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GUIDE

Puerto Rico PAYROLL RETURNS COMPLIANCE



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Puerto Rico Payroll Returns Guide

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Understanding the Puerto Rico tax system and its interrelation with 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 and Payroll laws and regulations.

The following Puerto Rico Tax Compliance Guide is designed to give an insight into doing business in Puerto Rico. It provides relevant background information, which will be of assistance to organizations considering establishing 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.

Torres CPA Group is an Advice Certified Public Accounting Firm offering Audit, Tax, Consulting and Financial Outsourcing services for over 33 years. If you require any further information, please do not hesitate to contact us.

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Requirements in Puerto Rico

Employer's Tax

An employer is a person or organization for whom a worker performs services as an employee. Employers are required to withhold, to report and pay employment taxes on wages paid.

Definition of source employment income is generally treated as a Puerto Rican sourced compensation when the individual performs the services while physically located in Puerto Rico. The source is not determined by where the wages are paid from, but rather by where the services are performed.

An employer is subject to the reporting and withholding requirements covered under the

Pay-As-You-Go (PAYG) system.

FICA 941PR

The United States provisions of the FICA or Social Security and Medicare requirements are applicable to Puerto Rico employers and employees as well. The employee tax must be withheld by the employer from the employees' wages and is paid through deposits. Generally, an employer is a monthly depositor for the entire calendar year if the aggregate amount of employment taxes reported for the look-back period is \$50,000 or less. Under the monthly deposit schedule, FICA deposit is due by the fifteenth (15th) day of the following month using form 941 V-PR.

FUTA 940PR

The Federal Unemployment Tax Act provisions also apply in Puerto Rico. The tax is imposed on persons who employ one or more individuals for a portion of a day in each of 20 weeks in the current or preceding calendar year, or who pay in the aggregate \$1,500 or more in wages within a calendar quarter of the current or preceding calendar year.

The FUTA tax liability is computed after a credit for the Puerto Rico unemployment tax on the first \$7,000 of wages paid to an employee each calendar year. No monthly deposit is required if the tax liability is \$500 or less.

Final payment and return must be filed on January 31st.

Income Tax Withheld on Salaries and Wages

An employer is required to withhold income tax at source on salaries and wages paid to its employees performing services in Puerto Rico. The withholding rates depend on the personal exemption and credits for dependents claimed in the Puerto Rico withholding exemption certificate, which each employee is required to complete. The **Puerto Rico Treasury Department publishes tables** that determine the amount of tax to be withheld.

Withheld taxes should be deposited monthly together with a monthly return (monthly deposit of income tax withheld). Unless withholdings have not exceeded \$500.00, payment should be made along with an Employer's Quarterly Return of Income Tax Withheld return, on or before April 30, July 31, October 31 and January 31 of each year. If withholding for the look back (prior 12 month ended June 30) period is over \$50,000, deposits should be made semi-weekly.

The Puerto Rico equivalent of the U.S. Form W2 is the 499R2/W2PR (Withholding Statement), and must be filed for each employee.

An Annual reconciliation statement of Form 499R2/W2PR and tax withheld should be filed to the Puerto Rico Treasury Department on or before January 31st of each year.

Form W3PR shall be filed with the Social Security Administration no later than the last day of February following the end of the calendar year for which the withholding was performed, including the 499R2/W2PR Form.

Puerto Rico Unemployment Tax PR-UI-10

Each employer must pay the Puerto Rico Unemployment tax on the first \$7,000 of annual wages paid and may be credited against the Federal Unemployment tax. The tax is to be paid quarterly on the last day of the calendar month following each calendar quarter payable to the Secretary of the Treasury of Puerto Rico.

Disability Benefits Tax PR-UI-10

Disability Insurance tax is imposed on the first \$9,000 of wages and salaries paid during the calendar year. This provides compensation to workers for loss of salaries resulting from disability caused by sickness or accident not related with their employment. Both employer and employee share the tax burden evenly. Employees subject to the Chauffeur Social Security Tax are not subject to this

tax. This tax should be paid in the same manner as the Unemployment Tax; however, a private plan may substitute it.

Chauffeur's Social Security TSCH-1

If the employer hires non-executive employees who are required or permitted to operate motor vehicles as an integral and regular part of their jobs, chauffeur's social security must be paid in lieu of the Puerto Rico Disability Insurance Tax.

Quarterly returns are required to be filed no later than the fifteenth (15th) day after the last day of each calendar quarter, payable to the Puerto Rico Secretary of the Department of Labor and Human Resources, Bureau of Chauffeurs Social Security.

Workmen's Accident Compensation Insurance

Workmen's Compensation Insurance provides compensation for accidents incidental to or as a consequence of employment. This is a compulsory insurance that is obtained from the Puerto Rico State Insurance Fund Corporation.

All employees of a business, including executive officers, are required to be covered by this insurance. Generally, it is paid in two instalments upon notice mailed to the employer by the State Insurance Fund.

Businesses are required to file, no later than July 20th of every year, indicating the number of employees, occupation, and the wages paid during the preceding July 1 to June 30.

Christmas Bonus

Employers must pay bonuses to all employees who have worked more than 700 hours during the 12-month qualifying period starting on October 1 of each year and ending on September 30 of the following year ("qualified employees").

Employers with up to 15 employees have to pay their qualified employees a bonus equal to 3.00% of the employee's earned wages during the qualifying period, up to \$10,000 of wages (maximum bonus \$300). Employers with 16 or more employees have to pay their qualified employees a bonus equal to 6.00% of the employee's earned wages during the qualifying period, up to \$10,000 of wages (maximum bonus \$600). The total amount of bonuses required to be paid by an employer will not exceed 15% of its profits derived during the qualifying period.

Employees hired after January 26, 2017 – have worked 1,350 hours or more during the 12-month period from October 1 of the year before September 30 of the current year. If you are an employer with 20 employees or less - the bonus must be 2% of the salary earned, per employee, up to a maximum of \$ 300.00. If you are an employer with 21 employees or more - the bonus must be 2% of the salary earned, per employee, up to a maximum of \$ 600.00.

The Christmas Bonus must be paid to employees between December 1 and December 15 of the current year.