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House Bill 1919
Summary of Amendments to Corporate Taxes

Area	Original Bill	Amendments by House of Representatives	Amendments by Senate
Puerto Rico Internal Revenue Code of 2011 (Act 1-2011)			
Special Tax on Long-Term Capital Gains of Corporations	Provides for an increase in the long-term capital gain rate from 15% to 25% for taxable years started after December 31, 2013.	No amendment	Reduces the proposed increase to 20% and modifies the starting date of the increase to transactions made after June 30, 2014.
Addition Tax on Gross Revenue	Adds to the exclusions in the definition of gross income the payments received by "voluntary chains" from its members as a result of the transfer of inventory or goods under a common negotiating program. A "voluntary chain" is an entity covered by Act 77-1964 which main purpose is to negotiate the purchase price of inventory with suppliers for members of the chain.	Divided the additional tax on gross revenue on two separate sections in the Code. The first section (the current one in the Code) provides for the tax to be part of the alternative minimum tax. Such section will be applicable to all taxpayers with sales of $1 million or more for the year started after December 31, 2012 and before January 1, 2014. It also will be applicable for all future years for taxpayers which gross income is $1 billion or more. The second section applies to all taxpayers with sales of $3 million or more but under $1 billion for years started after December 31, 2013. It will also apply to taxpayers with sales over $1 billion which elected to be taxed under the Puerto Rico Internal Revenue Code of 1994, as amended. The additional tax on gross revenue will be a separate tax to	Retains the additional tax on gross revenue as currently in the Code (computed as part of the alternative minimum tax) with some changes. Excludes all taxpayers with sales lower than $3 million from the additional tax on gross revenue for years started after December 31, 2013. Also, establishes an automatic 50% reduction in tax rate for those taxpayers which taxable net income is lower than 1.5% of their gross income (sales) if the taxpayer sales are less than $500 million for the year. Modifies the definition of gross income for the importers and wholesalers of fuel and oil products to exclude the excise tax from such computation. Establishes a sunset provision by stating that this tax will

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		the income tax and will be allowed as a deduction to determine the net taxable income of the taxpayer. Those taxpayers mainly engaged in the retail food business with sales under $400 million will have a reduction in the tax rate to determine the additional tax on gross revenue of 50%. For purposes of this section, the term "mainly" means that the retail sale of foods or provisions for the last three years average 80% or more of the total retail sales by the taxpayer. This section also establishes limits to the use of credits to reduce the additional tax on gross revenue liability, including not allowing the purchase of credits to reduce such liability. The determination of whether a taxpayer exceeds the $1 billion threshold is made at the controlled group level even when a member of the controlled group elected to be taxed under the PR Internal Revenue Code of 1994.	not be applicable for tax years started after December 31, 2015.
Capital Gains and Losses	Modifies the holding period to determine whether a gain or loss of a capital asset is short or long term from a six month period to one year. It also limits the capital losses to be used in the year to 90% of the capital gains. Provides for a 7 year carryover period for all net capital losses from years started after December 31, 2013.	Establishes that the change in the holding period will be for transactions after June 30, 2014.	No amendment
Credit for alternative minimum tax paid on	Establishes that alternative minimum taxes paid for years commenced after January 1, 2014 will not generate an alternative minimum tax credit. Limits the credit to be used in future years to only 25% of the difference	Eliminate the proposed amendment that limits the credits generated on years	Eliminate all the proposed amendments leaving this section of the

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prior years	between the regular income tax and the alternative minimum tax of such years.	commenced after January 1, 2014.	Code as it currently reads.
Moratorium on the Granting of Tax Credits	Reduces the maximum credit granted per construction project from $15 million to $5 million for the economic years 2014-2015 and 2015-2016.	No amendment	No amendment
Withholding on Services Rendered	Imposes a withholding to (1) insurance agents and (2) those receiving commissions from the direct sale of consumer products. These taxpayers are currently excluded from the withholding on services.	No amendment	Clarifies that the withholding should not apply on the payment of insurance policies.
Deemed Dividend Tax	Imposes a 4% tax (really a prepayment) on all dividend deemed distributed during a tax year. The deemed dividend distribution will be the average value of Foreign Assets but never shall exceed the accumulated earnings and profits of the corporation at the end of the taxable year. The computation of the average value of Foreign Assets will be made quarterly and then the sum of those averages considered in the income tax return. For purposes of the deemed dividend, Foreign Assets are the following: 1. Tangible property located outside PR 2. Stock of a corporation organized outside of PR 3. Debt instruments of a foreign corporation or a nonresident taxpayer 4. Right to use outside of PR: (a) patents and copyrights; (b) inventions, models or designs; (c) secret formulas or processes; and (d) any similar right that has been acquired or developed by a domestic corporation to be used outside of PR 5. Excluded Foreign Asset used as a guarantee or collateral for the benefit of a foreign owner or any related person outside of PR. For purposes of the deemed dividend, the following are Excluded Foreign Assets: 1. Debt instruments of the Government of the US and its political	Increases the 4% tax to 10%. Also includes foreign corporations subject to branch profit tax as entities excluded from the deemed dividend tax. Eliminates the 40% limitation in the use of the deemed dividend credit once the corporation makes the actual distribution.	Set the commencement date of the deemed dividend tax for taxable years started on June 30, 2014. Proposes an 8% tax instead of the 4% in the original bill or the 10% proposed by the House of Representatives.

