



GUIDE

BUSINESS START UP REQUIREMENTS



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Puerto Rico Tax Compliance Guide

By TCG, Torres CPA Group, CifrasPR

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.

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Starting a Business in Puerto Rico Requirements

A newly organized or registered business in Puerto Rico must comply with the requirements of different government agencies.

Registration and Authorization

Before conducting business locally, all corporations or limited liability companies must register at the Puerto Rico State Department.

Requesting and Registering an Employer Identification Number

Every entity engaged in business in Puerto Rico must obtain a federal Employer Identification Number (EIN) from the U.S. Internal Revenue Service (IRS) by filing Form

SS-4. Upon obtaining an EIN, the entity must file a copy of the certificate of incorporation, and a copy of Form SS-4 at the P.R. Department of Treasury.

Sale and Use Taxes

Every business (Merchant) in Puerto Rico must request a Merchants' Registration with the Puerto Rico Treasury Department (PRTD). Application must be presented thirty (30) days before initiating business. Failure of timely registration may result in a \$10,000 fine.

Municipal License Tax

When a new business is established, the semester in which it commences operations is generally exempt, provided that the business informs the Municipal Treasurer (within the first 30 days of operations) that it has established a business in the municipality. A tax return must be filed for the following semester annualizing the volume of business obtained during the first semester of operations. Semesters run from July 1 through December 31, and from January 1 through June 30.

Income Tax Withheld on Salaries and Wages

An employer is required to withhold income tax at source on the salaries and wages paid to employees performing services in Puerto Rico. Employer is required to register its employer's identification number with the Puerto Rico Treasury Department within 30 days of initiating his employer's status. Failure to comply will result in penalties. In addition, the salaries and wages will not be deductible for tax purposes, and the employer will be liable for amount not withheld.

Withholding exemption certificate

Employers must complete and retain Form 499-R-4 for each employee. The information provided is the support and authorization for income tax withholding on payroll payments.

Workmen's Accident Compensation Insurance

Workmen's Compensation is a compulsory insurance that provides compensation for accidents incidental to or as a consequence of employment. The Puerto Rico State Insurance Fund Corporation provides this insurance. All employers are required to obtain it within 30 days of initiating operations.

Puerto Rico Unemployment, Disability Benefits, and Chauffeur's Social Security Tax

Employers in Puerto Rico must register as an employer at the Department of Labor and Human Resources, and at the Bureau of Chauffeurs Social Security of Puerto Rico within 30 days of initiating operations.

Books and records

An entity engaged in business in Puerto Rico must keep and maintain accounting records and supporting documents. Such documents will clearly show the financial condition and results of operations in Puerto Rico.

Audited financial statements

A full set of audited financial statements (balance sheet, income statement and cash flow) must accompany all the statutory reports if the gross volume of business is three million dollars or more. On the other hand, the Annual Corporate Report will only be accompanied by an audited balance sheet, certified by a Puerto Rico licensed Certified Public Accountant (CPA).