

### *New procedures and requirements for internal revenue licenses...some licenses gone...and some cost savings opportunities*

With the main purpose of simplifying the procedures to request and renew internal revenue licenses, the Governor of Puerto Rico signed into law Act 133 of September 6, 2010. The Act provides for the elimination of some licenses and the establishment of easier procedures for the renewal of licenses that should distribute the work load in the Puerto Rico Treasury Department throughout the year and reduce the administrative burden for the taxpayer.

Subsequent to the approval of Act 133, the Secretary of the Puerto Rico Treasury Department issued Internal Revenue Circular Letter 10-08 (Dated September 9, 2010). The Circular Letter's main purpose is to clarify the new applicable rules for the requests for new licenses and the requests for renewal of existing licenses filed on or beyond October 1, 2010.

#### Licenses Eliminated

Act 133 repealed the license requirement for the sale of jewelry. This amendment is particularly important because the definition of jewelry in the Puerto Rico Internal Revenue Code was so

broad that many businesses were required to have that license, and for some, the cost and hassle of obtaining a jewelry license exceeded the benefit of selling such products.

Act 133 also repealed the requirement for the license for the public use of amplifiers and loudspeakers. Even when this license is repealed, the law retained the limitations imposed on the use of such equipment.

#### New Expirations Dates

Probably the most important provision of Act 133 is the establishment of new expiration dates for the renewal of the licenses. Both the amending law and Circular Letter provide the functional procedures to facilitate the implementation of the new system.

The act provides that new expiration dates for internal revenue licenses will be determined based on the last digit of the taxpayer's social security number or employer's identification number (see Table 1). For example, a taxpayer with an employer identification number ending with the digit "7" will be required to renew its licenses in the month of July.

Table 1

SSN or EIN Last Digit	Expiration Month
1	January
2	February
3	March
4	April
5	May
6	June
7	July
8	August
9	September
0	October

#### New Licenses – Requested prior to Renewal Due Dates

Act 133 provides a separate set of rules for new licenses requested before the renewal due date (see renewal due dates on Table 2) and those requested afterwards. New licenses requested before the renewal due date shown on Table 2 will expire on the renewal due date and

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**Table 2****License Renewal Due Dates**

Cigarettes	Oct-31-10
Gasoline	Oct-31-10
Automobile Parts and Accessories	Oct-31-10
Cement	Oct-31-10
Arms Dealers	Oct-31-10
Coin Operated Machines	Oct-31-10
Businesses where amusement machines are operated	Oct-31-10
Free Port Stores; Sea, Land Air Carrier business	Oct-31-10
Alcoholic Beverages	Oct-31-10
Public Event Promoter	Dec-31-10
Precious Metals and Stone Dealers	Jan-15-11
Oil and Lubricants	Jun-30-11

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the license fee must be paid for the full year, with the exception of the alcoholic beverage licenses and the precious metal and stone dealers' licenses, which license fee payment will be prorated for the months the license will be valid.

In the particular case of the license for oil and lubricants, Act 133 is rather confusing

since it provides for the use of the new expirations date system for new licenses issued, but at the same time provides that new licenses requested before June 30, 2011 will be valid until the next June 30 (June 30, 2012), instead than on the expiration month provided on Table 1 (see previous page). The probable outcome of the language of Act 133 will be that taxpayers who requested new licenses before June 30, 2011 will start using the new expiration dates after they renew their licenses on June 30, 2012.

**New Licenses – Requested after Renewal Due Dates**

Act 133 provides that taxpayers who request new licenses after the renewal due dates will use the new expiration dates based on the last digit of their social security number or employer identification number in order to determine the amount of license fee payable. In other words, the license fee for new licenses requested after the renewal date on Table 2 above, should be prorated depending on the months the license will be valid. The Act also allows the taxpayers to elect an extension of the expiration of such new license for an additional year. For example, a taxpayer with an employer identification number ending with the digit "3", and who requests a new cigarette license on December 2010 will have the option of obtaining a license with expiration date of March 2011 (only three months) or an extended expiration date of March 2012 (fifteen months). To determine the amount of the license fee the annual license fee is divided by

twelve and then multiplied by the months until the expiration date (in the example, either three or fifteen).

**License Renewal**

Act 133 provides rules for the current renewal of licenses similar to those provided for new licenses requested after the renewal due dates. Renewed licenses will be issued with new expiration dates based on the last digit of the taxpayer's social security number or employer identification numbers. Also, the license fee of renewed licenses will be prorated based on the number of months the license will be valid. The election to extend the expiration date of the renewed license for an additional year will also be available.

**License Fee Discount**

Since not everything may be good news, Act 133 provides for the repeal of the 10% discount for prompt payment that the Internal Revenue Code allowed for certain licenses. The repeal will be effective for license renewals requested after December 31, 2010. Therefore, renewals during 2010 will still enjoy the discount. Circular Letter 10-08 provides that such benefit can also be enjoyed by those taxpayers electing to extend the expiration date for an additional year.

**Requirements for Internal Revenue Licenses**

The most important change brought by Circular Letter 10-08 is that taxpayers will no longer be required to

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obtain and submit certain documents from the Puerto Rico Treasury Department with the request of the internal revenue license. Instead, the Puerto Rico Treasury Department will verify the compliance of the taxpayer with regard to the filing of the income tax returns, the existence of tax debts with the Puerto Rico Treasury Department, the compliance with ASUME (acronym in Spanish for the Minors Support Administration) and the registration with the Merchant's Registry. If the taxpayer is not in compliance with any of the above, the request will be denied. Therefore, the taxpayer will need to make sure it is in compliance with the above prior to filing the application for license.

Circular Letter 10-08 also repealed some of the previous requirements, among them, the taxpayer will no

longer have to submit copy of the document with the employer identification number issued by the IRS, or the social security number card for the president or representative in Puerto Rico, nor it will be required a certified copy of the income tax return for the year prior to the request of license and the good standing certificate.

However, Circular Letter 10-08 still requires some documentation of the entity's president, managing partner or its equivalent. What is new, is that if these persons are not residents of Puerto Rico the required documents may be of the person responsible for the business in Puerto Rico.

Circular Letter 10-08 provides some specific requirements by type of license. Therefore, it is important that Circular Letter 10-08 be reviewed before beginning any process of requesting a new license or renewing one that was previously issued.

**Z&A Comments**

Act 133 is a good mechanism to distribute the Puerto Rico Treasury Department workload throughout the year (at least ten of twelve months). Hopefully, this will allow licenses to be processed efficiently and faster.

We also believe that it provides a good opportunity to reduce costs and alleviates burdens associated with the renewal process of licenses. Companies should consider extending the renewed license for an additional year. By doing this, taxpayers will benefit from the discount on the total amount paid, and also will save time and expenses associated with the processing of the license renewal for year 2011. It is our experience that sometimes the costs of the renewal process exceed the actual licenses cost.

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