sell or assign the Pre TCM Credits, and the buyer or cessionary will be subject to the same limitations established in Section 1051.16 of the Code and AD 22-11, that were applicable to the seller on said Pre TCM Credits.

On the other hand, Pre TCM Credits that have been generated or acquired by a Disregarded Entity during the taxable year for which an election to be treated as such is effective, may be claimed by the owner on his/her return. It should be noted that Pre TCM Credits will be subject to the provisions of Section 1051.16(h) of the Code. For each line on this Part where credits generated or acquired by a Disregarded Entity are included, submit a detail, and include the corresponding evidence. Refer to Internal Revenue Circular Letter No. 24-02, of January 30, 2024 ("IR CL 24-02"), for additional information on the applicable rules for a limited liability company with an election to be a disregarded entity.

**For additional information on the TCM, refer to AD 22- 11, Internal Revenue Circular Letters No. 23-02 ("IR CL 23-02"), No. 23-14 ("IR CL 23-14"), No. 24-02 and any other publication issued by the Department.**

It is important to point out, that credits under Section 1051.12(a) (4), (5) and (7) of the Code will be subject to the limitation of use established in Section 1051.13 of the Code.

Credits acquired by purchase may be reported only on lines 5 and 14 of this Part V, as applicable. Lines 1 through 4, 6 through 13 and 15 of this Part V should only be used to report credits generated during the current taxable year.

Also, in those cases where the entity includes with its return a Schedule CI, V, X, Y or BB Pass-Through Entity, it will **not** complete this part until determines in Part I of Schedule B1 Pass-Through Entity the "Amount to be Claimed (Column (B))" of the "Balance Available (Column (A))" of Pre TCM tax credits. The difference, if any, reflected in Part I, Column (C) of Schedule B1 Pass-Through Entity, is the amount to be included in this Part V of the Return.

Otherwise, if the entity did not include a Schedule CI, V, X, Y or BB Pass-Through Entity with its return, the amount to include in each line of this Part V will be the amount of Pre TCM tax credit available from the entity to be distributed to its owners. In these cases, Schedule B1 Pass-through Entity will not be completed.

Example: The pass-through entity "X" has \$10,000 of Pre TCM credits for investment under Section 6 of Act 73-2008. "X" decided to take the optional tax and after completing Schedule BB Pass-through Entity, the optional tax due was \$6,000.

Assuming that "X" has no other tax credit, it must complete Schedule B1 Pass-Through Entity as follows: Part I, line 5, Column A: \$10,000 corresponding to the available balance of tax credits; Column B: \$6,000 to satisfy the payment of the optional tax determined in Schedule BB Pass-Through Entity; and in Column C: \$4,000 which is the difference between the available balance of tax credits and the optional tax determined in Schedule BB Pass-Through Entity. Finally, "X" will include the balance of \$4,000 on line 12 of this Part V of the return, this being the available tax credit after having claimed the \$6,000 as payment of the optional tax determined on Schedule BB Pass-Through Entity, Part II, line 6.

For details about these items, refer to instructions of Part I of Schedule B1 Pass-through Entity.

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

Use this Part to report only tax credits acquired through purchase that are considered Pre TCM, and that have not been claimed on a Schedule CI, V, X, Y or BB Pass-Through Entity. The purchase of Post TCM credits is reported in Part VII of this return. You must refer to AD 22-11, IR CL 23-02, IR CL 23-14, IR CL 24-02 and any other publication issued by the Department for additional details.

Select the box corresponding to the act (or acts) under which the credit was acquired and enter the amount. Transfer the amount from lines 7 and 15 to Part V, lines 5 and 14, respectively.

The limitation provided by Section 1051.13 of the Code, related to credits subject to moratorium, will be made on the owner's income tax return and not on each credit that is included in this part.

To claim any of the credits included in this part, the entity must include with the return a sworn statement notifying the purchase or assignment of the credit to the Secretary of the Treasury.

You must also have to submit evidence of the credits you are claiming, for example, the Administrative Determination issued by the Department to the investor granting the credit and 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.

If the entity includes with the return a Schedule CI, V, X, Y or BB Pass-Through Entity, **do not** complete this part and report the purchase of Pre TCM credits in Part I, Schedule B1 Pass-Through Entity.

## PART VII - TAX CREDITS POST TAX CREDITS MANAGER

Use this Part to report only tax credits that are considered Post TCM that the entity has available for distribution to its owners and that have not been claimed on a Schedule CI, V, X, Y or BB Pass-Through Entity. This includes credits acquired through purchase and that are considered Post TCM.

Section 1051.16(b)(1) of the Code defines the term Post TCM Credit as any tax credit granted under the Code, the Puerto Rico Incentives Code, Previous Incentive Acts, or any other special act from the date of the TCM implementation. As established in AD 22-11, the date of implementation of the TCM was January 1, 2023.

Subsection (d) of Section 1051.16 provides that must be an essential requirement to be entitled to claim any Post TCM credit, that it must be registered in the TCM. **Post TCM credits that are not registered in the TCM cannot be claimed against the tax liability nor transferred to the owners.** For detailed information on the process of registering the tax credits in the TCM, refer to IR CL 23-02.

Include in this Part tax credits granted from the date of the TCM implementation and that are duly registered. **The amount of credit that should be entered in the corresponding line must be the exact amount of credit available that the entity proposes to distribute to the owner, net of any limitations.** This is because the amount entered in this part is the amount for which the available credit in the TCM will be reduced once the transfer to the owners is completed.

Post TCM Credits that have been generated or acquired by a Pass-Through Entity or a Disregarded Entity may be claimed by the owner on his/her return. In the case of Pass-Through Entities, the Post TCM Credits generated or acquired by an entity, must be transferred to their owners in the TCM. At the same time, and before to be able to claim the credit in the return, the owner must accept the transfer of the credits in the TCM so that they may be reflected as available, in the link "Access to my Tax Credits" on his/her income tax account. Refer to IR CL 23-14 for details on the process of transferring Post TCM Credits from a pass-through entity to its owners.

In relation to the Post TCM Credits generated or acquired by a Disregarded Entity during the taxable year for which an election to be treated as such is effective, the Department will authorize the transfer of the Post TCM Credits registered in the TCM from the Disregarded Entity's account in SURI to the owner's account. The Disregarded Entity must request the transfer by sending an email to [mcc@hacienda.pr.gov](mailto:mcc@hacienda.pr.gov). In said request must include all the details of the transaction, including the information of the Disregarded Entity, the owner, the tax credit, and the amount requested to be transferred.

Credits provided in this Part may be claimed according to the rules of use established by the special act under which they were granted and the applicable provisions under the Code. When the act under which the tax credit was granted allows it, the taxpayer may transfer, sell, or assign the tax credit partially or totally. Once the legal transfer of the tax credits is completed, the seller must initiate the transaction notification process through the TCM and the buyer must ensure that the transaction is completed. This is necessary so that the tax credits may be reflected under the account of the new credit holder, that they may be included in this part and claimed against its income tax.

To know the percentages, limitations, possibility of transfer and/ or carryover of the credits listed below, you must refer to the determination or credit certification that has been granted, the rules of use established in the special act under which the credits were granted and the applicable provisions of the Code.

**Any credit reported in this Part that is not properly reflected in the taxpayer's TCM will be adjusted and the taxpayer will receive a**

## Notice of Mathematical Error in accordance with the provisions of Section 6010.02(g) of the Code.

It is important to point out that, in those cases where the entity includes a Schedule CI, V, X, Y or BB Pass-Through Entity with its return, **do not** complete this part until it determines in Part II of Schedule B1 Pass-Through Entity the amount to be claimed from the available credit against the tax determined at any one of these schedules. If the available credit is more than the tax determined in one of these schedules, the difference, if any, will be included in this Part VII of the Return.

Otherwise, if the entity did not include a Schedule CI, V, X, Y or BB Pass-Through Entity with its return, the amount to be included on each line of this Part VII will be the amount of Post TCM tax credit that the entity has available in the TCM to distribute to its owners. In these cases, Schedule B1 Pass-Through Entity will not be completed.

