

# INSTRUCTIONS BOOKLET

**INDIVIDUAL  
INCOME TAX RETURN  
2020**

**DUE DATE:**  
Monday, May 17, 2021



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## FILING REQUIREMENTS

### WHO MUST FILE THE INCOME TAX RETURN?



- a) Every individual resident of Puerto Rico who is an individual taxpayer, married or married individual living with spouse who opts to file a separate tax return, whose gross income net of exemptions for the taxable year is more than zero, unless the tax has been totally withheld at source;
- b) Every individual not resident of Puerto Rico, citizen of the United States or nonresident alien, who is an individual or married taxpayer, whose gross income from Puerto Rico sources for the taxable year, net of exemptions, exceeds zero, unless the tax has been totally paid at source; or
- c) Every individual who during the taxable year has net income subject to alternate basic tax of \$25,000 or more.



### ALL TAXPAYERS MUST FILE THEIR RETURNS ELECTRONICALLY



### WHEN MUST THE RETURN BE FILED?

If you file on a calendar year basis or do not keep accounting records, you must file your return on or before **Wednesday, April 15, 2021**. Notwithstanding, as established in Administrative Determination No. 21-04, the return corresponding to taxable year 2020 must be filed on or before Monday, May 17, 2021.



### HOW THE RETURN MUST BE FILED?

The return must be filed electronically through the Internal Revenue Integrated System (SURI, for its Spanish acronym) or using any program or application certified by the Department, following the procedures established by the Department in the Internal Revenue Circular Letter No. 21-06 of February 25, 2021 ("CC RI 21-06").



## TAXPAYER BILL OF RIGHTS

The Taxpayer Bill of Rights grants the following rights under the Puerto Rico Internal Revenue Code of 2011, as amended (Code):

To receive a proper, considerate and impartial treatment.

The information submitted will be confidential.

All interviews must be at a reasonable time and place for the taxpayer, in coordination with the employee of the Department of the Treasury (Department).

The interview or audit will not be used to harass or intimidate in any manner the interviewed person.

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

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

To be informed prior to the interview of the intention to tape the interview, and to be able to obtain an exact copy of such recording subject to the payment of the cost thereof.

To be informed of the nature of your tax liability.

To be advised of your right against self-incrimination by your own testimony, to remain silent and that your silence should not be taken or commented against you, in case of a possible exposure to a criminal action.

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

To be notified in writing of any adjustment made by the Department as a result of a tax audit when it involves the addition of interests, penalties and surcharges, as provided by the Code, as well as the exact amount of the adjustment and the reasons for such changes.

To claim the benefits of a payment plan if you can't pay the full tax liability when it becomes due.

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

To grant a written power of attorney to authorize any person to represent you during a tax interview or process. Such person shall receive, for purposes of the interview, equal treatment as you, unless you are notified that such person is responsible for an unreasonable delay or interference with the audit.

No discrimination on the basis of race, color, sex, birth, origin or social condition, or political, religious ideas or association of any taxpayer or his/her representative. No records will be maintained of tax information for these purposes.

The Department's employees will explain and protect your rights during all phases of the process. If you believe that your rights have been violated, you should discuss this matter with the supervisor of the employee. If you do not agree with the action taken by the supervisor, you may file a complaint with the Office for the Protection of Taxpayer Rights.

### OFFICE FOR THE PROTECTION OF TAXPAYER RIGHTS

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

The Ombudsman of the Taxpayer is responsible for attending the problems and claims of the taxpayers and to facilitate the process between the taxpayers and the Department. Also, the Ombudsman of the Taxpayer has authority to prevent or correct any infringement of the rights of the taxpayer made by any employee of the Department.

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

**NEW TAX BENEFITS**

- ↵ A 8% reduction is granted to the normal tax for individuals with a gross income that does not exceed \$100,000.
- ↵ Various reimbursable credits from the Federal Government were granted, subject to certain limitations. Among them, the American Opportunity Tax Credit and the Economic Impact Payment.

**SIGNIFICANT CHANGES IN THE RETURN**

We remind you that from the year 2019 the restrictions for the electronic filing requirement were eliminated. Therefore, this return must be filed electronically through SURI or using any program or application certified by the Department.

↵ **Return**

In question H of the Questionnaire is included reference to Act 60-2019 for a qualified physician.

In Part 1, line 1, rows related to withholding statements under Act 14-2017 are renamed, so that they read "Total of withholding statements with this return under a qualified physician decree" and "Total of W-2 Forms with this return under a qualified physician decree", respectively.

In Part 1, line 2K, a space is provided to indicate the total gross income received from the distributable share on profits from partnerships, special partnerships, and corporations of individuals.

In Part 2, lines 11 and 12 are renamed as "Net income before the deduction for Private Equity investment" and "Allowable deduction for Private Equity investment", respectively.

In Part 3, line 17 is provided to indicate if the tax determined is 95% or 92% of the normal tax. In addition, line 27D is renamed as "Reimbursable credits from the Federal Government".

↵ **Schedule A Individual**

Part I of this schedule is reorganized to be used also by those taxpayers who choose the optional computation of tax.

On line 1, two columns are added to indicate the control number and electronic filing confirmation number of Form 480.7A where mortgage interests are reported. Also is provided on line 1(e) to indicate said information regarding mortgage interest not reported on a Form 480.7A.

Lines 6 and 10 are added to indicate the amount to be transferred to Schedule CO Individual, as applicable, of the total deductions attributable on a 50% basis or individually, in the case of taxpayers who choose the optional computation.

↵ **Schedule A2 Individual**

Line 12 is added to reflect the breakdown of the computation of normal tax on the portion of net income that is taxable at regular rates.

Line 16 is added to reflect the breakdown of the computation of normal tax on the total net income subject to normal tax from the return or Schedule CO Individual, as applicable.

↵ **Schedule B Individual**

In Part I, several non-current credits are eliminated and reorder those that are still in force. On the other hand, in Part IV are added new credits provided under Act 60-2019.

↵ **Schedules B2, B2.1, and B2.2 Individual**

These schedules are provided to determine the American Opportunity Tax Credit. Schedule B2 Individual was modified to meet the specifications of the Federal Government, including additional information like student's social security number and the employer identification number of the educational institution. In addition, Part III was added for the taxpayer, to certify that the student complies with all the eligibility criteria to be able to receive this credit.

The new Schedules B2.1 and B2.2 Individual are provided to claim retroactively, as qualified, the reimbursable credit corresponding to taxable years 2018 and 2019.

↵ **Schedule B3 Individual**

This new schedule is provided to claim or reconcile the credit for the Economic Impact Payment granted under the federal laws to provide help and relief because of COVID-19.

↵ **Schedule C Individual**

In Part I, line 2(c), it is provided to breakdown the deductions and exemptions not directly related to the income from sources outside of Puerto Rico.

In Part II, it is provided to indicate the type of form in which the tax paid to the United States, its states, territories, possessions, and foreign countries, is reported.

A new Part III is added to determine any reduction applicable to the tax paid or accrued that is claimed as a credit in this schedule.

Part V is added to determine the total credit attributable to long-term capital gain of resident individuals investors.

↵ **Schedule CO Individual**

This schedule is organized in parts: Part I-Determination of the Individually Adjusted Gross Income; Part II-Determination of Net Taxable Income; Part III-Determination of Tax; and Part IV-Computation of Allowable Amounts of Deductions to Nonresidents or Part-Year Residents.

In Part I, lines 1 and 2, rows related to withholding statement under Act 14-2017, are renamed, so that they read "Total of withholding statements with this schedule under a qualified physician decree" and "Total of W2 with this schedule under a qualified physician decree", respectively.

In Part I, line 3, additional space is provided in various items of other income (losses) to indicate the total gross income received, as applicable, to the taxpayer and spouse.

In Part II, lines 1 and 2, shall be transferred the total deductions applicable to individual taxpayers, attributable on a 50% basis, and individually allocated. The breakdown of these items is included in Schedule A Individual.

↵ **Schedule D Individual**

It is provided in Part II, lines 12 and 13, to identify lump-sum distributions from annuity contracts as variable or fixed. In addition, exempt income is included in Column B of Part IV.

↵ **Schedule DDC Individual**

This new schedule is provided, Due Diligence Checklist by Accredited Agent-Tax Returns Specialist, as an option to certify certain expenses that are claimed in the income tax return of individuals engaged in trade or business with volume of business less than \$1 million.



↔ **Schedule F Individual**

A line is provided in Part I to transfer, from Schedules D1 and D3 Individual, distributions from Individual Retirement Accounts previously used to acquire your principal residence. Also, Column B of Parts II, III and IV, provides to include exempt income.

↔ **Schedule F1 Individual**

This schedule is renamed as "Detail of Income of Resident Individual Investors".

↔ **Schedule H Individual**

This schedule is renamed as "Income from Annuities or Pensions Received in the Form of Periodic Payments". The information in the header is reorganized and it is provided to identify the form in which the pension or annuity is reported.

↔ **Schedule IE Individual**

Lines 8 through 11 are added in Part I to reflect the compensations, payments, or distributions due to a disaster declared by the Governor of Puerto Rico reported or not in a withholding statement or informative return (previously reported in Part II), as well as the amount received for any subsidy or stimulus paid by the Federal Government or the Government of Puerto Rico because of COVID-19, respectively. Line 12 is also included to report interest upon mortgages on residential property located in Puerto Rico granted after January 1, 2014.

In Part II, line 5 is added to include exempt interests distributed from an IRA or Educational Contribution Account. Also were relocated from Part I to Part II, line 10, the amounts paid by an employer for reimbursement of travel, meals, lodging, entertainment, and other expenses.

Line 31 provides to identify the concept of income derived by young people from wages, services rendered, self-employment or new business with special agreement under Act 135-2014. In addition, line 37 is added to reflect separately income from residential rent under Act 132-2010.

New lines 38 to 42 are provided to inform the exempt income from Schedules J, K, L, M and N Individual, respectively.

↔ **Schedules J, K, L, M and N Individual**

Space is provided in Part I to indicate the number of schedules by industry or business that are included with the return. In addition, the list of tax incentives acts was updated in each of the schedules.

In Part II certain items of operating expenses and deductions were reorganized and added, also it is provided to indicate whether the expenses claimed under Other Deductions (Section C of Part III) are validated with the due diligence checklist by Accredited Agent-Tax Returns Specialist form (Schedule DDC Individual), in this case, you must indicate the Accredited Agent-Specialist Number in the space provided for this purpose in the Questionnaire.

Schedule K Individual provides on line 1, Part II to include income from construction works generated by owners or developers of construction projects. It is also provided on line 5, Part IV to include the gain taxable at a reduced rate under an Incentive Act.

Schedule M Individual provides on line 4, Part IV to include the amount or percentage of exemption with respect to the adjusted net income from services rendered.

↔ **Schedule R Individual**

This schedule is restructured to be used as reconciliation statement of all Schedules R1 Individual submitted by the taxpayer and to reflect the distributable share in the gross income from services rendered and in the business volume of

partnerships, special partnerships, corporations of individuals and subsidiary pass-through entities.

↔ **Schedule R1 Individual**

It is provided to indicate the distributable share on gross income from services rendered and in the business volume of partnerships, special partnerships, corporations of individuals and subsidiary pass-through entities, as applicable.

↔ **Schedule X Individual**

This schedule is modified to bring it into line with provisions of Section 1021.06 of the Code, related to the optional tax to self-employed individuals.

**EVIDENCE OF THE RETURN**

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

Those taxpayers who complete and file their returns through a certified program, will have to submit all the required evidence through SURI. Said evidence must be submitted after having filed electronically the return, but not later than the following day to the due date prescribed by the Code to file it, including extensions. In those cases where the taxpayer file after the due date of the return, the evidence must be submitted the following day to the electronic filing of the return. Refer to CC RI 21-06 for details of the process to submit the evidence.

Taxpayers who use SURI to prepare and file his/her return must upload the required evidence as part of the filing process of the return.

**DEPENDENTS**

The term dependent means any of the following persons who for the calendar year in which the taxpayer's taxable year begins **have received from the taxpayer more than half of the support**:

- i. A person who at the end of the calendar year in which the taxpayer's taxable year begins has not reached the age of twenty-one (21);
- ii. The taxpayer's father or mother;
- iii. Is age sixty-five (65) or older;
- iv. Has reached the age of twenty-one (21) or more and is blind or incapable of self-support because of being mentally or physically disabled; or
- v. A person who at the end of the calendar year in which the taxpayer's taxable year begins has not reached the age of twenty-six (26), as long as he/she have attended post secondary level education, as a regular student, in a university or technical-professional institution recognized as such by the educational authorities of Puerto Rico, or of the applicable country, until he/she receives his/her university or technical-professional degree.

**SOCIAL SECURITY NUMBER**

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

**PAYMENTS FOR THE PREPARATION OF THE RETURN AND SANCTIONS TO RETURNS SPECIALISTS**

**Indicate if you paid for the preparation of your return and make sure that the specialist signs the return and**



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 OTHER STATUTORY REQUIREMENTS IMPOSED BY THE CODE.

**CHANGE OF ADDRESS**

To notify a change of address **at the moment of filing the return**, you must write the new address clearly and legibly in the space provided for this purpose in the return's heading. Also, you must select the oval (○) beside "Yes" in the space provided to indicate if there was a change of address.

You can also change your address at any time of the year through your SURI account following the steps listed below: (i) Login to your account in SURI; (ii) In the Names and Addresses menu, select the address you want to change and click the link Change this address; (iii) Enter the new address and click the link Validate the address; (iv) Once the address is validated, click on Next to continue with the next screen; (v) On the Review and Submit screen, be sure to click on the link Submit. The system will provide you a confirmation number of the request to change the address. We recommend you to keep this number in your records.

If you do not have a SURI account, and you do not have to file the return yet, you must notify any change of address using Form SC 2898 (Change of Address). You may obtain this form through our webpage: [www.hacienda.pr.gov](http://www.hacienda.pr.gov).

**AREA CODE**

You must indicate the area code (787 or 939) in the space provided in the heading of the return to write the phone number of your residence and work.

**RETURNED CHECKS**

Every returned check drawn on behalf of the Secretary of the Treasury will be subject to a \$25 minimum charge. This charge is in addition to any other interests, surcharges or penalties provided by the Code or any other fiscal act for omissions in fulfilling your tax responsibility. The Department may make the collection in a traditional or electronic manner.

**ELECTRONICALLY FILING THE TAX RETURN**

You must file your Income Tax Return electronically through SURI or using any program or application certified by the Department. For additional information, see our website: [www.hacienda.pr.gov](http://www.hacienda.pr.gov).

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

**DIRECT DEPOSIT OF REFUND**

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

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

**Complete the Authorization for Direct Deposit of Refund**

**Type of Account** - Indicate if the deposit will be made into your checking or savings account, by selecting the oval that identifies the type of account.

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

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

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

**EXAMPLE A**

John Doe  
Jane Doe  
Calle Principal # 19  
Ponce PR 00731

0249

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

ANY BANK  
Any Place, Ponce PR 00731

FOR \_\_\_\_\_

Routing/Transit Number: 021601244  
Account Number: 012124400

Do not include the check number

**Deposit**

**AUTHORIZATION FOR DIRECT DEPOSIT OF REFUND**

Type of account:  Checking  Savings

Routing/Transit Number: 0 2 1 6 0 1 2 4 4

Account Number: 0 1 2 2 4 4 4 0 0

Account in the name of: John Doe and Jane Doe  
(Print complete name as it appears on your account. If married and filing jointly, include your spouse's name)





- ↵ **In the case of married taxpayers filing jointly, the return must be signed by both spouses.**
- ↵ **All the information requested must be completed. Otherwise, the financial institution and the Department of the Treasury may reject the transaction.**
- ↵ **The account must be in a participating financial institution. You must verify this information directly with the financial institution.**

**PAYMENT METHODS**

Payments shall only be made by electronic means through SURI. The available payment methods to make any transaction in SURI are the following: 1) credit card (Visa or MasterCard), 2) ACH Debit (Direct debit), and 3) ACH Credit.

Refer to the Internal Revenue Informative Bulletin No. 20-03: Payment Methods Accepted in Transactions through the Internal Revenue Integrated System, for additional information about payment methods through SURI.

If an electronic debit is authorized through one of the certified programs or applications, you must enter the amount on line 3(a) page 1 of the return. Remember to enter in the corresponding screen of the certified program the account number information and route and transit number needed to perform the electronic debit.

**OVERPAYMENT APPLICATION**

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

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

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

**FEDERAL EMPLOYEES - Exemption of the Cost of Living Allowance (COLA)**

The COLA received by civilian employees of the Federal Government is tax exempt up to the amount exempt under the Federal Internal Revenue Code. Nevertheless, the Department may revoke the privilege granted for the exemption if it is determined that the taxpayer did not comply with his/her tax responsibility at any moment. In that case, the taxpayer must have to pay the amount due with the corresponding interests, surcharges and penalties. The taxpayer must include with the tax return the required information of the W-2 Form.

**PROVISIONS APPLICABLE TO CERTAIN MILITARY PERSONNEL**

**Exemption from Income**

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

**Extension of Time to File**

A 10-month extension to file the income tax return shall be granted to any taxpayer who has been activated and transferred to render military services outside of Puerto Rico

during any warlike conflict. Said extension shall be granted from the date in which the taxpayer ceases in the active military service. To enjoy this benefit you should:

1. File the return within 10 months from the date in which you ceased in the active military service.
2. Indicate in question G of the Questionnaire of the return's first page, if you were an active military in a combat zone during the taxable year and the date on which you ceased service.
3. Attach to the return the military orders showing your transfer outside of Puerto Rico, your stay in a warlike conflict, and the date of your return.

If you file the return following the above requirements, the extension shall be considered as granted.

**Extension of Time to Pay**

A 10-month extension to pay the tax shall be granted to every taxpayer that during any warlike conflict is activated and transferred to render military service outside of Puerto Rico. Such extension shall be granted from the date in which the taxpayer ceases in the active military service.

Also, the tax declared on the return which payment has been extended, shall be exempt from the payment of interests.

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

**360° TAXPAYER'S SERVICE CENTERS**

In the 360° Service Centers, besides **informing about the status of your refund**, other services are offered such as: Tax Return Filing Certifications, Return Copies, assistance for Cases of Inheritance and Donations, Individuals, Corporations or Partnerships and Professional Services Withholding Waivers.

Following are the telephone number of the "Hacienda Responde" Contact Center and the location of each one of our 360° Service Centers:

- ↵ **"Hacienda Responde" Contact Center**  
Telephone: (787) 622-0123
- ↵ **San Juan 360° Services Center**  
Intendente Ramírez Building  
10 Paseo Covadonga, Office 101
- ↵ **San Juan 360° Services Center - Representative's Center**  
Intendente Ramírez Building  
10 Paseo Covadonga, Office 101
- ↵ **Arecibo 360° Services Center**  
Santiago Cabán Building  
158 Mariano Vidal St., 1st Floor
- ↵ **Caguas 360° Services Center**  
Governmental Center, Basement  
Goyco Street, Acosta Corner
- ↵ **Mayagüez 360° Services Center**  
Governmental Center  
50 Nenadich Street, Office 108
- ↵ **Cidra 360° Services Center**  
City Hall Annex Building  
33 Muñoz Barrios St.

To ensure the health and safety of our taxpayers, the Department has established a controlled system to serve taxpayers through technological platforms, telephone, email and an appointment system and shifts through Turnos PR App in our website



[www.hacienda.pr.gov](http://www.hacienda.pr.gov) or at [www.hacienda.turnospr.com](http://www.hacienda.turnospr.com). On the other hand, to make transactions and obtain online services, you may access our SURI digital platform at [suri.hacienda.pr.gov](http://suri.hacienda.pr.gov). In addition, the taxpayer who do not have an account in SURI and require assistance, can write to us in a safe way through the link "SURI Assistance", available on the SURI home page.

#### TECHNICAL ASSISTANCE

For additional information on the technical contents of this booklet or to clarify any doubts, please call (787) 622-0123, option number 8 in the directory or send a message through your SURI account .

#### HACIENDA MAKING CONNECTION

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

- ↔ Preparation, filing and electronic transfer of the Individual Income Tax Return through SURI using programs or applications certified by the Department
- ↔ Preparation of 2020 Withholding Statements and Informative Returns through SURI
- ↔ Preparation and filing of the Employer's Quarterly Return of Income Tax Withheld through SURI
- ↔ Preparation and filing of the Quarterly Return of Income Tax Withheld on Payments for Services Rendered through SURI
- ↔ Puerto Rico Internal Revenue Code of 1994, as amended
- ↔ Puerto Rico Internal Revenue Code of 2011, as amended
- ↔ Forms, Returns and Informative Booklets, such as:
  - Income Tax Return of Taxable Corporations
  - Form AS 2909.1 - Tax Return Specialists Authorization for the Electronic Filing and Digital Signature of the Individual Income Tax Return
  - Form AS 2909.1A - Tax Return Specialists Authorization for the Electronic Filing and Digital Signature of the Corporation Income Tax Return
  - *Modelo SC 2800 - Planilla de Contribución sobre Caudal Relicto* (Spanish only)
  - *Modelo SC 2800 A - Planilla Corta de Contribución sobre Caudal Relicto* (Spanish only)
  - *Modelo SC 2800 B - Planilla de Contribución sobre Caudal Relicto (Aplica a causantes fallecidos a partir del 1 de enero de 2011 hasta el 31 de diciembre de 2017)* (Informative) (Spanish only)
  - *Modelo SC 2800 C - Planilla Informativa de Contribución sobre Caudal Relicto (Aplica a causantes fallecidos a partir del 1 de enero de 2018)* (Informative) (Spanish only)
  - *Modelo SC 2788 - Planilla de Contribución sobre Donaciones* (Spanish only)
  - *Modelo SC 2788 A - Planilla de Contribución sobre Donaciones (Aplica a donaciones efectuadas a partir del 1 de abril de 2011 hasta el 31 de diciembre de 2017)* (Informative) (Spanish only)

- *Modelo SC 2788 B - Planilla Informativa de Donaciones (Aplica a donaciones efectuadas a partir del 1 de enero de 2018)* (Informative) (Spanish only)
- Informative Booklet to Provide Guidance on the Income Tax Responsibilities of Federal, Military and Other Employees
- *Folleto Informativo de Contribución sobre Ingresos de Sacerdotes o Ministros* (Spanish only)
- *Folleto Informativo para Aclarar sus Dudas sobre Aspectos Contributivos en la Venta de Ciertas Propiedades Inmuebles* (Spanish only)
- Withholding of Income Tax at Source on Wages - Instructions to Employers (Spanish and English)
- *Folleto Informativo - Responsabilidad personal por violaciones al Código de Rentas Internas de 2011, según enmendado* (Spanish only)

## SUGGESTIONS TO AVOID MISTAKES WHEN FILING YOUR RETURN

1. Write all the required information and select the applicable ovals.
2. **Make sure to write your social security number on the return and schedules.**
3. Verify that your **social security number** is the one shown on the Withholding Statements and Informative Returns.
4. Make sure to include your date of birth and that of your spouse (if applicable).
5. Notify your change of address by writing the new address in the space provided for this purpose in the heading of the return.
6. In the case of a married couple filing jointly, the return may be filed under the name of any of the spouses.
7. Do not include estimated tax payments or excess tax paid in previous years credited to estimated tax in Part II of Schedule B Individual. Said amounts must be included in Part III of said Schedule.
8. Married couples who choose the optional computation of tax in the case of married individuals living together and filing a joint return (optional computation), must make sure to select the oval provided in the Questionnaire of the return and to include Schedule CO Individual. On the other hand, if you are a marriage couple in which both or one of the spouses choose the optional tax under Section 1021.06 of the Code, you must make sure to select the corresponding ovals in the Questionnaire of the return and in Schedules CO and X Individual, and include said schedules with your return.
9. **Include with your return the information required of all Withholding Statements or Informative Returns (Forms 499R-2/W-2PR, W-2, 480.6A, 480.6B, 480.6SP or 480.7C, among others).**
10. **Contributions made to Qualified Plans of private company employers** (Box 15, Withholding Statement) or to a Governmental Retirement Fund (Box 14, Withholding Statement) are excluded from the salaries (Box 11). Therefore, **do not consider them again as a deduction.**
11. Complete on **Schedule A1 Individual** all the information related to your dependents and beneficiaries of educational contributions and my future accounts.
12. **Do not include your spouse on Schedule A1 Individual. For tax purposes, a married taxpayer cannot include his/her spouse as a dependent.**
13. Sign electronically your return and in the case of a joint return, make sure that the return is signed by **both spouses**.

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

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

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

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

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

**TAXPAYER MOVED TO PUERTO RICO DURING THE YEAR**

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

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

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

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

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

**Be sure to complete questions B and C of the Questionnaire on page 1 of the return.**

**NAME, ADDRESS AND SOCIAL SECURITY NUMBER**

Write the required information in the spaces provided.

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

**ELECTRONIC ADDRESS (E-MAIL)**

Include an electronic mail address in the space provided for this purpose.

**AMENDED RETURN**

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

**CHANGE OF ADDRESS**

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

**EXTENSION OF TIME REQUESTED**

Select the corresponding oval to indicate if an Extension of Time to File the Income Tax Return (Form AS 2644) was filed.

If for any reason you understand that you will not be able to file your return on time, you shall request an automatic extension of time no later than the due date to file the return. The request will be filed electronically, through SURI, using Form AS 2644. If you file this form on time, the extension will be granted automatically for a period of 6 months. **Filing an extension of time does not extend the time for payment of any tax due with the return.**

In case of military personnel active in combat zone, refer to RELEVANT FACTS.

**TAXPAYER DECEASED DURING THE TAXABLE YEAR**

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

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

On the first return, select the oval that indicates **deceased during the year**. Indicate the date of death and keep for your records copy of the Death Certificate. On the second return, select the oval that indicates **surviving spouse files another return for the taxable year** and include the social security number and date of death of the deceased spouse. Both ovals are located at the top right side of the return.

**CONTRACTS WITH GOVERNMENTAL ENTITIES**

**If you or your spouse have a contract with a governmental entity, select the corresponding oval in the Questionnaire, page 1 of the return.**

Every person, natural or juridical, contracted by a governmental entity, must comply with Executive Order 91-24, as amended, and the provisions of the Department's Circular Letters in force at the time of processing the contracts. According to said provisions, every contract subscribed by a governmental entity must include a clause to certify that the contracted party filed the income tax returns for the last five years, and that the income, property, unemployment, temporary disability and drivers' social security taxes, whichever applies, have been paid.

In addition, in order to approve a contract or purchase order, the governmental entity must require the tax return filing (Form SC 6088) and debt (Form SC 6096) certifications from the Internal Revenue Area of this Department, the property tax certification from the CRIM and the corresponding certification from the Department of Labor and Human Resources. These documents must be requested annually.

Since sometimes the tax return for the last filing year cannot be certified because the return has not been processed by the Department, it is recommended that at the moment of filing the return, you print a copy of the electronically filed return with the Department's electronic filing stamp.

## QUESTIONNAIRE

In question A, select the corresponding oval to inform if you are a United States citizen. Those taxpayers who are not citizens of the United States, but **exclusively** for tax purposes are treated as such because of a treaty, a court decision, or for having a United States Permanent Resident Card, ISCR Form I-551, also known as "Green Card", must answer "Yes" in this question in order to be entitled to the corresponding deductions and exemptions.

Select the corresponding oval in question B to indicate if you were a resident of Puerto Rico during the entire taxable year. If you were not a resident during the entire taxable year, select the oval that describes your residence status for the taxable year.

In the case that you had moved to or from Puerto Rico, indicate the date on which the moving took place and include in question C the total income generated by the taxpayer and spouse, as applicable, before or after being considered residents of Puerto Rico.

If you were a nonresident of Puerto Rico during the entire year, select the oval of nonresident during the entire year. Include in question C the total income generated during the year from sources outside of Puerto Rico.

Income included in question C will not be subject to the payment of income tax in Puerto Rico, but will be used to compute the limitation of the deductions applicable to individual taxpayers included on Schedule A Individual or Schedule CO Individual, as applicable. This amount shall be transferred to line 2, Part II of Schedule A Individual or line 2, Part IV, Column B or C, as applicable, of Schedule CO Individual.

Also, you must inform in question D if you received excluded or tax exempt income during the year (Example: social security income, prizes from the Lottery of Puerto Rico or from racetrack winnings). **Submit Schedule IE Individual** including such income.

In question E, you must also indicate if you are a resident individual investor. **Submit Schedule F1 Individual**. You must inform in question F if you are a partner of a partnership subject to tax under the Federal Internal Revenue Code. You must include on **Schedules R and R1 Individual** your distributable share on such partnership's income, expenses, gains or losses.

Indicate also in question G if during the taxable year you were stationed as an active military in a combat zone. If you answered "Yes", include the date on which you ceased service in the combat zone.

The taxpayer must include with the return the military order showing his/her transfer outside Puerto Rico, his/her stay in a warlike conflict and the date of the return.

You must indicate in question H, if you or your spouse are qualified physicians under Act 14-2017, as amended, or under Act 60-2019, and include the number of the decree approved by the Secretary of the Puerto Rico Department of Economic Development and Commerce.

Indicate in question I if you choose the optional tax to self employed individuals engaged in trade or business under Section 1021.06 of the Code. **Submit Schedule X Individual**.

As provided in Section 1021.06 of the Code, to qualify for the Optional Tax, the individual must meet the following requirements:

- The income received must be substantially from services rendered. For these purposes, the earned income will be considered substantially from services rendered when said category of income represents at least eighty percent (80%) of the total gross income received during the taxable year, and
- All income received must be subject to the withholding of income tax at source provided in Section 1062.03 of the Code or to the payment of estimated tax, as set forth in Section 1061.20 of the Code applicable to individuals.

As a general rule, the election to qualify for the optional tax is done annually with the return. However, in the case of taxpayers who chose the optional tax through the Partial Waiver Certificate granted under Section 1062.03(g)(5) of the Code, they are required to determine their tax as provided in Schedule X Individual of the return, as long as their earned income from services rendered represents eighty percent (80%) or more of the total gross income received during the taxable year. However, if the income from services represents less than eighty percent (80%) of total gross income, the taxpayer cannot use the optional tax and he/she will be subject to the regular tax rates.

### HIGHEST SOURCE OF INCOME

Select the corresponding oval in accordance with your highest source of income.

### FILING STATUS AT THE END OF THE TAXABLE YEAR

Select the oval that identifies your filing status at the end of the taxable year:

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

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

If your spouse died during the year and you did not remarry in said year, you must file a return as married living with spouse up to the date of the death, and another as individual taxpayer, from the date of the death up to the end of the year. **You must submit your spouse's name and social security number.**

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

- 2) **Individual Taxpayer** - This filing status is for those individuals who at the end of the taxable year:
  - a) are not married, because they have never married, are widowed or divorced; or
  - b) are married, but, before their marriage, executed a prenuptial agreement expressly stipulating that the economic regime of the married couple is one of complete separation of property (**you must provide your spouse's name and social security number**); or

- c) are married, but not living with the spouse. An individual will be considered as not living with his/her spouse if at the end of the taxable year, he or she did not live with the spouse, and during an uninterrupted period of 12 months that includes the date of the end of the taxable year, he or she did not live in the same household as the spouse during an uninterrupted period of 183 days. **You must provide your spouse's name and social security number.**

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

### OPTIONAL COMPUTATION OF TAX

If you choose the **optional computation of tax** in the case of married individuals living together and filing a joint return, **select the corresponding oval** in the married filing status. Do not complete Parts 1 and 2 or lines 14 to 21 of Part 3, page 2 of the return. **Go to Schedule CO Individual** and refer to the instructions of said Schedule. On the other hand, if under this computation one of the spouses choose the optional tax (Section 1021.06 of the Code), do not complete Part 2 or lines 14 through 22 of Part 3 of the return and complete, as applicable, Schedules X and CO Individual.

### OCCUPATION

Inform the nature of your and your spouse's occupation. In order to facilitate the description of the activity in which you are engaged, enter the code that better describes it using the Occupational Codes List provided on page 82.

## REFUND

### Line 1 – Amount Overpaid

An overpayment of tax or refund arises when the total tax withheld, paid and refundable credits, including any amount paid with the automatic extension (if any) exceeds the tax determined. This amount comes from Part 3, page 2 of the return and arises when line 29 is more than the sum of lines 28 and 30.

**Any overpayment of income tax requested to be refunded will be applied against any enforceable tax liability imposed by the Code.**

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

In the absence of liability from previous years, you may elect to contribute all or part of the overpayment of tax to the 2021 estimated tax, the San Juan Bay Estuary Special Fund or the Special Fund for the University of Puerto Rico.

If you elect to do so, enter the amount that you want to credit to your estimated tax for the taxable year 2021 on line 1A, or the amount you wish to contribute to any of these Funds on lines 1B and 1C, respectively. Enter any balance to be refunded on line 1D.

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

## PAYMENT

### Line 2 – Amount of Tax Due

If the tax determined exceeds the total tax withheld, paid, refundable credit and amount paid with the automatic extension (if any), there is a total tax due. This amount comes from Part 3, page 2 of the return and results when line 29 is less than the sum of lines 28 and 30.

### Line 3 - Amount paid

You may pay your tax by direct debit (ACH Debit) through SURI or when you use any of the programs or applications certified by the Department. If an ACH Debit is authorized through a certified program or application, you must enter the amount on line 3(a). Remember to enter in the corresponding screen of SURI or the certified program the information of the account number and routing/transit number necessary to make the ACH Debit.

For additional information about payment methods for transactions in SURI, refer to Internal Revenue Bulletin No. 20-03: Payment Methods Accepted in Transactions through the Internal Revenue Integrated System.

If you are not required to make estimated tax payments, you may elect to pay the total tax due (line 2) in two equal installments. The first installment must be paid no later than the date established by the Code to file the return (April 15, when the return is filed on a calendar year basis) and the second installment must be paid on or before the 15th day of the sixth month following that date (October 15, when the return is filed on a calendar year basis). **You will lose the option to pay the tax in two installments if you do not include with your return at least half of the tax balance due.**

If you made a payment with your automatic extension request and it was less than 50% of the balance of the tax due determined after subtracting withholdings and credits (Line 26 less lines 27A through 27D of Part 3), you must pay with the return the amount of tax due (Line 2, page 1). Interests and surcharges will be assessed on this amount from the original due date of the return to the date of payment.

If you made a payment with your automatic extension request on or before the date in which you should have filed the return, and the payment made with said request was 50% or more of the balance of tax due determined after subtracting withholdings and credits (Line 26 less lines 27A through 27D of Part 3), you are entitled to the two installments payment option. This means that no payment is required when filing the return. The second installment is due on or before October 15, if you file your return on a calendar year basis. If you file on a fiscal year basis, the second installment is due on the fifteenth day of the sixth month following the due date to file the return.

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

### INTERESTS, SURCHARGES AND PENALTIES

#### Interests

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

#### Surcharges

When the payment of interests is applicable, a 5% surcharge of the amount due will be assessed, if the delay in payment exceeds 30 days, but not 60 days; or 10% of the amount due, if the delay exceeds 60 days.

## Penalties

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

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

**If any person voluntarily fails to file the above mentioned return, declaration, certification or report (within the terms required by the Code or regulations) with the intention to avoid or defeat any tax imposed by the Code, in addition to other penalties, he or she shall be guilty of a third degree felony.**

## Line 4 - Balance of Tax Due

This is the amount of tax due after applying payments made with the return and adding any interest, surcharge or penalty that may be applicable.

If you do not have obligation to pay estimated tax and you choose to pay your return in two equal installments, this amount must be equal to or less than 50% of the amount of tax due (Line 2, page 1 of the return). In these cases, this amount must be paid no later than October 15 or, if you file on a fiscal year basis, no later than the fifteenth day of the sixth month following the date in which the return must have been filed.

**Remember that if you are required to pay estimated taxes, you must pay the total amount of tax due (line 2) no later than the date in which the tax return must be filed.**

## DEPOSIT

### Authorization for Direct Deposit of Refund

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

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

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

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

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

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

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

## SIGNATURE OF THE RETURN

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

## PAYMENT FOR THE PREPARATION OF THE RETURN

**Indicate if payments were made for the preparation of the tax return and make sure that the specialist signs the return electronically and includes his/her specialist registration number. THE CODE PROVIDES CIVIL AND CRIMINAL SANCTIONS TO THOSE INCOME TAX RETURN SPECIALISTS WHO FAIL TO SUBMIT THIS INFORMATION OR WHO DO NOT MEET ANY OTHER STATUTORY REQUIREMENTS IMPOSED BY THE CODE.**

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

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

## PART 1 - ADJUSTED GROSS INCOME

### CHILD INCOME (Section 1032.05)

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

If the child receives income from services rendered, and said gross income is less than \$2,500, the parents can claim him/her as a dependent. In case that the child is a regular student, said gross income should not exceed \$7,500.

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

**Total withholding statements with this return:** Enter in the first block the amount of Withholding Statements (Form 499R-2/W-2PR ) received by you or your spouse during the taxable year (Do NOT include withholding statements with salaries paid under Act 14-2017).

In Column A, enter the sum of income tax withheld from wages, shown in Box 13 of each Withholding Statement included in this return. If there is no tax withheld, enter zero.

In Column B, enter all the wages, commissions, allowances and tips subject to withholding in Puerto Rico. This information comes from Box 11 of each Withholding Statement submitted with this return.

**Total withholding statements with this return under a qualified physician decree:** If you receive salaries as a qualified physician who have a decree in force under the Incentives for the Retention and Return of Medical Professionals Act (Act 14-2017, as amended), make sure that your employer has check in Form 499R-2/W-2PR that the remuneration includes payments for this concept.

Enter in the first block the amount of withholding statements received under a qualified physician decree included with the return, follow by the income tax withheld in Column A and salaries paid in Column B.

**Total:** The sum of the amount reflected on each column.

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

### Line 1C - Wages reported in a Federal W-2 Form

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

Remember to enter the Cost of Living Allowance (COLA) received on line 11, Part II of Schedule IE Individual.

**Total W-2 Forms with this return:** Enter in the first block the amount of Federal Withholding Statements (W-2 Forms) received by you and your spouse during the taxable year (Do NOT include W-2 Forms with salaries paid under a qualified physician decree, Act 14-2017, as amended).

Enter in the second block identified as Exempt Wages under Section 1031.02(a)(36) of the Code the amount received from Federal Government salaries, up to a maximum of \$40,000, if you are a young individual whose age fluctuates between 16 and 26 years at the end of the taxable year. Transfer this amount to line 31A, Part II of Schedule IE Individual.

In Column A, enter the total income tax withheld for Puerto Rico reported on each W-2 Form included with this return. If there is no tax withheld, enter zero.

In Column B, enter all wages from the Federal Government taxable in Puerto Rico.

