



TaxNewsFlash

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Puerto Rico: New provisions related to individual taxation for 2019

Legislation in Puerto Rico makes changes to the individual tax rules generally effective for tax years beginning in 2019.

House Bill 1544, signed by the governor and enacted as Act 257-2018, introduces various amendments to the 2011 Puerto Rico Internal Revenue Code, as amended, relating to the taxation of individuals.

Exemptions

The new tax law provides that for tax years beginning after December 31, 2018, the following items will be excluded from gross income:

- Earned Income Tax Credit (EITC) received by an individual
- Loans to employees or independent contractors, and qualified payments to help with managing disasters declared by the governor of Puerto Rico
- Payments as compensation for injury or disease including mental suffering (previously payments for mental suffering were considered to be gross income)
- Distributions of employee's trust or individual retirement account in connection with a declared disaster

There are also changes to rules in relation to the exemption amount for certain interest income. Interest earned on amounts of deposits held at cooperatives, savings associations, commercial banks and mutual funds is reduced to \$100 (down from \$2,000). The exemption for interest on certain securities and mortgages was repealed.

Other provisions

- A new EITC is made available for Puerto Rico resident taxpayers with earned income. The EITC ranges from \$300 to \$2,000, with the amount of the credit depending on various factors such as marital status, number of dependents, and adjusted gross income.
- An adjustment to the regular individual income tax rate for tax year 2019 and later provides a 5% relief (the tax is 95% of the total tax at current rates).
- Individual retirement account (IRA) distributions made after December 31, 2018, are subject to a 10% withholding at source (a reduction from the prior rate of 17%).
- The dollar-amount requirement for filing an income tax return applies when gross income exceeds exemptions allowed under the Puerto Rico tax law and gross income after exemptions is more than \$0 or if the net income subject to alternate basic tax is \$25,000 or more.
- A foreign tax credit for income taxes paid to any U.S. state is allowed.
- Individuals with a net operating loss (NOL) in a trade or business for three consecutive tax years will be allowed 100% NOL carryover (instead of the the prior carryover limitation of 50%).
- The automatic extension of time to file income tax returns is six months (extended from three months).
- Contributions to health savings accounts (HSAs) are not allowed as deductions.

Alternative basic income tax

Adjusted alternative basic income tax (ABT) rates are adjusted as follows:

Net income subject to ABT:

In excess of \$25,000 but not more than \$50,000	1%
In excess of \$50,000 but not more than \$75,000	3%
In excess of \$75,000 but not more than \$150,000	5%
In excess of \$150,000 but not more than \$250,000	10%
In excess of \$250,000	24%

Self-employed tax

Self-employed individuals whose income is derived substantially from rendering services may elect to pay an optional tax on gross income instead of the income tax otherwise imposed by the tax law on net income, as follows:

Not greater than \$100,000	6%
In excess of \$100,000 but not more than \$200,000	10%
In excess of \$200,000 but not more than \$300,000	13%
In excess of \$300,000 but not more than \$400,000	15%
In excess of \$400,000 but not more than \$500,000	17%

In excess of \$500,000	20%
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Puerto Rico's Treasury Secretary has discretion to postpone the effective date for tax years after December 31, 2019.

For more information, contact a KPMG tax professional in Puerto Rico:

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