**For additional information, refer to AD 22-11, IR CL 23- 02, IR CL 23-14, IR CL 24-02, and any other publication issued by the Department.**

**If you have doubts or questions related to the operation of the TCM, please send an email to [mcc@hacienda.pr.gov](mailto:mcc@hacienda.pr.gov).**

## PART VIII - TAX COMPUTATION ON BUILT-IN GAIN

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 IX – DETERMINATION OF THE GROSS OPERATING INCOME

Enter on line 1 only the total of: (a) the net sales of goods or products and (b) income from construction work ("sale of goods"). Do not include in this line income derived from manufacturing and sale of services during the year. The latest must be included on lines 6 and 11 of this Part IX, respectively.

Enter the costs of goods sold or direct cost of production for the sale of goods and manufacturing on lines 2 and 7, as applicable. Determine the same in Part XI of the return.

Also, include the gross profit on the sale of goods and manufacturing on lines 3 and 8, as applicable. To determine the gross profit margin percentage for taxable year 2025 in the case of income from sale of goods, divide line 3 by line 1. In the case of manufacturing income, divide line 9 by line 6. To determine the corresponding amount for taxable year 2024, use the data from the 2024 return.

If you report the results of the operations of a Disregarded Entity, enter on lines 4, 9, 11(c) and 26, as applicable, the amount determined in Part I, Schedule EI Pass-through Entity corresponding to the activities of the disregarded entity for the sales of goods, manufacturing, services, or other income.

Enter on line 11 the gross income from the sale of services, including commissions. Indicate in the space provided on this line if the income from services were provided directly by the entity, through pass-through entities or from activities of a Disregarded Entity. 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 14 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, 2040, 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 15 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 17 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 18 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 21 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 22 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 and from construction work) or 11 (Gross income on sale of services) of this Part IX.

Enter on line 23 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 24 the base period average income derived from activities covered under Act 20-2012 or Act 60-2019, as amended, that are taxed under the provisions of the Code. You must be sure that you select option 1 "Code" in Part I of Schedules CI and AA Pass-Through Entity, as applicable. On the other hand, if this income is taxed at a fixed rate established in your exemption decree under the aforementioned laws, you should not enter any amount on this line. This is because the tax under the applicable fixed rate will be determined in the corresponding schedule.

Enter on line 25 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 28 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 X - 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 2025 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 point out that, in case of taxpayers that use the accrual basis method or that have a fiscal taxable year, must prepare and keep for their records a reconciliation, according to the provisions of Section 1063.01(a) of the Code, between the amount reported in the duly filed informative returns, and the expense claimed as deduction in the return. In this case, the taxpayer may claim as deduction the amount of expense registered in the books for purposes of the normal tax and alternative minimum tax.

Said reconciliation shall include, separately, the admissible expenses provided in each column of this section, the Normal Tax and the Alternate Basic or Alternative Minimum Tax columns.

### 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 XV, page 6 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 XVI, page 6 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 on 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 \$10 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, including bank fees and electronic transactions fees, that have been duly reported in an informative return shall be allowed as a deduction. You must keep for your records a schedule detailing said expenses.

**Line 20 - Deductions reported on Informative Returns of the Disregarded Entities included on this return**

If you report the results of the operations of a Disregarded Entity, include on this line the total of the deductions that were reported on informative returns filed in the name of the Disregarded Entity, as determined in Schedule EI Pass-through Entity, Part II, line 20. Include said schedule with the return.

**B. Deductions not reported on informative returns**

**Enter on lines 22 through 33 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 22 - 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 23 - 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 23(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 23(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 24 - 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 25 - 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 Schedule E1 only if you are going to elect the acceleration of the depreciation of the assets described above. 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 26 - 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 27 - 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 28 - 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 31 - Contributions to qualified pension 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. 25-01 of January 22, 2025.

**Line 32 - 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 or Breast Milk Extraction Period Concession

Every private company 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 working day, both for full time and part time employees.

**Line 33 - Deductions not reported on Informative Returns of the Disregarded Entities included on this return**

If you report the results of the operations of a Disregarded Entity, include on this line the total of the deductions that were not reported on informative returns filed in the name of the Disregarded Entity, as determined in Schedule EI Pass-through Entity, Part II, line 32. Include said schedule with the return.

**C. Other deductions**

Enter in the spaces provided on lines 35 through 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 Form ("DDC") is being included with the tax return.

In order to claim any amount on lines 35 through 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 AUP, according to the provisions of the Internal Revenue Circular Letter No. 19-14 of December 9, 2019. In the cases where 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, as applicable, with the tax return must ensure that questions number 5 and 6 of the Questionnaire, Part XX, page 8 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 35 - 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 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.

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

Nevertheless, the total expense to be claimed for the use and maintenance of an automobile shall not exceed the amount determined by the Secretary through regulations, administrative determination, circular letter, or general character informative bulletin. Provided that the mileage deduction established by the Secretary shall never be less than that established and published from time to time by the Internal Revenue Service (IRS). **Therefore, for taxable year 2025, the standard mileage rate is seventy cents (\$0.70).**

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 24 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 36.

Regulation No. 9311 of September 30, 2021 ("Regulation No. 9311") 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 36 - 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 37 - 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 38 - 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 39 - 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 46 - 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 47 - Bank fees**

Bank fees, as defined in Section 4010.01(nn)(2)(A)(i) of the Code, and electronic transaction processing fees charged by financial institutions to their commercial clients, will be allowed as a deduction. However, if these charges are reported in an informative return pursuant to Sections 1063.16 and 1063.15 of the Code, respectively, this item must be included on line 19, section A of this Part X.

**Line 48 - 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 49 - 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 **\$1,000 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 50 - 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 XVIII, line 4(d). This amount together with the deduction must be the same as the amount included in the (Total \$ \_\_\_\_\_) space 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 51.

**Line 51 - 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 XX, page 8 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 XX, page 8 of the return and must include with the return copy of the administrative determination which granted you the waiver.

**Line 52 - 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 54 - 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 temporarily installed in the eligible property or warehouse, as long as the improvement, remodeling, repairs, machinery and equipment are to be used in the eligible business operations subject to the lease. Also, the improvements, remodeling, repairs and the machinery and equipment should not have been used or depreciated previously.

The total of the eligible investment for this deduction in excess of the eligible business net income in the year of the 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 55 - 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.

**Other deductions**

Those expense items for which Part X (C) does not provide specific lines, will be totalized, 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 - Deductions that were validated by an AUP or DDC of the Disregarded Entities included on this return**

If you report the results of the operations of a Disregarded Entity, include on this line the deductions that were validated by an AUP or DDC of the

Disregarded Entity, as determined in Schedule EI Pass-through Entity, Part II, line 54. Include said schedule with the return.

**Line 59 - Adjustment for deductions not allowed for alternate basic tax and alternative minimum tax**

Enter on this line the difference between the amount on line 58 on the Regular Tax Column and line 58 under the Alternate Basic or Alternative Minimum Tax Column. The total shall be transferred to Part II, line 20 of the return.

**PART XI - 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 XII of the return. The flexible depreciation of assets used on manufacturing will be included on the other direct costs on line 4 and Part XII, line 15. The flexible depreciation of other assets that are not used for manufacturing will be entered in Part X, line 24 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 XII - OTHER DIRECT COSTS**

Enter on line 15 the depreciation expense you are claiming. If you are using more than one Schedule E or Schedule E1 to claim depreciation expense on this line, identify the schedule and enter the amount claimed in the spaces provided on lines 15(a) Schedule E No. \_\_, \$\_\_\_\_ and 15(b) Schedule E1 No. \_\_, \$\_\_\_\_, as applicable.

Those cost items for which this Part XII does not provides specific lines, will be totalized 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 XI, line 4 of the return.

## PART XIII - 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, as amended ("Act 185-2014") or Act 60-2019, as amended ("Act 60-2019"), 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.