**Total W-2 Forms with this return under a qualified physician decree:** If you receive salaries as a qualified physician who have a decree in force under the Incentives for the Retention and Return of Medical Professionals Act (Act 14-2017, as amended), enter in the first block the amount of W-2 Forms received and in the second block the Exempt Wages under Section 1031.02(a)(36) of the Code, follow by the income tax withheld for Puerto Rico in Column A and salaries paid in Column B.

**Make sure to include with your return the required information of all the W-2 Forms. You must keep for your records copy of the form in case it is requested by the Department.**

Do not include as part of this line the wages reported in a Federal W-2 that has been reported by an employer of private company. These amounts are reported in Part V, line 1, Column E of Schedule F Individual - Other Income.

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

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

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

Use Schedule F Individual to inform income from distributions and transfers from government plans; distributions of Individual

Retirement Accounts, Educational Contribution and My Future Accounts; under Other income: income from discharge of debts, income from the use of intangibles, income from judicial or extrajudicial indemnification, income from sports teams of international associations or federations and the distributable share on net income subject to preferential rates from pass-through entities; distributions from deferred compensation plans (non qualified); distributions from qualified retirement plans (partial or lump-sum not due to separation from service or plan termination); and Distributions due to a disaster declared by the Governor of Puerto Rico. Transfer the amounts from Schedule F Individual to Part 1, lines 2E to 2G, 2L and 2O of page 2 of your return. (See instructions of Schedule F Individual).

Use Schedule FF Individual to inform income from interests, corporate dividends, income from prizes and contests and miscellaneous income. Transfer the amounts from Schedule FF Individual to Part 1, lines 2C, 2D and 2G of page 2 of your return. (See instructions of Schedule FF Individual). In the line for total (Total \$ \_\_\_\_\_) included on lines 2C, 2D and 2G include the gross income received for each of the concepts included on these lines. The amount to be included in the space provided for total shall be as follows:

- Line 2C - Transfer to the line of total the result of the sum of line 1(c), Columns A through G, Part I of Schedule FF Individual;
- Line 2D - Transfer to the line of total the result of the sum of line 1, Columns A through D, Part II of Schedule FF Individual;
- Line 2G - Transfer to the line of total the result of the sum of line 1, Columns A and B, Part III of Schedule FF Individual and the result of the sum of Columns A through F on line 1, Part V of Schedule F Individual.

If you received dividends from an investment in a Capital Investment Fund or Tourism Fund, use Schedule Q1 to determine this income. This Schedule with its instructions is available in our webpage: [www.hacienda.pr.gov](http://www.hacienda.pr.gov).

If you received income from trade or business or an activity for the production of income, use the applicable Schedule: (1) Schedule J Individual - to inform manufacturing income; (2) Schedule K Individual - to inform the income from the sale of goods; (3) Schedule L Individual - to report the farming income; (4) Schedule M Individual - to inform income from services rendered; (5) Schedule N Individual - to inform rental income. For each one of the total lines (Total \$ \_\_\_\_\_) that are included on lines 2P through 2T, the amount of gross income reported on line 3, Part II of Schedules J, K or L Individual, on lines 1 and 6, Part II of Schedule M Individual or on line 1, Part II of Schedule N Individual, as it corresponds, should be transferred.

In cases where you have received a Form 480.60 F in which income is reported on lines 1P through 1T of Part III, refer to the instructions of said form to determine the amount that shall be included in the line for total (Total \$ \_\_\_\_\_) included on lines 2P to 2T indicated in the above paragraph.

**If such activities are not your main source of income, transfer only the gain determined** on the Schedules to Part 1, lines 2P through 2T of page 2 of your return. **If you had losses, enter zero** on lines 2P through 2T.

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

If you received a distributable share of benefits in partnerships, special partnerships and corporations of individuals, use Schedules R and R1 Individual, to determine this income. (See instructions of Schedules R and R1 Individual). In the line for total (Total \$ \_\_\_\_\_) that is included on line 2K, transfer the result of the sum of lines 6 and 13 of Part I, Schedule R Individual.



In the case of nonresidents, include on line 2M the total income from salaries, wages and compensations included on line 1 of the Informative Return - Payments to Nonresidents or for Services from Sources Outside of Puerto Rico (Form 480.6C). Also include the amount informed as public shows in box 12 of Form 480.6C.

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

## LOSSES

Every individual is entitled to claim as deduction the ordinary and necessary expenses incurred during the year in the operation of any industry or business. When these expenses exceed the income, a loss is produced in the operation of said industry or business.

The way in which said loss can be claimed will depend on the classification of the activity. For these purposes, the activity shall be classified as principal industry or business; or industry or business that is not the principal industry or business.

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

On the other hand, losses incurred in an industry or business that is the taxpayer's or spouse principal industry or business may be claimed against the net income of one or more activities that are not the principal industry or business of the taxpayer or his/her spouse, except wages and pensions.

However, if during the taxable year you dispose all the assets used in an activity that is not your or your spouse's principal business or industry, you may use the excess of expenses (losses) not claimed in previous years, as a deduction against any income derived in said disposition. Any excess will be considered as a capital loss subject to the 90% limitation of the net capital gains for the current year or \$1,000, whichever is less. If there is any loss, you can claim up to \$ 1,000 as a deduction in each of the next five, seven or ten years, as applicable. (See instructions for Schedule D Individual).

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

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

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

### Line 4 - Alimony Paid

Generally, you may claim as a deduction any periodic payment made for alimony under a divorce or separation decree, as

long as you comply with the following requirements:

- 1) Payment is made in the name and for the benefit of the former spouse under a divorce or separation document.
- 2) Payment is not designated in such document as excludible from the recipient's gross income and not allowable as a deduction to the payer.
- 3) The payer and the former spouse are not members of the same household on the date of payment.
- 4) There is no obligation to continue making any payments after the death of the former spouse.
- 5) If the payment exceeds \$20,000 during any calendar year, it shall be payable during each one of at least 6 years following the divorce or separation.

**You must provide the social security number of the person who receives the payment and the judgment number. You must keep for your records copy of canceled or substitute checks and the divorce decree.**

**Lump-sum payments for assets division, voluntary payments not included in a court decree or agreement for separation support, or child support payments, are not deductible.**

## PART 2 – DEDUCTIONS, EXEMPTIONS AND NET TAXABLE INCOME

### Line 6 – Total Deductions

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

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

### Line 7 – Personal Exemption

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

### Line 8 – Exemption for Dependents

Enter in the spaces provided on lines 8A and 8B, the number of dependents claimed according to their category. Indicate on line 8A the dependents with respect to whom the exemption may be claimed completely (\$2,500 per dependent), and on line 8B those whose exemption is only claimed in half under the special rule of parents with joint custody or married filing separate returns (\$1,250 per dependent).

Multiply the amount of dependents claimed in each category (line 8A by \$2,500 and line 8B by \$1,250) and enter the result in the space provided for the total exemption for dependents.

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

the dependent does not have a social security number, you must request one at your nearest Social Security Office.

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

**Line 9 – Additional Personal Exemption for Veterans**

Enter the amount of **\$1,500** if you are veteran of the United States Armed Forces. If married filing jointly and both spouses are veterans, the additional personal exemption is \$3,000.

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

**Line 12 – Allowable deduction for Private Equity investment**

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

- Is an individual resident of Puerto Rico or a United States citizen nonresident of Puerto Rico;
- Is a natural person who has individual net worth or net worth jointly with his/her spouse in excess of \$1,000,000 without including the value of the principal residence; and
- Is a natural person with income over \$200,000 in each one of the two years preceding the date of the investment (\$300,000 in case of married person) and an expectation of the same level of income during the year in which the investment is made.

Also, in the case of natural persons who are partners of a partnership subject to provisions of chapter 7, Subtitle A of the Code, who qualify as Resident Investors, such partners may also be considered as Resident Investors for purposes of this deduction.

The amount allowable as deduction will be the following:

- If the initial investment was made in a PEF, the maximum deduction amount 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 deduction amount 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 may 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 individuals who 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 include with your return the following documents:

- (1) An official certification issued by the PEF or PEF-PR, printed with the fund's letterhead and signed by a managing partner or principal officer, with the following information:
  - Name and employer identification number of the PEF or PEF-PR;

- If the fund is a PEF or PEF-PR;
  - Name and social security number of the resident investor for which 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) Evidence that the fund made the election under Act 185-2014 or Act 60-2019. Effective February 15, 2019, said election must be made through SURI according to the provisions of Internal Revenue Circular Letter No. 19-03 of February 5, 2019.
  - (4) In those cases where 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.

<b>Determination of the Deduction:</b>	
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) .....	\$ _____
<b>Deduction Limitation:</b>	
6. Net income (Subtract line 10 of Part 2 from line 5 of Part 1 of the return. If line 10 is more than line 5, enter zero) .....	\$ _____
7. Applicable percentage:	
• If the investment was in a PEF, enter 15%	
• If the investment was in an PEF-PR, enter 30% .....	_____ %
8. Maximum amount allowable as deduction (Multiply line 6 by the applicable percentage on line 7) .....	\$ _____
9. Allowable deduction on this return (Enter the smaller between lines 5 and 8. Transfer this amount to line 12 of Part 2 of the return) .....	\$ _____



**PART 3 – COMPUTATION OF TAX, CREDITS AND TAX WITHHELD OR PAID**

Those individuals who have chosen to pay taxes under the optional tax (Schedule X Individual) shall not complete lines 14 through 22 and will transfer the amount determined as optional tax on line 6, Part II of Schedule X Individual to line 23 of this part.

**Line 14 – Tax**

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

Oval 1 - Tax according to tables

Oval 2 - Tax at preferential rates

Oval 3 - Tax for nonresident aliens

Oval 4 - Tax determined using Form AS 2668.1, Back Pay ("Paga Atrasada")

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

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

<b>TAX COMPUTATION TABLE</b>
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**Normal tax for individuals corresponding to taxable years beginning after December 31, 2012.**

If your net taxable income (line 13, Part 2 of the return or line 11, Part II of Schedule CO Individual) is:

	Your tax will be:
Not over \$9,000	0%
Over \$9,000, but not over \$25,000	7% of the excess over \$9,000
Over \$25,000, but not over \$41,500	\$1,120 plus 14% of the excess over \$25,000
Over \$41,500, but not over \$61,500	\$3,430 plus 25% of the excess over \$41,500
In excess of \$61,500	\$8,430 plus 33% of the excess over \$61,500

**Preferential rates**

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

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

Complete Schedule A2 Individual and transfer the amount of tax from line 17 of this Schedule to Part 3, line 14 of the return and select Oval 2. **Submit Schedule A2 Individual with your return.**

**Nonresident alien**

If you are a nonresident alien not engaged in trade or business in Puerto Rico, the income from sources within Puerto Rico will be taxed at a fixed rate of 29% except in the case of dividends, that will be taxed at 15%, and the income attributable to the distributable share of a stockholder in a corporation of individuals which will be taxed at 33%. Enter the tax determined on line 14 of the return and select Oval 3.

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

**Back Pay**

You must select Oval 4 and use Form AS 2668.1 if you received a back pay during the current taxable year and the amount of such back payment exceeds 15% of the gross income for the current taxable year.

The Code defines back pay as remuneration, wages, salaries, pension or retirement payment received or accrued during the taxable year, by an employee for services rendered for his/her employer and which would have been paid prior to the taxable year except for the occurrence of any of the following events:

- a) employer's bankruptcy or receivership;
- b) dispute as to the employer's obligation to pay such remuneration, determined after the beginning of a court proceeding;
- c) lack of funds assigned to pay such remuneration if the employer is the Government of Puerto Rico, the United States, a state, a territory or any political subdivision thereof, or the District of Columbia or any agency or instrumentality of any of the foregoing; or
- d) any other event of similar nature.

Back pay also includes retroactive wages or salary increases, received or accrued for services rendered by an employee to his/her employer in a previous taxable year which have been ordered, recommended or approved by any federal agency or from the Government of Puerto Rico, and made retroactive to any period prior to the taxable year. In addition, payments made as a result of an alleged violation by an employer of any Federal Law or from the Government of Puerto Rico, related to labor standards or practices, and which are determined to be attributable to a prior taxable year.

The taxpayer must include with the return Form AS 2668.1 duly completed and the Employer Certification indicating that the payment consists of back pay, the amount of such pay, the years to which it corresponds, the date of payment and the event which originated the back pay.

**Line 15 - Gradual Adjustment Amount**

If the net taxable income is more than \$500,000, you must complete Schedule P Individual. Determine the gradual adjustment amount on said Schedule (See Instructions to Complete the Schedules). Enter the amount determined on Schedule P Individual, line 7. **Submit this Schedule with the return.**

**Line 17- Regular Tax before the Credit**

Section 1021.01 (c) of the Code provides that the tax determined will be 95% of the sum of the regular tax and the gradual



adjustment amount. However, for individuals with a gross income that does not exceed \$100,000, the tax determined shall be 92% of the sum of the regular tax and the gradual adjustment amount. Therefore, the amount to be entered on this line will depend on the method used to determine the tax on line 14 and on the amount of the taxpayer's gross income, as indicated below:

- If you selected Oval 1 (According to Table):
  - ✓ If the sum of lines 1B, 1C, 2A, 2B, 2E, 2F, 2H, 2I, 2J, 2L, 2M, 2N and 2O and the line of total (Total \$ \_\_\_\_\_) included on lines 2C, 2D, 2G, 2K and 2P through 2T, Part 1 of the return, plus the exempt income from line 43 less lines 2D, 31B through 31F, and 37 through 42, first Column, Part II of Schedule IE Individual, does not exceed \$100,000 - Multiply line 16 by .92.
  - ✓ If the result of the previous sum is greater than \$100,000 - Multiply line 16 by .95
- If you selected Oval 2 (Preferential rates - Schedule A2 Individual)- Enter the amount from line 16, Part 3 of the return. Do not multiply this amount by any of the percentages (92% or 95%) included on this line. (See instructions of line 17, Schedule A2 Individual).
- If you selected Oval 3 (Non-resident aliens) or Oval 4 (Model AS 2668.1) - Enter the amount on line 16.

#### Line 18 - Credit for taxes paid to foreign countries, the United States, its states, territories and possessions

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

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

You must complete Schedule O Individual if your net income subject to alternate basic tax is more than \$25,000.

To determine whether you are subject to the Alternate Basic Tax or not, complete and submit said Schedule (See Instructions to Complete the Schedules). Enter the amount determined on Schedule O Individual, Part II, line 7.

#### Line 21 - Credit for alternate basic tax

You must complete Parts III and IV of Schedule O Individual.

Enter the amount determined on line 4, Part III of Schedule O Individual.

#### Line 27C - Employment credit

Generally, every individual resident of Puerto Rico throughout the year who generates earned gross income and is not claimed as a dependent of other taxpayer for the taxable year, shall be entitled to claim this credit against the income tax.

#### Taxpayers who do NOT have dependents

If the earned gross income does not exceed \$18,000, the employment credit will be equal to 5% of the earned gross income, up to a maximum of \$300.

In the case of an individual taxpayer, if the earned gross income exceeds \$18,000 but is not over \$20,500, the maximum credit of \$300 shall be reduced by an amount equal to 12% of the earned gross income in excess of \$18,000.

In the case of married taxpayers filing joint return, if the sum of the gross income earned of both spouses exceeds \$18,000 but is not over \$21,750, the maximum credit of \$300 shall be reduced by an amount equal to 8% of the earned gross income in excess of \$18,000.

#### Taxpayers who have ONE (1) dependent:

If the earned gross income does not exceed \$13,000, the employment credit will be equal to 7.5% of the earned gross income, up to a maximum of \$900.

In the case of an individual taxpayer, if the earned gross income exceeds \$13,000 but is not over \$20,500, the maximum credit of \$900 shall be reduced by an amount of 12% of the gross income earned in excess of \$13,000.

In the case of married taxpayers filing a joint return, if the sum of the gross income earned by both spouses exceeds \$13,000, but is not over \$24,250, the maximum credit of \$900 shall be reduced by an amount equal to 8% of the gross income earned in excess of \$13,000.

#### Taxpayers who have TWO (2) dependents:

If the earned gross income does not exceed \$16,000, the employment credit will be equal to 10% of the gross income earned, up to a maximum of \$1,500.

In the case of an individual taxpayer, if the earned gross income exceeds \$16,000 but is not over \$28,500, the maximum credit of \$1,500 shall be reduced by an amount equal to 12% of the gross income earned in excess of \$16,000.

In the case of married taxpayers filing a joint return, if the sum of the gross income earned by both spouses exceeds \$16,000, but is not over \$34,750, the maximum credit of \$1,500 shall be reduced by an amount equal to 8% of the gross income earned in excess of \$16,000.

#### Taxpayers who have THREE (3) or more dependents:

If the earned gross income does not exceed \$17,000, the employment credit will be equal to 12.5% of the gross income earned, up to a maximum of \$2,000.

In the case of an individual taxpayer, if the gross income earned exceeds \$17,000 but is not over \$33,500, the maximum credit of \$2,000 shall be reduced by an amount equal to 12% of the gross income earned in excess of \$17,000.

In the case of married taxpayers filing a joint return, if the sum of the gross income earned by both spouses exceeds \$17,000, but is not over \$42,000, the maximum credit of \$2,000 shall be reduced by an amount equal to 8% of the gross income earned in excess of \$17,000.

For purposes of this credit, the term **earned gross income** includes salaries, wages, tips, pensions, any remuneration for services rendered by an **employee** to his/her employer or other compensation derived from the rendering of services as an **employee**, but only if such amounts are included in the gross income for the taxable year, as long as duly informed in a withholding statement required under Section 1062.01(n)(2) or an informative return issued under Section 1081.01 of the Code.

The gross income earned shall be determined separately for each individual, without taking into account any amount received as taxable income under Section 1091.01 of the Code (nonresident aliens), or the amount received by an individual for services rendered while such individual is confined in a penal institution.

However, in the case of married taxpayers filing joint return, regardless of whether or not they choose for the optional tax, the credit will be determined based on the sum of the earned income from both spouses. In addition, **those married taxpayers who choose to file their return separately will not be eligible to claim this credit.**

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

The credit shall be claimed against the tax determined after the other credits that the taxpayer is entitled to claim are reduced. The amount of credit in excess of the tax determined will be refunded to the taxpayer or can be credited against the estimated tax for the subsequent taxable year.

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

To be eligible, every taxpayer must also comply with the following:

- the taxpayer, spouse (in the case of married taxpayers), and the eligible dependents for the credit must be residents

of Puerto Rico throughout the taxable year for which the credit is claimed and at the time of filing the income tax return;

- this credit will only be allowed if the taxpayer has not died at the time of filing the income tax return in which this credit is claimed;
- the taxpayer and spouse (in the case of married taxpayers), must be 27 years of age or older on the last day of the taxable year;
- only the taxpayer's (or spouse's) children who, on the last day of the taxable year, are 18 years of age or younger, will be considered dependents, provided that in the case of children who are full-time students, they will be considered as dependent for these purposes if on the last day of the taxable year they do not exceed 25 years of age;
- married taxpayers filing separately are not eligible for this credit; and
- you cannot claim the Credit for Persons Age 65 or Older or Low Income credit granted under Section 1052.02 of the Code.

Select one of the worksheets provided below, to determine the amount of credit that you may claim. Use **Table I** if you are an individual taxpayer or married filing a joint return with no dependents. Use **Table II** if you are individual taxpayer or married person filing a joint return with one (1) dependent. Use **Table III** if you are individual taxpayer or married person filing a joint return with two (2) dependents. Use **Table IV** if you are individual taxpayer or married person filing a joint return with three (3) or more dependents.

**Table I**

<b>Worksheet to Determine the Employment Credit for an Individual Taxpayer or Married Person Filing Jointly who do Not have Dependents</b>		
	Individual Taxpayer	Married Person Filing Jointly
1. Enter the total of lines 1B and 1C from Part 1 of the return, line 7 Part II of each Schedule H Individual, and lines 6, 7, 8, 9, 11, 12 and 16, first Column, Part II of Schedule IE Individual (or the total of lines 1 and 2, Part I of Schedule CO Individual, Columns B and C, line 7, Part II of each Schedule H Individual, and lines 6, 7, 8, 9, 11, 12 and 16, first Column of Part II of each Schedule IE Individual, if you choose the optional computation of tax). If the total is more than \$20,500 (\$21,750 if married filing jointly), do not continue and enter zero ("0") on line 27(C), Part 3 of the return .....	\$ _____	\$ _____
2. Enter the amount of other income not considered earned gross income (lines 2A through 2G, 2I through 2L and 2N through 2T Part 1 of the return, plus line 43 less lines 6, 7, 8, 9, 10, 11, 12, 15 and 16, first Column of Part II of Schedule IE Individual) (or lines 3A through 3G, 3I through 3L and 3N through 3T, Part I of Schedule CO Individual, Columns B and C, plus line 43 less lines 6, 7, 8, 9, 10, 11, 12, 15 and 16, first Column of Part II of each Schedule IE Individual, if you choose the optional computation of tax): \$ _____. If this amount is more than \$2,200, do not continue and enter zero ("0") on line 27(C) of Part 3 of the return.		
3. If line 1 is \$18,000 or less, multiply it by 5%. Otherwise, go to line 5 .....	\$ _____	\$ _____
4. Enter the smallest amount between line 3 and \$300. Transfer to line 27(C), Part 3 of the return .....	\$ _____	\$ _____
5. If line 1 is more than \$18,000 but not over \$20,500 (\$21,750 if married filing jointly), enter here and on line 27(C), Part 3 of the return the product of the following calculation:  $\$300 - [(line\ 1\ of\ this\ worksheet - \$18,000) \times 12\% \text{ (or } 8\% \text{ for married filing jointly)}]$ $\$300 - [(\$\_\_\_\_\_\_ - \$18,000) \times 12\% \text{ (or } 8\%)]$ $\$300 - [\$\_\_\_\_\_\_ \times 12\% \text{ (or } 8\%)]$ $\$300 - \$\_\_\_\_\_\_ = \text{.....}$	\$ _____	\$ _____
* For purposes of this calculation, do not consider cents. * If the result of this calculation is zero ("0") or negative, enter zero on line 27(C) Part 3 of the return.		



**Table II**

<b>Worksheet to Determine the Employment Credit for an Individual Taxpayer or Married Person Filing Jointly who have One (1) Dependent</b>		
	Individual Taxpayer	Married Person Filing Jointly
1. Enter the total of lines 1B and 1C from Part 1 of the return, line 7, Part II of each Schedule H Individual, and lines 6, 7, 8, 9, 11, 12 and 16, first Column, Part II of Schedule IE Individual (or the total of lines 1 and 2, Part I of Schedule CO Individual, Columns B and C, line 7, Part II of Schedule H Individual, and lines 6, 7, 8, 9, 11, 12 and 16, first Column of Part II of each Schedule IE Individual, if you choose the optional computation of tax). If the total is more than \$20,500 (\$24,250 if married filing jointly), do not continue and enter zero ("0") on line 27(C), Part 3 of the return .....	\$ _____	\$ _____
2. Enter the amount of other income not considered earned gross income (lines 2A through 2G, 2I through 2L and 2N through 2T Part 1 of the return plus line 43 less lines 6, 7, 8, 9, 10, 11, 12, 15 and 16, first Column of Part II of Schedule IE Individual) (or lines 3A through 3G, 3I through 3L and 3N through 3T, Part I of Schedule CO Individual, Columns B and C, plus line 43 less lines 6, 7, 8, 9, 10, 11, 12, 15 and 16, first column of Part II of each Schedule IE Individual, if you choose the optional computation of tax): \$ _____ If this amount is more than \$2,200, do not continue and enter zero ("0") on line 27(C) of Part 3 of the return.		
3. If line 1 is \$13,000 or less, multiply it by 7.5%. Otherwise, go to line 5 .....	\$ _____	\$ _____
4. Enter the smallest amount between line 3 and \$900. Transfer to line 27(C), Part 3 of the return .....	\$ _____	\$ _____
5. If line 1 is more than \$13,000 but not over \$20,500 (\$24,250 if married filing jointly), enter here and on line 27(C), Part 3 of the return the product of the following calculation:  $\$900 - [(line\ 1\ of\ this\ worksheet - \$13,000) \times 12\% \text{ (or } 8\% \text{ for married filing jointly)}]$ $\$900 - [(\$ \underline{\hspace{2cm}} - \$13,000) \times 12\% \text{ (or } 8\%)]$ $\$900 - [\$ \underline{\hspace{2cm}} \times 12\% \text{ (or } 8\%)]$ $\$900 - \$ \underline{\hspace{2cm}} = \dots\dots\dots$	\$ _____	\$ _____
* For purposes of this calculation, do not consider cents. * If the result of this calculation is zero ("0") or negative, enter zero on line 27(C) Part 3 of the return.		

**Table III**

<b>Worksheet to Determine the Employment Credit for an Individual Taxpayer or Married Person Filing Jointly who have Two (2) Dependent</b>		
	Individual Taxpayer	Married Person Filing Jointly
1. Enter the total of lines 1B and 1C from Part 1 of the return, line 7 Part II of each Schedule H Individual, and lines 6, 7, 8, 9, 11, 12 and 16, first Column Part II of Schedule IE Individual (or the total of lines 1 and 2, Part I of Schedule CO Individual, Columns B and C, line 7 Part II of each Schedule H Individual, and lines 6, 7, 8, 9, 11, 12 and 16, first Column of Part II of each Schedule IE Individual, if you choose the optional computation of tax). If the total is more than \$28,500 (\$34,750 if married filing jointly), do not continue and enter zero ("0") on line 27(C), Part 3 of the return.....	\$ _____	\$ _____
2. Enter the amount of other income not considered earned gross income (lines 2A through 2G, 2I through 2L and 2N through 2T of Part 1 of the return plus line 43 less lines 6, 7, 8, 9, 10, 11, 12, 15 and 16, first Column of Part II of Schedule IE Individual) (or lines 3A through 3G, 3I through 3L and 3N through 3T, Part I of Schedule CO Individual, Columns B and C, plus line 43 less lines 6, 7, 8, 9, 10, 11, 12, 15 and 16, first column of Part II of each Schedule IE Individual, if you choose the optional computation of tax): \$ _____ If this amount is more than \$2,200, do not continue and enter zero ("0") on line 27(C) of Part 3 of the return.		
3. If line 1 is \$16,000 or less, multiply it by 10%. Otherwise, go to line 5 .....	\$ _____	\$ _____
4. Enter the smallest amount between line 3 and \$1,500. Transfer to line 27(C), Part 3 of the return .....	\$ _____	\$ _____
5. If line 1 is more than \$16,000 but not over \$28,500 (\$34,750 if married filing jointly), enter here and on line 27(C), Part 3 of the return the product of the following calculation:  $\$1,500 - [(line\ 1\ of\ this\ worksheet - \$16,000) \times 12\% \text{ (or } 8\% \text{ for married filing jointly)}]$ $\$1,500 - [(\$ \underline{\hspace{2cm}} - \$16,000) \times 12\% \text{ (or } 8\%)]$ $\$1,500 - [\$ \underline{\hspace{2cm}} \times 12\% \text{ (or } 8\%)]$ $\$1,500 - \$ \underline{\hspace{2cm}} = \dots\dots\dots$	\$ _____	\$ _____
* For purposes of this calculation, do not consider cents. * If the result of this calculation is zero ("0") or negative, enter zero on line 27(C) Part 3 of the return.		



**Table IV**

**Worksheet to Determine the Employment Credit for an Individual Taxpayer or Married Person Filing Jointly who have Three (3) or more Dependents**

	Individual Taxpayer	Married Person Filing Jointly
1. Enter the total of lines 1B and 1C from Part 1 of the return, line 7 Part II of each Schedule H Individual, and lines 6, 7, 8, 9, 11, 12 and 16, first Column Part II of Schedule IE Individual (or the total of lines 1 and 2, Part I of Schedule CO Individual, Columns B and C, line 7 Part II of each Schedule H Individual, and lines 6, 7, 8, 9, 11, 12 and 16, first Column of Part II of each Schedule IE Individual, if you choose the optional computation of tax). If the total is more than \$33,500 (\$42,000 if married filing jointly), do not continue and enter zero ("0") on line 27(C), Part 3 of the return .....	\$ _____	\$ _____
2. Enter the amount of other income not considered earned gross income (lines 2A through 2G, 2I through 2L and 2N through 2T of Part 1 of the return plus line 43 less lines 6, 7, 8, 9, 10, 11, 12, 15 and 16, first Column of Part II of Schedule IE Individual) (or lines 3A through 3G, 3I through 3L and 3N through 3T, Part I of Schedule CO Individual, Columns B and C, plus line 43 less lines 6, 7, 8, 9, 10, 11, 12, 15 and 16, first column of Part II of each Schedule IE Individual, if you choose the optional computation of tax): \$ _____ If this amount is more than \$2,200, do not continue and enter zero ("0") on line 27(C) of Part 3 of the return.	\$ _____	\$ _____
3. If line 1 is \$17,000 or less, multiply it by 12.5%. Otherwise, go to line 5 .....	\$ _____	\$ _____
4. Enter the smallest amount between line 3 and \$2,000. Transfer to line 27(C), Part 3 of the return .....	\$ _____	\$ _____
5. If line 1 is more than \$17,000 but not over \$33,500 (\$42,000 if married filing jointly), enter here and on line 27(C), Part 3 of the return the product of the following calculation:  $\$2,000 - [(line\ 1\ of\ this\ worksheet - \$17,000) \times 12\% \text{ (or } 8\% \text{ for married filing jointly)}]$ $\$2,000 - [(\$ \_\_\_\_\_\_ - \$17,000) \times 12\% \text{ (or } 8\%)]$ $\$2,000 - [\$ \_\_\_\_\_\_ \times 12\% \text{ (or } 8\%)]$ $\$2,000 - \$ \_\_\_\_\_\_ = \_\_\_\_\_\_$	\$ _____	\$ _____
* For purposes of this calculation, do not consider cents. * If the result of this calculation is zero ("0") or negative, enter zero on line 27(C) Part 3 of the return.		

**Line 27D - Reimbursable credits from the Federal Government**

Transfer to this line the total of the American opportunity tax credit determined in Schedules B2, B2.1 and B2.2 Individual, as applicable. The balance of the economic impact payment owed to the taxpayer, as determined in Schedule B3 Individual, shall be transferred here. To see the requirements and limitations applicable to each of these credits, you must refer to the Schedules and their respective instructions available through our webpage [www.hacienda.pr.gov](http://www.hacienda.pr.gov).

Those credits attributable to Schedule B4 Individual, will not form part of the 2020 return. The Department will issue soon a publication with more details about these credits.

**Line 27E - Amount paid with automatic extension of time**

Enter on this line the amount of tax paid with automatic extension of time. This is the amount reflected on line 1a, Part II of Form AS 2644 filed on time at the Department.

If for any reason you understand that you will not be able to file your return on time, you may request an automatic extension of time on or before the due date to file the return. The request will be done by filing Form AS 2644. If you file this form on time, the extension will be automatically granted for a period of 6 month. Filing an extension of time does not extend the time for payment of any tax due with the return.

**In case of military personnel active at any combat zone, refer to RELEVANT FACTS.**

**A taxpayer that has the obligation to pay estimated tax, must pay the total tax with the request of extension of time.** If you do not have the obligation to pay estimated tax and qualify to pay the tax due with the return in two installments, as described in the instructions of line 3 on page 1 of the return, you must submit your extension of time request with at least 50% of the balance of tax due. See instructions on the obligation to pay estimated tax on page 80 of this instructions booklet.

**Line 28 - Amount of Tax Due**

Compare the amount on lines 26 and 27F. If line 26 is more than line 27F, there is a balance of tax due. Enter the difference on this line. If the amount on line 27F is more than the amount on line 26, you have a tax overpayment. Enter this difference on line 29.

**Line 30 - Addition to the Tax for Failure to Pay Estimated Tax**

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



## INSTRUCTIONS TO COMPLETE THE SCHEDULES

### SCHEDULE A INDIVIDUAL – DEDUCTIONS APPLICABLE TO INDIVIDUAL TAXPAYERS

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

In the case of taxpayers who choose the optional computation of tax, some of these deductions will be attributed 50% to each spouse and others will be allowed to the spouse to whom they correspond individually.

The deductions that will be attributed 50% to each spouse when they choose the optional computation of tax are the following: mortgage interest, casualty loss on your principal residence, medical expenses, charitable contributions, and loss of personal property because of certain casualties. Once the total of these deductions is determined in Part I, line 6 of this schedule, you must transfer 50% to Columns B and C on line 1, Part II of Schedule CO Individual.

Deductions individually allocated under the optional computation of tax are the following: contributions to individual retirement accounts, educational contribution and my future accounts and interest paid on students' loans at university level, up to the limits and subject to the provisions of the Code. Therefore, when determining the sum of these deductions on line 10, Columns A and B, Part I of this Schedule, you must transfer the total of the amounts determined, as it corresponds to the taxpayer and his/her spouse, to line 2, Columns B and C of Schedule CO Individual.

### PART I – DEDUCTIONS APPLICABLE TO INDIVIDUAL TAXPAYERS

**Line 1** - Enter the amount of home mortgage interest paid or accrued to acquire, refinance, improve or build a property that constitutes a qualified residence. There shall be allowed as a deduction the total amount of interest paid up to a maximum of \$35,000, as long as this amount does not exceed the greater of:

- (i) 30% of the adjusted gross income (Part 1, line 5 of the return) plus any other income excluded or exempt from the adjusted gross income, including child support payments (Schedule IE Individual, Part III, line 1) received during the taxable year for which the deduction is claimed; or
- (ii) 30% of the taxpayer's adjusted gross income plus any other income excluded or exempt from the adjusted gross income, including child support payments, for any of the preceding three (3) taxable years before the year for which the deduction is claimed.

These limitations will not apply when the taxpayer or his/her spouse is age 65 or older at the end of the taxable year. If you qualify for this exception, make sure to indicate the date of birth for you and your spouse (if applicable) on page 1 of the return.

If you qualify for exception (ii), please complete question D of the Questionnaire, page 1 of the return and select the oval provided on line 1(j), Part I of this Schedule.

**You must keep for your records the Informative Return - Mortgage Interest (Form 480.7A) provided by the financial institution.**

Enter in the spaces provided on lines 1(a) through 1(d), the name and employer identification number of the banking or financial institution to which the payments were made, the loan number, the control number and the electronic filing confirmation number of the Form 480.7A, the and the total amount of home mortgage interest paid, as reported on Form 480.7A.

In the case of nonresidents of Puerto Rico taxpayers who are citizens of the United States, there shall be allowed as a deduction the total home mortgage interest paid or accrued to acquire, refinance, improve or build a property that constitutes the principal residence of the taxpayer. This first residence may be located outside of Puerto Rico and in most cases the interest paid will be reported on Form 1098 - Mortgage Interest Statement.

Deduction shall not be allowed for interest on home mortgages in other residences, which are not the principal residence of the taxpayer, if such interests are not informed on Form 480.7A.

To claim this deduction, the taxpayer must include with the return the required information of Form 1098 - Mortgage Interest Statement. Also, on line 1 (e) you must select oval 2 that corresponds to Form 1098 and other.

**Qualified residence** means:

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

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

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

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

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

- 1) they are reported on the Informative Return – Mortgage Interest (Form 480.7A or equivalent form (i.e. Form 1098)),
- 2) they are paid to acquire the principal residence,
- 3) they are paid by the taxpayer; if they are financed through the mortgage loan, they will be deductible throughout the term of the loan, and



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

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

In case of married taxpayers filing separately who only own one residence, one of the spouses has the sole right to claim such deduction. If the married couple has two residences, one spouse may claim the interest of the principal residence and the other spouse may claim the interest of the second residence. However, one of the spouses may claim all the home mortgage interest for both residences, if both spouses agree to that in writing.

The taxpayer must keep for his/her records the written evidence of the cession of such deduction by the spouse.

It is important to point out that for taxable years beginning after December 31, 2016, the taxpayer may claim this deduction, even if he/she is not the borrower or joint borrower of the loan fully guaranteed with mortgage, when he/she can demonstrate that:

- (i) is the legal owner of the property that guarantees the debt or the person who will suffer the real effect of an execution of the same;
- (ii) made all of the debt payments during the taxable year directly to the person required to file the informative return described in Section 1063.04 of the Code (Form 480.7A); and
- (iii) the borrower or joint borrower of the loan fully guaranteed with the mortgage did not claim this deduction.

In the case of taxpayers who comply with the aforementioned requirements, they may claim the deduction of the mortgage interest paid on the line of *Home mortgage interest of the principal residence not reported on Form 480.7A*. Also, on line 1 (e) you must select oval 1 that corresponds to Section 1033.15(a)(1)(F) of the Code and complete the required information.

In order to take the deduction, the taxpayer must have to submit along with the return a sworn statement that complies with the requirements set forth in Section 1033.15 (a) (1) (G) of Code. This sworn statement shall be filed through SURI.

**For more details on how to claim this deduction, refer to Section 1033.15(a)(1)(F) of the Code.**

**Line 2 - Enter losses on real property used as your principal residence** incurred during the taxable year, not compensated by insurance or in any other form. Such losses must be **caused by hurricane, earthquake, storm, tropical depression, floods, fire or other casualties.**

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

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

In the case of married persons filing separate returns, or that choose the optional computation of tax, each spouse may claim 50% of this deduction.

An individual resident of Puerto Rico for taxable year 2020 who remain as resident at the moment of filing the 2020 Return, can claim a deduction for casualty losses to the extent that the structure of the principal residence suffered some damage as a result of the seismic activity, storms, hurricane, or other casualties occurred during the taxable year. For more details of additional requirements to claim this deduction and the required evidence, refer to the publications issued by the Department for these purposes.

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

**Medical expenses are:**

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

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

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

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

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

**Line 4 -** You may claim a deduction for the contributions or donations to nonprofit organizations made during the taxable year, subject to certain limitations, **only** if the entities are authorized under the rules and regulations promulgated by the

Secretary. **No part of the net earnings of any organization or entity to which you contribute may benefit any private shareholder or individual.**

Among the nonprofit organizations and other entities approved by the Code and regulations as entities for which a deduction for contributions can be claimed, are the following:

- the Government of Puerto Rico, the United States, any of its states, territories, or any political subdivision thereof, or the District of Columbia, or any possession of the United States, exclusively for public purposes;
- churches and religious organizations;
- university level accredited educational institutions established in Puerto Rico; or
- nonprofit organizations created or organized in Puerto Rico, the United States or any of its possessions, **qualified by the Secretary of the Treasury**, such as those providing community service, charitable, scientific, literary, art, educational or museological, organizations engaged in the prevention of cruelty or child abuse, elderly or disabled people, prevention of cruelty and abuse of animals, the prevention of domestic violence or hate crimes, or to organizations of economic, social, and community development. It shall be an indispensable requirement to allow the deduction that the entity to which the contribution or donation is made, provide services to residents of Puerto Rico.

The allowable deduction for charitable entities must be included on page 2 of Schedule A Individual, Part III (Medical Expenses and Charitable Contributions), Column B.

The name of the entity and the employer identification number must be included in the space provided and the amount of the contribution will be included in Column B. In the next Column, you must include a code letter (as listed below) corresponding to the category of the nature of the organization to which a donation was made.

