



Growing
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GUIDE

INFORMATIVE REQUIREMENTS ON PAYMENTS TO PROVIDERS

tcg^{sq}
Torres
CPA Group

(787) 752-4545
info@torrescpa.com
cpatorres@torrescpa.com

www.torrescpa.com
P.O. Box 4846, Carolina,
PR 00984-4846

GUIDE

Puerto Rico Tax Compliance Guide

By TCG, Torres CPA Group, CifrasPR, Torres & Soto Tax

Torres CPA Group is a Certified Public Accounting Firm that has been offering Audit, Tax, Consulting, and Financial Outsourcing services for over 38 years. If you require any further information or help, please do not hesitate to contact us. We assist in Accounting, Payroll, and Tax Compliance.

Understanding the Puerto Rico tax system and its interrelation with the United States is crucial for individuals and entities doing business in Puerto Rico. Puerto Rico is not a state; it's a territory, with its own business, tax, and Payroll laws and regulations.

The following White Paper is designed to give an insight on Tax Issues in Puerto Rico. It provides relevant background information, which will be of assistance to organizations considering establishing a business in the Island. Nonetheless, it is highly recommended to seek advice and counsel from qualified professional sources before undertaking any business.

Certain exclusions and exemptions may apply, and when specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Puerto Rico and to obtain appropriate accounting and legal advice.

It is understood that the following overview does not constitute any formal rendering of either legal, accounting, tax, or professional services. If legal advice or other assistance is required, an attorney, CPA or tax adviser should be consulted.

In accordance with IRS Circular requirements, you are advised that any discussion of tax issues in these materials is not intended or written to be used and cannot be used to avoid penalties imposed under Internal Revenue Code, as amended or to promote, market, or recommend to another party any transaction or matter addressed herein.

CPA William Torres Torres, 787-508-4545, cptorres@torrescpa.com

CPA Saudhi Soto Pagán, ESQ, 787-752-4545, cpasoto@torrescpa.com

Informative Declaration Requirements for Payments to Suppliers

On December 10, 2018, Law No. 257, known as the “Tax Reform”, was approved. It has brought significant changes in the items to be claimed as expenses in the 2019 Income Tax Return of individuals and corporations.

One of the most significant changes of the Reform is the requirement to submit new informative tax returns (480) to be able to claim the deductions as expenses in the Income Tax Return. It also incorporates the information of items

NOT Subject to Withholding for payments made after five hundred (\$ 500.00) dollars which are detailed below:

Informatives Rendered by the Taxpayer

- Salary
- Professional service rendered, resident and no-resident
- Rent
- Water and Sewage
- Electricity
- Health insurance
- Payment for Insurance Premiums
- Payments for telecommunications Services
- Payment for Internet, Cable and Satellite TV Services
- Payment for advertisement
- Maintenance fees payed to HOAs
- Professional and trade continuous education
- Other income

All Informative Declarations must be submitted through SURI.

A copy of the 480 must be kept for a period of 10 years.

The expense must be filed in the Informative Declaration (480) in the name of the **tax payer**; otherwise, the taxpayer may NOT claim the expense on his Return.

Payments to Non-Residents

When payments for service for non-residents exceed \$ 500.00, the tax filer must withhold, submit, and send providers the 480 Informative.

If the non-resident provider of services performs outside of Puerto Rico, there is no withholding requirement; however, an Informative declaration must be filed to be able to claim the expense.

If the provider performs in Puerto Rico, then he is subject to a 20% withholding and filing of the Informative.

Information Required on Form 480

It is essential that you keep records of all disbursements to business providers to whom you make payments that are subject to be included in Form 480:

- 1) Full name and social security number
- 2) Postal Address
- 3) If applicable, Copy of the Certificate of Total or Partial waive of Withholding at Origin, effective the year the waiver was claimed.

Quarterly and End of the Year Information Information Form 480 (the equivalent of Form 1099)

The tax reform brought with it a new Quarterly Withholding Tax Return on Payments for Services (Form 480.6SP-1) that details the payments made for services, and the tax withheld and deposited during each quarter.

Any balance due for withholdings that has not been paid during one of the covered months must be paid on or before the last closing day of the quarter.

It will be the responsibility of the payer to file an Annual Reconciliation Form for the amounts withheld each year no later than February 28 of the year following the payment was made, together with the Informative Declarations.

The retention must reconcile amounts included in the informative with in the information provided on and the Annual Reconciliation Form (480.6SP-2).

Penalties for non-compliance of withholding

If the payer does not fulfill his responsibility to deduct and withhold taxes, he will be subject to paying penalties, interest, and surcharges, such as:

- Penalties: 2% for every 30 days in which the withheld amounts are not deposited, these will not exceed the maximum of 24%.
- Annual interest — 10%
- Surcharges — there will be no charges for the first 30 days
 - 31 to 60 days – 5%
 - 61 days or more – 10%

Penalties for non-compliance

There will be no time extension for filing of these information forms. Not filing the forms on the expiration date will result in penalties.

Any taxpayer that does not comply with the filing of the Informative Declarations **CANNOT** claim the related expenses on his income tax return.

It is crucial file them on time to avoid the penalties imposed. As of January 1, 2020, the Department of the Treasury will begin to implement penalties, so you must ensure that you comply with the stipulated filing dates and thus avoid the penalties. The penalties are detailed below:

- **\$500.00 Penalties** – if Not submitted on time.
- **\$500.00 Penalties** – if Not submitted on electronically through the Internal Revenue Unified System (SURI).
- **\$100.00 Penalties** – if Not delivered to the supplier.

Accrual Method or Year Not Closing on December 31

Taxpayers who are under the accrual method or with an economical year that does not close on December 31 may claim the deduction, even if the amount is not shown in an informative return.

This is so, provided the conciliation of expenses claimed and the amount in the informative return are included. To date, the Treasury Department has not issued any information on how it will require taxpayers to file this reconciliation.

The Taxpayers who are under the “Cash Basis” method or who are governed for a Calendar year that close on December 31, do not ever have to reconcile the claimed expense.

At Torres CPA, we are committed to your financial growth; and to help you fulfill your tax responsibilities, as well as reduce the payment of contributions within the framework allowed by law.