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 as evidence of the 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;
  - If the Fund is treated as a PEF or PEF - PR by virtue of a tax exemption decree under Act 60-2019, you must indicate the case number, and that said decree was effective for the taxable year in which the contribution was made;
  - Name and employer identification number of the resident investor to whom the certification is issued; and
  - The amount of the capital committed 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) If the fund was created under the provision of Act 185-2014, copy of the Sworn Statement submitted under which the fund made the election; or copy of the election under Act 185-2014, made 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
--------------------------	-------------------------

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 XIII, line 1 of the return .....	\$ _____	_____ %
Schedule CI Pass-Through Entity - Part IV, line 9 .....	\$ _____	_____ %
Schedule L Pass-Through Entity - Part I, line 5 .....	\$ _____	_____ %
Schedule V Pass-Through Entity - Part II, line 10 .....	\$ _____	_____ %
Schedule W Pass-Through Entity - Part I, line 1 .....	\$ _____	_____ %
Schedule X Pass-Through Entity - Part II, line 7 or Part III, line 7, as applicable .....	\$ _____	_____ %
Schedule Y Pass-Through Entity - Part I, line 3 .....	\$ _____	_____ %
Schedule Z Pass-Through Entity - Part I, line 1 .....	\$ _____	_____ %
Schedule AA Pass-Through Entity - Part II, line 3 .....	\$ _____	_____ %
 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 and transfer the amount determined on line 9 to page 5, Part XIII, line 2 of the return and/or to the "Other deductions" line of any of the Schedules CI, L, V, W, X, Y, Z, and AA Pass-Through Entity, as your convenience. Alternatively, distribute and transfer the deduction among the corresponding Schedules (multiply the amount determined on line 9 by the percentage determined on line 6). You must submit a schedule with a breakdown of the total of the items included in the "Other deductions" line of Schedules CI, L, V, W, X, Y, Z, and AA Pass-Through Entity, including the amount corresponding to this deduction:
 

Page 5, Part XIII, line 2 of the return .....	\$ _____	
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 - Exempt amount under Section 2100.01 of Act 60-2019, as amended**

Enter on this line an amount not exceeding \$500,000. Section 2100.01 of Act 60-2019, as amended, provides a tax exemption on the first \$500,000 of gross income generated by a new business created by a young entrepreneur whose age fluctuates between 16 and 35 years. Said new business must have granted a Special Agreement for the Creation of Young Businesses (Agreement) with the Puerto Rico Trade and Export Company, to enjoy the exemption for the first 3 years following the signing of the Agreement.

To claim the exemption, copy of the Agreement must be included with the return. This benefit is limited to one new business for every young entrepreneur, and he/she cannot enjoy simultaneously the benefits provided by any law granting economic or fiscal incentives to promote a commercial, industrial or tourism operation in Puerto Rico.

**Line 6 - 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 7 - Net Income (or loss) from the industry or business of the entity**

Enter the net operating income (or loss) as determined in this part. Transfer this amount to Part II, line 5 of the return, column of Amount.

**Line 8 - 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 7 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 7 of this part.

**PART XIV – 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 9
- Schedule V Pass-Through Entity, Part II, line 10
- Schedule W Pass-Through Entity, Part I, line 1
- Schedule X Pass-Through Entity, Part II or III, line 7
- Schedule Y Pass-Through Entity, Part I, line 3
- Schedule Z Pass-Through Entity, Part I, line 1
- Schedule AA Pass-Through Entity, Part II, line 3

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 3
- 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 3
- 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 acts, the net income and income tax derived through subsidiary pass-through entities, as reported on line 1, Columns C and D, Part IX 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 XV - 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 X, line 1.

**PART XVI - 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 X, line 2.

**PARTS XVII AND XVIII - 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 Audited Financial Statements , with an Auditor's Report issued by a Certified Public Accountant ("CPA") licensed to practice in Puerto Rico, that are in accordance with the Generally Accepted Auditing Standards in the United States of America ("US GAAS").

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 , Audited Financial Statements or an AUP signed by a CPA licensed to practice 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 XIX - 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 XX - 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 10** - Indicate if the entity has undistributed earnings and profits that were accumulated during the periods before the entity was classified as a pass-through entity, or that were received in liquidations or reorganizations. Enter the amount of such earnings and profits in the space provided.

**Line 12** - Enter the corresponding amount of charitable contributions to municipalities included in Part II, line 23 of the return.

**Line 22** - If you indicate in the Heading of page 1 of the return that the entity is a Private Equity 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.

**Line 24** - If the entity is making an election to pay taxes as Pass-through Entity for the first time for this taxable year, must complete Form AS 6045 and include it as evidence of the return for which the election will be effective no later than the due date established for its filing, including extensions. For additional information, refer to Administrative Determination No. 23-01 of February 2, 2023 ("AD 23-01").

**Line 25** - Indicate if you are reporting the result of the operations of a Disregarded Entity.

In general terms, a Disregarded Entity is a Limited Liability Company whose existence is omitted as a separate entity of its sole owner exclusively for purposes of computing the income tax established in Subtitle A of the Code. Section 1010.01(a)(3) of the Code establishes that this treatment is an election **exclusively** for single member limited liability companies. For such purposes, Section 1010.01(a)(41)(ii) of the Code establishes that marriages married under the regime of legal partnership of community property will be considered as a sole owner for these purposes.

Notwithstanding the above, for taxable years beginning after December 31, 2022, any foreign limited liability company that has only one owner and that, either by election or by virtue of an act, is treated as a Pass-Through Entity or Disregarded Entity under the Federal Code, or an analogous act of a foreign country, may elect to be treated as a Disregarded Entity in Puerto Rico.

If you answered "Yes" to this question, you must submit along with the return a detail with the following information of each entity for the which the Disregarded Entity treatment has been choose: (i) entity's full name; (ii) employer identification number; and (iii) business volume. It will be necessary to indicate if the Disregarded Entity is owned directly, and in the opposite case, you must provide the employer identification number of the direct owner of the entity that is interested to be treated as a Disregarded Entity.

Indicate in question 25(a) if you are including with the return a Form AS 6045. It is a requirement for the taxable year in which the election is made, that the taxpayer submit as evidence copy of Form AS 6045 of all entities for which it has been chosen the treatment of Disregarded Entity and that are included in this return.

In these cases, the Disregarded Entity will not have the obligation to file an income tax return and the owner will be responsible for reporting on its return the items of income that were generated by the Disregarded Entity in the same nature in which they were received by the entity.

In question 25(b) you must indicate whether the Disregarded Entity have tax credits registered in the Tax Credit Manager generated or acquired during the taxable year for which the election was effective. If you answered "Yes" to this question, you must submit along with the return a detail with the demographic information of the entity.

For additional information, refer to Administrative Determination No. 22- 10 of November 21, 2022, AD 23-01 and IR CL 24-02.

**Line 27** - Indicate if at any time during the year, you (a) bought, received, or otherwise acquired (as a reward, award, or compensation) a digital asset (or financial interest in a digital asset); or (b) sold, exchanged, gave away, or otherwise dispose of a digital asset (or financial interest in a digital asset).

**Line 28** - Indicate if the non-resident owners of the entity, who are considered engaged in trade or business in Puerto Rico, are exempt from filing an income tax return according to the provisions of Section 1092.06 (b) of the Code. Also, you must submit as evidence copy of the Closing Agreement executed with the Department or the Administrative Determination issued by the Department approving the exemption from filing the income tax return.

## 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 included on the preceding lines. Submit a detail and evidence of the payment or withholding. Group, as it corresponds, payments or withholdings reported in an Informative Return, those that are not reported in an Informative Return, the tax withheld at source on behalf of Disregarded Entities and the estimated tax payments made on behalf of Disregarded Entities for the taxable year.

Provide on line 8(a) the required information of the corresponding Informative Return (Ex. Form 480.6B). On the other hand, if line 8(b) includes withholdings for different concepts, you must submit with your return a schedule showing the nature of each payment that was subject to withholding and the withholding included on this line. Also, remember to submit the evidence of the withholdings included on this line 8(b).

Line 8(c) will be available for those entities that include in their return the operations of at least one Disregarded Entity. You must enter the details of the informative return received by the Disregarded Entity whose withholding is claimed as part of this return. It's important to point out that the information about the person who receives the payment that is reported in the informative return corresponds with the demographic information that is included in the detail of question 25 of the Questionnaire on Part XX of the return.

Line 8(d) will be available for those taxpayers that include in their return the operations of at least one Disregarded Entity. You must enter the details of each estimated tax installment made by the Disregarded Entity claimed as part of this return. It's important to point out that the information included in the required detail corresponds with the demographic information that is included in the detail of question 25 of the Questionnaire on Part XX of the return.