The categories are the following:

- A. Social Services** – this includes entities for the prevention of abuse or violence, such as Casa Protegida Julia de Burgos, Puerto Rico Youth at Risk, Inc. (Jóvenes de Puerto Rico en Riesgo), Taller Salud, Niños de Nueva Esperanza, Casa La Providencia, Centro de Renovación y Desarrollo Humano Espiritual Buen Pastor, La Casa de Todos, La Fondita de Jesus, and Proyecto Aurora.
- B. Art and Culture** – Examples: Andanza, Coro de Niños de San Juan, Pro Arte Musical, and Casa Pueblo.
- C. Housing Services**
- D. Educational and Research Services** – Examples: Centro Esperanza, Asesores Financieros Comunitarios, Politécnico Amigo, CreArte, Nuestra Escuela, Scuba Dogs Society, Asociación Educativa Pro Desarrollo Humano de Culebra, and Centro de Periodismo Investigativo
- E. Recreation and Sports Services** – Examples: YMCA de San Juan, and Boys and Girls Club of Puerto Rico.
- F. Economic, Social and Community Development** – Examples: Coalición Pro Corredor Ecológico del Noreste,

Proyecto Matria, Centro de Adiestramiento y Servicios Comunitarios E.P.I., Inc., Producir, and Comerciantes Unidos para el Desarrollo Comunitario de Camuy.

- G. International Activities** – Example: Comité Olimpico de Puerto Rico, Inc.
- H. Health Services** – Examples: MDA –Asociación Distrofia Muscular, SER de Puerto Rico, Centro Margarita, Centro de Ayuda y Terapia al Niño con Impedimento (AYANI), Iniciativa Comunitaria de Investigación, and The Leukemia and Lymphoma Society.
- I. Religious Services** – Example: All churches.
- J. Environmental Services** – Example: Sierra Club and Para la Naturaleza.
- K. Organizations for the Exclusive Benefit of its Members**
- L. Other Services** – Examples: Alianza para un Puerto Rico sin Drogas (drug prevention services in high risk schools and communities), Puerto Rico Industries for the Blind (employ and train visually impaired persons), and employees' voluntary and beneficent associations.

**The allowable deduction for charitable contributions is the total amount of the donations paid, not to exceed 50% of your adjusted gross income.**

#### Charitable Contributions to Conservation Easements and Museological Institutions

The allowable deduction for contributions to conservation easements and museological institutions must be included in Column C. Also, you must include in the space provided the name and employer identification number of the entity to which the contribution was made. The allowable deduction for contributions of conservation easements to agencies of the Government of Puerto Rico or non profit organizations (**only if you do not claim a tax credit for this concept**) may not exceed 30% of your adjusted gross income and is subject to the requirements provided by the Puerto Rico Conservation Easement Act, as well as for contributions to museological institutions, private or public, that consist of art work properly appraised or of any other objects of recognized museological value.

If the fair market value of the contributed property exceeds the adjusted basis in the hands of the donor (determined under Section 1034.02 of the Code) by more than 25%, you will be allowed a deduction for the fair market value of the property donated, up to 30% of your adjusted gross income for the taxable year.

It is important to point out that in order to claim the deduction for charitable contributions made to private museological institutions, they have to be conditioned in terms that any type of future negotiation with the work or contributed object is forbidden, and that in case of dissolution of the private museological institution, the title of the art work or museological value objects contributed will be transferred to the Government of Puerto Rico and will become part of the National Collection of the Institute of Puerto Rican Culture. If the charitable contributions is made to a museum located in Puerto Rico that is dully accredited by the American Association of Museums, the deduction will be the fair market value up to 50% of the adjusted gross income of the taxpayer and will not be subject to the previous limitations.

The charitable contributions in excess of the limit allowed may be carried over to the 5 subsequent taxable years.

You may claim an unlimited deduction for charitable contributions, if the amount of qualified charitable contributions plus the total amount of income taxes paid during the taxable year and in each of the 10 preceding taxable years, exceed 90% of your net income for each one of those years, computed without the benefit of the charitable contributions. Net income is the adjusted gross income less the applicable deductions to taxpayers that are individuals and the exemptions (additional for veterans, personal and for dependents), as applicable.

#### Charitable Contributions to Municipalities and Other Contributions

Donations to municipalities must be included in Column D and you must include in the corresponding area the name and employer identification number of the municipality that received the donation.

The contributions of historic or cultural value made to a municipality, as certified by the Institute of Puerto Rican Culture or the Cultural Center of each municipality, or that makes possible the realization of any cultural or historic work, may be claimed as charitable contribution when the amount is \$50,000 or more, and is made in connection with the celebration of the centennial establishment of the municipality. The total of said contributions is not subject to the limitations provided by the Code. Itemize these contributions in Part III, Column D of this Schedule.

Likewise, any contribution made to the Puerto Rico Public Broadcasting Corporation, as provided by Article 4 of Act 216-1996, as amended, will not be subject to the limitations established by the Code. To claim the total amount of charitable contribution, you must indicate in the corresponding spaces of Part III, Column D of this Schedule, the name of such Corporation, the employer identification number and the amount contributed.

**To claim these charitable contributions, complete Part III of this Schedule and transfer to this line the total amount determined on line 8. You must keep for your records copy of the cancelled or substitute checks, receipts or certifications evidencing the payments made.**

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

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

An individual resident of Puerto Rico for the taxable year 2020 and that remains as resident at the moment of file the 2020 Return, may be eligible to claim the deduction for losses with respect to automobiles, furniture, fixtures and other household goods suffered as consequence of the seismic activity that began on December 28, 2019. The deduction shall be available only

to individuals who have been residents of any of the designated areas in the Disaster Declaration issued by the Governor. For details of additional requirements to claim this deduction and required evidence, refer to the publications issued by the Department for these purposes.

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

**Line 7** - Enter on this line the contributions made to a qualified Individual Retirement Account (IRA). **The maximum deduction for an individual is \$5,000** or the adjusted gross income from salaries or the earnings attributable to professions or business, whichever is less.

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

In case of married taxpayers filing a joint return, including those who choose the optional computation of tax (Schedule CO Individual), each one may establish, individually, his/her own IRA, or one of the spouses may establish an IRA for himself/herself and another IRA in the name of the other spouse, without considering if he/she receives income. The contribution cannot exceed \$10,000 or the aggregated adjusted gross income from salaries and the earnings attributable to professions or business, whichever is less. However, the deduction for each spouse cannot exceed \$5,000.

No deduction is allowed for the taxable year in which the individual has reached 75 years of age or more at the end of the taxable year. **Also, no deduction will be allowed if the income received during the year is from pensions or annuities.**

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

**In the spaces provided on this line, enter the name and employer identification number of the financial institution, the account number, and the total contributions made, as they correspond to the taxpayer or the spouse.**

If the taxpayer participates in a pension plan qualified by the Department of the Treasury and the IRS (dual qualified plan) or is a federal employee, the sum of the contribution to the pension plan plus the contribution to the IRA cannot exceed \$20,000. In other words, the sum of his/her contribution to the pension plan (Box 15 of Form 499R-2/W-2-PR or the corresponding box of Federal W-2 Form) plus the contribution to the IRA cannot exceed \$20,000.

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

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

An educational contribution account must be established by the individual who has the custody and parental rights over the beneficiary for whom the account was established.

In the case of my future account, the trust is created or organized by the Government of Puerto Rico (Government) for the exclusive benefit of students in the public education system of the Government or, subject to the corresponding regulation, for the benefit of students of private schools in Puerto Rico. In this account, the Government will make an initial contribution of \$1,000 per each eligible beneficiary and after established, an individual or private entity can made annual contributions in cash not exceeding the maximum amount allowable to an educational contribution account.

There is no limitation in the number of educational contribution or my future accounts to which each individual can contribute, as long as such beneficiary is eligible. Under no circumstances, the total contributions for each beneficiary account can exceed \$500.

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

The taxpayer can make the contribution to the accounts until the last day established by the Code to file the return, or until the due date of any extension of time granted by the Secretary to file the same.

Transfer to this line the total of Part II, line 16 of Schedule A1 Individual.

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

**Line 9** - Enter on this line the total of interest paid and the corresponding amount of the principal paid in a student loan at university level. In the spaces provided on this line, enter the name, loan number and employer identification number of the financial institution. The amount to be included is the sum of interest and the part of the principal paid during the year, as applicable.

It shall be allowable as deduction the amount of interest paid or accrued during the taxable year on debts incurred for student loans to cover expenses of the taxpayer, his/her spouse or dependent for tuition, teaching and textbook at university level, as well as the related expenses of transportation, meals and lodging in those cases in which you have had to live outside your home in order to study. You must keep for your records the certification of the bank or financial institution as evidence of the deduction claimed.

On the other hand, it will also be allowed as special tax deduction, 25% of the payments made to the principal of student loans taken for university college studies, or 50% of payments when the student loan is taken for postgraduate studies, provided that it is eligible under Article 5 of the Incentive Act for the Retention of Talent in Puerto Rico (Act 24-2015) up to a maximum of \$5,000 per taxable year. This deduction cannot be taken by an individual for more than 10 taxable years.

The taxpayers that will be eligible to receive the special deduction are those who have the evidence and who meet all the requirements listed below:

- (a) Be a citizen of the United States and resident of the Commonwealth of Puerto Rico for the purposes of the Code;
- (b) Have completed a degree in a university institution on a sub-graduate or graduate level;
- (c) Provide an official copy of the graduation diploma issued by a university institution that evidences having completed such studies at the sub-graduate or graduate level;

(d) Have made monthly payments on the principal of a federal student loan eligible for the Public Service Loan Forgiveness Program and submit the official documentation certifying the payments made (once monthly payments are made, the taxpayer must submit to the Department of Education of the United States the Employment Certification for Public Service Loan Forgiveness duly completed);

(e) The taxpayer must provide the Response to the Employment Certification for Public Service Loan Forgiveness Program in which it is certified that it meets all the necessary and indispensable requirements to qualify for the Public Service Loan Forgiveness Program; and

(f) At the time of making the monthly payments described in the previous paragraph (d), the person must be employed full time in any of the three branches of the Government of Puerto Rico, its agencies or public corporations; at the University of Puerto Rico; in the office located in Puerto Rico of any of the three branches of the Federal Government, its agencies or public corporations; or at the office of any eligible nonprofit organization located in Puerto Rico.

## **PART II – COMPUTATION OF ALLOWABLE AMOUNTS OF DEDUCTIONS TO NONRESIDENT OR PART-YEAR RESIDENT**

If in the questionnaire it was indicated that the taxpayer was a nonresident or a part-year resident, use this part to determine the total deductions attributable to the period of residence in Puerto Rico. Follow the guides provided on each line. Married taxpayers who are filing their return under the optional computation of tax, shall not use this part, they will made this calculation in Part IV of the Schedule CO Individual.

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

Use this Part to determine the deduction for medical expenses and charitable contributions that you will claim on your return. You must provide a detail of each medical expense or contribution that you made during the year.

**See full details for these deductions in the instructions to complete Part I, lines 3 and 4 of this Schedule.**

It is very important that you enter the name of the institution to whom the payment was made and the amount paid, as well as to **keep for your records evidence to support your payment**. In the case of charitable contributions, you must also indicate the employer identification number of the entity to which the payment is made.

Transfer the amount of the allowable deduction for medical expenses from line 3 to Part I, line 3 of this Schedule. Transfer the total amount of the allowable deduction for charitable contributions from line 8 to Part I, line 4 of this Schedule.

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

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

Use the number of Schedules A1 Individual that are necessary and indicate the amount in the upper right corner of the header.

**REMINDER: To claim the deduction for dependents the taxpayer must provide more than half of the support for the dependent, as provided on the Code and the corresponding Regulations.**

**PART I - DEPENDENT'S INFORMATION**

The term **dependent** means:

- 1) a person who at the end of the calendar year in which the taxpayer's taxable year begins **has not reached the age of twenty-one (21)**;
- 2) the taxpayer's father or mother;
- 3) a person who is **age sixty-five (65) or older**;
- 4) a person who has reached the age of 21 or more and is blind or incapable of self-support because of being mentally or physically disabled; or
- 5) a university student who at the end of the calendar year in which the taxpayer's taxable year begins **has not reached the age of twenty-six (26)**, as long as he/she has completed as a regular student, at least one semester in a **university or technical - professional institution recognized as such by the educational authorities of Puerto Rico, or of the applicable country, until he/she receives his/her degree.**

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

- 1) the person claiming the dependent must provide more than half of the support for the dependent during the calendar year in which the taxpayer's taxable year began;
- 2) the dependent's **gross income** for the calendar year in which the taxpayer's taxable year began is less than the amount allowed as an exemption for this concept (\$2,500). Nevertheless, if the dependent is your child and also a regular student, he/she may earn gross income of up to **\$7,500**, and you still have the right to claim him/her as a dependent.

In the case of children from divorced or separated parents, the exemption for dependent will be claimed by the parent who has the legal custody of the child. However, the parent who has the legal custody may release his/her right to claim the exemption in favor of the parent who does not have that custody. The release should be made using **Schedule CH Individual - Transfer of Claim for Exemption for Child (Children) of Divorced or Separated Parents**. The parent to whom the right to claim the exemption was released must keep for his/her records Schedule CH Individual duly completed and signed (See Instructions of Schedule CH Individual).

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

In the case of parents who are married, living together and elect to file a separate return, each spouse is entitled to claim half of the total exemption for dependents, as in the case of those who choose the optional computation of tax.

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

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

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

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

In the space provided, **select the oval that indicates "joint custody" (if applicable), and write the complete name, date of birth, relationship and social security number** of all dependents for whom you claim an exemption on your return. **Also, classify the dependents in one of the following categories:**

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

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

**Eligible Dependents for Employment Credit**

Those dependents who meet the following requirements shall be considered eligible to determine the employment credit:

1. only the children of the taxpayer or spouse, which were claimed as dependents in their return;
2. that on the last day of the taxable year they are age 18 or younger, and in the case that they are full-time students, they will be considered as dependent if they do not exceed age 25 on the last day of the taxable year; and
3. have been residents of Puerto Rico throughout the taxable year for which the credit is claimed and at the time of filing the return.

**For additional details related to these requirements and the computation of the employment credit, refer to the Internal Revenue Circular Letter No. 20-01 of January 3, 2020.**

**PART II - BENEFICIARIES OF EDUCATIONAL CONTRIBUTION ACCOUNTS AND MY FUTURE ACCOUNTS**

In the space provided, **write the complete name, relationship, date of birth, and social security number** of the beneficiaries for whom you made contributions to an Educational Contribution Account or to My Future Account and identify the type of account you contribute. Indicate also the name and employer identification number of the financial institution,



and the account number where the contributions are made. **You must also enter the amount of said contributions.**

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

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

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

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

**Line 1** - Transfer the Adjusted Gross Income determined in Part 1, line 5 of the return or Part I, line 6 of Schedule CO Individual, as applicable. The Adjusted Gross Income must consider all income subject to preferential rates, as informed on the other corresponding schedules of the return.

**Line 4** - Transfer to Column A and to the corresponding Columns from B to H the different types of income subject to preferential rates as identified on lines 4(a) through 4(l). In Column B, include the income subject to a 20% rate; in Column C, those subject to a 15% rate; in Column D, those subject to a 10% rate; and in Column E, those subject to a 4% rate.

If you received income subject to a rate other than 4%, 10%, 15% or 20% under any special act, specify the applicable preferential rate in the blank space provided for it in Columns F, G and H and include such income in the corresponding Column. The sum of the amounts entered in Columns B through H must be the same amount to be transferred to Column A of this line.

**Line 4(a)** - Transfer to Column A of this line the amount shown on line 7 of Part VII of Schedule D Individual (Schedule D).

As a general rule, the applicable rate on a realized capital gain is 15%. In such case, include in Column C of this line the amount shown on line 6(a), Column B of Part VII of Schedule D Individual, if any.

However, all or part of the long-term capital gain can be taxed at a different rate, if it was realized under a special legislation. In such case, enter as it corresponds in Columns F, G and H of this line, the amount shown on line 6(b), Columns C through E of Part VII of Schedule D Individual, if any.

It is important to note that if a net capital loss not used in previous years is claimed, Part VI of Schedule D Individual must be completed to determine the amounts that shall be transferred to this line.

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

**Line 4(h)** - Transfer to Column A of this line the amount shown on Schedule D Individual, Part IV, line 25. As a general rule, the applicable rate on total distributions from pension plans is 20%. Therefore, include distributions subject to the 20% rate in Column B and distributions subject to a preferential rate of 10% (if they meet certain requirements set forth in Section 1081.01 (b) of the Code) in Column D. For additional information, see instructions of Part IV of Schedule D Individual.

**Line 4(i)** - Transfer to Column A of this line the gain determined on Schedules J, K, L, M or N Individual, as applicable, taxable at a reduced rate under an Incentives Act or wages received by a qualified physician who has a decree under Act 14-2017 or Act 60-2019 and that have been reported separately in the spaces provided on lines 1B and 1C of Part I of the return or lines 1 and 2, Part I of Schedule CO Individual, as applicable. Include this amount in Columns B through H, as it corresponds, according to the applicable preferential rate.

**Line 4(j)** - Transfer to Column A of this line the amount on line 3, Column F, Part V of Schedule F Individual. Include this amount in Columns B through H, as it corresponds to the applicable preferential tax rate.

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

Among others, also include on this line the distributions and transfers of Governmental Plans reported on Schedule F Individual, Part II, line 2, Columns E or F. The lump-sum distributions of Savings Account Plans of \$10,000 or more and the transfers from such plans to Non Deductible Individual Retirement Accounts are subject to a preferential rate of 10%. Include these amounts in Column D. Also include the income from other interests subject to withholding under the provisions of special legislation reported on Schedule FF Individual, Part I, line 4, Column F.

**Line 4(l)** - Transfer to Column A of this line the amount reflected on Schedule F Individual, Part VI, line 5, corresponding to Eligible Distributions from Retirement Plans or IRAs that were received for reason of extreme economic emergency due to a disaster declared by the Governor of Puerto Rico. These distributions are taxed at a preferential rate of 10%. Therefore, include them in Column D of this schedule.

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

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

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

**Line 8(a)** - Transfer to this line the Applicable Deductions to Individual Taxpayers as determined on Schedule A Individual, Part I, line 11 (or Part II, line 6 in the case of nonresidents or part-year residents) or Schedule CO Individual, Part II, line 3 (or Part IV, line 6 in the case of nonresidents or part-year residents). These are the only deductions that are subject to the limitation proportional to the income subject to the preferential rates.

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

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

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

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

**Line 10** - Distribute among Columns A through H, as it is more beneficial to you, the amount of the allowable deduction for Private Equity investment indicated in Part 2, line 12 of page 2 of the return or in Part II line 10, Column B or C of Schedule CO Individual.

**Line 11** - For Column A, subtract lines 8(f), 9 and 10 from line 6. For Columns B through H, subtract lines 8(f), 9 and 10 from line 4(m) of each individual column.

**Line 12(a)** - Determine the tax applicable to the income on line 11, Column A according to the regular tax table available on page 19.

**Line 12(d)** - Section 1021.01(c) of the Code provides for a reduction in the normal tax that will depend on your gross income level. To determine the amount of your gross income, add the amounts on lines 1B, 1C, 2A, 2B, 2E, 2F, 2H, 2I, 2J, 2L, 2M, 2N and 2O and the line of total (Total \$ \_\_\_\_\_) included on lines 2C, 2D, 2G, 2K and 2P through 2T, Part 1 of the return, **plus** the exempt income from line 43 less lines 2D, 31B through 31F, and 37 through 42, first Column, Part II of Schedule IE Individual.

- If your gross income does not exceed \$100,000 - Multiply the amount on line 12(c) by .92.
- If your gross income is more than \$100,000 - Multiply the line 12(c) by .95.

If you choose the optional computation of tax, to determine your gross income add the amounts on lines 1, 2, 3A, 3B, 3E, 3F, 3H, 3I, 3J, 3L, 3M, 3N and 3O and the line of total (Total \$ \_\_\_\_\_) included on lines 3C, 3D, 3G, 3K and 3P through 3T of Part I, Schedule CO Individual, **plus** the exempt income item derived from subtracting from line 43 lines 2D, 31B through 31F, and 37 through 42, first Column, Part II of Schedule IE Individual.

**Line 13** - Determine the tax applicable to the income on line 11 according to the corresponding rate for Columns B through H. For Column B, multiply the income on line 11 by 20%. For Column C, multiply the income on line 11 by 15%. For Column D, multiply the income on line 11 by 10%. For Column E, multiply the income on line 11 by 4%. For Columns F, G and H, multiply the income on line 11 by the rate specified in each column, which cannot be 4%, 10%, 15% or 20%.

**Line 16(a)** - Determine the tax applicable to the income on line 15 (line 13 of Part 2 of the return or line 11, Part II, Columns B or C of Schedule CO Individual) according to the regular tax table available on page 19. This is your tax amount without considering preferential rates applicable to certain income.

**Line 16(d)** - Section 1021.01(c) of the Code provides for a reduction in the normal tax that will depend on your gross income level. To determine the amount of your gross income, add the amounts on lines 1B, 1C, 2A, 2B, 2E, 2F, 2H, 2I, 2J, 2L, 2M, 2N and 2O and the line of total (Total \$ \_\_\_\_\_) included on lines 2C, 2D, 2G, 2K and 2P through 2T, Part 1 of the return, plus the exempt income from line 43 less lines 2D, 31B through 31F, and 37 through 42, first Column, Part II of Schedule IE Individual.

- If your gross income does not exceed \$100,000 - Multiply the amount on line 16(c) by .92.
- If your gross income is more than \$100,000 - Multiply the line 16(c) by .95.

If you choose the optional computation of tax, to determine your income add the amounts on lines 1, 2, 3A, 3B, 3E, 3F, 3H, 3I, 3J, 3L, 3M, 3N and 3O and the line of total (Total \$ \_\_\_\_\_) included on lines 3C, 3D, 3G, 3K and 3P through 3T of Part I, Schedule CO Individual, **plus** the exempt income item derived from subtracting from line 43 lines 2D, 31B through 31F, and 37 through 42, first Column, Part II of Schedule IE Individual.

**Line 17** - Compare the tax determined on line 14 with the one determined on line 16(d) and choose the smaller amount. Transfer this amount to page 2, Part 3, line 14 of the return or to line 1, Part III, Column B or C of Schedule CO Individual, if you elected for the optional computation of tax in the case of married taxpayers. Choose in the return or Schedule CO Individual, the oval corresponding to the selected line as indicated on this Schedule.

In this case, line 14 of Schedule A2 Individual include the gradual adjustment and the corresponding reduction on the normal tax, if applicable. Therefore, when the amount on this line 17 is transferred to the Line 14, Part 3 of the return, the adjustments have been considered, so line 15 will be zero and lines 16 and 17 will be the same as line 14. In the same way, on the Schedule CO Individual, Part III, line 2 will be zero and lines 3 and 4 will be equal to line 1.

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

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

Remember that from taxable year 2019, all return must be filed electronically. All the evidence that is required to include with the return to support any credit claimed in Part II of this Schedule must be filed through SURI.

**PART I - RECAPTURE OF CREDITS CLAIMED IN EXCESS**

You must indicate in Columns A, B and C the name and employer identification number of the entity to which the investment credit claimed in excess belongs to. Also, you must select the oval that identifies the act under which the investment or donation was made.

Enter the credit claimed in excess in previous years as a result of the intervention of the Secretary or Director of the Agency or Department, or the Board that regulates each of the following acts: Puerto Rico Tourism Development Act (Act 78-1993, as amended), Solid Waste Authority Act (Act No. 70 of June 23, 1978, as amended), Capital Investment Funds Act (Act No. 3 of October 6, 1987, as amended), Act for the Creation of the Theatrical District of Santurce (Act 178-2000, as amended), Act for the Development of the Film Industry (Act 362-1999, as amended), Puerto Rico Film Industry Economic Incentives Act (Act 27-2011, as amended), Act for Tax Credits for Investment in Housing Infrastructure (Act 98-2001, as amended), Act for Tax Credits for Investment in the Construction or Rehabilitation of Rental Housing Projects for Low or Moderate Income Families (Act 140-2001, as amended), Economic Incentives for the Development of Puerto Rico Act (Act 73-2008) and Conservation Easement Act (Act 183-2001, as amended).

The total investment carried out by the exempt business in the project is subject to the revision of the Secretary or Director of each Agency or Department, or the Special Work Board (Board) in case of the Theatrical District of Santurce. If the investment credit claimed by the investors exceeds the investment credit computed by the Secretary, the Director or the Board, this excess shall be due as income tax. 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 unfulfillment or revocation of the credits is determined or any other date provided by law. The Director, the Secretaries or the Board will notify the Secretary of the Treasury the excess of credit claimed by the investors.

**The provisions of the recapture of credit mentioned before will not apply to the participants or investors that are not developers in a project under the Puerto Rico Tourism Development Act and the Puerto Rico Solid Waste Authority Act.**

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

In the case of condo hotels, the operator of the integrated rental program should send an annual report to the Director and the Secretary identifying the units participating in the integrated rental program. Such report must indicate the aforementioned program beginning dates with respect to the participating units, as well as the date or dates in which one or more units were withdrawn from the program.

In case of Act 178-2000 (theatrical business), Act 140-2001 (rental housing), and Section 6 of Act 73-2008 (business closing operations), if any unit or business is withdrawn from the program, ceases its operations or does not comply with any of the requirements provided by the corresponding law before the expiration of the 10 year period or other period provided by law, the investor will owe as income tax an amount to be computed as provided by law or as follows, as applicable:

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

In case of owners of a levied property or donors of a conservation easement, in case of an eligible land, they shall be subject to the recapture of the tax credits granted, in the event that the obligations included in the constitution deed of the conservation easement or donation of an eligible land are not fulfilled, as applicable, but only in those cases in which it is impossible to return the land to its original condition. These dispositions will also apply when the perpetuity requirement is not fulfilled by the owners and the titular of the easement.

The income tax amount owed must be paid in one or two installments, whichever applies, beginning with the first taxable year following the date of the withdrawal of the unit, the first taxable year following the cease of operations or any other date provided by law.

**Line 1** - Enter the total excess of credit notified by the Director, the Secretary or the Board, or in case of condohotels, theatrical business, business closing operations or rental housing projects for low income families, the total of income tax debt according to the formula previously mentioned or as established by law.

**Line 3** - Multiply line 1 by 50% and enter the result here. Transfer the result to Part 3, line 24 of the return. In case that you had paid part of the recapture of excess of credit in the previous year, enter the difference owed.

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

**PART II - TAX CREDITS**

On March 7, 2017, the Financial Advisory Authority and Fiscal Agency of Puerto Rico ("AAFAF", for its Spanish acronym) issued Administrative Order No. OA-2017-01 ("OA-2017-01") by which it created the Disbursements and Tax Concessions Authorization Committee ("CADCC", for its Spanish acronym) to which it granted certain authorizations regarding the evaluation and granting of tax credits and delegated the responsibility of establishing limitations regarding the use and availability of the tax credits granted. Also, OA-2017-01 ordered the Secretary of Treasury ("Secretary") to carry out an inventory of the tax credits granted and to require the holders of tax credits to report the amount granted of said credits, in the manner that the Secretary establishes for said purposes. The administrative order also establishes that, any credit holder that does not show evidence issued by the Secretary of compliance with the information requirement, will not be able to claim said tax credits.

For such purposes, on April 20, 2017, the Department of the Treasury issued the Internal Revenue Informative Bulletin No. 17-08 to notify that the requirement to carry out the inventory of tax credits would be met by electronically filing Form 480.71.1 (Informative Return for Tax Credits Holders) and established that the requirement imposed by AAFAF to submit evidence of compliance with the information requirement in order to claim the tax credits, would be met by electronically filing Form 480.71.1. Therefore, in order to claim a tax credit that has been granted and available as of April 19, 2017, it must be included in Form 480.71.1 that the credit holder submitted to the Department.

For its part, on July 2, 2018, AAFAF, through Administrative Order No. OA-2018-10 ("OA-2018-10"), repealed the OA-2017-01 and left the CADCC without effect prospectively. For such purposes, Section 1051.15(b)(1) of the Code provides that for taxable years commenced after December 31, 2017, the tax credits will not be subject to the limitations set forth in the





resolutions issued by the CADCC during its existence, therefore, they will be subject only to the rules of use established in the special law under which the tax credit is granted and the applicable provisions of the Code. However, credits covered under Section 1051.12(a)(4), (5) and (7) of the Code will be subject to the use limitation provided in Section 1051.13 of the Code.

However, OA-2018-10 establishes that the Secretary will continue to perform and maintain the inventory of all tax credits and maintains the requirement of the OA-2017-01 that the credit holder must show evidence issued by the Secretary of the compliance with the information requirement to be able to claim a tax credit.

**In order to claim a tax credit granted and available as of April 19, 2017 on lines 1, 2, 3, 4, 5, 12, 14, 15 and 19 in this Part II, you must submit with your return copy of Form 480.71.1 duly filed with the Department. The form must be filed through SURI.**

Credits claimed but not used in previous years should be reported on lines 7 and 22 of this Part II. Lines 1 through 6, 8, 12 through 21 and 23 of this Part II should only be used to claim credits generated or acquired during the current taxable year.

#### **A. Credits Subject to Moratorium:**

**Line 1** - Enter the amount determined on Schedule Q. You must submit Schedules Q and Q1 to claim this credit, as well as other forms that indicate the credit earned for the investment in the different capital investment funds or direct investments.

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

**Line 2** - Enter the amount of the credit to be claimed for investment in housing infrastructure recommended by the designated officials of the Department of Housing and the Department.

Act 98-2001, as amended, provides a tax credit for investment in infrastructure to developers of housing projects. This credit is 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 copy of the Administrative Determination issued by the Department.

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

**Line 3** - Enter the amount of credit for investment in construction or rehabilitation of rental housing projects for low or moderate income families; or for investment in the acquisition, construction or rehabilitation of affordable rental housing to the elderly.

Act 140-2001, as amended, establishes that any owner of a rental housing project for low or moderate income families or of affordable rental housing to the elderly may qualify for a tax credit. The petitioner must file an application with the Housing Financing Authority.

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

**Line 4** - 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 include with the return copy of the Administrative Determination issued by the Department.

The taxpayer must include with the return for 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 in which it has been claimed, the expiration date of the credit, total amount of the credit, and the amounts claimed in previous years.

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

**Line 5** - Enter the amount of credit for the establishment and donation of a conservation easement. The concession of the credit is subject to the taxpayer's request and the approval by the Secretary of an administrative determination. You must include with the return copy of the Administrative Determination issued by the Department.

The taxpayer must also include with the return for 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 in which the tax credit has been claimed, the expiration date of the credit, the total amount of the credit, and the amounts claimed in previous years.

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

**Line 6** - Enter here the tax credit acquired by the investor during the year through the purchase, exchange or transfer included in the list of credits subject to moratorium under Sections 1051.11 and 1051.12 of the Code, including the amount of this type of credit acquired by a pass-through entity through the purchase, exchange or transfer and that has been attributed, transferred or distributed to the partners, members or stockholders.

See instructions of Schedule Q in order to know the percentages and limitations to claim on the return.

To claim this credit, the conveyor and the cessionary will submit with the income tax return in the year of the cession, a sworn statement notifying the same to the Secretary. Such sworn statement will also be submitted by the cessionary with the return for every year in which the credit is claimed, together with supporting documents for the credit, for example, the Administrative Determination issued by the Department granting the credit and the schedule detailing the year in which the credit is available to be used, the taxable years in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

**Complete Part IV of this Schedule.**

**Line 7** - The taxpayer must include on this line the total amount of carry forward credits determined on line 32, Part II of Schedule B Individual of the income tax return filed for the previous year subject to moratorium under sections 1051.11 and 1051.12 of the code. The taxpayer must include with the return a breakdown including the taxable year in which the credit is

available to be used, the amount of credit generated per taxable year, the amount of carry forward credit per taxable year used in previous taxable years, the taxable year in which any balance of such credit was claimed, and the balance of credit available for the current taxable year.

You must submit evidence of the credit that is being claimed, for example, the Administrative Determination issued by the Department granting the credit.

**Line 8** - Enter the amount of other tax credits subject to moratorium not included on the preceding lines.

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

#### **B. Credits not Subject to Moratorium:**

**Line 12** - Enter the amount of credit for tourism investment. Every investor may claim a credit for tourism investment equal to 50% of its eligible investment. 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 years.

To claim this credit you must include with your return Schedules Q and Q1 duly completed.

You must submit with the return copy of the notification by sworn statement issued by said agency, where the distribution of the credit is informed. You must also include copy of the Certification issued by the pertinent agencies.

**Line 13** - Enter the tax withheld on dividends from Industrial Development income under Act No. 8 of January 24, 1987 (Act 8 of 1987) and/or 30% of your proportional share in the fixed tax rate on Industrial Development income paid by the exempt business under Act 135-1997.

You must select the oval that identifies the act or acts under which your investment was made, and with respect to dividends under Act 8 of 1987, provide the required information of Box 7, Form 480.6B with the return.

**Line 14** - Enter the amount of the credit to be claimed for the investment in a Film Entity engaged in a Film Project and/or Infrastructure Project under Act 27-2011.

The concession of this credit is subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination under Act 27-2011 and its regulations. You must include with the return copy of the certification issued by the Puerto Rico Film Corporation, which is ascribed to the Department of Economic Development of Puerto Rico.

For additional details, refer to Act 27-2011.

**Line 15** - Enter the amount of credit to claim for the purchase or transmission of television programming made in Puerto Rico. Every investor may claim up to 15% of the expenses paid by the television channel in the taxable year in which the credit is claimed.

The taxpayer must manage the annual compliance certification that will be issued by the Department of Economic Development through the Interagency Validation Portal for the Granting of Incentives for the Economic Development of Puerto Rico.

For additional details, refer to Section 1051.14 of the Code.

**Line 16** - 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 instead of the deduction for charitable contributions provided on Schedule A Individual.**

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

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

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

**Line 18** - Enter 100% of contributions made to the Santa Catalina's Palace Patronage or to the Patronage of the State Capitol of the Legislative Assembly (Patronages). The tax credits to be granted cannot exceed \$2,500,000 for any taxable year.

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

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

**Line 19** - Enter the amount of credit to be claimed for industrial investment under Section 6 of Act 73-2008. This amount must be equal to 50% of the eligible investment to be claimed in two or more installments: the first half in the year in which the eligible investment is completed and the balance in the subsequent years. The 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. The Secretary of the Treasury will authorize investment credits claimed by investors, up to the limit of \$20,000,000 per fiscal year.

The taxpayer must include with the return copy of the Administrative Determination issued by the Department granting the credit.

The taxpayer must also include with the return for 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 in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

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

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

**Line 20** - Enter the amount of credit to be claimed for eligible investment in opportunity zone. The credit will be equal to the eligible percentage of your eligible investment and may be taken as indicated below:

- **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 general information bulletin 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 that taxable year, as long as it meets all the requirements.

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

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

The taxpayer must include with his return copy of the Administrative Determination issued by the Department of Economic Development and Commerce granting said credit.

The taxpayer must also 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 in which it has been claimed, its expiration date, the total amount of the credit and the amounts claimed in previous years.

For additional details, refer to Act 60-2019.

**Line 21** - Enter here the tax credit acquired by the investor during the year through the purchase, exchange or transfer that are not included in the list of credits subject to moratorium under Sections 1051.11 and 1051.12 of the Code, including the amount of this type of credit acquired by a pass-through entity through the purchase, exchange or transfer and that has been attributed, transferred or distributed to the partners, members or stockholders.

See instructions of Schedule Q in order to know the percentages and limitations to claim on the return.

To claim this credit, the conveyor and the cessionary will submit with the income tax return in the year of the cession, a sworn statement notifying the same to the Secretary. Such sworn statement will be also submitted by the cessionary with the return for every year in which the credit is claimed, together with supporting documents for the credit, for example, the Administrative Determination issued by the Department granting the credit and the schedule detailing the year in which the credit is available to be used, the taxable years in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

#### **Complete Part IV of this Schedule.**

**Line 22** - The taxpayer must include on this line the total amount of carry forward credits determined on line 32, Part II of Schedule B Individual of the income tax return filed for the previous year not subject to moratorium under Section 1051.11 and 1051.12 of the Code. The taxpayer must include with the return a breakdown including the taxable year in which the credit is available to be used, the amount of credit generated per taxable year, the amount of carry forward credit per taxable year used in previous taxable years, the taxable year in which any balance of such credit was claimed, and the balance of credit available for the current taxable year.

You must submit evidence of the credit that is being claimed, for example, the Administrative Determination issued by the Department granting the credit.

**Line 23** - Enter the amount of other tax credits not subject to moratorium that were not included on the preceding lines.

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

**PART III - OTHER PAYMENTS AND WITHHOLDINGS**

**Line 1** - Enter the estimated tax paid for the taxable year. These payments must be broken down on Schedule T Individual, Part II, line 9. **For more information about estimated tax, refer to the INSTRUCTIONS (OBLIGATION TO PAY ESTIMATED TAX).**

**Line 2** - Enter the amount of tax overpaid according to the previous year return that you requested to credit to the estimated tax for the current year. Amounts already included on line 1 should not be included on this line.

**Line 3** - In case you are filing an amended return, enter on this line the amount paid to cover the tax determined in the original return, that has been included with the return at the time of its filing or that was paid later.

**Line 4** - Enter on lines 4(a), 4(b) and 4(c) the tax withheld, as reported in Boxes 6, 7 and 9, respectively, of the Informative Return - Payments to Nonresidents or for Services from Sources Outside of Puerto Rico (Form 480.6C). Provide the required information of Form 480.6C. Enter on line 4(d) any other withholding reported on Form 480.6C for which a specific line is not provided on this line 4.

**Line 5** - Enter the tax withheld reported in Box 11 of the Informative Return - Individual Retirement Account (Form 480.7). Provide the required information of Form 480.7.

**Line 6** - Enter on lines 6(a), 6(b) and 6(c) the amount reported on the Informative Return - Other Income Subject to Withholding (Form 480.6B), Boxes 5 and 6, Column of Amount Withheld; Informative Return - Individual Retirement Account (Form 480.7), Box 7 or Informative Return - Educational Contribution Account (Form 480.7B), Box 6. Provide the required information of Form 480.6B, Form 480.7 or Form 480.7B, as applicable.

**Line 7** - Enter the amount reported on Form 480.6B, Boxes 2 and 8, Column of Amount Withheld. Provide the required information of Form 480.6B.

**Line 8** - Enter the amount reported on Form 480.6B, Box 3, Column of Amount Withheld. Provide the required information of Form 480.6B.

**Line 9** - Enter the tax withheld reported in Box 3 of Informative Return - Services Rendered (Form 480.6SP). Provide the required information of this form with the return. Enter in the space provided, the amount of informative returns included with the return for this concept.