Enter on line 8(e) the total of other payments not included on the preceding lines. If payments for different concepts are included, you must submit with your return a schedule showing the nature of each payment. Also, you must submit as evidence with the return copy of cancelled checks or substitute checks, receipts, or certifications that demonstrate the payment made. **Do not include the payment to be made with the return on this line.**

Keep for your records any informative return that supports the withholding claimed on this line.

#### 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.

### SCHEDULE B1 PASS-THROUGH ENTITY - PASS-THROUGH ENTITIES TAX CREDITS

Use this Schedule only if you complete Schedule CI, Schedule V, Schedule X, Schedule Y or Schedule BB Pass-Through Entity and claim credits.

**PART I - TAX CREDITS PRE TAX CREDITS MANAGER**

**Use this part to claim only the tax credits generated or purchased that are considered Pre TCM. The Post TCM credits are claimed in Part II of this schedule.**

The following credits may be claimed according to the rules of use established by the special act under which they were granted and the applicable provisions under the Code. However, Pre TCM Credits may be claimed during the Transition Period of three (3) taxable years after the TCM implementation date. **Any available and unused balance of Pre TCM Credits at the end of the Transition Period cannot be claimed or carried over to subsequent taxable years.**

**As provided on AD 22-11, the first taxable year of the Transition Period is the taxable year 2023, therefore Pre TCM Credits may be claimed up to taxable year 2025. From taxable year 2026, only Post TCM Credits may be claimed.** During the Transition Period and when the act under which the credit was granted allows it, the holder may sell or assign the Pre TCM Credits, and the buyer or cessionary will be subject to the same limitations established in Section 1051.16 of the Code and AD 22-11, that were applicable to the seller on said Pre TCM Credits.

**For additional information on the TCM, refer to the instructions in Part V of the return, to AD 22-11, IR CL 23-02, IR CL 23-14, IR CL No. 24-02 and any other publication issued by the Department.**

It is important to point out that credits 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.

Enter in Column A the balance available of Pre TCM credits; in Column B the amount of Pre TCM credits to be claimed against the tax determined on Schedule CI, V, X, Y or BB Pass-Through Entity, as applicable; and in Column C the excess, if any, of Pre TCM credits. If amounts are reflected in Column C, they must be transferred to the corresponding lines in Part V of the return. This will be the amount of the entity's tax credit available to be distributed to its owners.

**Line 1 - Credit for investment in machinery and equipment for the generation and use of energy**

Any eligible business under Section 2(d)(1)(H) of Act 73-2008, as amended ("Act 73-2008"), engaged to the production of energy for consumption in Puerto Rico, using renewable energy sources, may claim a credit for investment in machinery and equipment for the generation and use of energy.

The tax credit provided under this act will be 50% of the eligible investment, in the year for which the return is being filed.

Said credit will not exceed 25% of the income tax determined and may be applied, at the option of the eligible business, against the income tax imposed by paragraph (a) of Section 3 of Act 73-2008 or the income tax applicable under previous incentive acts.

The credit for businesses under **Section 2(d)(1)(H) of Act 73-2008 or a similar provision of previous incentive acts**, will be subject to having requested and the Secretary having granted an administrative determination under Act 73-2008 and its corresponding regulations. A copy of said determination must be included with the return, along with the information required in the determination letter.

For purposes of this credit, eligible investment will mean, in general terms, the amount of cash used to acquire machinery and equipment for the generation of energy with alternative fuels to oil.

For more details, refer to Section 5(d) of Act 73-2008 and its corresponding regulations.

**Line 2 - Credit for the purchase of products manufactured in Puerto Rico**

Enter the amount of credit to be claimed for the purchase of products manufactured in Puerto Rico. This credit may be claimed according to the rules established in the special act under which the credit was granted.

An Exempt Business that is considered a New Small and Medium Enterprise (SME) may request from the Department of Economic Development and Commerce ("DDEC", for its Spanish acronym) a tax credit for purchases of products manufactured in Puerto Rico of up to 30% of the purchases of such products, subject to the provisions of Sections 3000.01 and 3000.02 of the Puerto Rico Incentives Code (Act 60-2019).

This credit is non-transferable, except in the case of an exempt reorganization. The amount of the credit not used by the exempt business in a taxable year may be carried over to subsequent taxable years, until totally used, subject to the provisions of Section 1051.16(h) of the Code, if applicable. This credit will not generate a refund.

On the other hand, a business engaged to an eligible activity, as defined by Act 73-2008 or Act 83-2010, as amended, may claim a credit against the income tax for purchases of products manufactured in Puerto Rico, including components and accessories, equal to 25% of the purchases of such products during the taxable year in which the credit is claimed, or 35% if the products are transformed from recycled materials or with raw materials from recycled materials. This credit may be claimed up to a maximum of 50% of the income tax determined.

In addition, shall be granted to any exempt business under Act 135-1997 a deduction for the purchase of products manufactured in Puerto Rico equal to 15% of the purchases of said products, reduced by the average of the purchases of said products made for the year 2000. This deduction is granted only for purchases of products that have been manufactured by companies not related to the exempt business. For purposes of the above calculation, such purchases from unrelated companies will be excluded from the total purchases of products manufactured in Puerto Rico made by the exempt business.

The taxpayer must include with the return copy of the Administrative Determination issued by the DDEC granting the credit. The taxpayer must also include with the return for each year in which the credit is claimed, a schedule detailing the year in which the credit is available to be used, the total amount of the credit, the taxable years during which it has been claimed and the amounts claimed in previous years.

For more details, refer to Act 135-1997, as amended, Act 73-2008, as amended, Act 83-2010, as amended, or Act 60-2019, as amended.

### **Line 3 - Technology transfer investment credit**

Exempt businesses with a decree under which this credit for investment is granted, may claim a credit only against the fixed industrial development income tax equal to the applicable tax rate, of payments made to corporations, entities or non-resident persons, for the use or privilege of use in Puerto Rico of intangible property in its exempt operation, provided that the income for such payments is from sources in Puerto Rico.

This tax credit is not transferable but may be carried over until totally used. However, said carryover will never exceed the period of 8 taxable years counted from the close of the taxable year in which the credit was originated. This credit will not be refunded.

The taxpayer must include with the return copy of the Administrative Determination through which the credit was granted along with a schedule detailing the year in which the credit is available to be used, the total amount of the credit, the taxable years in which it has been claimed, the amounts claimed in previous years and its expiration date.

For more details, refer to Section 5(f) of Act 73-2008, as amended, Article 2.11(d) of Act 83-2010, as amended, or Section 3030.01 of Act 60-2019, as amended.

### **Line 4 - Credit for investment in research and development activities**

Any exempt business that has a decree under Act 60-2019 or previous incentive acts may claim, subject to the approval of the Secretary of the DDEC, the Energy Affairs Administration or the Puerto Rico Industrial Development Company, as applicable (corresponding agency), a tax credit for investment of up to 50% of the special eligible investment made in Puerto Rico within the taxable year, subject to the limits, terms and conditions established by the corresponding agency.

The taxpayer must include with the return copy of the certification issued annually by the corresponding agency along with a schedule detailing the year in which the credit is available to be used, tax years during which it has been claimed, its expiration date, the total amount of the credit and the amounts claimed in previous years.

To know the limitations, terms and conditions, you must refer to the decree that has been granted.

For more details, refer to Section 5(c) of Act 73-2008, as amended, Article 2.11(c) of Act 83-2010, as amended, or Section 3030.01 of Act 60-2019, as amended.

### **Line 5 - Credit for industrial investment**

Enter the amount of credit to be claimed for industrial investment under Section 6 of Act 73-2008, as amended and/or under Section 5A of Act 135-1997, as amended ("Act 135-1997"). This amount must be equal to 50% of the eligible investment to be claimed in two or more installments: the first half in the year in which the eligible investment is completed and the balance in the subsequent years. The maximum amount of credit for industrial investment will not exceed \$8,000,000 for each exempt business that has a decree granted under Act 73-2008. If you have a decree granted under Act 135-1997, the maximum amount of credit will not exceed \$5,000,000 for each exempt business.

That part of the credit not used in a taxable year may be carried over to subsequent years, until totally used.

The taxpayer must include with the return copy of the Administrative Determination issued by the Department along with a schedule detailing the year in which the credit is available to be used, the total amount of the credit, the taxable years in which the tax credit has been claimed and the amounts claimed in previous years.

For additional details, refer to Act 73-2008 or Act 135-1997 and the corresponding regulations.

### **Line 6 - Credit for contributions to former governors' foundations**

Enter the amount of credit to be claimed for contributions to former governors foundations equivalent to 100% of the amount contributed during the taxable year to former governors foundations for operating expenses and those expenses related to the purposes for which they were created and/or those charitable contributions to a Depository of Files and Relics of Former Governors and Former First Ladies of Puerto Rico constituted according to the provisions of Act 290-2000 by itself or as a whole with public or private Higher Education entities, to pay the construction, operation and all necessary expenses for the true fulfillment of the purposes of Act 290-2000 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 of the return.

To claim this tax credit you must submit a certification issued by the recipient entity as evidence that the contribution was made and accepted; that the foundation is operationally active at the moment of receiving the donation; that it has in force the Certificate of Tax Exemption issued by the Department of the Treasury; and that it complies with the required annual report to the Commission of Legislative Funds for Community Impact (as provided in Section 1051.10 (b) of the Code). The amount of the credit not used in the taxable year in which the donation 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 7 - Credit for construction investment in urban centers**

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

The concession of the credit is subject to the taxpayer's request and the approval by the Secretary of an administrative determination. You must submit as evidence copy of the Administrative Determination, along with the required information in said determination.

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

For additional details, refer to Act 212-2002, as amended, and to Regulation No. 7777 of November 30, 2009.

#### **Line 8 - Credit for Puerto Rico conservation easement**

Enter the amount of credit for the establishment and donation of a conservation easement, equal to 50% of the value of eligible conservation easement.

To claim this credit, you must submit a copy of the certification issued by the Secretary.

For additional details, refer to Act 183-2001, as amended, and to Regulation No. 8871 of December 8, 2016.

#### **Line 9 - Credit for investment in rental housing to the elderly**

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

Act 140-2001, as amended by Act 77-2015, in the 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 as evidence copy of the Administrative Determination issued by the Department.

#### **Line 10 - Credit for investment in film project**

Enter the amount of credit to be claimed for investment in a Film Entity engaged in a Film Project under Act 27-2011 or under Act 60-2019.

You must submit as evidence a copy of the certification issued by the DDEC, or the Administrative Determination issued by the Department.

#### **Line 11 - Credit for investment in housing infrastructure**

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

Act 98-2001, as amended, grants a tax 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 12 - Credit for investment in project infrastructure for film projects**

Enter the amount of credit to be claimed for investment in a Film Entity engaged in an Infrastructure Project for a film project under Act 27-2011.

You must submit as evidence a copy of the certification issued by the DDEC, or the Administrative Determination issued by the Department.

#### **Line 13 - Credit for investment in opportunity zones**

Enter the amount of credit to be claimed for investment in opportunity zones.

The credit must be equal to the eligible percentage of your eligible investment and will be claimed as follow:

- **If the eligible investment is made in the year in which the exempt business completed the total construction of the Priority Project or when the exempt business begins operations (if the priority project does not require construction):**

The credit will be taken in four (4) installments: 25% in the year in which the exempt business completed the construction or when the exempt business began operations, whichever is later, and 25% of the balance of said credit in the next three (3) subsequent years.

- **If the eligible investment is made after the end of the construction of the Priority Project or that the exempt business has begun operations:**

The credit shall be taken in four (4) installments: 25% in the year in which a significant expansion has been made in the real property constructed or in the exempt business, as the case may be, and as such term is defined by the Secretary of Economic Development through any regulations, administrative determination, circular letter or informative bulletin issued for these purposes, and 25% of the balance of said credit in the next three (3) subsequent years.

Every eligible investment made during the investor's taxable year will qualify for this tax credit, in said taxable year, as long as it meets all the requirements.

This credit may be applied against any tax determined of the investor according to Subtitle A of the Code, including the alternate basic tax applicable to individuals and the alternative minimum tax applicable to corporations.

That part of the credit not used in a taxable year, may be carried over to subsequent taxable years, until totally used.

The entity must include as evidence with the return, copy of the Administrative Determination issued by the DDEC granting the referred credit.

In addition, the entity must include with the return of every 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, as amended.

#### **Line 14 - Credit for tourism investment - Alternate credit**

Enter the amount of the alternate credit for tourism investment, as chosen by the exempt business, equivalent to 40% or 30% of the eligible investment, which has been duly approved under Act 74-2010 or under Act 60-2019.

In the application to obtain this credit, the exempt business will notify its election, and once said determination is approved, it will be final and firm. The tax benefits provided under the alternate credit cannot be combined at any time with the credit for regular tourism investment.

The alternate credit for tourism investment not used in a taxable year, may be carried over to subsequent taxable years, until totally used.

To know the percentages, limitations, possibility of transfer and/or carryover, you must refer to the determination or decree that has been granted.

For more details, refer to Act 74-2010, as amended, or Act 60-2019, as amended.

**Line 15 - Credit for tourism investment - Regular credit**

Every investor may claim a credit for tourism investment equal to 50% of its eligible investment, to the extent that the exempt business has not chosen in the alternative, the alternate credit for tourism investment provided in the above line 16. The credit may be claimed in two installments: the first half in the year in which the financing for the total construction of the tourism project was obtained, and the balance of the credit, in the following year.

The credit for tourism investment not used in a taxable year, may be carried over to subsequent taxable years, until totally used.

To know the limitations, possibility of transfer and/or carryover, you must refer to the determination or decree that has been granted.

For more details, refer to Act 74-2010, as amended.

**Line 16 - Credit for job creation**

Every exempt business that has an exemption decree under Act 73-2008 or under Act 83-2010, and that begins operations after the date established in the law under which it operates, may request 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 operations of said exempt business are located, as provided below:

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

It is a requirement that the exempt business keep an employment average equal to or greater than the number of jobs that generated the credit, for each of the three (3) consecutive years following the year in which the credit originated.

This credit cannot be sold, assigned or transferred, nor create a refund to the exempt business. However, the amount of the credit not used during the first year of operations may be carried forward for a period that will not exceed four years from the first taxable year in which the exempt business generates net income.

The taxpayer must include with the return for every year in which the credit is claimed, a schedule detailing the date on which it was generated, taxable years during which it has been claimed, its expiration date, as well as the total amount of the credit, and the amounts claimed in previous years.

For more details, refer to Act 73-2008, as amended, and to Act 83-2010, as amended.

**Line 17 - Other Pre Tax Credits Manager credits not included in the preceding lines**

Enter the total amount of other Pre TCM credits not included on the preceding lines.

Submit with your return a schedule detailing the credits included on this line. Also, you must submit as evidence of the credits that you are claiming, the Administrative Determination issued by the Department granting the credit and a schedule detailing the year in which the credit is available to be used, the total amount of the credit, the taxable years in which the tax credit has been claimed, the amounts claimed in previous years and its expiration date.

**PART II - TAX CREDITS POST TAX CREDITS MANAGER**

**Use this Part to claim only tax credits that are considered Post TCM. This includes credits acquired through purchase and that are considered Post TCM.**

Section 1051.16(b)(1) of the Code defines the term Post TCM Credit as any tax credit granted under the Code, the Puerto Rico Incentives Code, Previous Incentive Acts, or any other special act from the date of the TCM implementation. As established in AD 22-11, the date of implementation of the TCM was January 1, 2023.

Subsection (d) of Section 1051.16 of the Code provides that must be an essential requirement to be entitled to claim any Post TCM credit that must be registered in the TCM. **Post TCM credits that are not registered in the TCM cannot be claimed against the tax liability.** For detailed information on the process of registering the tax credits in the TCM, refer to IR CL 23-02.

Include in this Part tax credits granted from the date of the TCM implementation and that are duly registered. **The amount of credit that should be entered in the corresponding line must be the exact amount you are claiming against the tax determined, net of any limitation, rather than the total amount of credit available.** This is because the amount entered in this part is the amount for which the available credit in the TCM will be reduced.