**Line 10** - Enter the tax withheld reported in Box 1 of Form 480.6B. Provide the required information of this form with the return.

**Line 11** - Enter the tax withheld at source on your distributable share in pass-through entities (corporations of individuals, partnerships and special partnerships), as reported in Part III of the Informative Return - Pass-Through Entity (Form 480.60 EC).

Enter on line 11(a) the amount reported on lines 10, 12 and 13, Part III of Form 480.60 EC; on line 11(b) the amount reported on lines 8 and 9, Part III of Form 480.60 EC; on line 11(c) the amount reported on line 5, Part III of Form 480.60 EC; on line 11(d) the amount reported on line 6, Part III of Form 480.60 EC; on line 11(e) the amount reported on line 7, Part III of Form 480.60 EC; and on line 11(f) the amount reported in any other line, Part III of Form 480.60 EC for which a specific line is not provided on this line 11. Provide the required information of this form with the return.

**Line 12** - Enter the tax withheld reported in Part III of the Informative Return - Revocable Trusts or Grantor Trusts (Form 480.60 F).

Enter on line 12(a) the amount reported on lines 1(E), 1(F) and 1(G), Part III of Form 480.60 F; on line 12(b) the amount reported on lines 1(I) and 1(J), Part III of Form 480.60 F; on line 12(c) the amount reported on line 1(A), Part III of Form 480.60 F; and on line 12(d) the amount reported in any other line, Part III of Form 480.60 F for which a specific line is not provided on this line 12. Provide the required information of this form with the return.

**Line 13** - Enter the tax withheld reported in Part V of the Informative Return - Employees-Owned Special Corporation (Form 480.6 CPT). Provide the required information of this form with the return.

**Line 14** - Enter the 10% tax withheld on distributions from IRA or Educational Contribution Accounts of income from sources within Puerto Rico, as reported in Box 8 of Form 480.7 and Box 7 of Form 480.7B.

**Line 15** - Enter the 10% tax withheld on IRA distributions to Government pensioners, as reported in Box 9 of Form 480.7.

**Line 16** - Enter the withholding reported on the Informative Return - Retirement Plans and Annuities (Form 480.7C) on total or partial distributions from deferred compensation plans (non-qualified). For additional details, refer to the instructions of Schedule F Individual, Part III.

**Line 17** - Enter the 20% or 10% withholding, as applicable, on the total distributions from qualified retirement plans received within a single taxable year due to separation from service or termination of the plan which are reported in Boxes 6 and 7 of Form 480.7C. For more details, refer to the instructions of Schedule D Individual, Part IV.

Also, enter the 10% withholding on other distributions that are not total or loans to the participant, such as withdrawals made before the separation from service or partial distributions made after separation from service reported in Box 9 of Form 480.7C. For details, refer to the instructions of Schedule F Individual, Part IV.

Include the required information of Form 480.7C.

**Line 18** - Enter the tax withheld under Section 1081.01(b)(3)(B) of the Code on distributions from pension plans in the form of an annuity or periodic payments, informed in Box 5 of Form 480.7C. You must provide the required information of this form with the return.

**Line 19** - Enter the 10% tax withheld on lump-sum distributions, in excess of your contributions, from Governmental Plans or from the transfer of such funds to a non deductible IRA, as included in Box 13 of Form 480.7C. You must provide the required information of Form 480.7C.

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

**Line 20** - Enter on this line the 20% tax withheld on income from international associations or federations of sport's teams, as reported in Box 4 of Form 480.6B and Box 3 of Form 480.6C. You must provide the required information of Forms 480.6B and 480.6C.

**Line 21** - Enter the total of other payments and withholdings not included on the preceding lines. Group, as it corresponds, those reported in an Informative Return, those that are not

reported in an Informative Return and the income tax withheld on Distributions for reason of a disaster declared by the Governor of Puerto Rico.

Provide on line 21(a) the required information of the corresponding Informative Return (Ex. Form 480.6B). On the other hand, if line 21(b) includes payments and 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. Enter on line 21(c) the 10% tax withheld, as included on Schedule F Individual, Part VI, line 6(c) (Forms 480.7 and 480.7C).

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

#### **PART IV – BREAKDOWN OF THE PURCHASE OF TAX CREDITS**

Select the oval corresponding to the act (or acts) under which you acquired the tax credit. Enter in the space provided the amount of the tax credit available for the taxable year.

The limitation related to the credits that are subject to moratorium will be made on the total credits subject to moratorium that are included on line 9 of Part II of this Schedule, and not on each credit that is included in this part.

In order to claim any of the credits included in this part, the taxpayer must include with his/her return a sworn statement notifying to the Secretary the purchase or transfer of the credit.

In addition, you must submit evidence of the credits that you are claiming, for example, the Administrative Determination issued by the Department to the investor granting the credit and the schedule detailing the year in which the credit is available to be used, taxable years in which the credit has been claimed, its expiration date, the total amount of the credit and the amounts claimed in previous years.

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

Use this Schedule to determine the credit by deductible proportion from taxes paid to foreign countries, the United States, its states, territories, and possessions. You must indicate if Schedule C Individual is being used to compute the credit that will be claimed as part of: (1) Regular tax; (2) Alternate basic tax (Schedule O Individual); or (3) Optional tax (Schedule X Individual).

Remember that from taxable year 2019 onwards, all return that includes a Schedule C Individual will be filed electronically. All the evidence that is required to be included with the return to support the payment of any tax paid that is being claimed as credit in Part II of this Schedule must be filed through SURI.

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

- 1) Paid or accrued income tax in one or more of such jurisdictions.
- 2) Included in your Puerto Rico income tax return the taxable income from one or more of such jurisdictions.
- 3) Include with your return evidence of the tax paid (copy of cancelled or substitute checks and copy of the return filed

to the IRS or any eligible jurisdiction). If the payment receipt or tax return is in a foreign language, you must submit with your return a certified translation of it.

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

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

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

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

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

##### **Taxable Gross Income**

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

##### **Sources of Income**

As a general rule, the source of income is determined as follows:

- (1) Interests and dividends - It is determined by the payer's residence or place of incorporation.
- (2) Payments for personal services - It is determined by the place where the services are rendered.
- (3) Rents and royalties - It is determined by the place where the property is located or by the place of use, or of the privilege of using patents, copyrights, trademarks, goodwill and other similar property.
- (4) Profit on the sale of inventory - If the property sold was acquired by purchase from unrelated individuals, it is determined based on where you transfer the title of the goods; to determine the source of income from the sale of

inventory produced by the seller, or acquired by purchase from related persons, see Sections 1035.04 and 1035.05 of the Code.

- (5) Profit on the sale of personal property that is not inventory- It is determined based on the residence of the seller; certain exceptions apply in the case of depreciable and intangible property, as well as sales through offices or other places of business outside of Puerto Rico.
- (6) Profit on the sale of real property - It is determined by the place where such property is located.

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

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

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

Include on line 2(c)(iii) the proportional part of any other expense, loss or other deduction that cannot be assigned or related to any item of the total income on line 1(i).

The expenses or deductions to be included on line 2(c)(iv) **DO NOT** include losses accrued from sources in Puerto Rico, nor expenses or deductions directly related to income from sources in Puerto Rico or items excluded from income or exempt from income tax under the Code or special laws.

Include on line 2(c)(v) the taxpayer's taxable gross income from all sources, including sources in Puerto Rico. Enter on this line the result of the sum of the amounts included on lines 1B, 1C, 2A, 2B, 2E, 2F, 2H, 2I, 2J, 2L, 2M, 2N and 2O of Part 1, page 2 of the return; **PLUS:** the amounts included in the (Total \$ \_\_\_\_\_) row on lines 2C, 2D, 2G, 2K, 2P, 2Q, 2R, 2S and 2T of Part 1, page 2 of the return; **PLUS:** the exempt income amount that results from subtracting lines 2D, 31B through 31F, and 37 through 42 from line 43, first Column, of Part II of Schedules IE Individual that are included with the return.

Under the Optional Computation, the gross income shall be determined for the taxpayer or spouse, entering on this line 50% (among taxpayer and spouse) of the result of the sum of the amounts included on lines 1, 2, 3A, 3B, 3E, 3F, 3H, 3I, 3J, 3L, 3M, 3N and 3O, Part I of Schedule CO Individual; **PLUS:** the amounts included in the (Total \$ \_\_\_\_\_) row of lines 3C, 3D, 3G, 3K, 3P, 3Q, 3R, 3S and 3T, of Part I, Schedule CO Individual; **PLUS:** the exempt income amount that results from subtracting lines 2D, 31B through 31F, and 37 through 42 from line 43, first Column, of Part II of Schedules IE Individual that are included with the return.

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

Indicate the date of payment, the total tax paid or accrued in each jurisdiction and the type of form in which such tax is reported. This shall be the form that the taxpayer must submit through SURJ as evidence of the credit that is claimed. If the tax was paid or accrued in a foreign currency, you must convert such amount to U.S. dollars at the date of the payment. You must keep for your records a schedule indicating the currency exchange to U.S. dollars.

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

## PART III - REDUCTION IN CREDIT FOR TAX PAID OR ACCRUED

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

**Line 1** - Include on this line that portion of the net income reported to the foreign country that was subject to income tax in that country and that is part of the tax claimed in Part II but is NOT subject to income tax in Puerto Rico.

**Line 2** - Include on this line the total net income reported and subject to income tax in the foreign country for which the income tax reported in Part II of this Schedule was determined.

## PART IV - DETERMINATION OF CREDIT

**Line 2** - Include on this line the net income subject to tax determined on line 13, Part 2 of the return. If you have income subject to preferential rates, enter the amount that results from adding Columns A to H, line 11 of Schedule A2 Individual.

Under the Optional Computation, enter the amount determined on line 11, Part II, Column B or C of the Schedule CO Individual, as applicable.

**Line 4** - Enter the amount of line 17, Part 3, page 2 of the return; Part III line 4, Column B or C, as applicable, of Schedule CO Individual, or Part II, line 4 of Schedule X Individual.

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

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

Transfer the total credit determined on line 6(c) to Part 3, line 18 of the return or Part III, line 5, Column B or C of Schedule CO Individual; or Part II, line 5 of Schedule X Individual, as applicable.

### Alternate Basic Tax

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

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

Shall be determined the gross income subject to tax from all sources, including from sources in Puerto Rico. Enter on this line the result of the sum of the amounts included on

lines 1B, 1C, 2A, 2B, 2E, 2F, 2H, 2I, 2J, 2L, 2M, 2N and 2O of Part 1 from page 2 of the return; **PLUS:** the amounts included in the (Total \$ \_\_\_\_\_) row of lines 2C, 2D, 2G, 2K, 2P, 2Q, 2R, 2S and 2T from Part 1, page 2 of the return; **PLUS:** the exempt income item that results from subtracting lines 2D, 31B through 31F, and 37 through 42 from the line 43, second Column, of Part II of Schedules IE Individual that are included with the return.

Under the Optional Computation, the gross income shall be determined for the taxpayer or spouse, writing on this line 50% (among taxpayer and spouse) of the result of the sum of the amounts included on lines 1, 2, 3A, 3B, 3E, 3F, 3H, 3I, 3J, 3L, 3M, 3N and 3O of Part I of Schedule CO Individual; **PLUS:** the amounts included in the (Total \$ \_\_\_\_\_) row of lines 3C, 3D, 3G, 3K, 3P, 3Q, 3R, 3S and 3T of Part I, Schedule CO Individual; **PLUS:** the exempt income item that results from subtracting lines 2D, 31B through 31F, and 37 through 42 from the line 43, second Column, of Part II of Schedules IE Individual that are included with the return.

- Part IV, line 2 of Schedule C Individual - replace by line 18 of Part I of Schedule O Individual.
- Part IV, line 4 of Schedule C Individual - replace by line 4 of Part II of Schedule O Individual.

Determine the amount of the credit in Part IV of Schedule C Individual recalculated with the previous adjustments, enter the same on line 5, Part II of Schedule O Individual and select the oval at the top identifying that Schedule C Individual was recomputed for purposes of the alternate basic tax. Include with your return both Schedules C Individual, calculated for the regular tax and recalculated for the alternate basic tax.

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

Married taxpayers who choose the Optional Computation of Tax (Schedule CO Individual) in which either or both have paid or accrued income tax in one or more jurisdictions outside of Puerto Rico and has been included on the Puerto Rico return as taxable income from that jurisdiction, will determine the Credit for Taxes Paid to Foreign Countries, the United States, its States, Territories and Possessions individually. Each spouse will complete a Schedule C Individual identifying it at the top, as applicable. Enter the amount determined on Schedule CO Individual, Part III, line 5, Column B or C, as applicable. Include with your return both Schedules C Individual, for the taxpayer and spouse.

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

Under the Optional Computation, the gross income shall be determined on line 2(c)(v) for the taxpayer or spouse, writing on this line 50% (among taxpayer and spouse) of the result of the sum of the amounts included on lines 1, 2, 3A, 3B, 3E, 3F, 3H, 3I, 3J, 3L, 3M, 3N and 3O Part I, Schedule CO Individual; **PLUS:** the amounts included in the (Total \$ \_\_\_\_\_) row of lines 3C, 3D, 3G, 3K, 3P, 3Q, 3R, 3S and 3T, Part I of Schedule CO Individual; **PLUS:** the exempt income item that results from subtracting lines 2D, 31B through 31F, and 37 through 42 from line 43, second Column, of Part II of Schedules IE Individual that are included with the return.

#### **PART V - DETERMINATION OF CREDIT ATTRIBUTABLE TO LONG-TERM CAPITAL GAIN OF RESIDENT INDIVIDUAL INVESTORS**

Those taxpayers who have indicated in question E from the Questionnaire on page 1 of the return that are resident individuals investors and have determined a taxable gain in Column E, Part III of Schedule F1 Individual related to the period prior to establishing residence in Puerto Rico, may claim a credit for tax paid to foreign countries for such gains.

**Line 1(a)** - Include on this line the total gain determined in Column E, Part III of Schedule F1 Individual.

**Line 2** - Include the amount of tax paid to the foreign country attributable to capital gains included on line 1(a). You must indicate the type of form in which the tax is reported. This will be the form that the taxpayer will submit through SURI as evidence of the credit to be claimed.

The amount determined on line 4 of this Part V is will be added to any credit determined on line 6(c), Part IV of this Schedule C Individual and will be transferred to Part 3, line 18 of the return or to Part III, line 5 of Schedule CO Individual.

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

In the case of minor children from divorced or separated parents, the exemption for dependents will be claimed by the parent with the right to the custody or will be divided in half between the parents that have joint custody. In the case of joint custody, you should select the oval provided for this purpose.

However, a minor child will be considered to have received more than half of his/her support during a calendar year from the parent who does not have the right to custody or shared custody if:

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

You may agree to release your claim to the child's exemption, including those with joint custody, for the current taxable year if you complete and sign this Schedule and provide it to the parent that will claim the exemption for such dependents. **The parent that does not have the right to custody or that only has joint custody must keep this Schedule for his/her records for the taxable year in which the exemption was released, so that he/she may claim the total exemption.**

#### **SCHEDULE CO INDIVIDUAL - OPTIONAL COMPUTATION OF TAX**

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

If you choose this computation, **do not complete Part 1 and 2, or lines 14 through 21 of Part 3 located on page 2 of the return.**

If the taxpayer or spouse choose the optional tax provided under Section 1021.06 of the Code for individuals who are engaged in self-employed trade or business, fill in the

corresponding oval in Part I, Columns B and C of this schedule. In this case, the spouse who chooses to pay this tax will report his or her income on lines 1, 2, 3A through 3T of Part I, as applicable, will not complete Part III of the corresponding column of Schedule CO Individual, and will complete Schedule X Individual to determine the tax liability. Once the optional tax is determined on Schedule X Individual, the spouse who made the election will transfer the amount determined to Part 3, line 23 of the return. On the other hand, the spouse who did not make the election will complete the rest of the Schedule CO Individual to determine the tax individually.

The following instructions detail how the income, deductions, personal exemption, exemption for dependents and additional personal exemption for veterans will be attributed to each spouse.

## PART I - DETERMINATION OF INDIVIDUALLY ADJUSTED GROSS INCOME

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

This type of income will be attributed as it was earned by each spouse individually.

**Total withholding statements with this schedule:** Enter in the first block the amount of every Withholding Statements (Form 499R-2/W-2PR) received during the taxable year whose information is included with the return (Do NOT include withholding statements with salaries paid under a qualified physician decree under Act 14-2017, as amended).

In Column A, enter the total of income tax withheld by each one of the employers for both the taxpayer and the spouse. If there is no tax withheld, enter zero.

Enter in Column B, the wages attributable to the taxpayer and in Column C the wages attributable to the spouse.

**Total withholding statements with this schedule under a qualified physician decree:** If you or your spouse receive salaries as a qualified physician who have a decree in force under the Incentives for the Retention and Return of Medical Professionals Act (Act 14-2017, as amended) be sure that your employer has checked in Form 499R-2/W-2PR that the compensation includes payments for this concept.

Enter in the first block the amount of withholding statements whose information is included with the return, followed by the income tax withheld in Column A and salaries paid in Columns B and C, as it corresponds, to the taxpayer and spouse.

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

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

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

### Line 2 - Wages Reported in a Federal W-2 Form

This type of income will be attributed as earned by each spouse individually.

Enter in Columns B and C, as it corresponds to the taxpayer and his/her spouse, the total Federal Government income from

salaries and wages received, excluding the Cost of Living Allowance (COLA). To determine if you qualify for this exclusion, refer to RELEVANT FACTS – FEDERAL EMPLOYEES.

You can also refer to the Informative Booklet to Provide Guidance on the Income Tax Responsibilities of Federal, Military and Other Employees.

Enter the amount received from COLA on line 11, Part II of Schedule IE Individual.

**Total W-2 with this schedule:** Enter in the first block the amount of Federal Withholding Statements (W-2 Forms) received by the taxpayer and spouse during the taxable year whose information is included with the return (Do NOT include W-2 Forms with salaries paid under a qualified physician decree under Act 14-2017, as amended).

Enter in the box identified as Exempt Wages under Sec. 1031.02(a)(36) of the Code the amount received from Federal Government salaries, up to a maximum of \$40,000, if you are a young individual whose age fluctuates between 16 and 26 years at the end of the taxable year.

In the case that the taxpayer and spouse qualify for this exemption, each one may exclude up to a maximum of \$40,000 from salaries paid by the Federal Government. The exempt income determined for each one of the spouses under Section 1031.02(a)(36) of the Code, must be added and included in the provided box. Transfer the exempt amount to line 31A, Part II of Schedule IE Individual of each spouse.

In Column A, enter the total income tax withheld for Puerto Rico reported on the W-2 Form. If there is no tax withheld, enter zero.

In Columns B and C, enter all wages from the Federal Government taxable in Puerto Rico, received by the taxpayer and spouse, as applicable.

**Total W-2 with this schedule under a qualified physician decree:** If you receive salaries as a qualified physician who have a grant in force under the Incentives for the Retention and Return of Medical Professionals Act (Act 14-2017, as amended), enter in the first block the amount of W-2 Forms and in the second block the Exempt Wages under Section 1031.02(a)(36) of the Code, follow by the income tax withheld for Puerto Rico in Column A and salaries paid in Columns B and C, as applicable.

**Make sure to include with your return the required information of all the W-2 Forms. You must keep for your records copy of the form in case it is eventually requested by the Department.**

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

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

**The following income will be attributed to each spouse as they were earned individually:** distributable share on profits from partnerships, special partnerships and corporations of individuals (pass-through entities), distributions from governmental plans, distributions from Individual Retirement Accounts and Educational Contribution Accounts, income from annuities and pensions, alimony received, gain or loss from



industry or business, farming, professions and commissions, lump-sum distributions from qualified plans and income from salaries, wages, compensation or public shows received by a nonresident individual.

The following concepts of miscellaneous income will be attributed also as they correspond to each spouse **individually**: income from discharge of debts and for the use of intangibles, judicial or extrajudicial indemnification, income from sport teams of international associations or federations, distributions from deferred compensation plans, distributions from qualified retirement plans (partial or lump-sum not due to separation from service), and Distributions due to a disaster declared by the Governor of Puerto Rico.

On the other hand, the income from interests, dividends from corporations, income from prizes and contests, miscellaneous income (except those indicated in the preceding paragraph), dividends from Capital Investment or Tourism Fund, gain or loss from rental business, gain or loss from sale or exchange of capital assets, and net long-term capital gain on Investment Funds, **will be attributed to each spouse on a 50% basis of the total amount.**

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

For additional information, including the tax treatment of losses, see instructions of Part 1 of the return.

#### Line 5 - Alimony Paid

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

For information regarding the requirements that the alimony payment must comply with, refer to instructions of Part 1, line 4 of the return.

### PART II - DETERMINATION OF NET TAXABLE INCOME

#### Line 1 – Deductions Allocated in Half (50%) of the Total

For taxpayers that choose the optional computation of tax, the following deductions will be attributed 50% to each spouse: mortgage interests, casualty loss on your principal residence, medical expenses, charitable contributions, and loss of personal property due to certain fortuitous causes. Therefore, once the total of this deductions is determined in Part I, line 6 of Schedule A Individual, enter 50% of said amount in Columns B and C of this line 1.

For detailed information of the deductions to be claimed on this line refer to the instructions of Schedule A Individual, Part I, lines 1 through 5.

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

Nevertheless, if you claim a deduction for mortgage interests on the principal residence informed on Form 1098, you must include the required information of said form with your return. Also, on line 1(e) of Schedule A Individual you must select the oval 2 corresponding to Form 1098 and other. In case of taxpayers that comply with the requirements established on Section 1033.15(a)(1)(F) of the Code, must select the oval 1 of line 1(e) and include the requested information.

#### Line 2 – Deductions Individually Allocated

For taxpayers that choose the optional computation of tax, the following deductions will be claimed individually by the spouse to whom they correspond: contributions to individual retirement accounts, educational contribution accounts and my future accounts as well as interest paid on student loans at university level, up to the limits and subject to the provisions of the Code. Therefore, enter in Columns B and C the amount determined in Part I, line 10, Columns A and B of Schedule A Individual, as applicable to the taxpayer and to the spouse.

For detailed information of the deductions to be claimed on this line, refer to the instructions of Schedule A Individual, Part I, lines 7 through 9.

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

#### Line 5 – Personal Exemption

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

#### Line 6 - Exemption for Dependents

Enter in the spaces provided on lines 6A and 6B, the number of dependents claimed according to their category. Enter on line 6A the dependents for whom the exemption is claimed completely (\$2,500 per dependent), and on line 6B those for whom only half of the exemption is claimed under the special rule of parents with joint custody (\$1,250 per dependent).

Multiply the amount of dependents claimed on each line by \$2,500 or \$1,250, as applicable. Add lines 6A and 6B and indicate the total on line 6C. Enter in each of Columns B and C of line 6D 50% of line 6C. It is necessary that you detail the information of the dependents that you claim on Schedule A1 Individual. For additional information, see instructions of **Schedule A1 Individual.**

#### Line 7 – Additional Personal Exemption for Veterans

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

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

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

#### Line 10 – Allowable deduction for Private Equity investment

In the case of individuals that, pursuant to Act 185-2014, as amended, or Act 60-2019 are considered as accredited investors, they may claim a deduction for their initial investment in a private equity fund (PEF) or in a Puerto Rico private equity

fund (PEF-PR). For detailed information regarding this deduction, refer to the instructions of Part 2, line 12 of the return. Complete the following worksheet and submit it with your return:

<b>Determination of the Deduction:</b>	
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) .....	\$ _____
<b>Deduction Limitation:</b>	
6. Net income (Subtract line 8, Part II, from line 6, Part I of Schedule CO Individual, Column B or C, as it corresponds. If line 8, Part II is more than line 6, Part I, enter zero) .....	\$ _____
7. Applicable percentage:	
• If the investment was in a PEF, enter 15%	
• If the investment was in an PEF-PR, enter 30% .....	_____ %
8. Maximum amount allowable as deduction (Multiply line 6 by the applicable percentage on line 7) .....	\$ _____
9. Allowable deduction on this return (Enter the smaller between lines 5 and 8. Transfer this amount to line 10, Part II of Schedule CO Individual, Column B or C, as it corresponds) .....	\$ _____

**PART III - DETERMINATION OF TAX**

**Line 1 - Tax**

Generally, both spouses should determine their tax using the same method and selecting the corresponding oval. However, if the taxpayer or spouse indicated on line 1, Part I of this schedule that choose the optional tax provided under Section 1021.06 of the Code for individuals who are engaged in self-employed trade or business, he/she will determine the tax liability in Schedule X Individual. The spouse, who did not make the choice, will determine his/her tax in this schedule.

**Tax Tables**

Use the Table for the Tax Computation provided on page 19 of the instructions. Determine your tax individually considering your Net Taxable Income, as determined in Part II, on line 11, Columns B and C, respectively. Enter the tax determined for each column on this line and select Oval 1.

**Preferential Rates**

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

Also, if your income subject to preferential rates is \$20,000 or more, it is required that you pro-rate the total allowable deductions included in Part II, line 3 (or line 4 in the case of nonresidents or part-year residents) according to the different types of income.

If you used Schedule A2 Individual, transfer the tax amount from line 17 of this schedule to Columns B and C, as applicable, of this line and select Oval 2. **Complete a Schedule A2 Individual for each spouse, properly identified on the top part, and include both Schedules with your return.**

**Nonresident alien**

If you are a nonresident alien not engaged in trade or business in Puerto Rico, all of your income from sources within Puerto Rico are subject to a fixed tax rate of 29%, except in the case of dividends, which are taxed at 15%, and the income attributable to the distributable share of a shareholder in a corporation of individuals which is taxed at 33%. Enter the tax determined in Columns B and C, as it corresponds, of this line and select Oval 3.

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

**Form AS 2668.1 (Back Pay)**

If you determined your tax using Form AS 2668.1 (Back Pay), according to the provisions of Section 1032.09(d) of the Code, enter the tax determined in Columns B and C, as it corresponds, of this line and select the Oval 4. You must complete and submit with the return a Form AS 2668.1 for each spouse, as applicable.

For detailed information regarding this computation, refer to instructions of line 14, Part 3 of the return.

**Line 2 - Gradual Adjustment Amount**

If the net taxable income of either or both spouses is more than \$500,000, determined on an individual basis, you must complete Schedule P Individual. Individually determine the gradual adjustment amount on said Schedule (See Instructions Schedule P Individual). Enter in Columns B and C, as applicable, the amount determined on Schedule P Individual, line 7. **Submit with the return the Schedules used.**

**Line 4 - Regular Tax Before the Credit**

Section 1021.01 (c) of the Code provides that the tax determined shall be 95% of the sum of the regular tax and the amount of gradual adjustment. However, for individuals with a gross income that does not exceed \$100,000, the tax determined will be 92% of the sum of the regular tax and the amount of gradual



adjustment. Therefore, the amount to be entered on this line will depend on the method used to determine the tax on line 1 and the amount of the taxpayer's gross income, as indicated below:

- If you selected Oval 1 (According to Table):
  - ✓ If the sum of lines 1, 2, 3A, 3B, 3E, 3F, 3H, 3I, 3J, 3L, 3M, 3N and 3O and the row for total (Total \$ \_\_\_\_\_) included on lines 3C, 3D, 3G, 3K and 3P through 3T, Part I of Schedule CO Individual, plus the exempt income from line 43 less lines 2D, 31B to 31F, and 37 through 42, first column, Part II of Schedule IE Individual, does not exceed \$100,000 - Multiply line 3 by .92.
  - ✓ If the result of the previous sum is greater than \$100,000 - Multiply line 3 by .95
- If you selected Oval 2 (Preferential rates - Schedule A2 Individual)- Enter the amount from line 3, Part III of this Schedule CO Individual. Do not multiply this amount by any of the percentages (92% or 95%) included on this line. (See instructions for line 17, Schedule A2 Individual).
- If you selected Oval 3 (Non-resident Alien) or Oval 4 (Model SC 2668) - Enter the amount from line 18.

#### Line 5 - Credit for taxes paid to foreign countries, the United States, its states, territories and possessions

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

If either spouse is subject to the alternate basic tax (line 7), you must recalculate the Credit for Taxes Paid to Foreign Countries, the United States, its States, Territories and Possessions and also submit the recomputed Schedule C Individual, as applicable.

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

#### Line 7 - Excess of Net Alternate Basic Tax over Net Regular Tax

You should complete Schedule O Individual – Alternate Basic Tax if either or both spouses have net income subject to alternate basic tax of \$25,000 or more.

Enter in Columns B and C, as it corresponds, the amount determined on Schedule O Individual, Part II, line 7 for each spouse, as applicable.

#### Line 8 - Credit for alternate basic tax

You must complete Parts III and IV of Schedule O Individual. Enter in Columns B and C, as it corresponds, the amount determined on line 4, Part III of Schedule O Individual.

For additional information to determine this credit, see instructions of Schedule O Individual.

#### Line 10 - Total Tax Determined

Enter the sum of Columns B and C of line 9. Transfer this amount to Part 3, line 22 of the return.

#### PART IV - COMPUTATION OF THE ALLOWABLE AMOUNTS OF DEDUCTIONS TO NONRESIDENTS OR PART-YEAR RESIDENTS

In this part the allowable amount of deductions will be determined for those individuals who have indicated in question B of the Questionnaire on page 1 of the return, that for the taxable year they are considered nonresidents or a part-year residents of Puerto Rico.

Follow the guides provided on each line.

#### SCHEDULE D INDIVIDUAL - CAPITAL ASSETS GAINS AND LOSSES, TOTAL DISTRIBUTIONS FROM QUALIFIED PENSION PLANS AND ANNUITY CONTRACTS

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

Shall be included in this Schedule payments for judicial or extrajudicial compensation received as a transactional agreement, replacing a loss realized on the sale of a capital asset that were reported in Form 480.6B. Provide the required information from Box 1 of the Form 480.6B. Enter the tax withheld on Schedule B Individual, Part III, line 10.

The taxpayer may include on this Schedule total distributions from a fixed annuity that has been acquired as a capital asset. This amount will be included in Part I or II of this Schedule depending on the period that the investment was in the hands of the taxpayer.

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

- 1) **short-term** - property held for **not more than one year**.
- 2) **long-term** - property held for **more than one year**.

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

Once you determine a gain in the sale or exchange of capital assets, you must identify the date of purchase and sale of the property. In the case of sale or exchange of long-term capital assets, the property must be presented, as applicable, in Parts II and III, according to the applicable preferential tax rate.

In case that the eligible person to claim the preferential rate of 15% or any other rate, has derived capital gains from both categories and at the same time has capital losses, to determine the net capital gain under each category, said losses will be applied against the gains in the proportion that each one of these gains bears with the total amount of said gains.

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

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

The adjusted basis must include the increase in accumulated value of capital assets on which prepayment was made for the special tax of:

- 5% during the period between **July 1 and December 31, 2006**, as provided in Section 1014A of the Puerto Rico Internal Revenue Code of 1994, as amended (1994 Code), and of
- 8% during the period between **July 1, 2014 and April 30, 2015**, as provided in Section 1023.21 of the Puerto Rico Internal Revenue Code of 2011, as amended (2011 Code).

You must also include in the adjusted basis the accumulated gain upon which you paid the 5% special tax during the period of July 1 to December 31, 2006 in the case of corporate stocks or partnership interests acquired upon the exercise of an option, as provided in Section 1046(e) of the 1994 Code.

Those taxpayers who benefited from the 5% or 8% special tax rate, must indicate it by selecting the oval in Parts II through IV of this Schedule. **You must keep for your records Form SC 2731 with the corresponding Schedule.**

Any amount or increase in value of the included capital assets generated after the election provided in Section 1014A of the 1994 Code, or Section 1023.21 of the 2011 Code, must be taxed according to the law provisions in force at the moment in which the sale, exchange or other disposal of such capital assets finally takes place.

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

### Recognition of loss:

**Losses generated in the sale of capital assets for which the 5% or 8% special tax was prepaid, shall be adjusted according to the effective income tax rate applicable to this kind of transaction at the moment of the sale of such assets, before the use or carryover of said loss by the individual. According to the above, such loss will be adjusted by a formula or fraction, where the numerator will be the 5% or 8% rate, as applicable, and the denominator will be the effective income tax rate at the date on which the sale of the asset took place.**

For additional details, refer to Regulation No. 7188 of August 4, 2006 and Section 1023.21(e) of the Code. Also, you can obtain more information in Administrative Determination No. 14-16 and Form SC 2731.

**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:**

### Sale of Qualified Property

Act 216 provides, among others, a tax benefit for the use of the generated loss on the sale of qualified property.

The limit of capital losses allowed against ordinary income for a particular taxable year, if they were realized between

**September 1, 2010 and December 31, 2020**, will be \$1,000. Such loss may be carried over up to a maximum of **15 years**. If you realized a loss on the sale of qualified property, breakdown in Part VI of this schedule the detail of the origination date of such losses, the amounts and the years in which they were claimed, and the balance to be claimed in future years.

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

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

The benefits provided by Act 132 and Act 216 will only be available to the first seller and corresponding first buyer of each new construction property 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.

### Sale of New Construction Property or Qualified Property acquired between September 1, 2010 and June 30, 2013

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

The net long-term capital gain generated from the sale of **new construction property that has been acquired between September 1, 2010 and June 30, 2013**, will be fully exempt from income tax.

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

1. every residential real property of new construction located in Puerto Rico, suitable for family living that has not been subject to occupation and that is acquired from a Developer.

For real property to be considered as New Construction Property, the seller of the real property shall certify in writing to the purchaser, by affidavit, on or before the date of acquisition, that the real property is of new construction and has not been previously occupied, or

2. every house model consisting of a ground level, of two levels or an elevated level that is pre-designed or pre-fabricated in reinforced concrete purchased from a bona fide pre-design or pre-fabrication company and which plans have been approved by the Regulations and Permits Administration (ARPE) on or before December 30, 2009, except by means of a waiver from Secretary of the Department of Consumer Affairs.

For the pre-designed or pre-fabricated home to be considered of New Construction Property, the acquirer must submit a copy of the sales contract executed between the purchaser and the pre-design or pre-fabrication company and that it starts building with the appropriate Construction Permit issued by the Office of Permits Management (OGPE) between September 1, 2010 and June 30, 2013 and which construction is completed on or before March 31, 2013 with proper filing of the Application of Use Permit at the OGPE.

The net long-term capital gain generated from the sale of **qualified property acquired between September 1, 2010**

and June 30, 2013, will be 50% exempt from the payment of income tax.

You must keep for your records copy of the Certification issued by the Department in the year of the sale, for a minimum period of 6 years, in the event that it will be required later by the Department.

### **Sale of Eligible Housing**

#### (a) Net long-term capital gain exemption

The net long-term capital gain generated on the sale of an **eligible housing** that is acquired by the seller or by a Qualified Institutional Investor between July 1, 2013 and December 31, 2020, will be totally exempt from the payment of alternate basic tax. This exemption will also apply to a purchaser who acquires an eligible housing from a qualified institutional investor, as long as it is the first sale the investor makes after the initial acquisition.

For purposes of Act 132 and Act 216, the following terms are defined as follows:

- a) **Eligible Housing** - a new construction property, as defined previously.
- b) **Qualified Institutional Investor** – every individual or juridical person resident of Puerto Rico, or every individual or juridical person not resident of Puerto Rico, that is engaged in the construction business, that invests in one act or various separate acts, exclusively in units of Eligible Housing, a minimum of \$1,000,000 or acquires no less than 5 units of eligible housing.
- c) **Developer** - every natural or legal person, with the proper developer license, issued by the Department of Consumer Affairs, which is engaged in the construction business as an employer or principal responsible for the promotion, design, sales, construction of infrastructure works and housing projects, either single or multi-story type. For purposes of this Act, the term “Developer” shall also include those financial institutions or any natural or legal persons that by virtue of a judicial or extrajudicial proceeding, or by agreement of payment or similar transaction, becomes the successor in interest of a Developer.

For the provisions related to the **principal residence**, refer to the instructions of Schedule D1 Individual.

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

### **PART I - SHORT-TERM CAPITAL ASSETS GAINS AND LOSSES (HELD ONE YEAR OR LESS)**

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

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

**Line 2** – Enter the net short-term capital gain on the sale of your principal residence or sole proprietorship business, determined in Schedules D1, D3 and G Individual, as applicable. For additional information, refer to the instructions of said schedules.

**Line 3** – Enter the distributable share on the net short-term capital gain from a revocable trust or grantor trust, determined on Form 480.60 F. You must keep for your records such form.

Also enter, the net short-term capital gain derived from an estate or trust in which the legatees, heirs or beneficiaries have chosen to pay the tax on said gain in their individual character.

**Line 4** – If you elected to pay tax using the bracket method for the distributable share on net short-term capital gain (or loss) from a partnership, special partnership or corporation of individuals (pass-through entities), enter the amount determined on Form 480.60 EC. Provide the required information of such form with your return.

**Line 5** – Enter the net short - term capital gain (or loss) in investment funds or attributable to direct investment and not through a Capital Investment Fund. Also enter the amount determined on the Informative Return - Employess-Owned Special Corporation (Form 480.6 CPT). You must provide the information required of such form with your return.

**Line 6** – Use this line only if during the taxable year you disposed all the interest or assets used in an activity that **is not** your principal industry or business and a capital gain was derived in such disposal.

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

For additional information about losses incurred in activities that **does not** constitute your principal industry or business, refer to the instructions for LOSSES in Part 1 of the return.

### **PART II – LONG-TERM CAPITAL ASSETS GAINS AND LOSSES (HELD MORE THAN 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 1 year. In these cases, the taxpayer can elect to pay taxes on the capital gain at a preferential rate of **15%**.

In order to benefit from the provisions of 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 that has been acquired between September 1, 2010 and June 30, 2013. The totally exempt gains will be used for information purposes only, therefore, do not include them in Column (G).

In the case of gains that are 50% exempt, the taxpayer must include in Column (G) the 50% of Column (F). On the other hand, the losses determined in Column (F) will also have to be included in Column (G). This way, they can be applied against other gains, if any, deducted against other income or carried over to future years.

**Line 8** – Add the amounts shown in Column (G) and enter the results on this line.

**Line 9** - Refer to the instructions for line 2 of Part I.

**Line 10** - Refer to the instructions for line 3 of Part I.

**Line 11** – Refer to the instructions for line 4 of Part I.

**Line 12** – Enter the lump-sum distributions (amounts payable during the same taxable year) under a variable or fixed annuity

contract that were received by the **taxpayer**. You can elect on Schedule A2 Individual, to treat this distribution as a long-term capital gain subject to the preferential rate of 15%, pursuant to Section 1023.08 of the Code. The taxpayer must include with the return a detail with a breakdown of the total distribution received, cost of the annuity and taxable amount. Total distributions from a variable annuity will be reported on Form 480.7C. Such distributions will be identified in Box 23 with Distribution Code M (Annuity).

**Line 13** – Enter the lump-sum distributions under a variable or fixed annuity contract received by your **spouse**. You can elect on Schedule A2 Individual, to treat this distribution as a long-term capital gain subject to the preferential rate of 15%, pursuant to Section 1023.08 of the Code. The taxpayer must include with the return a detail with a breakdown of the total distribution received, cost of the annuity and taxable amount. Total distributions from a variable annuity will be reported on Form 480.7C. Such distributions will be identified in Box 23 with Distribution Code M (Annuity).

**Line 14** – Refer to the instructions for line 5, Part I.

**Line 15** - Enter the net long term capital gain (or loss) generated by a resident individual investor under Act 22-2012, as determined in Schedule F1 Individual, Part III, line 1, Column (E). For additional information, refer to the instructions of Schedule F1 Individual.

**Line 16** – Refer to the instructions for line 6, Part I.

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

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

**Lines 18, 19 and 20** – Enter the result of Column (F) on each one of these lines. Identify the act under which you received the benefit and include the number of the decree that grants you the special treatment, if applicable.

### PART IV – TOTAL DISTRIBUTIONS FROM QUALIFIED PENSION PLANS

Enter the lump-sum distribution from pension plans qualified by the Department received during the same taxable year of the participant (one payment or various payments during the same year) due to separation from service or termination of plan. Indicate the distribution date, the total lump-sum payment received, basis and exempt income, and taxable amount. Also, indicate if you prepaid any tax.

Total distributions from qualified pension plans subject to the rates of 20% or 10% will be reported and identified as lump-sum distributions from governmental or private plans on Form 480.7C. They will be identified in Box 23 of Form 480.7C with a Distribution Code: A- Retirement, B- Separation from Service, C- Death or E- Plan Termination.

The **basis** of the distribution includes amounts for which the tax was prepaid under Act 87-2006, as amended, Section 1023.21 of the Code and after-tax contributions. If the basis includes any prepaid amount, select the corresponding oval. If exempt income is reported in Box 20 of Form 480.7C, you must include this amount as part of the basis of the distribution in Column (B). The difference between Column (A) and Column (B) cannot be less than zero (“0”).

**Line 21** – Enter the distributions received by the **taxpayer** if the employee’s trust that is part of the plan **does not** meet the requirements established on line 23. These distributions are taxable at the 20% preferential tax rate.

If tax withheld is reported in Box 6 of Form 480.7C, enter in Column A of this line the amount reported in Box 16 of Form 480.7C and in Column C the amount reported in Box 17 of Form 480.7C.

To determine the basis to be included in Column B, amounts reported in Boxes 18, 19 and 20 of Form 480.7C will be used.

**Line 22** – Enter the distributions received by the **spouse** if the employee’s trust that is part of the plan **does not** meet the requirements established on line 23. These distributions are taxable at the 20% preferential tax rate.

If tax withheld is reported in Box 6 of Form 480.7C, enter in Column A of this line the amount reported in Box 16 of Form 480.7C and in Column C the amount reported in Box 17 of Form 480.7C.

To determine the basis to be included in Column B, amounts reported in Boxes 18, 19 and 20 of Form 480.7C will be used.

**Line 23** – Enter the distributions received by the **taxpayer** if the following requirements are met:

- the trust that is part of the plan is organized under the laws of the Government of Puerto Rico, or
- the trust has a Puerto Rico resident fiduciary acting as paying agent, and
- 10% of the trust’s assets attributable to participants residents of Puerto Rico, determined at the close of the plan’s year during which the distribution is made and during each one of the plan’s two years preceding the date of the distribution have been invested in registered investment companies organized under the laws of Puerto Rico and subject to tax under Section 1112.01 of the Code, or in property located in Puerto Rico as defined in Administrative Determination No. 08-15 of December 29, 2008.

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

If tax withheld is reported in Box 7 of Form 480.7C, enter in Column A of this line the amount reported in Box 16 of Form 480.7C and in Column C the amount reported in Box 17 of Form 480.7C.

To determine the basis to be included in Column B, amounts reported in Boxes 18, 19 and 20 of Form 480.7C will be used.

**Line 24** – Enter the distributions received by your **spouse** and that at the same time meet the requirements established on line 23. These distributions are taxable at the **10%** special tax rate.

Do not include in this Part IV those total distributions of a qualified retirement plan that were due from separation of service or plan termination for which the 20% or 10% withholding at source required under Section 1081.01(b)(3)(A) of the Code has not been made. Those distributions will be considered as ordinary income and will be reported in Part IV of Schedule F Individual.

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

**Line 26** - Enter here **only** the net capital gains determined on lines 7, 17 and 18 through 20.

Column A - Enter the net short-term capital gain, if any, determined in Part I, line 7, Column (F).

Column B - Enter the net long-term capital gain, if any, determined in Part II, line 17, Column (G).

Column C through E - Enter the net long-term capital gain realized from the sale of shares or other property under the provisions of special legislation, if any, determined in Part III, lines 18, 19 and 20, Column (F).

**Line 27** - Enter here **only** the net capital losses determined on lines 7, 17 and 18 through 20.

Column A - Enter the net short-term capital loss, if any, determined in Part I, line 7, Column (F).

Column B - Enter the net long-term capital loss, if any, determined in Part II, line 17, Column (G).

Column C through E - Enter the net long-term capital loss realized from the sale of shares or other property under the provisions of special legislation, if any, determined in Part III, lines 18, 19 and 20, Column (F).

**Line 28** - This line must be used **when one or more** of Columns B through E reflect a loss on line 27. Such loss will be applied proportionally to the gain, if any, reflected in the others Columns of line 26, except Column A. If the others Columns do not reflect a gain on line 26, enter zero in the box.

**Line 30** - If line 27, Column A reflects a loss, apply the same proportionally to the gains, if any, reflected on line 26. If no Column reflected gains on line 26, enter zero.

On this line, the net short-term capital loss reflected on line 27, Column A, is applied proportionally to the long-term capital gains reflected on line 26, Columns B through E, after having applied proportionally the net long-term capital losses of the other categories.

**Line 34** - The amount of the deduction for net capital loss not used in previous years will be the smaller of the amount determined on line 38 of Part VI or 90% of the net capital gain determined on line 33.

In order to claim the deduction for the net capital loss not used in previous years, the taxpayer must complete Part VI of this Schedule in its entirety. Any balance not claimed can be claimed in future years subject to the carryover period established in Section 1034.01 of the Code.

**Line 35** - If you derived a net capital gain, the excess of the net long-term capital gain over the net short-term capital losses, must be transferred to Part VII of this Schedule to determine the net long-term capital gain for each tax rate. Once you complete Part VII, go to Schedule A2 Individual for the tax computation.

If the amount on line 33 is a net capital loss, then continue with line 36.

**Line 36** - If the amount on line 33 of this Schedule is a loss, enter on this line and in Part 1, line 2B of the return or in Part I, on line 3B of Schedule CO Individual, as applicable, the smaller of the following: (a) the loss reflected on line 33, or (b) (\$1,000). If you have a net capital loss derived from the sale or exchange of assets, you may deduct up to \$1,000 on your return.

**Line 37** - Any capital losses not used during the taxable year may be used against any capital gain derived in the future, as indicated below.

In those cases where the amount of the loss presented on this line is composed by more than one concept, complete Part VI where you will provide a detail of each loss, date of origin, amount to be claimed and the carryover loss for future years.

**Capital losses may be claimed only up to 90% of the net capital gain generated for the taxable year in which such losses are carried, or \$1,000 whichever is less.**

#### **PART VI – DETERMINATION OF THE NET CAPITAL LOSS CARRYOVER**

Enter the detail of the capital losses generated in previous years and that have not been used. For each one of the losses to be considered include the year in which it was generated, the amount of the loss, the amount previously used, the carry forward amount and its respective expiration date.

##### **Carryover of Capital Losses**

The carryover period for the capital losses will depend on the date in which the losses were generated, as indicated below:

- For taxable years beginning after June 30, 1995 and before January 1, 2006, any loss not used can be carried over for a period of **5 years**.
- In case of net capital losses realized during taxable years beginning after December 31, 2005 and before January 1, 2013, the carryover period is **10 years**.
- Losses realized on taxable years beginning after December 31, 2012 will be considered short-term capital losses in each one of the subsequent **7 taxable years**, up to the limit in which such amount exceeds the total of any net capital gain of any taxable year mediating between the year in which the loss was generated and the subsequent taxable year.
- Nevertheless, if a loss was realized under the provisions of Act 132 or Act 216, the same may be used against any capital gain derived in the future, and if there is any remaining loss, you may claim it as a deduction in each one of the subsequent **15 years**.

Total capital loss carryover determined on line 38 must be transferred to line 34, Part V of this Schedule.

#### **PART VII - DETERMINATION OF THE NET LONG-TERM CAPITAL GAIN - FOR EACH TAX RATE**

This Part will be used to determine the amount of net long-term capital gain that will be transferred to the corresponding columns on line 4(a) of Schedule A2 Individual. Follow the instructions provided on each line.

Transfer the total net capital gain determined on line 8, Column G of this schedule, to line 4(a), Column A of Schedule A2 Individual. You must transfer the long-term capital gain determined on line 6(a), Column B of this Schedule, to line 4(a), Column C of Schedule A2 Individual. In the case of a capital gain determined under special legislation, the amount determined on line 6(b), Columns C through E of this schedule, must be transferred to line 4(a), Columns F, G and H of Schedule A2 Individual, as applicable.

On the other hand, if the net capital gain includes a net short-term capital gain, it will be part of the calculation of the regular tax to be determined in Column A of Schedule A2 Individual. This is due to the fact that short-term capital gains are taxable at the regular tax rates. For additional details on the taxation of short-term capital gains, see instructions for line 4(a) of Schedule A2 Individual.

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

If you sold or exchanged your principal residence during the year, you must complete this Schedule.

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

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

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

### COMPUTATION OF GAIN

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

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

**Line 3** - If you used funds from your Individual Retirement Account (IRA) to purchase your principal residence, these funds are taxable when the residence is sold. Select the corresponding oval to indicate whether these funds belongs to the taxpayer or spouse and enter the amount withdrawn from the IRA to purchase the residence. Transfer to Schedule F Individual, Part I.

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

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

Fixing-up expenses include repair, maintenance, painting and cleaning expenses paid in order to facilitate the sale of the property. However, to qualify, the expenses must be:

- for work performed during the 90 day period ended on the date in which the sales contract of the old residence took place;
- paid no later than 30 days after the date of sale of the residence.

The fixing-up expenses do not include amounts paid for permanent improvements. To claim said expenses, see instructions for line 7.

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

Also, the adjusted basis of the property will include the increase in accumulated value of such property for which the 5% special tax rate was prepaid during the period of July 1, 2006 to December 31, 2006, as provided in Section 1014A of the 1994 Code, and of 8% during the period from July 1, 2014 to April 30, 2015 in accordance with Section 1023.21 of the 2011 Code. If you made a prepayment during the indicated periods, select the corresponding oval. **You must keep copy of Form SC 2731 with the corresponding Schedule for a period not shorter than 6 years.**

**Line 8** - Enter the gain realized on the sale. If the gain was realized on the sale of a principal residence under the provisions of Act 216-2011, the same is exempt from the payment of income tax. Transfer this amount to Schedule IE Individual, Part II, line 17.

It is important to point out that if your principal residence does not comply with the definition provided by Act 216-2011 but you are interested to benefit from the provisions of Sections 1034.04(m) and 1031.02(a)(16) of the Code related to the gain deferment and the once in a life exemption for taxpayers age 60 or older, respectively, refer to Schedule D3 Individual available in our webpage under the "Schedules" topic.

## SCHEDULE DDC INDIVIDUAL - DUE DILIGENCE CHECKLIST BY ACCREDITED AGENT - TAX RETURNS SPECIALIST

Use this Schedule to make the election provided under Section 1021.02(a)(2)(D) of the Code, to submit with the return the due diligence checklist form, instead of the Agreed Upon Procedures Report ("AUP") prepared by a CPA. This option is available for individuals engaged in trade or business with business volume of less than \$1 million and subject to the payment of alternate basic tax.

Schedule DDC Individual must be completed and certified by an Accredited Agent-Tax Returns Specialist who meets the requirements provided by Section 6074.01 of the Code. The taxpayer's name and social security number, and the name and Accredited Agent-Tax Returns Specialist number must be provided in the indicated spaces. The Accredited Agent-Tax Returns Specialist Number shall be the Specialist ID assigned by the Department's Tax Practitioners and Education Division.

If for the taxable year, the taxpayer submits audited financial statements or an AUP with the return, this schedule shall not be required.

### PART I - DETAIL OF EXPENSES

The ordinary and necessary expenses, and the amounts listed in this part require to be verified. If this requirement is met, they may be claimed as a deduction on the taxpayer's return for purposes of determining the net income subject to alternate basic tax.

### PART II - DUE DILIGENCE REQUIREMENTS

The Accredited Agent-Tax Returns Specialist must answer each of the questions listed in this part to confirm that you have met all the due diligence requirements, as provided in Section 1021.02(a)(2)(D) of the Code.

### PART III - CERTIFICATION

In this part, the Accredited Agent-Tax Returns Specialist certify that have met all due diligence requirements, and as required by Section 1021.02(a)(2)(D) of the Code, by means of his



signature, declares under penalty of perjury that has examined the information included in the form and that it is true, correct, and complete.

Also accept that, if not complied with all the due diligence requirements mentioned, are subject to the suspension of the Accredited Agent-Tax Returns Specialist license by the Department. In the case that the Department determine that any of the amounts included in the form and claimed as a deduction by the taxpayer are not supported with documentary evidence, it will be subject to the payment of fine and other applicable penalties provided in Section 6074.03 of the Code.

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

## SCHEDULE E – DEPRECIATION

This Schedule must be completed by those taxpayers who are engaged in an industry or business, or who derived income from manufacturing, sale of goods, services rendered, farming and rent.

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

On this schedule you must provide the following information:

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

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

### Line (b) - Flexible Depreciation

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

### Line (c) - Accelerated Depreciation

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

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

### Line (d) - Amortization

In the case of property that constitutes goodwill acquired by purchase during taxable years commenced after June 30, 1995,

a deduction for amortization shall be allowed using the straight-line method and a fifteen (15) years useful life.

In the case of intangible property, other than goodwill, acquired by purchase or developed in taxable years after December 31, 2009, an amortization deduction shall be allowed, using the straight-line method and a useful life of fifteen (15) years or the useful life of said 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.

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

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

In the case of cars under operating leases, the amount of rent paid during the taxable year shall be allowed as a deduction for **depreciation** up to a maximum of \$6,000 annually per automobile or \$10,000, if the taxpayer is 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, costs of motor vehicles or any other item other than depreciation on Schedules J, K, L, M or N Individual.**

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

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 automobile for the amount paid during the taxable year up to \$6,000 annually per automobile, 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.

If the taxpayer is a seller, 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's useful life.

Enter on this line the amount of lease payments that are substantially equivalent to a purchase, subject to the limitations previously indicated. Do not include the interest portion as part of the payments. Indicate also, the number of vehicles for which you made lease payments.

You must provide with your return the information required of Form 480.7D.

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

**Include this Schedule with your return.**

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

Use this Schedule to itemize the information related to depreciation expense in the case of businesses that during the

taxable year have generated a business volume of \$3,000,000 or less.

The information of each of the properties for which the depreciation is claimed shall be provided. These are: computer systems; ground transportation equipment (except automobiles); and machinery and equipment, furniture and fixtures, and any other fixed assets to be used in the industry or business. Also, you must fill in the oval provided in each section, as applicable, to make the election for this depreciation.

You must provide in this schedule the following information:

- type of property;
- date acquired;
- allowable cost or basis;
- depreciation claimed in prior 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 of the computer systems equipment and its installation in the year of acquisition or installation thereof. Equipment previously depreciated or acquired from a related person, do not qualify to accelerate the allowance of depreciation.

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

You may determine the deduction for depreciation using 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 assets to be used in the industry or business (Section 1033.07(a)(1)(K))**

For taxable years commenced after December 31, 2018, you may determine the deduction for depreciation using a useful life of two (2) years for machinery and equipment, furniture and fixtures and any other fixed assets to be used in the industry or business, except real estate, automobiles and property subject to the terms of lines (a) and (b) of this schedule.

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

**Include this Schedule with the return.**

### **SCHEDULE F INDIVIDUAL - OTHER INCOME**

The following types of income will be reported on this Schedule: distributions from Individual Retirement Accounts and Educational Contribution Accounts, distributions and transfers from governmental plans, distributions from deferred compensation plans and distributions from qualified retirement plans (partial or lump-sum), income from discharge of debts, income from the use of intangibles, income from judicial or extrajudicial indemnifications, income from sports teams of international associations or federations, distributable share on net income subject to preferential rates from pass-through entities and any other miscellaneous income for which a specific line on the return is not provided. It will also be included, the Distributions due to a disaster declared by the Governor of Puerto Rico.

Even when these income can be attributed to the spouse who received or generated them, in the case of taxpayers who file the income tax return under the "Married" personal status, they may choose to complete only one Schedule F Individual. In this case, select the oval in the heading of this Schedule to identify that the income belongs to both spouses.

However, if the marriage chooses the optional computation of tax, you must complete and submit with your return a Schedule F Individual for each one of the spouses who receives or generates this type of income. In this case, select the oval that identifies the taxpayer or his/her spouse, as applicable.

### **PART I - DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS AND EDUCATIONAL CONTRIBUTION ACCOUNTS**

Enter in the indicated spaces, the payer's name, the employer identification number of such person, the account number and the total distribution from an Individual Retirement Account or Educational Contribution Account. Indicate, also, if the distribution includes a portion for which you prepaid the tax under Sections 1169A or 1169C of the 1994 Code or under Section 1023.23 of the Code. **If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.**

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

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

It is important to point out that, if this taxable year you have made the sale or exchange of your principal residence and had used funds from an Individual Retirement Account (IRA) to acquire said property, these funds are taxable at the time of the sale. Enter in the provided space on Part I, Columns A and H, the amount of previously used IRA funds to acquire your principal residence.

**Column C** - Enter that part of the distribution received from an Individual Retirement Account (IRA) or Educational Contribution Account that constitutes interests earned on funds from the same on which you did not elect the option to pay taxes at the rate of 10%. This information comes from Box 12D of Form 480.7 (Informative Return – Individual Retirement Account) and from Box 8B(1) of Form 480.7B (Informative Return – Educational Contribution Account). You must provide the required information from these forms with the return.

**These interests will be transferred to Part I, line 1(b), Column D of Schedule FF Individual.**

**Column D** - Enter that part of the distribution received from an Individual Retirement Account (IRA) or an Educational Contribution Account that constitutes interests earned on funds from the same on which you elected the option to pay tax at the tax rate of 10%. This information comes from line 12D of Form 480.7 and from Box 8B(1) of Form 480.7B, as long as Boxes 7 and 6 of Forms 480.7 and 480.7B, respectively, reflect a withheld amount. You must provide the information required from these forms with the return.

The tax withheld on such interests, reported in Box 7 of Form 480.7 and in Box 6 of Form 480.7B, must be informed on lines 6(b) and 6(c), Part III of Schedule B Individual, as applicable.

**These interests will be transferred to Part I, line 1(b), Column B, of Schedule FF Individual.**

**Column E** - Enter that part of the distribution received from an Individual Retirement Account (IRA) that constitutes interests earned on funds from the same and taxable at 10%. This information comes from Box 12G(2) of Form 480.7 if you elect the option to pay the rate of 10%. You must provide the required information from these forms with the return.

The tax withheld on such interests, reported in Box 9 of Form 480.7, must be informed on line 15, Part III of Schedule B Individual.

**These interests will be transferred to Part I, line 1(b), Column E of Schedule FF Individual.**

**Column F** - If the owner or beneficiary of the IRA receives a total or partial distribution and is a pensioner of the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities, the Judicature Retirement System or the Teachers Retirement System, enter in this column the amount distributed, **that does not constitute a distribution of your contributions**, if you elected the option to pay the preferential tax rate of 10%. That part of the distribution which constitutes your contribution to the IRA, must be reported in Column H. This information comes from Box 12G(3) of Form 480.7 if you elect the option to pay the rate of 10%. You must provide the information required from this forms with the return.

The tax withheld on such interest, reported in Box 9 of Form 480.7, must be informed on line 15, Part III of Schedule B Individual.

**Do not include the interests received in this part. The same must be reported in Column E.**

**Column G** - If the owner or beneficiary of the IRA or Educational Contribution Account receives a total or partial distribution **that is not an interest distribution received from financial institutions engaged in trade or business in Puerto Rico** (as provided in Section 1023.04 of the Code), **neither a distribution of the contributions to your IRA** and which consists of income from sources within Puerto Rico received by said IRA, enter the amount distributed in this column if you elected the option to pay the preferential tax rate of 10%.

This information comes from Box 12E of Form 480.7 and from Box 8B(3) of Form 480.7B, if you elect the option to pay the rate of 10%. You must provide the information required from these forms with the return.

The tax withheld on such amount, reported in Box 8 of Form 480.7 and in Box 7 of Form 480.7B, must be informed on lines 14(a) and 14(b), Part III of Schedule B Individual, as applicable.

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

**Line 1** - Totalize the amounts included in Columns A through H, respectively. **Transfer the total of Columns F and G to line 4(k) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**

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

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

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

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

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

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

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

Indicate the date and total amount of the distribution. The **basis** of the distribution includes amounts for which you prepaid the tax during the period of November 15, 2006 to December 31, 2006 under Section 1012D of the 1994 Code, exempt income and exempt contributions according to Article 1 of Act No. 415 of May 13, 1950. Select the corresponding oval if you made a prepayment. **If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.**

**Line 1C** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions from governmental plans (except the Retirement Savings Accounts Program).

**Line 1D** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions under \$10,000 from the Retirement Savings Accounts Program.

**Line 2E** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions of \$10,000 or more from the Retirement Savings Accounts Program on which the 10% preferential tax had been withheld at source. **Transfer this amount to line 4(k) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**

**Line 2F** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the amounts transferred from the Retirement Savings Accounts Program to a Non Deductible Individual Retirement Account subject to the 10% preferential tax rate. **Transfer this amount to line 4(k) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**

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

### PART III – DISTRIBUTIONS FROM DEFERRED COMPENSATION PLANS (NON QUALIFIED)

Enter in the indicated space the date and total amount of the distribution from a Deferred Compensation Plan. Indicate, also, if the distribution includes a portion for which the tax was prepaid under Section 1012D of the 1994 Code or under Section 1023.21 of the 2011 Code. **If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.**

**Line 1B** - The **basis** of the distribution includes any amount for which you prepaid the tax under Section 1012D of the 1994 Code and Section 1023.21 of the 2011 Code, exempt income, and after-tax contributions.

**Line 1C** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions from deferred compensation plans received during the year. Transfer this amount to Part 1, line 2L of the return or to Part I, line 3L of Schedule CO Individual, as applicable.

### PART IV - DISTRIBUTIONS FROM QUALIFIED RETIREMENT PLANS (PARTIAL OR LUMP-SUM)

Enter in the indicated space the date and total amount of the partial or total distribution from a qualified retirement plan. Indicate, also, if the distribution includes a portion for which the tax was prepaid under Section 1165(b)(9) of the 1994 Code or under Section 1023.21 of the 2011 Code. **If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.**

The amount of total or partial distribution from qualified retirement plans will be reported on a Form 480.7C. They will be identified in Box 23 of Form 480.7C with the Distribution Code that corresponds to the nature of the distribution.

**Line 1B** - The **basis** of the distribution includes any amount for which you prepaid the tax under Section 1165(b)(9) of the 1994 Code and Section 1023.21 of the Code of 2011, exempt income, and after-tax contributions.

**Line 1C** - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions received during the year. Transfer this amount to Part 1, line 2L of the return or to Part I, line 3L of Schedule CO Individual, as applicable.

You must also transfer to this Part IV those total distributions of a qualified retirement plan that were due to separation of service or plan termination for which the 20% or 10% withholding at source required under Section 1081.01(b)(3)(A) of the Code has not been made. Those distributions will be reported following the instructions presented in this Part IV for total distributions not due to separation from service or plan termination.

### PART V – OTHER INCOME

**Column A** – Enter the amount of income from discharge of debts reported in Box 7 of Form 480.6A. Refer to the instructions of line 5, Part I of Schedule IE Individual where the requirements to consider this payments exempt of tax are discussed.

**Column B** – Enter here the amount of income from royalties reported in Boxes 8 and 9 of Form 480.6C. Also enter here any other income received for the use of other intangibles (patents, copyrights, etc.).

**Column C** – Enter the amounts received from judicial or extrajudicial indemnification, paid under a judgment issued by

the Court or under an extrajudicial claim, that constitute taxable income. **If you choose the optional computation of tax, this income is attributed individually to the spouse to whom it corresponds.**

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

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

The amounts received from judicial or extrajudicial indemnification are subject to a 10% withholding of tax at source. Provide the information required from Box 1 of Form 480.6B. Enter the tax withheld on Schedule B Individual, Part III, line 10.

**Line 1** - Transfer the result of the sum of Columns A and F to the (Total \$ \_\_\_\_\_) line that is included on line 2(G) of Part 1, page 2 of the return or to Part I, line 3(G) of Schedule CO Individual, as applicable.

**Column D** - You must inform income received from sports teams of international associations or federations, subject to the 20% withholding at source. **If you choose the optional computation of tax, this income is attributed individually to the spouse to whom it corresponds.** Provide the information required from Box 4 of Form 480.6B. Enter the tax withheld on Schedule B Individual, Part III, line 20.

**Column E** – You must inform any other income received during the year attributed individually to the taxpayer or spouse and that is not included in Columns A through D and F of this Part. For example, this Column will be used to report net income from Puerto Rico sources under Section 1123(f) of the Code or the income effectively connected with the conduct of a trade or business in Puerto Rico for those taxpayers subject to the provisions of Article 1123(f)-4(g) of Regulation No. 6257 under the 1994 Code, as amended.

In this Column may be reported total distributions of fixed annuity, that have been acquired as investment instrument.

If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.

**Column F** - You must inform your distributable share on net income subject to preferential rates from pass-through entities. **If you choose the optional computation of tax, this income is attributed individually to the spouse to whom it corresponds.** Provide the information required from Part III, line 7 of the Informative Return Pass-Through Entity (Form 480.60 EC). Enter the tax withheld on Schedule B Individual, Part III, line 11(e).

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

**Line 3** - Determine the amount of taxable income for each category by subtracting the expenses (line 2) from the total (line 1). **The income from sports team of international associations or federations will be transferred to line 4(g) of Schedule A2 Individual to determine the tax at the corresponding preferential rate. Likewise, the distributable share on net income subject to preferential rates from pass-through entities (Column F) will be transferred to line 4(j) of Schedule A2 Individual.**

**Line 4** - Add the subtotal of Columns A through F of line 3. Transfer this amount to Part 1, line 2G of the return or line 3G of Schedule CO Individual, Columns B and C, as applicable.

#### **PART VI - DISTRIBUTIONS DUE TO A DISASTER DECLARED BY THE GOVERNOR OF PUERTO RICO**

This Part will include the Distributions made Due to a Disaster Declared by the Governor of Puerto Rico according to the provisions of Sections 1081.01(b)(1)(D), 1081.02(d)(1)(I) and (J) of the Code. You must provide in this part the required information, either from the employees trusts established by private business employers qualified under Section 1081.01 of the Code ("Retirement Plans"), as well as from Individual Retirement Accounts ("IRA Accounts") established under Section 1081.02 of the Code.

These Special Distributions must have to be requested by the Eligible Individual to cover Eligible Expenses incidental to the disaster declared by the Governor and shall be reported on Forms 480.7 and 480.7C.

For purposes of this Part, the following definitions shall be considered:

**Special Distributions:** Payments or distributions in cash made from a Retirement Plan or an IRA during the period between February 20 and December 31, 2020 (Eligible Period) and which have been requested by an Eligible Individual to cover Eligible Expenses, according to Section 1081.01(b)(1)(D)(vi)(I), 1081.02(d)(1)(I) and (J) of the Code, and to the provisions of the Internal Revenue Circular Letters No. 20-09, 20-23, and 20-29.

**Eligible Individual:** Individual who during calendar year 2020 is a bona fide resident of Puerto Rico, as provided in Section 1010.01(a)(30) of the Code.

**Eligible Expense:** All expenses incurred by an Eligible Individual to compensate the losses or damages suffered for reason of a Disaster Declared by the Governor of Puerto Rico and extraordinary and unexpected expenses to cover basic needs due to said disaster. As provided by Internal Revenue Circular Letters No. 20-09 and 20-23, the term Eligible Expense shall include expenses related to the emergencies declared for the earthquakes occurred in the southern area of Puerto Rico and for the COVID-19, as well as any loss of income due to the curfew declared by the Governor.

**Disaster Declared by the Governor of Puerto Rico:** Any disaster occurred during the year that, regarding to the area in which the taxpayer resides, results in a subsequent designation by the Governor of Puerto Rico as an area whose residents are eligible for aid under the disaster assistance programs of the Government of Puerto Rico.

**Limitation:** The total of the distributions shall not exceed one hundred thousand dollars (\$100,000) and the total amount exempt of taxes shall not exceed the first ten thousand dollars (\$10,000) distributed within the term established by the Secretary.

To inform Special Distributions in this Part, it will be necessary that the Eligible Individual submits to the employer that maintains the Retirement Plan or to the provider of management services for the plan, or to the financial institution or insurance company that maintains the account, the statement required by Internal Revenue Circular Letter 20-09 (IR CC 20-09). If such statement has not been received, or the same does not comply with the provisions established in IR CC 20-09, or if the distribution is not made between the established Eligible Period (February

20 to December 31, 2020), the total distribution will not be considered as an Eligible Distribution, and therefore the same shall not be reported in this Part.

**Every individual who has received this type of distribution, must complete and include with his/her return a Schedule F Individual. In the case of married taxpayers who file a joint return (whether or not under the Optional Computation), must complete and include with their return a Schedule F Individual for each spouse. In these the cases, select the oval that identifies the taxpayer or spouse, as applicable.**

Enter in the indicated spaces the name, employer identification number of the person who made the payment, the account number and distribution date. Also, indicate the form on which the distribution was reported by selecting the corresponding oval (Form 480.7 or Form 480.7C).

In the case of Retirement Plans, only those distributions made as total distributions or in the form of partial payments shall be considered. The distributions in the form of annuity or periodic payments are not considered eligible for these purposes.

In the case of IRA or Non Deductible IRA, the penalty provided in Section 1081.02 (g) of the Code will not be applicable. However, the individual may be subject to the penalties imposed by the financial institution or insurer according to the contract or document of the IRA or Non Deductible IRA.

**Column A** - Enter the amount of the distribution that is exempt from income tax, including the alternate basic tax. The exempt amount cannot exceed \$10,000. If the distribution comes from an IRA, enter the amount reported in Box 12K(2) of Form 480.7. If it comes from a Retirement Plan, enter the amount from Box 21A of Form 480.7C.

**Column B** - Enter the amount of distribution that is subject to income tax and withholding at source at a fixed rate of 10%. That is, distributions in excess of \$10,000 but not more than \$100,000. If the distribution comes from an IRA, enter the amount reported in Box 12K(1) of Form 480.7. If it comes from a Retirement Plan, enter the amount from Box 21B of Form 480.7C.

**Column C** - Enter the amount of the distribution for which you prepaid the tax and the after-tax contributions made. If the distribution comes from a IRA, enter the amount reported in Box 12K(3) of Form 480.7. If it comes from a Retirement Plan, enter the amount from Boxes 21C and 21D of Form 480.7C.

**Line 3** - Enter the difference between line 1, Column D and line 2, but not less than zero ("0").

**Line 4** - Determine the exempt amount, if any, among the **lesser** of the amount reflected on line 1, Column D or \$10,000, provided that **all** the following requirements are met:

- The Total Distribution determined on line 1, Column D does not exceed \$100,000.
- The Total Exempt Amount determined on line 1, Column A does not exceed \$10,000.
- The Total Tax withheld at source included on lines 6(a) and 6(b) must be at least 10% of the amount determined on line 1, Column B.

In those cases in which **all** the requirements mentioned here are not met, enter zero on this line and continue on line 5.

Transfer the amount determined as exempt to line 8, Part I of Schedule IE Individual.

**Line 5** - Determine the amount that is taxable at 10% by subtracting the exempt amount (line 4) from the total Eligible Distribution (line 3). Transfer the result to Part 1, line 20, page 2 of the return or to Part I, line 30, Column B or C of Schedule CO Individual, as applicable.

Also, this amount will be transferred to line 4(l) of Schedule A2 Individual, as long as **all** the following requirements are met:

- The Total Distribution determined on line 1, Column D does not exceed \$100,000.
- The Total Exempt Amount determined on line 1, Column A does not exceed \$10,000.
- The Total Tax withheld at source included on lines 6(a) and 6(b) must be at least 10% of the amount determined on line 1, Column B.

In the event that any of the aforementioned requirements is not met, the total distribution will be subject to the regular income tax rates and withholding at source established by the Code.

**Line 6** - Enter on line 6(a) the total tax withheld at source reported in Box 10 of all Forms 480.7 that you have received. Likewise, enter on line 6(b) the total tax withheld at source reported in Box 22 of all Forms 480.7C received. You must also indicate the total Informative Returns (Forms 480.7 and 480.7C) that have been prepared to you and which information has been reported in this Part VI.

For additional information on special distributions of qualified retirement plans and individual retirement accounts due to a disaster declared by the Governor of Puerto Rico, you may refer to the Internal Revenue Circular Letters No. 20-09, 20-23 and 20-29 available in our website: [www.hacienda.pr.gov](http://www.hacienda.pr.gov).

## SCHEDULE FF INDIVIDUAL – INTERESTS, DIVIDENDS AND MISCELLANEOUS INCOME

The following types of income will be reported on this Schedule: interests, dividends from corporations, income from prizes and contests and any other miscellaneous income for which a specific line on the return is not provided.

If you choose the optional computation of tax in the case of married individuals living together and filing a joint return, the income reported on this Schedule is attributed on a 50% basis to each spouse, therefore, they must complete only one schedule. It is important to note that in the case of income from **interests**, even though the total is attributed equally to both spouses, each spouse may claim the exemption of up to \$100 provided by the Code in the case of interests received from financial institutions engaged in the trade or business in Puerto Rico. Therefore, in these cases the exemption may be up to \$200.

### PART I – INTERESTS

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

**Column A** - Enter the eligible interests earned from obligations of corporations and partnerships, engaged in industry or business in Puerto Rico, or upon new mortgages on residential property located in Puerto Rico, if you elected to pay the preferential tax rate of 10%.

The term **eligible interests** means any interest on bonds, notes or other obligations issued by a domestic or foreign corporation or partnership engaged in trade or business in Puerto Rico, including shares in trusts representing an interest in such bonds, notes or other obligations, provided that the proceeds from these obligations are used only in the industry

or business in Puerto Rico of such corporation or partnership within a period no longer than 24 months from the issuance date of such obligations.

Also, any interest on mortgage loans on residential property located in Puerto Rico issued after July 31, 1997, secured or guaranteed under the provisions of the National Housing Act of June 27, 1934, as amended, or under the provisions of the Servicemen's Readjustment Act of 1944, will qualify for the aforementioned preferential rate of 10%.

You must also include any interest in mortgage loans on residential property located in Puerto Rico which interests are not exempt under Section 1031.02 of the Code, and shares in trusts representing an interest over such loans (or any other instrument representing an interest in such loans), provided that the interest recipient is not a financial institution as such term is defined in Section 1033.17(f) of the Code.

This information is obtained from Box 6 of Form 480.6B (Informative Return – Other Income Subject to Withholding). Provide the required information with your return.

You must also include in this Column the information that comes from line 1F, Part III of Form 480.60 F (Revocable Trust or Grantor Trust Informative Return).

Also include the information that comes from line 12, Part III of Form 480.60 EC (Informative Return -Pass-Through Entity).

**Column B** – You must show the taxable interests from an Individual Retirement Account or an Educational Contribution Account from eligible financial institutions subject to withholding, if you exercised the option to pay a preferential tax rate of 10% over the excess of \$100. This amount comes from Schedule F Individual, Part I, line 1, Column D. Provide with the return the information from Form 480.7 (Informative Return - Individual Retirement Account) or Form 480.7B (Informative Return - Educational Contribution Account), as applicable.

**Column C** – You must show the interests subject to withholding from financial institutions if you exercised the option to pay a preferential tax rate of 10% over the excess of \$100, **without including** taxable interests from an Individual Retirement Account or an Educational Contribution Account. This information is obtained from Box 5 of Form 480.6B. Provide the required information of the form with your return.

You must also include in this Column the information that comes from line 1E, Part III of Form 480.60 F if the 10% withholding is reflected in the Tax Withheld Column.

Also include in this Column the information from line 10, Part III of Form 480.60 EC.

**Column D** – Enter the interests received from eligible financial institutions, including interests generated from an Individual Retirement Account or an Educational Contribution Account, for which the option to pay a preferential rate was not exercised. Provide the required information from Box 2 of Form 480.6A (Informative Return - Other Income Not Subject to Withholding).

You must also include in this Column the information from line 1E, Part III of Form 480.60 F if the 10% withholding is reflected in the Tax Withheld Column.

Also include in this Column the information from line 11, Part III of Form 480.60 EC.

**Column E** – Enter the interests earned from Individual Retirement Accounts (IRA) received from distributions to certain Government pensioners, if you exercised the option to pay a preferential tax rate of 10% over the excess of \$100. This

amount comes from Schedule F Individual, Part I, line 1 Column E.

For additional information refer to instructions of Part I of Schedule F Individual. Provide the required information of Box 12(G)(2) of Form 480.7.

**Column F** – Enter in this column other interests subject to withholding received or credited under the provisions of special legislation that provides for a preferential rate other than the ones related to the interests included in Columns A through E.

You must also include in this Column the information from line 1G, Part III of Form 480.60 F.

Also include in this Column the information from line 13, Part III of Form 480.60 EC.

**Column G** – Enter the interests received or credited from deposits, certificates of deposit, current accounts in savings cooperatives and associations held in any commercial bank or financial institution located outside of Puerto Rico, or any other interest income not included in Columns A through F. Provide the required information from Boxes 3 and 4 of Form 480.6A, among others.

You must also include in this Column the information from line 1H, Part III of Form 480.60 F.

Also include in this Column the information from line 13, Part III of Form 480.60 EC if a percentage in \_\_\_% is not included.

If you receive federal informative returns with income subject to tax in Puerto Rico (i.e. Forms 1099-INT or Federal K-1), you must enter in this Column G the amounts of interest that are included in said forms.

**Line 1(a)** - Enter the sum of the total interests included in Columns A, C, D, F and G of Part I.

**Line 1(b)** – Enter the total of interests received during the year from the concept of IRA (included on Schedule F Individual, Part I, Columns C and D) and interests for the concept of distributions to Government pensioners (included on Schedule F Individual, Part I, Column E).