As an example, pass-through entity "X" have Post TCM credits of \$10,000 for investment under Act 73-2008 duly registered in the TCM. "X" chooses the optional tax and once Schedule BB Pass-Through Entity was completed, the optional tax determined was \$6,000.

Assuming that "X" **does not have any other tax credit**, it will include \$6,000 on line 7, Part II of this Schedule B1 Pass-Through Entity ("Schedule B1"). This item represents the amount of credit that will be claimed in the TCM by the entity to satisfy the payment of the optional tax included on line 6, Part II of Schedule BB Pass-Through Entity ("Schedule BB"). Therefore, the amount of \$6,000 included on line 7, Part II of Schedule B1 will be transferred to line 7, Part II of Schedule BB.

Also, "X" must include a balance of \$4,000 on line 7, Part VII of the return, this being the result of the total available tax credit of \$10,000 less \$6,000 claimed as payment of the optional tax. This will be the amount of tax credit available of the entity to be distributed to its owners.

For additional details on these items, refer to the instructions in Part VII of the return.

Credits provided in this Part may be claimed according to the rules of use established by the special act under which they were granted and the applicable provisions under the Code. When the act under which the tax credit was granted allows it, the taxpayer may transfer, sell, or assign the tax credit partially or totally. Once the legal transfer of the tax credits is completed, the seller must initiate the transaction notification process through the TCM and the buyer must ensure that the transaction is completed. This is necessary so that the tax credits may be reflected under the account of the new credit holder, that they may be included in this part and claimed against its income tax.

On the other hand, Post TCM Credits that have been generated or acquired by a Pass-Through Entity or a Disregarded Entity may be claimed by the owner on his/her return. In the case of Pass-Through Entities, the Post TCM Credits generated or acquired by an entity, must be transferred to their owners in the TCM. At the same time, and before to be able to claim the credit in the return, the owner must accept the transfer of the credits in the TCM so that they may be reflected as available, in the link "Access to my

Tax Credits" on his/her income tax account in SURI. Refer to IR CL 23-14 for details on the process of transferring Post TCM Credits from a pass-through entity to its owners.

In relation to the Post TCM Credits generated or acquired by a Disregarded Entity during the taxable year for which an election to be treated as such is effective, the Department will authorize the transfer of the Post TCM Credits registered in the TCM from the Disregarded Entity's account in SURI to the owner's account. The Disregarded Entity must request the transfer by sending an email to [mcc@hacienda.pr.gov](mailto:mcc@hacienda.pr.gov). In said request must include all the details of the transaction, including the information of the Disregarded Entity, the owner, the tax credit, and the amount requested to be transferred.

To know the percentages, limitations, possibility of transfer and/ or carryover of the credits listed in this Part, you must refer to the determination or credit certification that has been granted, the rules of use established in the special act under which the credits were granted and the applicable provisions of the Code.

Enter on each line the amount of Post TCM credits that you are going to claim on this schedule. If after applying the Post TCM credits against the tax determined in the corresponding Schedule CI, V, X, Y or BB Pass-Through Entity, it results in an excess of credits in the TCM, you must transfer the balance of available Post TCM credits to the corresponding lines in Part VII of the return. This will be the amount of tax credit available from the entity to be distributed to its owners.

**Any credit claimed in this Part that is not properly reflected in the taxpayer's TCM will be adjusted and the taxpayer will receive a Notice of Mathematical Error in accordance with the provisions of Section 6010.02(g) of the Code.**

**For additional information, refer to AD 22-11, IR CL 23- 02, IR CL 23-14, IR CL 24-02, and any other publication issued by the Department.**

**If you have doubts or questions related to the operation of the TCM, please send an email to [mcc@hacienda.pr.gov](mailto:mcc@hacienda.pr.gov) .**

**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 owners 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.

If the Pass-through Entity is the owner of a Disregarded Entity that has an exemption decree under Subtitle B of Act 60-2019, it must use this Schedule to report the operations of the Disregarded Entity. In this case, you must check the corresponding box and include the name and employer identification number of said Disregarded Entity. The employer identification number of the Disregarded Entity that is included in this Schedule must be included in the detail required in question 25 of the Questionnaire in Part XX of the return.

If you use more than one Schedule CI Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule CI No. \_\_\_\_").

In Part I, Base Period Average Income, you must be sure to select the option "Code" or "Fixed rate", as established in your decree under Act 60-2019.

**PART III - DEDUCTIONS**

For detailed information about these deductions, refer to instructions of Part X of the return.

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

**Line 3** - If the result of subtracting line 2 from line 1 is less than zero, transfer that loss to line 9 of this Part IV.

**Line 4** - 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 5** - 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 6** - 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 according to the fixed rate established in your exemption decree granted under Act 60-2019.

In cases where the base period average income is subject to the income tax rates provided by the Code, no tax will be determined on that income on this schedule. Transfer the base period average income to line 24, Part IX of the return. As it forms part of the gross operating income, it will be transferred to the owner as a distributable share of the entity's income.

**Line 4** - Enter on this line the total applicable credits determined in Part III, line 3 of Schedule B1 Pass-through Entity. These credits may be claimed subject to the rules of use established by the special act under which they were granted and the applicable provisions of the Code.

For additional information, refer to the instructions of Schedule B1 Pass-Through Entity.

**Line 5** - The amount on this line must be transferred to line 1, Part XIV 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 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 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 holding period.** 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 property

belongs to a disregarded entity, the cadastre number (if applicable), and if the adjusted basis was increased by the prepayment of the tax. Also, you must 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 Puerto Rico Internal Revenue Code of 1994 ("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 this by selecting the corresponding box 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, 2030**, 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, 2030**, 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), first section.

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

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

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

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

For additional information, refer to Act 132, Act 216, Regulation No. 7923 of September 7, 2010, Regulation No. 8127 of December 23, 2011, 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 2** - If you made a short-term capital gain from Capital Investment Funds, use Schedule Q1 to determine it and submit said schedule with the return.

**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)**

You must inform in this part the long-term capital gains and losses generated on the sale or exchange of capital assets held for 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.

Section 6060.05 of Act 60-2019 provides the benefits under the Housing Promotion Program created under Act 216-2011. For sale transactions of qualified property or new construction property, realized on or after January 10, 2024, the exemption on the net capital gain generated shall be recognized

only for those properties that have **not** been sold by a beneficiary of the incentives provided under Section 2022.01 of Act 60-2019 or properties sold whose acquisition was for a purchase price that did not exceed 150% of the Federal Housing Administration (FHA) limit, applicable to the municipality where said property is located. Sales of properties acquired before January 10, 2024, shall not be subject to these limitations. However, those qualified properties acquired on or after January 10, 2024, will be subject to the limitations established here once its owner decides to sell them.

The term "sale price" is defined as the value established in the sale and purchase deed granted at the moment of the acquisition of the property for which the sale is being reported on this Schedule D Pass-Through Entity under the benefits of Act 216-2011. This value does not include the value of permanent improvements or any increase in the accumulated value of such property for which the 10% tax has been paid in advance during the period from July 1, 2006 to December 31 of 2006 pursuant to Section 1121A of the 1994 Code, and of 12% during the period from July 1, 2014 to April 30, 2015 pursuant to Section 1023.22 of the Code.

**Line 7** - If you made a long-term capital gain from Capital Investment Funds, use Schedule Q1 to determine it and submit said schedule with the return.

**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 – CAPITAL ASSETS GAINS AND LOSSES REALIZED UNDER SPECIAL LEGISLATION**

You must **only** inform in this part the 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. Make sure to 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 13, Part IX of the return and subtracted as part of the amounts included on line 6, Part XIII of the return. Also, this gain will be reported separately on line 4, Part II 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 SPECIALIST**

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 Section 1071.02(a)(11)(D) 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 Section 1071.02 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 EI PASS-THROUGH ENTITY - OPERATIONS OF DISREGARDED ENTITIES**

Use this schedule if the Pass-through Entity that is filing this return is going to report in it the results of the operations of a Disregarded Entity of which it is the owner and whose activities are not covered by any exemption decree or special legislation. You must complete a Schedule EI - Pass-through Entity for each Disregarded Entity included in this return.