**Line 1(c)**- Transfer the result of the sum of Columns A to G to the line of (Total \$ \_\_\_\_\_) that is included on line 2C, Part 1 of page 2 of the return or to Part I, line 3C of Schedule CO Individual, as applicable.

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

**Line 3**– Interests received from financial institutions engaged in trade or business in Puerto Rico are exempt up to \$100 or \$200 for married taxpayers. This exemption will be claimed in Column B, C, D or E of this line. The total amount of the sum of all columns on this line should not exceed \$100 or \$200 for married taxpayers. In the case of married taxpayers filing separately or if the optional computation of tax is chosen, the exemption cannot exceed \$100 for each one.

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

**Line 5** - Add the total net interest of each Column of line 4, including interests subject to preferential rates, and transfer it to Part 1, line 2C of the return or Part I, line 3C, Columns B and C of Schedule CO Individual.

## PART II - CORPORATE DIVIDENDS

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

**Column A** – It must be reflected in this column dividends subject to a 15% withholding. Every eligible distribution made by a domestic or foreign corporation, which income from sources within Puerto Rico is at least 80% of its gross income derived during the last 3 taxable years prior to the date in which the dividend is declared, is subject to a 15% preferential rate. If you have an investment in stocks in a domestic corporation, a 15% withholding will be made automatically on any distribution made, unless you elect that such withholding be inapplicable.

This information comes from Box 2 of Form 480.6B (Informative Return – Other Income Subject to Withholding). Provide with the return the required information of this form.

If you elected that no withholding be made, you must inform such income as ordinary income and pay taxes at the regular rates. This income must be informed in Column D and provide with the return the required information from Box 5 of Form 480.6A (Informative Return - Other Income Not Subject to Withholding).

Also include in this Column the information from line 1I, Part III of Form 480.60 F and line 8, Part III of Form 480.60 EC, if applicable.

**Columns B and C** – Enter in these Columns any dividend distribution under the provisions of special legislation that provides a preferential rate different to 15%. Enter in the space provided the applicable preferential rate. Provide the required information from Box 3 of Form 480.6B.

Also include in this Columns the information from line 1J, Part III of Form 480.60 F and line 9, Part III of Form 480.60 EC, as applicable.

**Column D** – Enter any dividend distribution received from a foreign corporation not engaged in trade or business in Puerto Rico, or which income is substantially from sources outside Puerto Rico. Provide the required information from Box 5 of Form 480.6A.

You must also include in this Column the information from line 1K, Part III of Form 480.60 F and line 9, Part III of Form 480.60 EC if a percentage in \_\_\_% is **not** included, as applicable.

If you receive federal informative returns of income subject to tax in Puerto Rico (i.e. Form 1099-DIV or Federal K-1), you must enter in this Column D the amounts of dividends that are included in said forms.

**Line 1**- Transfer the result of the sum of Columns A to D to the line of (Total \$ \_\_\_\_\_) that is included on line 2D, Part 1 of page 2 of the return or to Part I, line 3D of Schedule CO Individual, as applicable.

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

**Line 3** – Determine the amount of taxable dividends for each category by subtracting the expenses (line 2) from the total

(line 1). The net dividend income from Columns A, B and C will be transferred to line 4(f) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.

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

### PART III - MISCELLANEOUS INCOME

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

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

**Line 1**- Transfer the result of the sum of Columns A and B to the line of (Total \$\_\_\_\_\_) that is included on line 2G, Part 1 of page 2 of the return or to Part I, line 3G of Schedule CO Individual, as applicable.

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

**Line 3** - Determine the amount of taxable income for each category by subtracting the expenses (line 2) from the total (line 1).

**Line 4** – Add the subtotal of Columns A and B of line 3. Transfer this amount to Part 1, line 2G of the return or to Part I, line 3G of Schedule CO Individual, Columns B and C, as applicable.

### SCHEDULE F1 INDIVIDUAL – DETAIL OF INCOME OF RESIDENT INDIVIDUAL INVESTORS

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

For purposes of Act 22-2012, as amended, or Act 60-2019, as amended, **“resident individual investor”** means a resident individual, as defined in Section 1010.01(a)(30) of the Code, who was not a resident of Puerto Rico between January 17, 2006 and January 17, 2012 and who becomes resident of Puerto Rico no later than the taxable year ending on December 31, 2035.

**You should indicate the tax exemption grant number issued by the Department of Economic Development and Commerce and the date on which you established your residence in Puerto Rico. You must have answered “Yes” in Question E of the Questionnaire on page 1 of the return.**

### PARTS I AND II – INTERESTS AND DIVIDENDS

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

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

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

Transfer the total of line 1, Parts I and II to Schedule IE Individual, Part II, line 36.

### PART III – CAPITAL ASSETS GAINS AND LOSSES

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

#### Accretion before becoming resident of Puerto Rico

The part of the net long-term capital gain derived by a resident individual investor related to any accretion in securities owned before he/she became resident of Puerto Rico, that is recognized after 10 years of becoming resident of Puerto Rico and before January 1, 2036, will be subject to the payment of a 5% tax, in lieu of any other tax provided by the Code, including alternate basic tax. If such accretion is recognized at any other moment, the net long-term capital gain related to such securities, shall be subject to the payment of income tax according to the tax treatment provided by the Code. The amount of this net long-term capital gain shall be limited to the share of the gain related to the accretion of the securities while the resident individual investor was living outside of Puerto Rico. Provided that, for taxable years beginning after December 31, 2016, said capital gain will be considered income from sources outside of Puerto Rico for purposes of the income tax provided in the Code.

#### Accretion after becoming resident of Puerto Rico

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

You must indicate the sale price and the adjusted basis of the capital asset sales transactions included in this Part III, in Columns A and C, respectively. In addition, in those cases in which the sale of capital assets included in this part correspond to securities that the resident investor owned at the moment of becoming resident of Puerto Rico, the market value of said securities at the date of establishing residence in Puerto Rico shall be indicated in Column B.

Transfer the total of line 1, Column (E) to Schedule D Individual, Part II, line 15. Transfer the total of line 1, Column (F) to Schedule IE Individual, Part II, line 36. For additional information refer to Act 22-2012, as amended, or Act 60-2019, as amended.



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

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

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

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

### Definitions:

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

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

### PART I - QUESTIONNAIRE

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

The adjusted basis to be informed on line 2 will be equal to the amount determined on Schedule G Individual, Part III, line 21 for the taxable year in which you elected to benefit from the gain postponement.

**This Schedule must include the aforesaid information and will be submitted with your return for all subsequent years in which you elected to benefit from the postponement of the gain from a sole proprietorship business.**

### PART II - COMPUTATION OF GAIN (OR LOSS)

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

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

However, the adjusted basis of the property must be increased by those taxpayers that during the periods comprised between July 1 and December 31, 2006 and/or between July 1, 2014 and April 30, 2015 prepaid the 5% and/or 8% special tax, respectively, on the increase in accumulated value of capital assets. In this case, the adjusted basis of the property will include the increase in accumulated value upon which the special tax was paid. To indicate this adjustment to the basis, select the corresponding oval.

**Line 10** - Enter the gain realized on the sale. If the gain was realized on the sale of a qualified property under the provisions of Act 132-2010 or Act 216-2011, the same is 50% exempt from the payment of income tax. For the definition of qualified property refer to the instructions of Schedule D Individual.

**Line 12** - If you sold your first sole proprietorship business and have the intention of purchasing another new sole proprietorship business, the Code provides you the benefit to postpone the realized gain as long as you comply with the requirements previously mentioned. Do not complete the rest of the Schedule and submit it with your return. **You must fill out another Schedule G Individual for next year to inform the postponed gain and the adjusted basis of the new sole proprietorship business.**

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

**Line 13** - Enter on this line the total amount realized on the sale of your first sole proprietorship business as determined on line 10. Indicate if it is a short-term or long-term gain, by selecting the corresponding oval.

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

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

On the other hand, if this line is more than zero and you do not have the intention of buying another business during the replacement period provided by the Code, all realized gain, as determined on line 10 of this schedule, will be recognized and taxed in this taxable year. However, if you select the oval on line 10 indicating "Qualified property:  1 Yes", transfer to Schedule D Individual, as applicable, the 50% of the amount shown on this line.

**Line 14** - To determine which part of the realized gain is taxable, the sale price of the first sole proprietorship business will include only the amount of any mortgage, fiduciary cession for the benefit of creditors (trust deed), or any other debt to which is subject such property owned by the purchaser. In this case, the commissions and other selling expenses paid or incurred on the sale of the first sole proprietorship business will not be deducted nor taken into consideration while determining the sale price.

**Line 15(b)** - The cost of the new sole proprietorship business will be its cost plus those debts to which the property is subject (including mortgages) as of the date of the purchase, and the nominal value of the taxpayer's debts that are part of the consideration for the purchase.

**Line 19** - Enter the smaller of line 13 or 18. If the result is zero or less, there will be no taxable gain for this taxable year.

If the amount is more than zero, this will be the taxable gain for this taxable year. This occurs when the total amount reinvested in the new sole proprietorship business is less than the sale price of the first sole proprietorship business. If you selected the oval on line 10 indicating "Qualified property:  1 Yes", transfer to Schedule D Individual, as applicable, the 50% of the amount shown on this line.

**Line 21** - This will be the adjusted basis of the new sole proprietorship business, **which you must inform in all the subsequent taxable years since you elected the benefit of postponing the gain. The same will be informed on Schedule G Individual, Part I, line 2 of the following year of said election.**

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

### **SCHEDULE H INDIVIDUAL - INCOME FROM ANNUITIES OR PENSIONS RECEIVED IN THE FORM OF PERIODIC PAYMENTS**

This Schedule must be completed if you received income from annuities or pensions from qualified pension plans under Section 1081.01 of the Code or granted by the Government of Puerto Rico, the United States and instrumentalities or political subdivisions of both governments.

Identify the concept of income providing the required information or filling in the corresponding oval to indicate if you receive a pension or annuity, who grants the pension, place where you provided the service, the form in which the pension or annuity is reported, among others.

Schedule H Individual provides space to report the income from only one annuity or pension. Therefore, in the case of individuals receiving more than one annuity or pension, a separate schedule should be completed for each one.

If you receive benefits from the Social Security Administration, do not complete this Schedule because such benefits are not taxable in Puerto Rico. On the other hand, if you received income in periodic payments from the purchase of a fixed or variable annuity through a financial or insurance institution, report it on this schedule. However, any other income that is not received as periodic payments from such annuity must be informed on Schedule F Individual or Schedule D Individual, as applicable. Refer to the instructions of said schedules.

Pensions from governmental plans must be included on this Schedule.

In the case of a pension, the name of the payer and employer identification number must be included.

### **PART I - DETERMINATION OF COST TO BE RECOVERED OF THE PENSION OR ANNUITY**

Complete this part only if you have not recovered the cost of the pension or annuity. If you already have recovered the cost of your pension or annuity, do not fill out this Part and continue with Part II of the Schedule.

**Line 1** - Enter the cost of the pension or annuity. As a general rule, the cost of the pension or annuity is the amount that the taxpayer paid in order to be entitled to receive the annuity or pension. In the case of contributions to a qualified pension plan under Section 1081.01 of the Code, the cost of the pension includes after-tax contributions. Also, include those amounts over which you prepaid the 5% special tax under Sections 1081.01(b)(9) of the Code or Section 1012D of the 1994 Code and the 8% under Section 1023.21 of the Code.

As a general rule, this information comes from Box 3 of Form 480.7C (Informative Return – Retirement Plans and Annuities). In the case of pensions paid by retirement systems subsidized

by the federal government, its instrumentalities or political subdivisions, said information will be obtained from a Form 1099-R. You must provide the required information of the form with your return.

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

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

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

### **PART II - TAXABLE INCOME**

**Line 7** - Enter the total amount received from annuities or pensions during the year. This information appears on Form 480.7C, Box 17. In the case of pensions paid by retirement systems subsidized by the federal government, its instrumentalities or political subdivisions, said information will be obtained from a Form 1099-R.

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

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

For these purposes, Form 480.7C must indicate the following information:

- that the distribution is made in periodic payments,
- that it is a governmental or private qualified plan,
- that no amount must be reflected in Boxes 6 through 15, and
- that the distribution code in Box 23 must be one of the following: A, B, C, D or L.

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

If the total amount received during the year exceeds \$11,000 or \$15,000, as applicable, the excess over such amount will be subject to tax. While you are recovering the cost of the annuity or pension, you will be taxed up to 3% of such cost.

**If you claim the exempt amount of \$15,000, you must keep for your records a copy of your birth or baptism certificate as evidence to support your right to claim the exemption. Make sure to write your date of birth on page 1 of the tax return.**

**Line 12** - Enter the amount of line 11 or 3% of the annuity's cost, whichever is greater, until you have recovered the total cost of your annuity or pension tax free. This amount cannot be greater than the amount on line 9.

If the payments received covered less than 12 months, multiply 1/12th from the 3% of the pension cost (line 1) by the number of months during which the pension was received. Enter on line 12 of this Schedule and in Part 1, line 2H of the return, the amount determined from the above computation, or the amount entered on line 11 of this Schedule, whichever is greater, but

not greater than the amount of line 9. If you choose the optional computation of tax, transfer this amount to Schedule CO Individual, Part I, line 3H, Column B or C, as applicable, corresponding to the taxpayer or his/her spouse.

**Line 13** - Enter the income tax withheld, if any, and transfer this amount to Schedule B Individual, Part III, line 18.

**Provide the required information of Form 480.7C and this Schedule.**

## SCHEDULE IE INDIVIDUAL – EXCLUDED AND EXEMPT INCOME

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

In the case of married taxpayers filing jointly, they shall complete and submit with the return a **Schedule IE Individual for each spouse**. Select the oval that identifies the taxpayer or the spouse, respectively.

### PART I – EXCLUSIONS FROM GROSS INCOME

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

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

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

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

- bankruptcy under Title 11 of the Code of the United States of America approved by a court with competent jurisdiction;
- taxpayer insolvency (liabilities exceed the fair market value of the assets);
- the debt is from a student loan which terms allow for discharge in exchange for work for a period of time in certain professions or with specific employers; or
- the debt discharged is the product of a reorganization of a mortgage loan guaranteed by a qualified residence of the taxpayer, as provided in Section 1033.15(a)(1)(D) of the Code, and which is located in Puerto Rico. For purposes of this subsection the original mortgage loan debt cannot exceed one million (1,000,000) dollars.

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

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

Provide the information of Box 19 of the Informative Return - Exempt and Excluded Income and Exempt Income Subject to Alternate Basic Tax (Form 480.6D).

**Line 6** – Enter the income received for **child support**. Do not include on this line payments received from alimony due to divorce or separation provided under Section 1033.13 of the Code. If you received payment from alimony due to divorce or separation, enter it on line 2(N), Part 1 of the return.

**Line 7** - Enter the amount of compensation or indemnification paid for dismissal, pursuant to Section 1031.01(b)(15) of the Code (that is, compensations or indemnities paid to an employee due to dismissal, without the need to determine their just cause, up to a maximum amount equivalent to the compensation that the employee could receive under Act No. 80 of May 30, 1976, as amended). This amount includes any equivalent voluntary payment that was paid by the employer to the employee because of the dismissal, regardless of whether the payment is made at the time of the dismissal or subsequently, or is made by reason of a transaction agreement or by virtue of a court ruling or administrative order. Provide the required information of the Withholding Statement (Form 499R-2/W-2PR), Box for Exempt Salaries, Code I.

**Line 8** - Enter the amount received as compensation, payments or distributions received due to a disaster declared by the Governor of Puerto Rico that have been reported in a withholding statement or informative return. The amount received must be made to provide assistance and support in the process of repairing, mitigate or compensate any damage or loss suffered as consequence of a disaster. Provide the required information of the Withholding Statement (Form 499R-2 / W-2PR), Box 16, 17 or 18 that includes Code G; of the Informative Return - Exempt and Excluded Income and Exempt Income Subject to Alternate Basic Tax (Form 480.6D), or the amount reported on Schedule F Individual, Part VI, line 4, as applicable.

**Line 9** - Enter the amount received as compensation, payments or distributions received due to a disaster declared by the Governor of Puerto Rico that have not been reported in a withholding statement or informative return. The amount received must be made to provide assistance and support in the process of repairing, mitigate or compensate any damage or loss suffered as consequence of a disaster. In this case, the taxpayer must include with the return a detail in which the origin of the compensation, payment or distribution received is broken down.

**Line 10** - Enter the amount received for any subsidy or stimulus paid by the Federal Government because of COVID-19. Include a breakdown with a description of the Federal Government aid program that allowed the access to this benefit, the amount of the payment and any other required information.

**Line 11** - Enter the amount received for any subsidy or stimulus paid by the Government of Puerto Rico because of COVID-19. Include a breakdown with a description of the aid program from the Government of Puerto Rico, either at the central or municipal level, the amount of the payment and any other required information.

**Line 12** - Enter the total amount received for interest upon mortgages over residential property located in Puerto Rico granted after January 1, 2014 (including mortgages that are from new construction and that have been granted contemporaneously with the first transmission of the property mortgaged to a new owner) and secured or guaranteed by the National Housing Act of 1934 or the Servicemen's Readjustment Act of 1944.

**Line 13** - Enter the total amount of other exclusions from gross income for which a specific line is not provided on this Schedule, such as study scholarships, literary, scientific, artistic or other awards. Also, enter amounts excluded from gross income under special laws.

An example of the special laws is the income derived from meal or trip allowances paid for voluntary services under the Voluntary Act of Puerto Rico (Act 261-2004). This amount shall not exceed \$1,500. Any excess over such amount is included as taxable income.

Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

The taxpayer must include with the return a schedule detailing the type of exclusion from net income and the amount of said income received during the taxable year.

If you choose the optional computation of tax, indicate on lines 1 through 11 the total amount received by each spouse in his/her individual capacity. Enter on line 12 the amount of income received on a 50% basis for each spouse. On the other hand, indicate on line 13 the total amount received by each spouse in his/her individual capacity or on a 50% basis, as applicable.

## PART II - EXEMPTIONS FROM GROSS INCOME

**Line 2(C)** - 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 owned 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;
- on new construction residential property located in Puerto Rico issued after July 31, 1997 and secured by the National Housing Act of 1934 or the Servicemen's Readjustment Act of 1944;
- 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.

Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Provide the required information from Box 8 of Form 480.6D.

**Line 2(D)** - Enter the amount claimed as an exclusion up to \$100 for interests received from deposit in accounts in Puerto Rico. Transfer to this line the amount entered on Schedule FF Individual, Part I, line 3. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

**Line 2(E)** - 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, as amended, conditioned on that the funds being totally used for 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 Box 9 of Form 480.6D.

**Line 2(F)** - Enter the total amount of other interests subject to alternate basic tax reported in Box 10 of Form 480.6D.

Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax. Provide the required information of Form 480.6D.

**Line 2(G)** - 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 of Form 480.6D.

**Line 2(H)** - Enter the total amount of other interests subject to alternate basic tax **not** reported on Form 480.6D.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number, account number (if applicable) and the amount of interests received during the year that are subject to the payment of alternate basic tax and were **not** reported on a Form 480.6D.

Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

**Line 2(I)** - Enter the total amount of other interests **not** subject to alternate basic tax and **not** reported on a Form 480.6D.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number, account number (if applicable) and the amount of interests 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(A)** - Enter the distributions of dividends reported in Boxes 12 and 17 of Form 480.6D which are subject to alternate basic tax. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax. Provide the required information of Form 480.6D.

**Line 3(B)** - Enter the dividend distributions reported in Boxes 13, 14, 15, 16 and 18 of Form 480.6D. Enter the amount only in the column of items considered for the mortgage interest limitation. Provide the required information of Form 480.6D.

**Line 3(C)** - Enter dividends that were **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 schedule detailing the payer's name and employer identification number, 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.

Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

**Line 3(D)** - Enter dividend distributions **not** reported on Form 480.6D and **not** subject to the payment of alternate basic tax.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number, 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 4** - Enter the fair rental value of housing and its belongings, and the amount of any payments for water, electricity, gas and telephone provided to a priest or minister of any religion properly ordained, as part of their compensation. The expenses may not be sumptuous or extravagant, as determined by the Secretary.

**Line 5** - Enter the total amount received from exempt interest reported in Box 12(C) of Form 480.7 or in Box 8(B)(2) of Form 480.7B, as applicable. Provide the required information of the corresponding form.

**Line 6** - Enter the amount of remuneration received as a physician during the internship period under a contract with the Department of Health of Puerto Rico or with any municipality or political subdivision of the same for medical training through practice at a hospital. The exemption applies to remuneration in the form of a monthly allowance and the additional allowance for the cost of housing and meals for a maximum period of 72 months. Provide the required information of Form 499R-2/W-2PR.

**Line 7** - Enter the amount of income received by a Puerto Rico Police member for the overtime worked, as provided in Act 58-2013. This officer is defined in Article 2 of Act 53-1996, as amended (Puerto Rico Police Act of 1996). Provide the required information of Form 499R-2/W-2PR.

**Line 8** - Enter the amount of wages received by public employees for overtime work in emergency situations under Act 324-2004. Provide the required information of Form 499R-2/W-2PR. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

**Line 9** - Enter the amount received by an eligible researcher or scientist for services rendered to a superior level educational institution to perform eligible scientific research as provided in Section 1031.02(a)(26) of the Code and the regulations issued thereunder. Enter also the compensation received by an eligible researcher or scientist for services rendered in the District established under Article 7 of Act 214-2004, as amended. For more information, refer to Section 1031.02(a)(27) of the Code.

The taxpayer must keep for his/her records the Certification issued by the Department granting the exemption.

**Line 10** - Enter the amount paid by an employer to an employee as a reimbursement for expenses related to trips, meals, lodging, entertainment (not sumptuous or extravagant) and other expenses related to the employment, provided the reimbursement was done pursuant to a reimbursement plan established by the employer that complies with the requirements established by the Secretary.

**Line 11** - Enter the amount of Cost of Living Allowance (COLA) received by employees of the Government of the United States of America who work in Puerto Rico up to the amount that is exempt from the income tax imposed by the Federal Internal

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

**Line 12** - Enter the amount received for compensation for active military service rendered by military personnel in a combat zone. This exemption does not apply to military personnel transferred outside Puerto Rico to relieve other personnel that was sent to the combat zone. For more information, see Section 1031.02(a)(20) of the Code. Include Federal Form W-2.

**Line 13** - Enter the amount received for the recapture of bad debts, prior taxes, surcharges, and other amounts. For more information, see Section 1031.02(a)(8) of the Code. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

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

**Line 16** - Enter amount received by as pensioner of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities, the Retirement Systems of the Judiciary and the University of Puerto Rico, and the pensioners of the Teachers' Pension and Annuity System with respect to the Christmas Bonus, the Summer Bonus granted by Act 37-2001 and Act 38-2001, and the Medicine Bonus granted by Act 155-2003 and Act 162-2003.

**Line 17** - Enter the amount of the gain on the sale or exchange of the principal residence by certain individuals, from qualified property and from eligible housing. For more information, refer to Act 216-2011, Regulation No. 8127 of December 23, 2011 and Act 303-2012. Transfer to this line the amount entered on Schedule D1 Individual, line 8 or the amount entered on Schedule D3 Individual, line 14, as applicable.

**Line 18** - Enter the amount received for unemployment compensation under an act of the United States, a state of the Union or the Government of Puerto Rico. Enter the amount in the column of items considered for the mortgage interest limitation.

**Line 19** - Enter the compensation received that was paid by a foreign natural or juridical person to citizens and nonresident aliens in Puerto Rico for technical services rendered during the realization of cinematographic productions for distribution to movie or television studios.

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

Transfer to this line the amount included in question C of the Questionnaire on page 1 of the return.

**Line 21** - Enter the amount of remuneration received by employees of foreign governments or international organizations. For more information, refer to Section 1031.02(a)(35)(E) of the Code.

**Line 22** – Enter the income received from buildings rented to the Government of Puerto Rico for public hospitals, health or convalescent homes, and public schools, solely and exclusively if they had a valid rental contract in force on or before November 22, 2010. Include Schedule N Individual and select in Part I of said schedule the oval that identifies the tax benefit under Section 1031.02(a)(35)(F) of the Code.

**Line 23** – Enter the income derived by the taxpayer from the resale of personal property or services which acquisition by the taxpayer was subject to tax under Section 3070.01 of the Code or Section 2101 of the 1994 Code.

**Line 24** – Enter the amount of accumulated gain from non qualified options to acquire stocks over which the taxpayer has prepaid the tax. (See Section 1040.08(e)(1)(A) and 1023.21(c)(i) of the Code). Provide the required information of Form 480.6D.

**Line 25** – Enter the distributions of amounts previously notified as deemed eligible distributions under Sections 1023.06(j) and 1023.25(b) of the Code. Provide the required information of Form 480.6D.

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

**Line 27** - Enter the amount received from certain exempt income related to the operation of an employee's-owned special corporation, such as 90% of the rental payments for real and personal property used by the corporation in its development, organization, construction, establishment, or operation. For more information refer to Section 1031.02(a)(17) of the Code. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

**Line 28** – 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, in the column of items considered for the mortgage interest limitation, the amount indicated on Form 480.60 EC, Part III, line 17 and on Form 480.60 F, Part III, line 1U, as applicable. Transfer to the column of items subject to alternate basic tax, the amount indicated on Form 480.60 EC, Part III, line 18 and on Form 480.60 F, Part III, line 1V, as applicable.

**Line 29** - Enter the income from copyrights up to \$10,000 under the Puerto Rico Integral Development of the Book Industry Incentives Act (Act 516-2004).

**Line 30** - Enter the income received by designers and translators for their work in the preparation of books up to \$6,000, under Act 516-2004.

**Line 31** – Enter the amount received from salaries, services rendered and/or self-employment up to a maximum of \$40,000 if you are a young individual whose age fluctuates between 16 and 26 years at the end of the taxable year.

On the other hand, if you are a young entrepreneur whose age fluctuates between 16 and 35 years and you are in the first three years of operation of a new business under a special agreement for the creation of young businesses, enter in the corresponding line the amount of gross income generated by the new business, up to \$500,000. For more details, refer to the provisions of Act 135-2014 (Act for the Incentives and Financing of Young Entrepreneurs).

In order to claim the \$500,000 deduction, you must include with the return the Certification or copy of the Special Agreement for the Creation of Young Businesses (Agreement) issued by the Puerto Rico Trade and Export Company. The exemption will be applicable during the first 3 years from the signing of the Agreement. This document shall be filed through SURI.

**Line 32** - Enter the amount of exempt wages received as professional in a hard-to-fill position as provided under Section 2022.03(a) of the Incentives Code (Act 60-2019). These wages are reported on the Withholding Statement (Form 499R-2/W-2PR), Box for Exempt Salaries, Code J.

**Line 33** – Enter the amount included in Box 22 (Other Payments Subject to Alternate Basic Tax) of Form 480.6D, for which there is not a specific line provided on this Schedule.

**Line 34** - Enter the amount included in Box 23 (Other Payments Not Subject to Alternate Basic Tax) of Form 480.6D, for which there is not a specific line provided on this Schedule.

**Line 35** – Enter the amount of other exempt income subject to alternate basic tax for which there is not a specific line provided on this Schedule and were **not** reported on a Form 480.6D.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number and the amount of income received during the year subject to the payment of alternate basic tax that was **not** reported on a Form 480.6D.

**Line 36** – Enter the total amount of other exempt income **not** subject to alternate basic tax for which there is not a specific line provided on this Schedule and were **not** reported on a Form 480.6D. Racetrack winnings or income generated from participants of the Caribbean Series are examples of the type of exempt income that may be included on this line.

Also, enter on this line distributions of dividends or benefits from industrial development income of exempt business or from exempt income of exempt hospital operations, or distributions in liquidation under Industrial Incentive Acts. For the treatment of such current or liquidation distributions, see Internal Revenue Circular Letters No. 09-06 of July 22, 2009 and No. 12-07 of October 10, 2012.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number and the amount of income received during the year **not** subject to the payment of alternate basic tax that was **not** reported on a Form 480.6D.

**Line 37** - Enter the income from residential property rented under the Real Property Market Stimulus Act (Act 132-2010, as amended) reported in Schedule N Individual, Part II, line 2. Make sure to select oval 2 (Exempt amount under Act 132-2010) in said schedule.

**Line 38** - Enter the exempt amount of manufacturing income covered under incentive acts, as determined in Part IV, line 4 of Schedule J Individual. Make sure you have indicated in the schedule the incentives act which entitles you to this exemption.

**Line 39** - Enter the exempt amount on income from the sale of goods covered under incentive acts, as determined in Part IV, line 4 of Schedule K Individual. Make sure you have indicated in the schedule the incentives act which entitles you to this exemption.

**Line 40** - Enter the exempt amount from farming income covered under incentive acts, as determined in Part IV, line 4 of Schedule

L Individual. Make sure you have indicated in the schedule the incentives act which entitles you to this exemption.

**Line 41** - Enter the exempt amount on income from services rendered covered under incentive acts, as determined in Part IV, line 4 of Schedule M Individual. Make sure you have indicated in the schedule the incentives act which entitles you to this exemption.

**Line 42** - Enter the exempt amount on income from the rent of property covered under incentive acts, as determined in Part IV, line 4 of Schedule N Individual. Make sure you have indicated in the schedule the incentives act which entitles you to this exemption.

In the case of married taxpayers filing jointly, enter on lines 1, 4, through 12, 15, 16, 18, 19, 21, 24, 26, 28 through 32 and 38 through 42, the total amount received by each spouse in his or her individual capacity. Enter on lines 2, 3, 13, 14, 17, 22, 23, 25, 27, and 37, the amount of income received per each category on a 50% basis to each spouse. On the other hand, enter on lines 20 and 33 through 36 the total amount received by each spouse in his or her individual capacity or on a 50% basis to each one, as applicable.

### PART III – TOTAL

**Line 1** – Add line 14 of Part I and line 43 of Part II of the first column. This is the amount of excluded and exempt income that you will consider for the 30% income limitation when you claim the deduction for mortgage interests. **You should complete and submit with your return this Schedule to have the right to consider this income for purposes of such deduction on Schedule A Individual, Part I, line 1(i).**

**Line 2** – Add line 14 of Part I and line 43 of Part II of the second column. This is the total of excluded and exempt income subject to alternate basic tax. Transfer this amount to Schedule O Individual, Part I, line 11.

### SCHEDULES J INDIVIDUAL, K INDIVIDUAL, L INDIVIDUAL, M INDIVIDUAL AND N INDIVIDUAL

Use these Schedules if you had income from:

- |                      |                       |
|----------------------|-----------------------|
| 1) Manufacturing     | Schedule J Individual |
| 2) Sale of Goods     | Schedule K Individual |
| 3) Farming           | Schedule L Individual |
| 4) Services Rendered | Schedule M Individual |
| 5) Rent              | Schedule N Individual |

**Said Schedules provide spaces to inform only one source of income. Therefore, if you have more than one source of income, you must complete a separate schedule for each one. You must also indicate in the provided space, if the reported income on such schedules constitutes your principal industry or business.**

Also, you must consolidate the gain or benefit determined in Part IV of the applicable schedules corresponding to the same source of income and transfer the total amount to the applicable line on page 2, Part 1 of the return or to Part I, lines 3P through 3T of Schedule CO Individual, if you choose the optional computation of tax. For example, in case of a taxpayer who files a joint return with his spouse, and he is a lawyer and she is a physician, they will use two Schedules M Individual to determine the income and expenses for each one of the professions and then will transfer the sum of Part IV, line 5 of said schedules to page 2, Part 1, line 2S of the return or Part I,

line 3S, Columns B and C of Schedule CO Individual, if you choose the optional computation of tax.

If the taxpayer has a supermarket and a gas station, he or she will use two Schedules K Individual to detail the income and expenses and then will transfer the sum of Part IV, line 5 of said schedules to page 2, Part 1, line 2 Q of the return or to Part I, line 3Q, Column B or C of Schedule CO Individual, if you choose the optional computation of tax.

If you have two properties for rent, one for commercial use and other for residential purposes, you shall use two Schedules N Individual to detail the income and expenses of each property and transfer the sum of Part IV, line 5 of such Schedule to page 2, Part 1, line 2T of the return or to Part I, line 3T, Columns B and C of Schedule CO Individual, if you choose the optional computation of tax.

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

### Audited Financial Statements:

Those taxpayers engaged in trade or business or engaged in the production of income in Puerto Rico, shall be required to submit with the income tax return for taxable year 2020, audited financial statements or an equivalent document, as it follows:

#### 1. Individuals with business volume of less than \$1 million

When the business volume during a taxable year is less than \$1,000,000, the individual do not have the obligation to submit the audited financial statements or equivalent document to those required by Section 1061.15 of the Code. However, the taxpayer may voluntarily submit, together with the filing of the return, one of the following documents to be able to claim in the return other deductions subject to validation for purposes of the alternate basic tax, as provided in Section 1021.02(a)(2) of the Code.

- Agreed Upon Procedures Report ("AUP") prepared by a Certified Public Accountant ("CPA") with a license in force in Puerto Rico under Internal Revenue Circular Letter No. 19-14 ("CC RI 19-14") related to the alternate basic tax;
- Schedule DDC Individual - Due Diligence Checklist by Accredited Agent-Tax Returns Specialist, provided by the Department of the Treasury; or
- Audited Financial Statements with an Auditor's Report issued by a CPA licensed to practice in Puerto Rico under Section 1061.15 of the Code (Audited Financial Statements).

#### 2. Individuals with business volume equal or greater than \$1 million, but less than \$3 million

When the business volume during a taxable year is equal or greater than \$1,000,000, but less than \$3,000,000, the individual does not have the obligation to submit the Audited Financial Statements. However, that individual who, together with the filing of the return, voluntarily submit one of the following documents, will not be subject to the limits on the deductions established in Section 1021.02(a)(2) of the Code.

- AUP prepared by a CPA with a license in force in Puerto Rico under CC RI 19-14;
- AUP prepared by a CPA with a license in force in Puerto Rico under Internal Revenue Circular Letter No. 20-39 (CC RI 20-39); or
- Audited Financial Statements.

In addition, every individual who is up to date with the tax responsibility and under these conditions, choose to include the Audited Financial Statements or the AUP under CC RI 20-39; will have the right to the Secretary relieve of being subject, total, or partially, to the withholding at source on payments received for services rendered.

### **3. Individuals with business volume equal or greater than \$3 million, but less than \$10 million**

When the business volume during a taxable year is equal or greater than \$3,000,000, but less than \$10,000,000, the individual must submit, at his/her choice, Audited Financial Statements or the AUP prepared by a CPA with a license in force in Puerto Rico under CC RI 20-39.

### **4. Business volume greater than \$10 million**

When the business volume generated during a taxable year is greater than \$10,000,000, the taxpayer must have the obligation to submit with the return Audited Financial Statements.

#### **Requirement of Audited Financial Statements to Groups of Related Entities:**

In the case of a group of related entities, as defined in Section 1010.05 of the Code, composed of entities or natural persons who are engaged in trade or business in Puerto Rico, the financial statements required in points (2), (3) and (4) must be submitted as consolidated or combined financial statements, in accordance with provisions of the Generally Accepted Accounting Principles in United States of America ("US GAAP"). However, these consolidated or combined statements must include a schedule showing in columns, the financial position, and results of operations of each of the affiliated entities that make up the group of related entities.

The Secretary may, through regulations, circular letter, administrative determination, or a general communication, establish those conditions that he deems necessary to exempt the requirement to file consolidated or combined statements and, instead, require financial statements separated by entity, as long as it is included in the notes to these financial statements the information of those related entities that are engaged in trade or business in Puerto Rico, and a schedule that presents in columns, the financial statement and the results of operations of each of the affiliates that make up the group of related entities.

However, every entities that have generated a business volume equal to or greater than \$1,000,000, and for the reason that the business volume of the group of related entities to which they belong is equal to or greater than \$10,000,000 in the aggregate, may submit, instead of the consolidated or combined financial statements, financial statements presenting financial position and results of operations of said entity individually, as long as, the notes to those financial statements includes a list of all the related entities that are engaged in trade or business in Puerto Rico. Such information must include the name of each of the persons who are part of the group of related entities that are engaged in trade or business in Puerto Rico.

Also, a person who is part of a group of related entities subject to the provisions of the Section 1061.15 of the Code but that has not derived a business volume equal to or greater of \$1 million for a taxable year, will not be required to submit Audited Financial Statements for that year. However, said entity will be subject to the requirement of the AUP pursuant to CC RI 20-39, if do not choose to submit Audited Financial Statements.

For its part, every entity or natural person that is part of a group of related entities and that according to the rules has the obligation

to file Audited Financial Statements, will be required to submit the supplementary information described in Section 1061.15(b) of the Code.

#### **Audited Financial Statements and Requirement of Supplementary Information:**

The Audited Financial Statements required by Section 1061.15 of the Code, will include an income statement, a balance sheet, a cash flow, and a stockholders equity statement. They must be submitted with an Auditor's Report issued by a CPA licensed to practice public accounting in Puerto Rico.

Said Auditor's Report shall indicate that the financial statements have been submitted under the Auditing Standards Generally Accepted in the United States of America ("US GAAS"), without it being necessary, however, that the CPA issues a non-qualified opinion. Qualified opinions will be accepted, as defined by the US GAAS, provided that the qualification of the opinion is not due to restrictions on the scope of the audit imposed by the business. Reports with abstention of opinion will not be accepted due to restrictions on the scope of the audit imposed by the business. Reports of adverse opinion shall not be accepted.

In addition, Section 1061.15(b) of the Code establishes the requirement to include additional information to the financial statements that are submitted with this return. Every individual who has to submit Audited Financial Statements along with his or her return, will have the obligation to submit supplementary information as described in Section 1061.15(b) of the Code. For additional information on the Guidelines for the Preparation of the Schedules Required as Supplementary Information, please refer to Administrative Determination No. 14-06 of March 6, 2014 and Administrative Determination No. 15-24 of December 17, 2015. The Supplementary Information must be submitted no later than the last day of the month following the due date to file the income tax return, including extensions. That is, an individual with a calendar year must file the return on April 15, therefore, the due date to submit the Supplementary Information will be no later than May 31. If the individual requests an extension of time to file the income tax return, the due date to submit said return will be October 15, therefore, in this case the due date to submit the Supplementary Information will be November 30.

#### **Business volume:**

The term "business volume" 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. The term business volume includes both, the amount of income reported on line 1, Part II of Schedules J, K, L, M and N Individual, and the business volume reported on line 23, Part III of those Forms 480.60EC included in the return, in which the individual has a 50% or more participation.

For additional information on the requirements to file audited financial statements, refer to Section 1061.15 of the Code. For additional information on the Agree Upon Procedure, refer to CC RI 19-14 related to the alternate basic tax, and to CC RI 20-39 related to Audited Financial Statements.

If you received income from of a sole proprietorship derived from manufacturing, sale of goods, agriculture, services rendered, rents or commissions, and your income from the sole proprietorship was \$400 or more during the year, you must file with the Internal Revenue Service (IRS) the U.S. Self-Employment Tax Return - Form 1040-SS.



Form 1040-SS is used to inform the sole proprietorship income and to pay any tax due. Also, the Social Security Administration use the information included on Form 1040-SS to compute the social security benefits of the persons who work as a sole proprietorship. For additional information you can call the IRS at (1) (800) 829-1040.

## PART I - QUESTIONNAIRE

Every taxpayer engaged in a trade or business must submit the information requested in the questionnaire of Part I. You must include your employer identification number, assigned by the **Federal Internal Revenue Service (IRS) and the Merchant's Registration Number assigned by the Department.**

If you use more than one of the same schedule, indicate the amount in the space provided at the upper right part of Schedules J, K, L, M and N Individual (i.e. "Schedule J No. \_\_\_ of \_\_\_").

In the box for Location of Industry or Business, you must include the address of the main office from which the industry or business is carried-out. If you do not have a main office, you must include in this box the same country and state included in the mailing address on page 1 of the return.

In the nature of the business, provide a description of the activity, including the code(s) from the North American Industry Classification System (NAICS) that appears on your Merchant's Registration Certificate. Also indicate the percentage that each of the applicable NAICS codes included within each schedule represents from the total of each industry or business. For example, if the industry or business only has one applicable NAICS code, you must include 100% in the "Percentage \_\_\_%" part. If more than one NAICS codes are applicable, you must submit a schedule detailing each applicable NAICS code with their corresponding percentage.

Indicate if you include with the return an audited financial statement or an AUP, as applicable, and indicate the stamp number from the CPA College of Puerto Rico of the CPA who made them or a due diligence checklist form (Schedule DDC Individual). If you are including with the return the AUP required under Section 1061.15 of the Code, you must select the option (1) Audited Financial Statement. If on the contrary, you submit the AUP to validate deductions on Section C, Part III for purposes of the alternate basic tax, select option (2) Agree Upon Procedures Report ("AUP").

**If you are engaged in a trade or business**, and your operations are covered by a tax exemption decree under Act No. 26 of June 2, 1978 (Puerto Rico Industrial Incentives Act), Act No. 52 of June 2, 1983 (Puerto Rico Tourism Incentives Act of 1983), Act No. 8 of January 24, 1987 (Puerto Rico Tax Incentives Act), Act 78-1993 (Puerto Rico Tourism Development Act), Act 225-1995 (Puerto Rico Agricultural Tax Incentives Act), Act 14-1996 (Special Act for the Development of Castañer), Act 135-1997 (Tax Incentives Act of 1998), a Theatrical Business operating under Act 178-2000 (Act for the Creation of the Theatrical District of Santurce), Act 73-2008 (Economic Incentives for the Development of Puerto Rico Act), Act 74-2010 (Puerto Rico Tourism Development Act of 2010), Act 83-2010 (Puerto Rico Green Energy Incentives Act), Act 132-2010 (Real Property Market Stimulus Act), Act 1-2013 (Jobs Now Act), Act 135-2014 (Act for the Incentives and Financing to Young Entrepreneurs), or Act 14-2017 (Incentives Act for the Retention and Return of Medical Professionals), Act 60-2019, as amended (Puerto Rico Incentives Code) or under Section 1031.02(a)(35)(F) of the Code, select the corresponding oval and indicate the case or concession number, if applicable. In case of Act 1-2013, you must include a copy of the Special Agreement for the Creation of

Jobs. On the other hand, in case of Act 135-2014, you must include a copy of the Special Agreement for the Creation of Young Businesses (Agreement) with the Puerto Rico Trade and Export Company, in order to enjoy the exemption for the first 3 years following the signature of the Agreement. If you are not covered by a decree or resolution, you must select the oval that indicates "Fully Taxable".

**Income from a Film Entity** derived directly from a Film Project or Infrastructure Project will be subject to a fixed income tax rate of 7%, in lieu of any other tax imposed by Law, if any. **For more details, refer to Act 60-2019, as amended.**

**Qualified Physicians who have a Decree under Act 14-2017 or Act 60-2019** will be subject, instead of any other tax provided by the Code or any other act, to a fixed income tax rate of 4% on the eligible income generated from professional medical services rendered during the entire period of the Decree approved by the Secretary of Economic Development and Commerce of Puerto Rico.

If you elected to receive the tax benefits granted by the Puerto Rico Agricultural Tax Incentives Act (Act 225-1995), as amended, you will have a 90% tax exemption on the agricultural net income as long as you have derived at least 50% of the gross income from agricultural activities, and submit with the return a copy of the current bona fide farmer certificate issued by the Secretary of Agriculture. In order for this exemption to be granted, you must select the applicable oval.

### Expenses Related to Certain Concepts

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

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

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

## PART II - DETERMINATION OF INCOME FOR THE CURRENT YEAR

If you received income from manufacturing, sale of goods, agriculture, services rendered or rental, use Parts II through VIII of Schedules J, K, L, M and N Individual, as applicable, to provide the information related to those activities. In the "Regular Tax" Column include items of income and expenses to consider for purposes of normal tax. In the "Alternate Basic Tax" Column enter the income and expenses that will be taken into account for the computation of the net income subject to alternate basic tax, as provided in Section 1021.02 of the Code.

As an example, a taxpayer who have an exemption decree under Act 14-2017 or Act 60-2019, as amended, received eligible income under the decree of \$60,000. In addition, he received \$25,000 for other services not covered by the decree. In this case, the "Regular Tax" Column will report income of \$85,000, while only \$25,000 will be transferred to the "Alternate Basic Tax" Column, provided that the eligible income under Act 14-2017 is not subject to alternate basic tax.

## Schedule J Individual

**Line 1** - Include as part of this line the amount reported on line 1P from Part III of Form 480.60F.

**Line 2** - Enter on this line the amount determined in Part V, line 7 of this Schedule.

**Line 3** - Enter the result of line 1 subtracted by line 2, as corresponds, in the columns of Regular Tax and Alternate Basic Tax. To determine the gross profit margin percentage for the year 2020, divide line 3 by line 1. To determine the corresponding amount for the year 2019, use the data from the 2019 return.

**Line 4** - Enter on this line, as applicable:

- a) The first \$40,000 of gross income from services rendered or self-employment generated by a young individual whose age fluctuates between 16 and 26 years at the end of the taxable year. If you qualified for this exemption, enter an amount not exceeding \$40,000 and select the corresponding oval.
- b) 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, in order to enjoy the exemption for the first 3 years following the signing of the Agreement. To claim the exemption, you must include a copy of the Agreement 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. If you qualify for this exemption, enter an amount not exceeding \$500,000 and select the corresponding oval.

**For additional details, refer to Act 135-2014.**

## Schedule K Individual

If during the taxable year you were engaged in the operation of **an activity that qualifies as a theatrical business**, as provided by Act 178-2000, and you derived income from the sale of admission tickets for artistic or cultural shows, as well as from other sources, you must file two Schedules K Individual. That is because half (50%) of the income derived from the sale of admission tickets is exempt from the payment of income tax. In one Schedule K Individual you must inform the partially exempt income, and on the other the fully taxable income.

It is important to point out that expenses related with the theatrical business operation must be assigned in the proportion that such expenses bear with each source of income. Make sure to indicate in Part I of this Schedule, Act 178-2000.

**Line 1** - Include as part of this line the amount reported on line 1Q, Part III of Form 480.60F.

**Line 2** - Enter on this line the amount determined in the Part V, line 5 of this Schedule.

**Line 3** - Enter the result of line 1 subtracted by line 2, as corresponds, in the Regular Tax and Alternate Basic Tax columns. To determine the gross profit margin percentage for the year 2020, divide line 3 by line 1. To determine the

corresponding amount for the year 2019, use the data from the 2019 return.

**Line 4** - Refer to the instructions of line 4, Part II of Schedule J Individual.

## Schedule L Individual

**Line 1** - Include as part of this line the amount reported on line 1R of Part III of Form 480.60F.

**Line 2** - Enter on this line the amount determined in the Part V, line 7 of this Schedule.

**Line 3** - Enter the result of line 1 subtracted by line 2, as corresponds, in the columns of Regular Tax and Alternate Basic Tax. To determine the gross profit margin percentage for the year 2020, divide line 3 by line 1. To determine the corresponding amount for the year 2019, use the data from the 2019 return.

**Line 4** - Refer to the instructions of line 4, Part II of Schedule J Individual.

## Schedule M Individual

**Line 1** - Enter on this line the total gross income derived from your activity of services rendered. If the taxpayer or spouse chose to pay the optional tax provided under Section 1021.06 of the Code for self-employed individuals engaged in trade or business, make sure to fill in the corresponding oval on the questionnaire in Part I of this Schedule and transfer this amount to line 1A, Part I of Schedule X Individual. For additional information on this option, refer to the instructions of Schedule X Individual if you are an individual taxpayer, or to the instructions of Schedules CO and X Individual, as applicable, if you are married.

Include as part of this line the amount reported on line 1S of Part III of Form 480.60 F.

**Line 2** - Enter on this line the total of payments made to a person who is subcontracted in the exercise of an activity of service rendered. To claim this deduction you must have submitted the corresponding Forms 480.6SP and have indicated in them that the reported payments correspond to subcontracted services.

**Line 4** - Refer to the instructions of line 4, Part II of Schedule J Individual.

**Line 6** - Enter on this line the amount reported on line 5(a), Part III of all the Informative Return - Pass-Through Entity (Form 480.60 EC) received from a partnership, special partnership or corporation of individuals (pass-through entity). This constitutes the portion of the entity's net income attributable to the services provided by the partner or shareholder and not paid as wages or compensation for services. Only this amount can be used to determine the amount of contribution to a qualified plan for the benefit of an individual ("Keogh"). Therefore, do not consider the total net income generated by the partnership, special partnership or corporation of individuals when making such calculation. Also include on this line the amount reported in line 1S from Part III of Form 480.60F.

## Schedule N Individual

If the rental income is derived from the lease of a residential New Construction Property or Qualified Property, said income is totally exempt under the provisions of Act 132-2010, as

amended. This exemption applies from January 1, 2011 onwards until December 31, 2025, regardless of the date the contract is signed. You must include the income in the return, select the oval corresponding to Act 132-2010 on the top part of the Schedule and provide a detail of the physical location of the property. This exempt net income must be transferred to Schedule IE Individual, Part II, line 37.

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

**Line 1** - Include as part of this line the amount reported on line 1T, Part III of Form 480.60F.

**Line 2** - Refer to the instructions of line 4, Part II of Schedule J Individual.

### PART III - OPERATING EXPENSES AND DEDUCTIONS

It is allowed a reasonable deduction for those ordinary and necessary expenses incurred for the production of income related to your business. For purposes of determining the net income subject to alternate basic tax, the expenses in this part were divided into three groups: (A) Deductions reported in an informative return, (B) Deductions not reported in an informative return, and (C) Other deductions. **On the other hand, it will not be allowed to claim expenses attributable to exempt income or otherwise so excluded from the gross income.**

#### A. Deductions reported in an informative return

Those taxpayers whose taxable year is natural and use the cash basis method, may include the amount of expenses reported in the informative returns issued for the taxable year 2020 as allowable deduction to determine both, net income subject to regular tax as well as alternate basic tax. In the case of the regular tax, you may deduct those payments for services not reported in an informative return because they did not exceed \$500 during the taxable year. However, said payments can only be deductible to determine the net income subject to alternate basic tax if they were included in a duly filed informative return.

It is important to point out that, in order to claim expenses, those taxpayers under the accrual method of accounting or that have an economic year, must submit with their return a reconciliation between the expenses reflected in the accounting books and the informative returns. Said reconciliation must include the concept of the deduction that is being claimed, the total amount according to the informative return, the amount of the adjustment for accrual method or economic year, the amount of any other applicable adjustment and the total deduction claimed in the return. You can access an example of the reconciliation that you must include with the return on our website. It is provided as a link to the 2020 Individual income tax return in the area for Returns, Forms and Schedules.

- **Salaries, Commissions and bonuses to Employees**

The **salaries deduction** will be verified by the electronic system in order to determine if the amounts claimed agree with the Withholding Statements and the forms that must be filed by the employers.

Enter on line 1, "Regular Tax" column, the total payments of salaries, commissions and employee bonuses, reported in a Withholding Statement.

In the "Alternate Basic Tax" column, enter 125% of the deduction for salaries paid and reported in a Withholding Statement.

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

If you qualify to claim this deduction, enter in the parenthesis provided on this line, the total amount of salaries paid and reported on the withholding statements.

In the "Regular Tax" column, enter 150% of the deduction of salaries paid for each young university student (Total \$ \_\_\_\_\_ x 1.5). To qualify for this deduction, the young university student must have been employed during at least 20 hours a week for 9 months or a minimum of 800 hours during the taxable year, as long as the salary paid is more than \$10 per hour and said salary is duly reported in a withholding statement.

In the case of students coming from the internships program of the Department of the Treasury, the deduction will be 200% (Total \$ \_\_\_\_\_ x 2) if the requirement provided in the preceding paragraph is met.

In the "Alternate Basic Tax" column, enter 125% of the deduction for salaries paid and reported in a Withholding Statement. For these purposes add the two amounts included in the "Total" lines for each of the salary categories and multiply the result by 1.25. Do not use the amount determined in the "Regular Tax" column to do this computation.

For purposes of this deduction, the term "young university student" means a student who has studied during the calendar year at least one school semester of studies at postsecondary level, as a regular student, in a university or post-secondary technical-professional institution recognized as such by the educational authorities of Puerto Rico or the corresponding country, until he/she obtains the university or technical-professional degree or have completed the studies within a period not exceeding 12 months from the date of starting the employment. Section 1033.21 of the Code does not establish an age requirement for purposes of this deduction.

- **Payments for Services rendered in Puerto Rico**

This expense shall be allowed as a deduction, as long as the contracted services are directly related to the operation of the industry or business, it is duly reported in the Informative Return - Services Rendered (Form 480.6SP) and, as applicable, the withholding provided in the Code has been made.

- **Payments for Services Rendered outside of Puerto Rico**

This expense shall be allowed as a deduction if the contracted services are directly related to the operation of the industry or business and are duly reported in the Informative Return - Payments to Nonresidents or for Services from Sources Outside of Puerto Rico (Form 480.6C).

- **Lease, rent and fees paid**

Among the allowed deductions there are those related to rent and other payments required as a condition to continue using or owning property over which the taxpayer has not acquired, is not acquiring title or in which it has no participation. Lease, rental and fees payments include, in addition to those made for the use of tangible real or personal property, payments made for intangible property, such as royalties, patents, franchises or licenses, when they are made as a condition to continue using intangible property in the industry or business. To make these payments deductible to compute the net income subject to alternate basic tax, they must be duly reported in a Form 480.6A. Segregate in the provided spaces on this line the portion that corresponds to personal property and real property.

- **Insurance premiums (Except health or accident plans)**

Shall be allowed as a deduction the total premiums paid when the insurance is an essential element for the service rendered or industry, such as malpractice insurance ("bad practice") and insurance on inventory or other personal or real property used in industry or business. To make this deduction allowable for purposes of the alternate basic tax, these payments must be duly reported in the Optional Informative Return - Advertising, Insurance Premiums, Telecommunication, Internet Access and Cable or Satellite Television Services (Form 480.7E), or that you receive from the insurer the Annual Return of Payments Received for Advertising, Insurance Premiums, Telecommunication, Internet Access and Cable or Satellite Television Services (Form 480.7F).

- **Telecommunication services**

There shall be allowed as a deduction the amount paid for telecommunication services, as defined in Section 4010.01(kk) of the Code, directly related to the industry or business operation. To make this deduction allowable for purposes of the alternate basic tax, these payments must be duly reported in a Form 480.7E, or a Form 480.7F must be received from the provider.

- **Internet and Cable or Satellite Television Services**

There shall be allowed as a deduction the amount paid for internet access service and cable or satellite television services directly related to the industry or business operation. To make this deduction allowable for purposes of the alternate basic tax, these payments must be duly reported in a Form 480.7E, or a Form 480.7F must be received from the provider.

- **Combined services (Bundles)**

This expense shall be allowed as a deduction, as long as the contracted services are directly related to the industry or business operation, the total amount paid is for a set or combination of services whose value cannot be segregated or assigned to the payment made for said services and is duly reported in a Form 480.7E, or receive a Form 480.7F from the provider.

- **Advertising**

There shall be allowed as a deduction the total amount paid for advertising, promotion, publicity and marketing on radio, press or television made by an advertising agency, directly related to the industry or business operation, duly reported in a Form 480.7E, or receive a Form 480.7F from the provider.

- **Royalties**

There shall be allowed as a deduction the total amount paid for the use or privilege of using an intangible asset such as patents, copyrights, goodwill, franchises, licenses or other property of similar nature, duly reported in a Form 480.6A.

- **Payments for Virtual and Technology Tools and Other Subscriptions**

This expense shall be allowed if the total amount paid for licenses and subscriptions for the use of programs, platforms, applications and information systems, among others, including the amount paid for subscriptions that allow the access to wholesale establishments (membership clubs) and electronic or printed publications, are directly related to the operation of your industry or business and duly reported in a Form 480.6A.

- **Professional association fees and dues paid for the benefit of employees**

There shall be allowed as a deduction the amount paid to professional associations for tuition fees and memberships for the benefit of your employees or the taxpayer that report his/her industry or business income on these schedules, duly reported in a Form 480.6A.

- **Homeowners associations fees**

There shall be allowed as a deduction the amount paid to homeowners' associations for maintenance fees with respect to the facilities used in your industry or business, duly reported in a Form 480.6A.

- **Payments for Judicial or Extrajudicial Indemnification**

There shall be allowed as deduction total payments made for indemnification under a Court judgment or under an extrajudicial claim, directly related to the operation of the industry or business, for this the withholding provided by Section 1062.02 of the Code, as applicable, and the corresponding deposit must be made, and reported in a Form 480.6B.

- **Certain other expenses**

There shall be allowed as a deduction the total of those expense items for which no specific space is provided in this part and that they have been duly reported in an informative return. You must keep for your records a schedule detailing such expenses.

## **B. Deductions not reported in an informative return**

Enter on this section those deductions not reported in an informative return that are allowable for purposes of determining both, net income for regular tax and alternate basic tax purposes, as applicable.

- **Interest on business debts**

There shall be allowed as a deduction the interests expense on debts incurred for the acquisition of inventory or other real or personal property used in the industry or business. Indicate separately and then the total, as applicable for the regular tax and alternate basic tax Column.

- **Taxes, patents and licenses**

There shall be allowed as a deduction the amounts paid by tax on real or personal property, patents, licenses, sales and use tax, and State Insurance Fund policy, among others, that are paid as part of the industry or business.

As part of this line, the taxpayer may include the charges paid to government agencies to keep professional licenses, including but not limited to: (i) professional license renewal costs; (ii) charges for the issuance of debt and filing certifications with the different governmental agencies; (iii) annual charges paid to some governmental instrumentality to exercise some profession or trade; (iv) charges related to the request of use permits or related licenses, among others. Likewise, there shall be included in this part, all payments of taxes imposed by the Government of Puerto Rico, Federal Government or any state of the United States as long as said tax is NOT for income tax.

- **Special contribution for professional and advisory services under Act 48-2013, as amended**

Every individual who has signed a contract of professional, advisory, advertising, training or orientation services with an

agency, dependency or instrumentality of the Government of Puerto Rico, public corporation, the Legislative Branch, the Office of the Comptroller, the Office of the Ombudsman and the Judicial Branch, will be subject to a withholding of a Special Contribution under Act 48-2013, as amended. This amount is equivalent to one point five (1.5%) of the total amount of the contract.

This contribution will be considered as an ordinary and necessary expense in Schedules K and M Individual.

**For additional information on the scope of this withholding, you may refer to the Administrative Determination No. 13-14 of August 28, 2013 and to the Circular Letters issued by Central Accounting Area of the Department for such purposes.**

• **Depreciation and amortization**

There shall be allowed as a deduction a reasonable amount for the depletion, wear and tear, including a reasonable allowance for obsolescence of property used in the business, as determined in Schedule E that must be submitted with your return. The Schedule will detail the information and the amount to be deducted from each of the properties for which it claims current, flexible and accelerated depreciation, amortization, and automobile depreciation.

• **Depreciation for business with a volume of \$3,000,000 or less**

In these cases the amount that will be allowed as a deduction for certain properties will be, at the taxpayer's election, pursuant to the provisions of Section 1033.07(a)(1)(G) for computer systems; Section 1033.07(a)(1)(H) for ground transportation equipment, except automobiles; or under Section 1033.07(a)(1)(K) for machinery and equipment, furniture and fixtures and any other fixed assets to be used in the industry or business. The election provided here will be made filing Schedule E1 and once made is irrevocable.

For more details, refer to the instructions of Schedule E1.

• **Electric Power**

There shall be allowed as a deduction the total amount paid to the Electric Power Authority or to any other provider for the use or consumption of electric power and other charges billed, directly related to your industry or business operation.

Taxpayers may take this deduction for purposes of regular tax as well as for alternate basic tax, without the need to report it in an informative return.

• **Water and Sewage**

There shall be allowed as a deduction the total amount paid to the Aqueduct and Sewer Authority for the use or consumption of water, sewage and other charges billed, directly related to your industry or business operation.

Taxpayers may take this deduction for purposes of regular tax as well as for alternate basic tax, without the need to report it in an informative return.

• **Contributions to health or accident plans**

Every individual engaged in a trade or business as self-employed, whose gross income does not exceed \$500,000, can deduct as an industry or business expense, the cost of

health insurance paid for himself/herself and his/her family, provided that such health insurance is extended to all employees, if any.

Taxpayers may take this deduction for purposes of regular tax as well as for alternate basic tax, without the need to report it in an informative return.

In the case of individuals who claim this deduction on Schedule A Individual, they cannot include the cost paid for health insurance as a deduction for medical expenses.

• **Federal Self-Employment Tax**

Every individual engaged in a trade or business, is entitled to deduct from the gross income 50% of the federal self employment tax paid to the Internal Revenue Service on the income reported for the same taxable year.

• **Contributions to Qualified Pension Plans**

The Code allows a **deduction for contributions to qualified pension plans under Section 1081.01 of the Code. To claim the deduction for contributions made to any of said plans, it will be necessary to keep for your records the information required by the Regulations under the Code. Also, you must complete and submit with the return Form AS 6042.1 (Deduction for Contributions to Qualified Retirement Plans and Tax on Certain Contributions).**

Contributions made to a qualified plan or plans for the benefit of an individual, commonly known as “Keogh Plans”, cannot exceed 25% (15% if a profit sharing plan) of your earned income without considering said deduction or \$57,000, whichever is smaller, as provided in Internal Revenue Circular Letter No. 19-17 of December 28, 2019. Since this deduction and the net profits from sole proprietorship income depend on each other, it is required to adjust the amount of said net profits. This adjustment can be determined indirectly through the reduction in the percentage of contributions made, attributable to said individual. The contribution’s adjusted percentage and the deduction for contributions can be determined as follows:

(A) Percentage of contributions according to the plan	%
(B) Percentage in (A), reflected in decimal, plus 1	1. _
(C) Adjusted percentage (divide (A) by (B))	%
(D) Net gains (without adjustment)	\$
(E) Maximum deduction (multiply (D) by (C))	\$

**C. Other deductions: Indicate those that were validated with an AUP or a DDC**

There shall be allowed as a deduction to determine the net income subject to alternate basic tax, all ordinary and necessary expenses of your industry or business claimed to determine the net income subject to normal tax provided in Section 1021.01 of the Code, as long as you include with your income tax return an Agreed Upon Procedures Report (AUP) or an Audited Financial Statement prepared by a CPA with a license in force in Puerto Rico, certifying that the expenses claimed are ordinary and necessary expenses to generate the self-employment income. **For more information, refer to the Internal Revenue Circular Letter No. 19-14 (CC RI 19-14).**

However, for taxable years beginning after the December 31, 2019, those individuals whose business volume is less than \$1 million, may choose to submit along with the return the Due Diligence Checklist by Accredited Agent-Tax Return Specialist



(Schedule DDC Individual), which will be sworn by an Accredited Agent-Tax Returns Specialist who meets the requirements provided under Section 6074.01 of the Code, instead of the Agreed Upon Procedures prepared by the CPA.

To be considered in the column "Alternate Basic Tax", fill in the oval, as applicable, that indicates AUP or DDC for those expenses items that were included in the agreed upon procedures report or in the due diligence verification form (Schedule DDC Individual). It is important that in the Questionnaire, the report to be included with the return, has been selected: (1) Audited Financial Statement; (2) AUP; or (3) DDC.

If it was selected in the Questionnaire that the taxpayer is including audited financial statements with the return, you may claim the ordinary and necessary expenses incurred in the alternate Basic Tax Column without the need to fill in the AUP or DDC ovals. Therefore, you will not have limits regarding the category of expenses to be claimed in the Alternate Basic Tax column.

If you do not select the corresponding oval, and do not submit the Agreed Upon Procedure Report or the Audited Financial Statement, or Schedule DDC Individual, you cannot claim the deductions provided in this section for purposes of determining the net income subject to alternate basic tax.

- **Automobile and Other Motor Vehicle Expenses**

Taxpayers engaged in trade or business in Puerto Rico and who are subject to the provisions of Section 1033.07(a)(3)(g) of the Code, may elect to claim on line 29 of Schedules J and K Individual, in the corresponding line, as applicable, the deduction for the expenses incurred or paid for the use and maintenance of an automobile based in one of the following alternatives:

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

However, once you choose one of the alternatives, the taxpayer will be required to use the same during the entire taxable period.

Administrative Determination No. 15-01 of January 9, 2015 (AD 15-01), repealed several articles of Regulation No. 8297 of December 18, 2012, related to the requirements to claim the deduction for expenses incurred or paid for the use and maintenance of automobile. For additional details, see AD 15-01.

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

This expense does not include depreciation, rental payments on ordinary leases or financial leases which are claimed on line 18 of Schedules J, K, L, M and N Individual. Also, do not include expenses related to the use of tolls or parking.

For these purposes, the term "automobile" include any motor vehicle manufactured to transit in public roads and designed for

transporting people, but does **not** include the following:

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

If you incurred expenses for vehicles which are not considered automobiles according to the above definition, you should claim them on line 31 of Schedules J, K and M Individual, on line 32 of Schedule L Individual or on line 29 of Schedule N Individual.

- **Travel expenses**

There shall be allowed as a deduction for travel expenses and lodging up to 50% of the actual amount paid or incurred. Indicate in the provided parenthesis the amount actually paid.

- **Meal and Entertainment Expenses**

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

#### PART IV - DETERMINATION OF GAIN OR LOSS

If you received income from manufacturing, sale of goods, agriculture, service rendered or rents, use this Part of Schedules J, K, L, M and N Individual, as applicable, to determine the gain or loss. In the "Regular Tax" column include the items to be consider for purposes of the normal tax. In the "Alternate Basic Tax" column enter the items to be consider for the computation of the alternate basic tax, as provided in Section 1021.02 of the Code.

#### Schedule J Individual

**Line 1** - The result of this line may be a positive or negative number. In those cases where the result in the alternate basic tax Column be a loss, it only may be transferred to the corresponding line of Schedule O Individual, if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. This means that when the loss generated does not comes from the taxpayer's principal industry or business, he/she will not transfer said loss and will include zero in the corresponding line of Schedule O Individual.

For purposes of the alternate basic tax Column, you will not have to complete lines 2 through 5 of this Part IV.

**Line 2** - Indicate on this line the total net operating losses from previous years, as determined in Column D, Part VIII of this Schedule.

**Line 4** - If you derived income from an industry or business covered by a tax exemption decree granted under any tax incentives act, indicate the tax exemption percentage (%) granted in you decree. Multiply the amount on line 3 by the corresponding exemption percentage, and enter the result on this line.

**Line 5** - If you derived a profit in the conduct of the trade or business, transfer this amount to page 2, Part 1, line 2P of the return or Part I, line 3P, Column B or C of Schedule CO Individual, as applicable. If operations resulted in a loss, see details on the treatment of losses of a trade or business in the **INSTRUCTIONS TO COMPLETE THE RETURN: Part 1, line 2 - Other Income (or Losses), under the previously discussed topic regarding the net operating losses from previous years and instructions of Part VIII of this Schedule.**

The result of this line may be a positive or negative number. In those cases where the result in the regular tax Column is a loss, it can only be transferred to the corresponding line on page 2 of the return (or Schedule CO Individual in the case of taxpayers who file under the optional computation) if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. However, the amount of the loss to be transferred will be limited to the income of other industry and business activities that are being reported in page 2 of the return, which does not include wages and passive income. This means that when the loss generated does not come from the taxpayer's principal industry or business, said loss cannot be transferred and will include zero on the corresponding line on page 2 of the return (or Schedule CO Individual), as applicable.

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

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

#### Schedule K Individual

**Line 1** - The result of this line may be a positive or negative number. In those cases where the result in the alternate basic tax column be a loss, it will only be transferred to the corresponding line of Schedule O Individual, if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. This means that when the loss generated does not comes from the taxpayer's principal industry or business, he/she will not transfer said loss and will include zero in the corresponding line of Schedule O Individual.

For purposes of the alternate basic tax Column, you will not have to complete lines 2 through 5 of this Part IV.

**Line 2** - Indicate on this line the total net operating losses from previous years, as determined in Column D, Part VII of this Schedule.

**Line 4** - If you derived income from an industry or business covered by a tax exemption decree granted under any tax incentives act, indicate the tax exemption percentage (%) granted in you decree. Multiply the amount on line 3 by the corresponding exemption percentage, and enter the result on this line.

**Line 5** - If you derived a profit in the conduct of the trade or business, transfer this amount to page 2, Part 1, line 2Q of the return or Part I, line 3Q, Column B or C of Schedule CO Individual, as applicable. If operations resulted in a loss, see details on the treatment of losses of a trade or business in the **INSTRUCTIONS TO COMPLETE THE RETURN: Part 1,**

**line 2 - Other Income (or Losses), under the previously discussed topic regarding the net operating losses from previous years and instructions of Part VII of this Schedule.**

The result of this line may be a positive or negative number. In those cases where the result in the regular tax Column is a loss, it can only be transferred to the corresponding line on page 2 of the return (or Schedule CO Individual in the case of taxpayers who file under the optional computation) if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. However, the amount of the loss to be transferred will be limited to the income of other industry and business activities that are being reported in page 2 of the return, which does not include wages and passive income. This means that when the loss generated does not come from the taxpayer's principal industry or business, said loss cannot be transferred and will include zero on the corresponding line on page 2 of the return (or Schedule CO Individual), as applicable.

If the income is derived from a business that has been granted a tax exemption decree under any other incentives act which gain is subject to a preferential rate, also transfer the total gain to the corresponding Column of line 4(i) of Schedule A2 Individual, in accordance to the applicable tax rate.

#### Schedule L Individual

**Line 1** - The result of this line may be a positive or negative number. In those cases where the result in the alternate basic tax column be a loss, it will only be transferred to the corresponding line of Schedule O Individual, if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. This means that when the loss generated does not comes from the taxpayer's principal industry or business, he/she will not transfer said loss and will include zero in corresponding line of Schedule O Individual.

For purposes of the for alternate basic tax column, you will not have to complete lines 2 through 5 of this Part IV.

**Line 2** - Indicate on this line the total net operating losses from previous years, as determined in Column D, Part VIII of this Schedule.

**Line 4** - If you derived income from an industry or business covered by a tax exemption decree granted under any tax incentives act, indicate the tax exemption percentage (%) granted in you decree. Multiply the amount on line 3 by the corresponding exemption percentage, and enter the result on this line.

**Line 5** - If you derived a profit in the conduct of the trade or business, transfer this amount to page 2, Part 1, line 2R of the return or Part I, line 3R, Column B or C of Schedule CO Individual, as applicable. If operations resulted in a loss, see details on the treatment of losses of a trade or business in the **INSTRUCTIONS TO COMPLETE THE RETURN: Part 1, line 2 - Other Income (or Losses), under the previously discussed topic regarding the net operating losses from previous years and instructions of Part VIII of this Schedule.**

The result of this line may be a positive or negative number. In those cases where the result in the regular tax Column is a loss, it can only be transferred to the corresponding line on page 2 of the return (or Schedule CO Individual in the case of taxpayers who file under the optional computation) if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. However, the

amount of the loss to be transferred will be limited to the income of other industry and business activities that are being reported in page 2 of the return, which does not include wages and passive income. This means that when the loss generated does not come from the principal industry or business of the taxpayer, said loss cannot be transferred and will include zero on the corresponding line on page 2 of the return (or Schedule CO Individual), as applicable.

If the income is derived from a business that has been granted a tax exemption decree under the provisions of any other incentives act which gain is subject to a preferential rate, also transfer the total gain to the corresponding Column of line 4(i) of Schedule A2 Individual, in accordance to the applicable tax rate.

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

#### Schedule M Individual

**Line 1** - The result of this line may be a positive or negative number. In those cases where the result in the alternate basic tax column be a loss, it will only be transferred to the corresponding line of Schedule O Individual, if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. This means that when the loss generated does not come from the taxpayer's principal industry or business, he/she will not transfer said loss and will include zero in corresponding line of Schedule O Individual.

For purposes of the alternate basic tax Column, you will not have to complete lines 2 through 5 of this Part IV.

**Line 2** - Indicate on this line the total net operating losses from previous years, as determined in Column D, Part VI of this Schedule.

**Line 4** - If you derived income from an industry or business covered by a tax exemption decree granted under any tax incentives act, indicate the tax exemption percentage (%) granted in you decree. Multiply the amount on line 3 by the corresponding exemption percentage and enter the result on this line.

**Line 5** - If you derived a profit in the conduct of the trade or business, transfer this amount to page 2, Part 1, line 2S of the return or Part I, line 3S, Column B or C of Schedule CO Individual, as applicable. If operations resulted in a loss, see details on the **treatment of losses** of a trade or business in the **INSTRUCTIONS TO COMPLETE THE RETURN: Part 1, line 2 - Other Income (or Losses), under the previously discussed topic regarding the net operating losses from previous years and instructions of Part VI of this Schedule.**

The result of this line may be a positive or negative number. In those cases where the result in the regular tax Column is a loss, it can only be transferred to the corresponding line on page 2 of the return (or Schedule CO Individual in the case of taxpayers who file under the optional computation) if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. However, the amount of the loss to be transferred will be limited to the income of other industry and business activities that are being reported in page 2 of the return, which does not include wages and passive income. This means that when the loss generated does not come from the principal industry or business of the taxpayer, said loss cannot be transferred and will include zero on the corresponding line on page 2 of the return (or Schedule CO Individual), as applicable.

If the income is derived by a Qualified Physician who have a decree under Act 14-2017 (rate of 4%) or any other incentives act which gain is subject to a preferential rate, also transfer the total gain to the corresponding Column of line 4(i) of Schedule A2 Individual, in accordance to the applicable tax rate.

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

#### Schedule N Individual

**Line 1** - The result of this line may be a positive or negative number. In those cases where the result in the alternate basic tax column be a loss, it will only be transferred to the corresponding line of Schedule O Individual, if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. However, the amount of the loss to be transferred will be limited to the income of other industry and business activities that are being reported in page 2 of the return, which does not include wages and passive income. This means that when the loss generated does not come from the taxpayer's principal industry or business, he/she will not transfer said loss and will include zero in the corresponding line of Schedule O Individual.

For purposes of the alternate basic tax Column, you will not have to complete lines 2 through 5 of this Part IV.

**Line 2** - Indicate on this line the total net operating losses from previous years, as determined in Column D, Part VI of this Schedule (for purposes of rental loss, the total in Column D shall be the result of Column A less Column B).

**Line 4** - If you derived income from an industry or business covered by a tax exemption decree granted under any tax incentives act, indicate the tax exemption percentage (%) granted in you decree. Multiply the amount on line 3 by the corresponding exemption percentage, and enter the result on this line.

**Line 5** - If you derived a profit in the conduct of a rental business, transfer this amount to page 2, Part 1, line 2T of the return or Part I, line 3T, Column B or C of Schedule CO Individual, as applicable. If operations resulted in a loss, see additional details on the **treatment of losses** of a trade or business in the **INSTRUCTIONS TO COMPLETE THE RETURN: Part 1, line 2 - Other Income (or Losses), under the previously discussed topic regarding the net operating losses from previous years and instructions of Part VI of this Schedule.**

The result of this line may be a positive or negative number. In those cases where the result in the regular tax Column is a loss, it can only be transferred to the corresponding line on page 2 of the return (or Schedule CO Individual in the case of taxpayers who file under the optional computation) if the taxpayer indicates that the business activity that generated the loss constitutes his/her principal industry or business. This means that when the loss generated does not come from the principal industry or business of the taxpayer, said loss cannot be transferred and will include zero on the corresponding line on page 2 of the return (or Schedule CO Individual), as applicable.

If the income is derived from a business that has been granted a tax exemption decree under any other incentives act which gain is subject to a preferential rate, also transfer the total gain to the corresponding Column of line 4(i) of Schedule A2 Individual, in accordance to the applicable tax rate.



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

#### **PART VI (SCHEDULES J AND L INDIVIDUAL) - OTHER DIRECT COSTS**

This Part is provided to detail other direct costs that are allowable to determine the cost of goods sold in Part V. It will be an allowable expense if it constitute an essential direct cost to carry out the industry or business if it is an essential element of production.

#### **PART V (SCHEDULES M AND N INDIVIDUAL), PART VI (SCHEDULE K INDIVIDUAL) AND PART VII (SCHEDULES J AND L INDIVIDUAL) - DETAIL OF OTHER EXPENSES**

Those expense items for which there are no specific spaces provided in Part III of Schedules J, K, L, M and N Individual, shall be described and reported as Other Expenses. The taxpayer must provide a description of the nature and amount of the items claimed and will present the total of these as a deduction for other expenses on line 44, Part III of Schedules J, K and M Individual; on line 45, Part III of Schedule L Individual; or on line 42, Part III of Schedule N Individual.

This amount will be transferred only to the corresponding line of Other expenses, regular tax Column. No amount will be transferred to the alternate basic tax Column.

The Code provides a **\$400 deduction for employers from private industries for each severely disabled person** that is employed for at least 20 hours per week for nine months during the taxable year. This deduction will be allowed for up to five severely disabled persons employed. The regulations in force applicable from the Vocational Rehabilitation Program of the Department of the Family, will be used for the definition of the term "severely disabled person". You must keep for your records:

- 1) a certification indicating that the person for which the deduction is claimed, has been an employee for at least nine months of the taxable year in which the deduction is claimed, and
- 2) a certification issued by the Secretary of the Department of the Family, indicating that the individual for which the deduction is claimed is a severely disabled person, in accordance to the regulations and procedures of said Department.

The contributions made by an employer to an Educational Contribution Account, for a beneficiary designated by an employee, are deductible as part of the operating expenses of the industry or business, as long as the requirements established by law are met.