In general terms, a Disregarded Entity is a Limited Liability Company whose existence is omitted as a separate entity of its sole owner exclusively for purposes of computing the income tax established in Subtitle A of the Code. This election will be recognized if, in addition to use this schedule, in the Pass-Through Entity's return indicates in question 25 of the Questionnaire of Part XX, that is reporting the result of the operations of a Disregarded Entity and include the information and necessary documentation to demonstrate it.

**It is a requirement that for the tax year in which this election is exercised, the taxpayer submit as evidence copy of Form AS 6045 of all entities for which the Disregarded Entity's treatment have been chosen and which are included in the entity's tax return.**

Even if the Pass-through Entity reports the income and deductions of the industry or business of the Disregarded Entity in this Schedule, the Disregarded Entity must comply with its responsibilities as withholding agent and the corresponding informative returns, as well as any other provision not related to the computation of the income tax from the economic activity that it carries out.

The information included in this Schedule will correspond to the Disregarded Entity, and not the Pass-Through Entity. Shall be included the employer identification number assigned by the IRS and the Merchant's Registration Number assigned by the Department to the Disregarded Entity. The employer identification number of the Disregarded Entity included in this Schedule must be included in the detail that is required in question 25 of the Questionnaire on Part XX of the return.

If you use more than one Schedule EI Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule EI No. \_\_\_\_").

The amounts of expenses to be claimed in Section A, Part II of this Schedule will correspond to those that were reported by the Disregarded Entity in the informative returns issued for the taxable year 2025. Remember that the Disregarded Entity maintains the obligation to fulfill its responsibilities as

withholding agent even when its operations are included as part of the return of its Pass-Through Entity owner. In these cases, the informative returns will not be considered as issued by the Pass-Through Entity for its operations.

For additional details, refer to AD 22-10 and AD 23-01.

**PARTS I, II, III AND IV - DETERMINATION OF THE GROSS OPERATING INCOME, DEDUCTIONS, COST OF GOODS SOLD AND OTHER DIRECT COSTS**

For information on these items, refer to the instructions of Parts IX, X, XI and XII of 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 VIII of the return are met.

Indicate in the corresponding box in Parts I through III, if the property belongs to a disregarded entity, the cadastre number (if applicable), and 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. (See 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 on line 21, Part IX 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. 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. 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 amount of exclusions from the operations of a Disregarded Entity. You must include a detail that breakdown the type of exclusion of the gross income and the amount of such income received during the taxable year.

**Line 10** - 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 8 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 the required information from 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 the required information from Form 480.6D.

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

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 the required information from 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 the required information from 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 18 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 19 and on Form 480.60 F, Part III, line 1V, as applicable.

**Line 17** – Enter here the total amount of income reported in Box 21 of Form 480.6D. You must include such amount together with the other income subject to alternate basic tax on line 19, Part II of the return.

**Line 18** – Enter here the total amount of income reported in Box 22 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.

**Line 21** - Enter the total amount of exempt income from the operations of a Disregarded Entity. You must include a detail that breakdown the type of exemption from gross income and the amount of income received during the year, including income subject to the payment of alternate basic tax (if applicable).

### 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 165-1996, Act 74-2010, Act 132-2010, Chapter 8, Subtitle B of Act 60-2019, 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 Chapter 8, Subtitle B of Act 60-2019 must include with the return a copy of the decree in force granted by the Secretary of the DDEC or 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 income from the lease of residential property, exempt under Act 132-2010, you must complete this Schedule and transfer the rental net income to Schedule IE Pass-Through Entity, Part II, line 13.

If the Pass-Through Entity is the owner of a Disregarded Entity that has an exemption decree under any of the laws covered under this Schedule, it must use the same to report the operations of the Disregarded Entity. In these cases, you must check the corresponding box and include the name and employer identification number of said Disregarded Entity. The employer identification number of the Disregarded Entity included in this Schedule must be included in the detail that is required in question 25 of the Questionnaire on Part XX of the return.

If you use more than one Schedule L Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule L No. \_\_\_\_").

### 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 9 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 fully 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 GOODS SOLD, OTHER DIRECT COSTS AND DEDUCTIONS

Enter the amounts related to the partially exempt income. For information regarding these items, refer to instructions of Parts IX, X, XI and XII 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 are transferred from 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 owner'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, Federal Schedule K-1, Form 480.60F or Disregarded Entity.

Option 4 "Disregarded Entity" will be available for entities who report the results of Disregarded Entity's operations in this return. The pass-through entity shall enter, in the corresponding Column of Schedule R1 Pass-Through Entity, the informative returns (Form 480.60 EC) received by the Disregarded Entity for taxable year 2025 of pass-through entities that are possessed by said Disregarded Entity.

**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 related to the services rendered 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 related to the services rendered 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 R1 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.

If the Pass-Through Entity is the owner of a Disregarded Entity that has an exemption decree under Act 135-1997, it must use this Schedule to report the operations of the Disregarded Entity. In these cases, you must check the corresponding box and include the name and employer identification number of said Disregarded Entity. The employer identification number of the Disregarded Entity included in this Schedule must be included in the detail that is required in question 25 of the Questionnaire on Part XX of the return.

If you use more than one Schedule V Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule V No. \_\_\_\_").

## PART II - NET INCOME SUBJECT TO TAX

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

**Line 3** - If the result of subtracting line 2 from line 1 is less than zero, transfer that loss to line 10 of this Part II.

**Line 6** - 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 9** - 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 10** - If line 10 is **less** than line 9, 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 IX, line 25 of the return.

If line 10 is **greater** than line 9, add the base period income included on line 9 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 10 to Part XIV, line 2, "Net Income" Column of the return.

## PART III - TAX COMPUTATION

**Line 3** - Enter on this line the total applicable credits determined in Part III, line 3 of Schedule B1 Pass-Through Entity. The credits 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.

For additional information, refer to the instructions of Schedule B1 Pass-Through Entity.

**Line 4** - This amount must be transferred to line 2, Part XIV 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).

## PART V - DEDUCTIONS

For detailed information about these deductions, refer to instructions of Part X of the return.

### 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.

If the Pass-Through Entity is the owner of a Disregarded Entity that has an exemption decree under Act 135-1997, it must use this Schedule to compute the special deductions of the Disregarded Entity. In these cases, you must check the corresponding box and include the name and employer identification number of said Disregarded Entity. The employer identification number of the Disregarded Entity included in this Schedule must be included in the detail that is required in question 25 of the Questionnaire on Part XX of the return.

If you use more than one Schedule V1 Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule V1 No. \_\_\_\_").

## 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. Indicate in the provided space, to which Schedule V Pass-Through the deductions determined on this Schedule correspond.

## 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 industrial development income ("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.

If the Pass-Through Entity is the owner of a Disregarded Entity that has an exemption decree under Act 362-1999 or Act 27-2011, it must use this Schedule to report the operations of the Disregarded Entity. In these cases, you must check the corresponding box and include the name and employer identification number of said Disregarded Entity. The employer identification number of the Disregarded Entity included in this Schedule must be included in the detail that is required in question 25 of the Questionnaire on Part XX of the return.

If you use more than one Schedule W Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule W No. \_\_\_\_").

## PART I - NET INCOME SUBJECT TO TAX

**Line 1** - Transfer this amount to Part XIV, line 3, "Net Income" Column of the return.

## PART II - COMPUTATION OF TAX

**Line 2** - 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 3** - This amount must be transferred to line 3, Part XIV of the Return, under the "Tax Determined" Column.

## PART IV - DEDUCTIONS

For detailed information about these deductions, refer to instructions of Part X of the return.

## 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.

If the Pass-Through Entity is the owner of a Disregarded Entity that has an exemption decree under Act 73-2008, it must use this Schedule to report the operations of the Disregarded Entity. In these cases, you must check the corresponding box and include the name and employer identification number of said Disregarded Entity. The employer identification number of the Disregarded Entity included in this Schedule must be included in the detail that is required in question 25 of the Questionnaire on Part XX of the return.

If you use more than one Schedule X Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule X No. \_\_\_\_").

## 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 3** - If the result of subtracting line 2 from line 1 is less than zero, transfer that loss to line 7 of this Part II.

**Line 4** – 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 6** – 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 8.