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

Every industry or business that meets the requirements established in Act 212-2002, that creates new employments as

part of a urban center rehabilitation process, will be entitled to a special additional deduction equivalent to 5% of the minimum salary applicable to each new employment created. Also, the transfer of your business with a minimum of 5 employees to a urban center will entitle you to an additional deduction equivalent to 15% of the payroll expenses related to the employees transferred during the year in which the business was transferred. The limit for this deduction will be 50% of the net income according to the Code, adjusted by the special deductions provided by Act 212-2002, without considering this deduction.

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

For details of these special deductions you must refer to Act 212-2002 and the corresponding regulation.

#### **PART VI (SCHEDULES M AND N INDIVIDUAL), PART VII (SCHEDULE K INDIVIDUAL) AND PART VIII (SCHEDULES J AND L INDIVIDUAL) - NET OPERATING LOSSES FROM PREVIOUS YEARS**

Complete this part to determine the amount available of the net operating loss from previous years.

Losses incurred in an industry or business that is the taxpayer's or the spouse's principal business or industry, may be claimed against the income from other sources, except from salaries and pensions. Those losses incurred in activities that are not the taxpayer's or his/her spouse's principal business or industry, may be deducted only against future income from the specific activity that produced the loss.

On this Part, as it corresponds, you must indicate the year in which the loss was incurred, the loss incurred, the amount used in previous years, the adjustment required under Section 1033.14(b)(1)(E) of the Code, the amount available and the expiration date, if any.

Any excess in the losses incurred by the principal business or industry during one year may be claimed in future years, as applicable, according to the period when the loss has been generated:

- For taxable years beginning before January 1, 2005, the losses incurred have a carryover period to each one of the following seven (7) taxable years.
- For taxable years beginning after December 31, 2004 and before January 1, 2013, the carryover period for the incurred losses will be twelve (12) years.
- For losses incurred in taxable years beginning after December 31, 2012, according to the limits provided by Section 1033.14(b)(1)(D) of the Code, the carryover period will be ten (10) years.
- In the case of a new business that operates under a Special Agreement for the Creation of Jobs, as provided by Act 1-2013, they may deduct the net operating losses incurred in the first two (2) years of the Agreement, for a ten (10) year period.

On the other hand, any excess in the losses incurred in an activity that is not the principal industry or business, shall be treated as an allowable deduction against the gross income from such activity in subsequent taxable years. These losses will not have an expiration date.

See additional details on the treatment of losses of a trade or business in the INSTRUCTIONS TO COMPLETE THE RETURN: Part 1, line 2 - Other Income (or Losses), and in the corresponding part of Schedules J, K, L, M and N Individual.

### SCHEDULE O INDIVIDUAL - ALTERNATE BASIC TAX

Complete this Schedule if the net income subject to alternate basic tax is more than \$25,000.

Taxpayers who only receive income from wages reported on lines 1(B) and 1(C) of Part 1, page 2 of the return or lines 1 and 2, Part I of Schedule CO Individual, as applicable, will not be subject to the Alternate Basic Tax. Therefore, it is not necessary to include this schedule with the return.

This schedule shall not be necessary for those taxpayers who only receive income from pensions reported in Schedule H Individual and for which the exemption of \$11,000 or \$ 15,000 has been claimed on line 8, Part II of Schedule H Individual.

An alternate basic tax will be assessed, determined in accordance to the following table and reduced by the alternate basic credit for taxes paid to foreign countries, when the same is more than the regular tax:

Net Income Subject to Alternate Basic Tax:	Tax rate:
Over \$25,000, but not over \$50,000	1%
Over \$50,000, but not over \$75,000	3%
Over \$75,000, but not over \$150,000	5%
Over \$150,000, but not over \$250,000	10%
Over \$250,000	24%

In the case of married persons filing separate returns or that choose the optional computation of tax, levels of net income subject to alternate basic tax shall be determined separately as an individual taxpayer.

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

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

**Lines 1 through 5** - To determine the net income subject to alternate basic tax, transfer to lines 1 through 5 the item of net income, as applicable, determined on line 1, Part IV, in the alternate basic tax Column from Schedules J, K, L, M and N Individual.

If there is a loss on line 1 of Part IV, alternate basic tax Column of Schedules J, K, L, M or N Individual that does not come from the principal industry or business of the taxpayer, said loss will not be transferred and will be included zero on the applicable line on this Schedule.

Similarly, line 5 may reflect zero, if the rental income determined on Schedule N Individual, comes from the leasing of a New Construction Property or Qualified residential property under

Act 132- 2010. This income is fully exempt according to the provisions of this law.

**Line 6** - Enter on this line the result of the sum of lines 1 and 2(A) through 2(O) of Part 1, page 2 of the return.

In the case of married taxpayers who choose the optional computation, it will be the sum of lines 1, 2 and 3(A) through 3(O), Part I, Column B or C (taxpayer or spouse, as applicable) of Schedule CO Individual.

**Line 7** - Enter on this line the total amount of deductions allowed by special acts that have not been considered under Section 1033.15 of the Code and that are directly related with the operation of the industry or business.

**Line 8** - Transfer to this line the distributable share on the adjustments for purposes of the alternate basic tax of pass-through entities, according to the identified line of Form 480.60EC.

**Line 9** - For purposes of the alternate basic tax for taxable years 2009 and 2010, it was required that a partner's share in the profit or loss from a special partnership engaged in the edification, installation and construction of structures that cover a period in excess of one year, be determined by the accounting method known as "percentage of completion method". Therefore, if for those taxable years any other accounting method was used, the partner's share in the profit or loss from the special partnership had to be recalculated under the percentage of completion method and the difference to determine the net income subject to alternate basic tax had to be included on this line.

This adjustment is no longer required under the Code. Nevertheless, for those taxpayers who have made this adjustment in 2009 and/or 2010, this line is provided to avoid the duplication of the income that was already recognized in those taxable years for purposes of the alternate basic tax, at the moment in which the income is recognized by the special partnership according to the accounting method that was not the percentage of completion.

**Line 10** – Transfer to this line the distributable share on the adjustments for purposes of the alternate basic tax of revocable trust or grantor trust, according to the identified line of Form 480.60 F.

**Line 11** – Enter the total amount of exclusions and exemptions that are not derived from Subtitle A of the Code, even if they are granted by special laws, except those provided by:

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

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

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

**Line 12-** Enter on this line those items considered to determine the adjusted gross income in the return that for the provisions of a special act are not considered to determine the alternate basic tax.

Provide a breakdown with the amount, concept of the adjustment and the legislation that provides for such item not to be subject to the payment of alternate basic tax.

**Line 14 -** Do not use this line to the extent that wages paid under the benefits of Act 14-2017 or Act 60-2019 are not included on line 6 of this Part I. Therefore, this line will be used only if the taxpayer received salaries under these acts.

**Line 15 -** Enter on this line the allowable deduction for a credited investor under Act 185-2014 or Act 60-2019. For more details, refer to the instructions of line 12, Part 2 of the return.

**Line 17 -** The same deductions admitted under Sections 1033.15 of the Code and the allowances for personal exemption and exemption for dependents provided by Section 1033.18 of the Code are allowed as reductions to determine the net income subject to alternate basic tax. Transfer from Part 2, line 10 of the return or from Part II, line 8 of Schedule CO Individual, according to the corresponding column, the total applicable deductions to individuals, personal exemption and exemption for dependents.

## PART II - ALTERNATE BASIC TAX COMPUTATION

**Line 5 -** To determine the alternate basic tax, you may claim the credit for taxes paid to the United States, its states, territories and possessions and foreign countries with certain adjustments. Therefore, to determine the credit to be claimed on this line it is necessary to recalculate the credit determined on Schedule C Individual for the regular tax (line 3 of Part II of this Schedule) substituting the tax determined by the alternate basic tax and the net income by the net income subject to alternate basic tax.

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

## PART III - COMPUTATION OF THE CREDIT FOR ALTERNATE BASIC TAX

Use this part to determine the amount of the credit for alternate basic tax paid in excess over the regular tax, not used in previous taxable years. In order to claim this credit, the sum of the regular tax and the gradual adjustment of the current taxable year must be more than the alternate basic tax for the same year. Follow the instructions that are provided on each line.

The amount of credit for alternate basic tax of previous taxable years is equivalent to the sum of the excess of alternate basic tax over the regular tax determined annually for each of the taxable years beginning on December 31, 2008 and ending before January 1, 2014, and for taxable years beginning after December 31, 2018, as determined in Part IV of this Schedule, reduced by the amount of alternate basic tax credits previously claimed.

If you paid taxes to the United States, its states, territories and possessions or any foreign country, the regular tax and the alternate basic tax shall be reduced by the amount applicable of the credit for tax paid to those places.

The alternate basic tax credit cannot be more than 25% of the excess of the net regular tax over the net alternate basic tax determined for the current year. Any balance of the credit not claimed may be carried over to subsequent years until totally used.

## PART IV – DETERMINATION OF THE ALTERNATE BASIC TAX PAID IN PREVIOUS YEARS NOT CLAIMED AS CREDIT

Complete this Part and determine the amount of carryover of alternate basic tax paid in previous years and not claimed as credit that is available for the taxable year. You must include the alternate basic tax paid in excess of the regular tax, the amount previously used as credit and the amount available. This amount will be used for the computation of the alternate basic tax. The amount of alternate basic tax that has been paid in the return for 2019 will be added as part of the amounts available for the year 2013.

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

### SCHEDULE P INDIVIDUAL - GRADUAL ADJUSTMENT

In the case of taxpayers whose net taxable income is over \$500,000, the Code provides for a gradual adjustment to the tax rates lower than 33% and the personal exemption and exemption for dependents. If married filing separately or if you choose the optional computation of tax in the case of married persons living together and filing a joint return, this limit is determined separately as if it were an individual taxpayer.

If the net taxable income in Part 2, line 13 of the return, line 15, Column B or C of Schedule CO Individual or line 11, Column A of Schedule A2 Individual is over \$500,000, you will be subject to this adjustment.

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

Complete Schedule R Individual, following the instructions on each line. This schedule contains a reconciliation of the information provided in all Schedules R1 Individual which are included with the return.

Part I of Schedule R Individual is used to determine in the aggregate the total distributable share in the business volume of pass-through entities. In Part II determine the net income or loss from the partner's interest in one or more partnerships and special partnerships, and in Part III, the net income or loss from the share in corporations of individuals. In Part IV it is provided to determine in the aggregate net loss of partnerships, special partnerships and corporations of individuals that can be used.

## PART I - QUESTIONNAIRE

The amounts to be included in this Part I shall be carried over from Schedule R1 Individual and will be used to determine the gross income from the interests in pass-through entities to be included on line 2K, Part 2 of the return and that is used to compute the limitations to certain items of the return.

**Line 11 -** In addition to consider the exempt income reported on line 2(d), Parts I and III of Schedule R1 Individual, it will be also included income items from lines 2(c) and 2(e), Parts I and III of Schedule R1 Individual. These amounts are part of the business volume of the pass-through entity, but they are reported in other schedules of the return, and therefore, are part of the gross income computation of the schedules to which were transferred. For example, dividend income reported by a pass-through entity is part of the business volume of said pass-through entity, but this amount is reported as part of the income on Schedule FF Individual. Therefore, said amount of dividends already is part of the gross income from dividends that are reported in the total line (Total \$ \_\_\_\_\_) included on line 2D, Part 2 of the return or in Part I, line 3D of Schedule CO Individual.

## PART IV - DISTRIBUTABLE SHARE ON BENEFITS FROM PARTNERSHIPS, SPECIAL PARTNERSHIPS AND CORPORATIONS OF INDIVIDUALS

**Line 4** - The amount allowed as loss cannot exceed 90% of the aggregate net income derived from partnerships, special partnerships and corporations of individuals generated during the current taxable year.

**Line 6** - If the result is a **net loss**, it is not deductible, but you may carry it to future years. The balance of the carry forward loss is attributed proportionally to the loss in each one of the entities. The allocation will be done by using as a factor the adjusted basis of the partner or stockholder share in each of the entities at the close of the taxable year.

For additional information, refer to instructions of Schedule R1 Individual.

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

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

If you choose the optional computation of tax in the case of married persons living together and filing a joint return, you must complete and include with your return a **Schedule R1 Individual for each spouse that has share in any of these entities**. Select the oval that identifies the taxpayer or his/her spouse, respectively.

Part I of Schedule R1 Individual is used every year to determine the taxpayer's adjusted basis in each partnership or special partnership. Also, you must indicate the type of form from which the information to be included in this schedule comes (Form 480.60 EC or K-1), type of taxable year (calendar or fiscal), name and employer identification number of the entity, and the control and electronic filing confirmation number of Form 480.60 EC received, as applicable.

Also, you must indicate whether the entity elected the optional tax under Section 1071.10 of the Code. As provided in this Section, the partners will not be responsible for the payment of the income tax of the partnership for the year of the election, and for those purposes, the distributable share received by the partner will be considered an exclusion from gross income, although it will be considered to determine the tax base of the partner's share in the partnership. However, the taxpayer will not transfer the amount reported on line 24 of Part III of Form 480.60 EC to Schedule IE Individual. Therefore, this amount will not be used to determine the limitation of mortgage interest.

Part II of this Schedule is used to determine the taxpayer distributable share on the net profit or loss of one or more partnerships or special partnerships, including those losses carried over from previous years.

Part III of Schedule R1 is used every year to determine the taxpayer's adjusted basis in each corporation of individuals. Also, you must indicate the type of taxable year (calendar or fiscal), the name and employer identification number of the entity, and the control and electronic filing confirmation number of Form 480.60 EC received.

Also, you must indicate whether the entity elected the optional tax under Section 1115.11 of the Code. As provided in this Section, the shareholders will not be responsible for the payment of the income tax of the corporation of individuals for the year of the election, and for those purposes, the distributable share received by the shareholder will be considered an exclusion from gross income, although it will be considered to determine the tax base of the shareholder's participation in the corporation of individuals.

Part IV of this Schedule is used to determine the taxpayer distributable share on the net profit or loss of one or more corporations of individuals, including those losses carried over from previous years.

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

For the 2020 year it will be required to include the distributable share in the gross income from services rendered and in the gross income items reported by the pass-through entity. This information will come from lines 23, 23 (a), 25 and 25(a), Part III of Form 480.60 EC as well as line 1 O, Part III of Form 480.60 F. In the case of pass-through entities for which a Federal Form K-1 has been received, the taxpayer will have to determine the business volume of said entity and include it in the space provided in the column that is reporting the activity of said pass-through entity.

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

**Line 1** - Enter the amount from Part I, line 4 of the 2019 year Schedule R Individual.

The basis of a partner's share from a partnership or special partnership will be the amount of cash or the adjusted basis of any property that is not considered cash, contributed to said partnership.

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

### Line 2 - Basis increase

- (a) Enter the partner's distributable share in the pass-through entity's income and profits for the current year. This amount must be the same as the one shown on line 7(c), Part II of this schedule.
- (b) Enter the capital contributions made by the partner to the pass-through entity during the current year, as shown in column (a), Part II of Form 480.60 EC.
- (c) Enter the partner's distributable share in the pass-through entity's gains from the sale or exchange of capital assets for the current year.
- (d) Enter the partner's distributable share in the pass-through entity's exempt income for the current year.
- (e) Enter other income or profits like for example, the distributable share in the dividends and interests received by the partnership or special partnership.

**Line 3 - Basis decrease**

- (a) Enter the distributable share in the loss attributable to the partner on the previous year. This amount shall be the same as line 4, Part V of Schedule R Individual of taxable year 2019. If a partner has share in losses from more than one special partnership or partnership, the total allowable loss balance, as determined in the previous taxable year, will be attributed proportionally to the loss of each one of the partnerships. The allocation will be made using as a factor the adjusted basis of the partner's share in each one of the partnerships at the close of the previous taxable year.
- (b) Enter the distributable share in the partnership or special partnership's capital losses.
- (c) Enter the distributions made to the partner by the partnership or special partnership, whether in cash or in property, including tax exempt income.
- (d) Enter the amount claimed as credit against the income tax on the previous taxable year for investments made in partnerships or special partnerships engaged in the production of feature films or under the Puerto Rico Tourism Development Act of 1993, the Puerto Rico Capital Investment Fund Act, the Puerto Rico Agricultural Tax Incentives Act, as amended, or any other credit admitted by law to the partners related to the partnership or special partnership's activities.
- (e) Enter the amount claimed as credit against income tax for withholding of tax at source from the distributable share made to a resident partner (30%) or to a nonresident alien partner (29%).
- (f) Enter any expense from the partnership or special partnership not allowed as a deduction while determining your net income and that is not capitalized.
- (g) Enter the distributable share in net losses from tax exempt operations under the Tourism Incentives Act of 1983 and the Tourism Development Act of 1993.
- (h) **Only in the case of partnerships**, enter the charitable contributions to eligible entities.
- (i) Enter the partner's debts assumed and guaranteed by the partnership.

**Line 4** - The amount of this line cannot be less than zero. If the amount on this line is less than zero, enter zero and recognize a gain for the amount of the adjusted basis that is less than zero.

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

For taxable years beginning after December 31, 2010, if the special partnership or partnership derived losses, you may not claim them as a deduction against other income other than income derived from other special partnerships, partnerships or corporation of individuals. Said loss will be limited to the adjusted basis of the partner's share in the partnership at the end of the taxable year in which the loss is claimed.

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

**Line 5(a)** - Enter the distributable share in the loss of the special partnership or partnership attributable to the partner in accordance to the share percentage. This amount is informed to the partner on Form 480.60 EC.

**Line 5(b)** - Enter the distributable share in the loss of the partnership or special partnership owned by the entity in accordance with the share percentage. This amount is informed to the partner on Form 480.60 EC.

**Line 5(c)** - Enter the carryover losses which were not claimed in previous years due to the limitation. This amount must be the same as the one shown on line 6, Part V of Schedule R Individual included on the income tax return of taxable year 2019. If a partner owns shares in losses from more than one special partnership or partnership, the balance subject to the loss carryover, as determined on the previous taxable year, will be proportionally attributed to the loss of each one of the partnerships. Said attribution will be done by using as factor the adjusted basis of the partner's share in each one of the partnerships at the end of the previous taxable year.

**Line 6** - Enter on this line the amount determined in Part I, line 4. If the special partnership or partnership has an exemption decree under the Puerto Rico Tourism Incentives Act or the Puerto Rico Tourism Development Act, you may use the debts of the special partnership or partnership in proportion to your share, to increase your adjusted basis, only to claim losses of the special partnership or partnership from this activity. Also you may use the partnership's current debts assumed and guaranteed by the partner.

**Line 7(a)** - Enter the partner's distributable share in the income and profits derived from the special partnership or partnership during the year. This amount is reflected in Part III, line 5 of Form 480.60 EC.

**Line 7(b)** - Enter the distributable share in the gain of a partnership or special partnership owned by the entity in accordance with the share percentage. This amount is informed to the partner on Form 480.60 EC.

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

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

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

The basis of a stockholder's share from a corporation of individuals will be the amount of cash, or the adjusted basis of any property that is not considered cash, contributed to said corporation.

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

**Line 2 - Basis increase**

- (a) Enter the stockholder's distributable share in the pass-through entity's income and profits for the current year. This amount must be the same as the one shown on line 7, Part IV of this schedule.
- (b) Enter the capital contributions made by the stockholder to the pass-through entity during the current year, as shown in column (a), Part II of Form 480.60 EC.

- (c) Enter the stockholder's distributable share in the pass-through entity's gains from the sale or exchange of capital assets for the current year.
- (d) Enter the stockholder'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 corporation of individuals.

### Line 3 - Basis decrease

- (a) Enter the distributable share in the loss attributable to the stockholder on the previous year. This amount shall be the same as line 4, Part V of Schedule R Individual of taxable year 2019. If a stockholder has share in losses from more than one corporation of individuals, the total allowable loss balance, as determined in the previous taxable year, will be attributed proportionally to the loss of each one of the corporation of individuals. The allocation will be made using as a factor the adjusted basis of the stockholder's share in each one of the corporations of individuals at the close of the previous taxable year.
- (b) Enter the distributable share in the corporation of individual's capital losses.
- (c) Enter the distributions made to the stockholder by the corporation of individuals, whether in cash or in property, including tax exempt income.
- (d) Enter the amount claimed as credit against the income tax on the previous taxable year for investments made in corporation of individuals engaged in the production of feature films or under the Puerto Rico Tourism Development Act of 1993, the Puerto Rico Capital Investment Fund Act, the Puerto Rico Agricultural Tax Incentives Act, as amended, or any other credit admitted by law to the stockholders related to the corporation of individual's activities.
- (e) Enter the amount claimed as credit against income tax for withholding of tax at source from the distributable share made to a resident stockholder (30%) or to a nonresident alien stockholder (33%).
- (f) Enter any expense from the corporation of individuals not allowed as a deduction while determining your net income and that is not capitalized.
- (g) Enter the distributable share in net losses from tax exempt operations under the Tourism Incentives Act of 1983 and the Tourism Development Act of 1993.
- (h) Enter the stockholder's debts assumed and guaranteed by the corporation of individuals.

**Line 4** - The amount of this line cannot be less than zero. If the amount on this line is less than zero, enter zero and recognize a gain for the amount of the adjusted basis that is less than zero.

### PART IV - DETERMINATION OF NET INCOME OR LOSS IN ONE OR MORE CORPORATIONS OF INDIVIDUALS

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

**Line 5(a)** - Enter the distributable share in the loss of the corporation of individuals attributable to the stockholders in accordance to the share percentage. This amount is informed to the stockholder on Form 480.60 EC.

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

**Line 6** - Enter on this line the amount determined in Part III, line 4. If the corporation of individuals has an exemption decree under the Puerto Rico Tourism Incentives Act or the Puerto Rico Tourism Development Act, you may use the debts of the corporation of individuals in proportion to your share, to increase your adjusted basis, only to claim losses of the corporation of individuals from this activity. Also you may use the current debts of the corporation of individuals assumed and guaranteed by the stockholder.

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

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

### SCHEDULE T INDIVIDUAL – ADDITION TO THE TAX FOR FAILURE TO PAY ESTIMATED TAX IN CASE OF INDIVIDUALS

Use this schedule only if you have the obligation to pay estimated tax to determine the addition to the tax for failure to pay estimated tax.

Taxpayers who only receive income from wages reported on lines 1(B) and 1(C), Part 1 of the return or from Part I, lines 1 and 2 of the Schedule CO Individual, and for whom the corresponding withholding was made, do not have to complete this Schedule. This Schedule will not be necessary for those taxpayers who only receive income from pensions reported in Schedule H Individual and for which the \$11,000 or \$15,000 exemption is claimed on line 8, Part II of Schedule H Individual and that has been made the withholding of tax at source.

In the case of taxpayers who have determined their tax under the optional tax method (Schedule X Individual), they will not be subject to this addition. These taxpayers will use this Schedule T Individual only to enter in Part II the amount of tax paid per installments and the payment date. In these cases, it will not be necessary to include information in Part I of this Schedule T Individual.

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

**Line 2** – Include the total amount of withholdings and credits provided by the Code or special acts for the taxable year, including the non refunded tax paid in excess corresponding to the previous taxable year.

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

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

**Line 5** – Enter the greater of the amount shown on lines 22, 23, and 24, Part 3 of the preceding taxable year's return, or an amount equal to the tax determined at the rates and under the law applicable to the taxable year using the data from the preceding taxable year return. For additional information, refer

to the part of Penalties under the topic of OBLIGATION TO PAY ESTIMATED TAX.

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

### Section A – Failure to Pay

Select the oval for calendar year if your taxable year ends on December 31, otherwise, select the oval which indicates fiscal year. If you selected the oval for fiscal year, enter in Columns (a), (b), (c) and (d), the date corresponding to the 15th day of the fourth month, sixth month, ninth month of the taxable year, and the first month following the close of the taxable year, respectively.

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

**Line 9** – Enter in Column (a) the amount of estimated tax paid no later than April 15 of the taxable year (the 15th day of the fourth month of the taxable year if you have a fiscal year); in Column (b), the estimated tax paid after April 15 of the taxable year (the 15th day of the fourth month of the taxable year if you have a fiscal year) and no later than June 15 of the taxable year (the 15th day of the sixth month of the taxable year if you have a fiscal year); in Column (c), the estimated tax paid after June 15 of the taxable year (the 15th day of the sixth month of the taxable year if you have a fiscal year) and no later than September 15 of the taxable year (the 15th day of the ninth month of the taxable year if you have a fiscal year); and in Column (d), the estimated tax paid after September 15 of the taxable year (the 15th day of the ninth month of the taxable year if you have a fiscal year) and no later than January 15 following the taxable year (the 15th day of the first month following the taxable year if you have a fiscal year). Transfer the total of this line to Schedule B Individual, Part III, line 1.

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

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

Any overpayment, after covering the estimated tax payment of the corresponding installment, will be attributed first to the amount of estimated tax of previous installments due and not paid and then to the subsequent installments.

### Section B – Penalty

The first two estimated tax installments for the taxable year 2020 were postponed. For what should not compute any penalty in Section B columns (a) and (b). Even so, you can enter on line 9 of Part II any payment of estimated tax that the taxpayer has made during the postponed periods. For more details, Refer to Administrative Determination No. 20-10 of March 24, 2020.

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

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

## SCHEDULE X INDIVIDUAL - OPTIONAL TAX TO SELF EMPLOYED INDIVIDUALS

Complete this Schedule if you chose to pay the optional tax in the case of self employed individuals engaged in trade or business and whose source of income comes substantially from said industry or business. You must indicate in the heading of this Schedule if the election for the optional tax was made through the Partial Waiver for the withholding at source of 6%, as provided by Internal Revenue Circular Letter No. 19-16 of December 9, 2019 ("CC RI 19-16"), or with this return.

Pursuant to Section 1021.06 of the Code, to be eligible for the Optional Tax, the individual must comply with the following requirements:

- The income received must be substantially from services rendered. For these purposes, the income shall be considered as substantially from services rendered when said category of income represents at least eighty percent (80%) of the total gross income received during the taxable year, and
- All income received must be subject to the withholding of income tax at source provided in Section 1062.03 of the Code or to the payment of estimated tax, as established in Section 1061.20 of the Code applicable to individuals.

However, in the case of taxpayers who choose the optional tax for taxable year 2020, must make sure to comply with the tax responsibility not later than the deadline to file the return, without considering extension of time requested.

In the case of taxpayers who choose for the optional tax by means of the Partial Waiver, as provided in CC RI 19-16, they shall be forced to determine their tax according to the provisions of the Schedule X Individual of the return, as long as the income for services rendered represent eighty percent (80%) or more of total gross income received during the taxable year. However, if the income for services represents less than eighty percent (80%) of total gross income, this taxpayer shall not be allowed to pay taxes at the optional tax rates and will be subject to the regular tax rates.

The eligible individual who choose this optional tax shall determine it by applying the rate provided on line 4, Part II of this schedule.

## PART I - GROSS INCOME

**Line 1(C)** - Transfer to this line the amount determined on line 6, Part I of Schedule R Individual of the taxpayer or spouse to whom this Schedule X Individual belongs.

**Line 2(A)** - Enter on this line the result of the sum of the amounts included on lines 1B, 1C, 2A, 2B, 2E, 2F, 2H, 2I, 2J, 2L, 2M, 2N and 2O of Part 1, page 2 of the return, **PLUS:** the amounts included in the (Total \$ \_\_\_\_ ) row of lines 2C, 2D, 2G, 2P, 2Q, 2R and 2T of Part 1, page 2 of the return.

Under Optional Computation, the gross income will be determined for the taxpayer or spouse, as applicable, by writing on this line the amounts included in Part I, lines 1, 2, 3A, 3B, 3E, 3F, 3H, 3I,

3J, 3L, 3M, 3N and 3O from Schedule CO Individual, **PLUS:** the amounts included in the (Total \$ \_\_\_\_\_) row of lines 3C, 3D, 3G, 3P, 3Q, 3R and 3T, Part I, page 1 of Schedule CO Individual.

**Line 2(B)** - Transfer to this line the amount determined on line 13, Part I of Schedule R Individual of the taxpayer or spouse to whom this Schedule X Individual belongs.

**Line 2(C)** - Transfer to this line the amount determined on line 43 less line 10, Part II, of Schedule IE Individual. In the case of married filing jointly, income generated by both spouses shall be added. Use the additional lines provided to identify possible adjustments to the exempt income product of items that already are part of the gross income previously reported in Part 1, page 2 of the return and that are part of line 2(A), Part I of this Schedule X Individual.

**Line 4** - Divide line 1D by line 3 of this Part I. If the result is less than 80%, do not complete the rest of this Schedule. In these cases, the taxpayer is not eligible for the optional tax and it will determine the tax using the tax rates on line 14, Part 3 of the return or on line 1, Part III of the Schedule CO Individual, as applicable. If the result is equal or greater than 80%, continue with Part II of this Schedule. Enter the result in percentage terms rounded to two (2) decimal places.

**PART II - COMPUTATION OF THE OPTIONAL TAX ON GROSS INCOME**

**Line 4** - Multiply line 3 of Part II by the applicable tax that is included below and enter the result.

Optional Tax to Individuals who Rendered Services:

If the gross income is:	The tax will 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** - You must complete Schedule C Individual and identify in the heading of said Schedule that it is computed for optional tax purposes. Transfer the amount determined on line 6(c), Part IV of the Schedule C Individual. It is important that if it is reflected amount on this line 5, the amount determined on line 6(c), Part IV of Schedule C Individual will not be transferred to line 18, Part 3 of the return nor line 5, Part III of Schedule CO Individual with respect to the spouse who chose the optional tax, as applicable.

Taxpayers who choose to pay tax under the optional tax will not use lines 14 to 22, Part 3, page 2 of the return or Part III of Schedule CO Individual to determine the total tax to be paid. In these cases, these lines will be left blank.

**OBLIGATION TO PAY ESTIMATED TAX**

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

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

- those whose gross income was derived exclusively from wages or pensions subject to withholding of tax at source;
- those whose gross income comes exclusively from remuneration received for services rendered to the Government of the United States subject to withholding of tax at source for purposes of the United States Government;
- those whose gross income comes exclusively from remuneration for services performed in agricultural labor not subject to withholding of tax at source under Section 1062.01 of the Code;
- those individuals who, in addition to the three previous premises of income, receive income from Distributions due to a disaster declared by the Governor of Puerto Rico, according to Sections 1081.01(b)(1)(D) and 1081.02(d)(1)(I) of Code; or
- individuals who in addition to the income listed above receive less than \$5,000 in income from other sources.

The estimated tax will be the excess of:

- 1) the amount of tax estimated by the individual for the taxable year, including the alternate basic tax and the gradual adjustment, among other taxes, over
- 2) the amount of withholdings and credits provided by the Code or special laws estimated by the individual for the taxable year, including the non refunded tax paid in excess corresponding to the previous taxable year.

**However, if the total amount of tax is \$1,000 or less, you are not required to pay estimated tax.**

**PAYMENT OF TAX**

The estimated tax for the taxable year must be paid in four equal installments:

1st installment:	15th day of the fourth month
2nd installment:	15th day of the sixth month
3rd installment:	15th day of the ninth month
4th installment:	15th day of the first month of the following taxable year.

If the obligation to pay estimated tax arises for the first time after the last day of the third month and prior to the first day of the sixth month of the taxable year, the installments will be:

1st installment:	15th day of the sixth month
2nd installment:	15th day of the ninth month
3rd installment:	15th day of the first month of the following taxable year.

If the obligation to pay estimated tax arises for the first time after the last day of the fifth month and prior to the first day of the ninth month of the taxable year, the installments will be:

1st installment:	15th day of the ninth month
2nd installment:	15th day of the first month of the following taxable year.





If the obligation to pay estimated tax arises for the first time after the last day of the eighth month of the taxable year, the estimated tax will be paid in its entirety on the 15th day of the first month of the following taxable year.

taxes paid or accrued during the taxable year to the United States, its states, territories and possessions, or any foreign country to which you are entitled.

The estimated tax installments will be paid electronically through SURI.

### **CHANGES IN THE ESTIMATED TAX COMPUTATION**

If there is any change in the estimated tax computation as a result of a change in income, personal exemption, exemption for dependents or for any other reason, the remaining installments must be proportionally increased or reduced to reflect the increase or reduction in the estimated tax. On the other hand, if on or before January 15 of the following taxable year the final income tax return had been filed and the income tax balance is paid, then

- 1) if you are not required to make estimated tax payments during the taxable year but you are required to pay it on or before said January 15, such return will be considered as such payment; and
- 2) if the tax determined in the return, reduced by the deductions and credits provided in the Code or special laws for the taxable year is more than the tax estimated by the taxpayer, such return will be considered as a change in the computation of the estimated tax.

### **FARMERS**

If 2/3 or more of an individual estimated gross income was derived from agricultural activities, the payment of estimated tax will be due on January 15 of the following year, if the income tax return is filed on a calendar year basis, or no later than the 15th day of the month in which the following taxable year begins, if the income tax return is filed on a fiscal year basis.

Farmers who file the income tax return no later than January 31 of the following year (if they file on a calendar year basis) or no later than the last day of the month in which the following taxable year begins (if they file on a fiscal year basis) and pay in its entirety the total amount determined on the income tax return no later than on said date, it will be considered as if the estimated tax payment would have been made no later than January 15.

### **PENALTIES**

The Code establishes a 10% penalty of the amount of any estimated tax installment not paid. For these purposes, the estimated tax will be the smaller of:

- 1) 90% of the tax for the taxable year, or
- 2) the greater of:
  - a) the total income tax determined as it results from the preceding year's income tax return, or
  - b) an amount equal to the tax determined at the rates and under the law applicable to the taxable year using the data in the return of the individual for the preceding year.

The above subsection 2 should not apply if the preceding taxable year was not a 12 months taxable year, or if the taxpayer filed a return for the preceding taxable year in which a tax was not reflected, without considering any tax credit to which he/she was entitled, including credits for taxes withheld or paid. On the other hand, you may consider any credit for

## Occupational Codes

OCCUPATION	CODE	OCCUPATION	CODE
Accounts Adjuster	5243	Language Pathologist	6240
Accountant or Auditor	5412	Lawyer	5411
Advertising Agent	5417	Legislator and Mayor	9300
Architect	5415	Locksmith	5616
Artist, Actor, Dancer, Singer	7115	Mason	2381
Automotive Body and Related Repairer	4800	Mechanic and Automotive Technician	3321
Aviculturist	1123	Medical Assistant	6209
Butcher	4452	Medical Propagandist	6211
Cabinetmaker	3323	Medical Technologist	6216
Carpenter	3322	Military Man (Soldier)	8101
Carrier Worker	8102	Nurse	6212
Cashier	4213	Pharmaceutical Equipment Operator	6215
Computer Programmer	5110	Pharmacist or Pharmacy Assistant	6213
Construction Painter	2383	Pilot	8102
Construction Worker	2382	Planner	5421
Contractor	2360	Plumber	2384
Cook (Food Preparation Worker)	4212	Police Officer – State and Municipal	9315
Correction Officer and Jailer	9315	Postman and Messenger	3333
Customer Service Representative	4302	Private Guard	4300
Data Entry Operator	5108	Professional Athlete	7112
Drafter	5416	Professional Therapist	6217
Driver (Other)	4856	Professor – University	6112
Economist	5420	Psychologist	5422
Electric Equipment Operator	5111	Radio and Television Announcer	5131
Electrician	3324	Radiologist	6214
Embalmer and Gravedigger	8123	Real Estate Agent and Broker	5312
Engineer	5414	Refrigeration Technician	8106
Farmer	1110	Retail Sales Representative	4610
Financial Institution Clerk	5223	Retired – Pensioner	8130
Financial Manager and Supervisor	5222	Sales Manager and Supervisor	4214
Fireman	9314	Salesperson – Retail	4611
Flight Attendant	6115	Salesperson – Wholesale	4311
Forensic Pathologist	8124	School Administrator	6111
Garbage Man	8112	Scientist	5419
Gardener	8103	Secretary	8104
General Manager and Supervisor	4216	Securities Agent and Broker	5231
General Office Clerk	8111	Social Worker	6245
Generalist Physician	6208	Solderer	3119
Hairstylist, Barber and Cosmetologist	8121	Specialist Physician	6210
Heavy Equipment Operator	4857	Tapestry Maker	3120
Household and Domestic Services	8105	Teacher	6110
Industrial Equipment Operator	3101	Telephonic Equipment Operator	5112
Industrial Mechanic	3110	Teller	5221
Industry Manager and Supervisor	3100	Travel Agent	5615
Information Systems Manager	5109	Truck Driver	4855
Insurance Agent and Broker	5242	Veterinarian	5418
Janitor	5617	Waiter	4215
Judge	9301	Wholesale Representative	4310
Land Surveyor	5413	Other Work or Profession	8110

# CHECK LIST



## TAXPAYER, REVIEW YOUR DATA AND AVOID THE MOST COMMON MISTAKES THAT MAY DELAY THE PROCESSING OF YOUR RETURN

- Verify that your Social Security number is the one shown on the Withholding Statement (Form 499R-2/W-2PR) or Informative Returns (Forms 480.6A, 480.6B, 480.6C, 480.6D, 480.6 SP or 480.7C, among others).
- Make sure to write correctly your Social Security number in your 2020 Return.
- In the case of married taxpayers, make sure that the name and Social Security number of each spouse are correct.
- If you claim dependents, make sure to complete Schedule A1 Individual in your return. Confirm that the complete name (with both last names), relationship, and Social Security number of each dependent claimed, are correct.
- Before electronically filing the return, make sure that all required schedules were completed.
- Inform all your income, whether or not they are included in a Withholding Statement or Informative Return. The Department of the Treasury matches the information provided by the taxpayers in their returns with the information provided by the employers and withholding agents.
- Make sure that the Withholding Statements and Informative Returns reported on the return include the electronic filing confirmation number.
- Make sure that your postal address is complete.
- Remember to complete the authorization for direct deposit on page 1 to receive your refund faster. Make sure to enter the correct information of your bank account. If you file the return with the incorrect information of your bank account or if you want to change the refund payment method by direct deposit, you must complete Form SC 2718 and deliver it personally at any of our Taxpayer's Service Centers.
- If you have to make a payment with check, make sure to fill it out on behalf of the Secretary of the Treasury, that the amounts match, that it is signed, that it has enough funds to make the payment, and include the Social Security number. A check with mistakes is subject to interests and surcharges.
- If you are making the payment by Automated Clearing House (ACH), make sure to provide the correct information of the bank account before completing the electronic filing. If the payment is rejected by the financial institution, the Department of the Treasury may impose a penalty on the amount of the payment.



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

**IMPORTANT NOTICE:**

DO NOT FORGET TO WRITE YOUR SOCIAL SECURITY NUMBER IN THE CORRESPONDING BOX ON THE RETURN AND SCHEDULES. THIS NUMBER IS NECESSARY TO PROCESS YOUR RETURN.