**Line 7** – If line 7 is **less** than line 6, 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 7 is **greater** than line 6, enter the base period income on Schedule V Pass-Through Entity, Part II, line 8 if the preceding renegotiated decree was issued under Act 135-1997, and complete the schedule starting from said line 8.

Transfer the amount of this line to Part XIV, line 4, “Net Income” Column of the return, provided that line 7 is more than line 6.

**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 3** - If the result of subtracting line 2 from line 1 is less than zero, transfer that loss to line 7 of this Part III.

**Line 4** – 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 6** – Refer to the instructions of line 4, Part II of this Schedule.

**Line 7** - Transfer this amount to Part XIV, 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** – Enter on this line the total applicable credits determined in Part III, line 3 of Schedule B1 Pass-Through Entity. The credits 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.

For additional information, refer to the instructions of Schedule B1 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 XIV 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).

## PART VI - DEDUCTIONS

For detailed information about these deductions, refer to instructions of Part X of the return.

### 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.

If the Pass-Through Entity is the owner of a Disregarded Entity that has an exemption decree under Act 83-2010, it must use this Schedule to report the operations of the Disregarded Entity. In these cases, you must check the corresponding box and include the name and employer identification number of said Disregarded Entity. The employer identification number of the Disregarded Entity included in this Schedule must be included in the detail that is required in question 25 of the Questionnaire on Part XX of the return.

If you use more than one Schedule Y Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule Y No. \_\_\_\_").

## PART I – NET INCOME SUBJECT TO TAX

**Line 2** – 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 3** - Transfer this amount to Part XIV, line 5, "Net Income" Column of the return.

## PART II – TAX COMPUTATION

**Line 3** – Enter on this line the total applicable credits determined in Part III, line 3 of Schedule B1 Pass-Through Entity. The credits 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.

For additional information, refer to the instructions of Schedule B1 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 XIV 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).

#### PART IV - DEDUCTIONS

For detailed information about these deductions, refer to instructions of Part X of the return.

### 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.

If the Pass-Through Entity is the owner of a Disregarded Entity that has an exemption decree under Act 118-2010, Act 120-2014, Act 14-2017, or under any other special act that provides a fixed income tax rate, it must use this Schedule to report the operations of the Disregarded Entity. In these cases, you must check the corresponding box and include the name and employer identification number of said Disregarded Entity. The employer identification number of the Disregarded Entity included in this Schedule must be included in the detail that is required in question 25 of the Questionnaire on Part XX of the return.

If you use more than one Schedule Z Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule Z No. \_\_\_\_").

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

**Line 1** - Transfer this amount to Part XIV, line 6, "Net Income" Column of the return.

#### PART II - COMPUTATION OF TAX

**Line 2** - 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 3** - This amount must be transferred to line 6, Part XIV 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.

#### PART IV - DEDUCTIONS

For detailed information about these deductions, refer to instructions of Part X of the return.

### 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.

If the Pass-Through Entity is the owner of a Disregarded Entity that has an exemption decree under Act 20-2012, it must use this Schedule to report the operations of the Disregarded Entity. In these cases, you must check the corresponding box and include the name and employer identification number of said Disregarded Entity. The employer identification number of the Disregarded Entity included in this Schedule must be included in the detail that is required in question 25 of the Questionnaire on Part XX of the return.

If you use more than one Schedule AA Pass-Through Entity, enumerate to identify each one in the space provided at the upper right part of the schedule ("Schedule AA No. \_\_\_\_").

In Part I, you must select the option under which the base period average income is taxed ("Code" or "Fixed Rate"), as established in your decree under Act 20-2012.

## PART II – NET INCOME SUBJECT TO TAX

**Line 2** - Applies only to exempt businesses which negotiated their decrees under Article 4(c) of Act 20-2012.

**Line 3** - Transfer this amount to Part XIV, 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.

**Line 2** – Enter the tax rate corresponding to the base period income, as provided in your exemption decree granted under Act 20-2012.

In cases where the base period average income is subject to the income tax rates provided by the Code, this tax will not be calculated in this schedule. Transfer the base period average income to line 24, Part IX of the return. As it forms part of the gross operating income, it will be transferred to the owner as a distributable share of the entity's income.

**Line 5** - This amount must be transferred to line 7, Part XIV 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).

## PARTS V AND VI - DEDUCTIONS AND OTHER DIRECT COSTS

For information on these items, refer to the instructions of Parts X and XII of the return.

### 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
- For taxable years commenced before January 1, 2023, 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 sum of the amount shown on line 11(a) and 11(c), Part IX of the return.

**Line 1(b)** - Enter the sum of the amount shown on line 7, Part II of Schedule CI Pass-Through Entity; line 4, Part II of Schedule L Pass-Through Entity; line 10, Part IV of Schedule V Pass-Through Entity; line 10, Part V of Schedule X Pass-Through Entity; line 10, Part III of Schedule Y Pass-Through Entity; or line 10, Part IV of Schedule AA Pass-Through Entity, as applicable.

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

**Line 2(a)** - Enter the difference from line 11 and 17, Part IX of the return less line 27, Part IX of the return, and then add the sum of lines 5, Part I; 10, Part II; 11, 12 and 13, Part III and 16, Part VI, of Schedule D Pass-Through Entity. If the result from the sum of the lines of Schedule D Pass-Through Entity

previously indicated is zero or less than zero, do not consider it in the computation of this line.

**Line 2(b)** - Enter the sum of the amount resulting from subtracting line 7 from line 14, Part II of Schedule CI Pass-Through Entity; line 4 from line 10, Part II of Schedule L Pass-Through Entity; line 10 from line 15, Part IV of Schedule V Pass-Through Entity; line 10 from line 15, Part V of Schedule X Pass-Through Entity; line 10 from line 15, Part III of Schedule Y Pass-Through Entity; line 10 from line 15, Part IV of Schedule AA Pass-Through Entity; or the amount from line 5, Part III of Schedules W and Z Pass-Through Entity, as applicable.

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

**Line 2(d)** - Transfer the amount shown on line 22, Part II of Schedule IE Pass-Through Entity.

**Line 2(e)** - 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(d) 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 Parts I and II of Schedule B1 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 3, Part III of Schedule B1 Pass-Through Entity, if any. Since the amount shown on this line represents

the credit to be used against the optional tax it must not exceed the amount shown on line 6.

**Line 9** - 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 10** - 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 9 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. **Do not include the payment to be made with the return on this line.**

**PART III - DETERMINATION OF THE CREDIT FOR TAXES PAID TO FOREIGN COUNTRIES, THE UNITED STATES, ITS STATES, TERRITORIES, AND POSSESSIONS**

On this part the entity will determine the credit for taxes paid to foreign countries, the United States, its states, territories, and possessions to be claimed to satisfy the optional tax determined in 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 you are entitled to 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.

**SCHEDULE CC - CHARITABLE CONTRIBUTIONS**

Use this Schedule to determine the deduction for contributions made to eligible nonprofit organizations that you claim on your return. It provides to segregate the contributions between: (1) Made directly by the taxpayer;

(2) Made from the operations of a disregarded entity; and (3) Made through pass-through entities. You must provide a detail of each contribution made during the year, as well as keep evidence of payment for your records.

Enter in Parts I and II the name of the person or institution to whom the payment was made, the employer identification number of said person or institution, the nature of the organization and the amount of the contribution made. In addition to the information above indicated, you must include in Part III the taxable year, control number and electronic filing confirmation number of the Informative Return, and the name and employer identification number of the pass-through entity. If you need additional space than those provided in Parts I, II and III, submit a detail.

#### **PART IV - CALCULATION OF THE DEDUCTION FOR CHARITABLE CONTRIBUTIONS**

**Line 2 -** The amount of carryforward contributions from previous years to be included in this line must be limited to 10% of the entity's net income computed without the benefit of this deduction, for each taxable year in which the contributions were made, as provided in Section 1033.10 of the Code.

**Line 4 -** Enter on this line 10% of the entity's net income without consider the deduction for charitable contributions (Line 29, Part IX less line 58, Part X of the return, plus the corresponding lines of Schedules C1, L, V, W, X, Y, Z and AA Pass-Through Entity, as applicable).

**For detailed information on this deduction, see the instructions of Part II, line 23 of the return.**