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	subdivisions 2. Money on a banking institution or brokerage firm in the name of the corporation and for its exclusive use 3. Property acquired and located outside PR but purchased for the PR operations (i.e., property in transit) 4. Obligation from a Foreign Owner which result from the sale of property when such obligation does not exceed the amount of obligation that would have arisen if the transaction would have been between unrelated parties. 5. Plane, vessel, motor vehicle or container used in the transportation of persons or property in foreign commerce if it is mostly used in PR 6. Obligations or stock of foreign corporations that is not a stockholder of the corporation operating in PR For purposes of this section, the accumulated earnings and profits is the total accumulated earnings and profits reduced by the amount of deemed dividends which a deemed dividend tax has already been paid from and by the earnings and profits generated from: (1) operations with a tax exemption grant issued under one of the various tax exemption laws in Puerto Rico; (2) bona fide agricultural businesses; and (3) International Banking Entities. The deemed dividend tax will be credited against the income tax to be withheld and paid on dividend distributions as long as it does not exceed 40% of such contribution. Any deemed dividend tax that could not be used as a credit due to the 40% limitation may be used in future years. The deemed dividends will not be applicable to nonprofit entities, international insurers and international banking entities.		
Tax on Dividend Equivalent Amount	Modify the definition of Puerto Rico Net Equity in relation of what is a Puerto Rico asset and a Puerto Rico liability to exclude:	No amendment	No amendment

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	Puerto Rico assets (1) loans and credit transactions among offices or branches of the same entity or when they are product of a transfer of property, and (2) the cash deposited on a banking institution or brokerage firm located outside of Puerto Rico which is not for the exclusive use of the branch in Puerto Rico; and Puerto Rico liabilities loans or credit transactions among offices or branches of the same entity, except in the case of banking entities or when they are a product of the sale or transfer of property. This modification may result in a reduction in the net equity and the triggering of the branch profit tax.		
Sales and Use Tax – Definitions	Excludes several items from the definition of food or food ingredients including (1) energy bars; (2) popcorn; (3) nuts and similar products; (4) cookies and crackers; (5) certain drinks which are not considered water, milk or juices (as defined); (6) totally or partially frozen foods, including ice cream; and (7) snacks.	Eliminates the amendment proposed in Bill leaving the section as currently reads.	Concurs with the changes of the House of Representatives.
Long-Term Contracts	N/A	Establish that companies in the development of land and buildings will be considered to have income from long-term contracts and, therefore, may compute its income based on the methods provided (percentage of completion or completed contract) or a method authorized by the Secretary of the Treasury by regulations, circular letter or administrative determination. Currently the Code provides that such	Do not concur with the House of Representative proposed amendment and proposes to leave section of the Code as it currently reads.

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		taxpayers do not have revenue from long-term contracts.	
Interests Paid to Foreign Corporation not Engaged in Trade or Business in PR and Withholding of Interest Income	N/A	Imposes a 10% tax on interests paid to not related corporations which are not engaged in trade or business within Puerto Rico. Also imposes a withholding requirement of such tax to those paying the interest. This tax is effective for interest payments made after June 30, 2014. There is no proposed change to the 29% tax and withholding requirement on payments of interests to related persons	Proposes minor changes that have no effect on the House of Representative proposed amendment.
Special tax on capital assets	N/A	N/A	Incorporates a new section in the Code that provides for a tax of 12% on the prepayment on the increase in value of a capital asset. This tax is elected by the taxpayer and the election period is between July 1 and October 31, 2014. Although such prepayment increases the tax basis of the asset such increase is only for purposes of the sale or disposition of the asset and may not be used in the depreciation of the asset. If the sale results in a loss, such loss may be adjusted to reflect that a tax of 12% was paid.
Economic Incentives Act for the Development of Puerto Rico (Act 73-2008)			
Credit for the Investment in Research	Establishes as a requirement of the credit a certificate from the PR Industrial Development Company ("PRIDCO") certifying that the research	No amendment	No amendment

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and Development	and development activities are eligible for the credit. It also, establishes a limitation on the credit granted of $300 million per fiscal year.		
Credit for Industrial Development	Establishes a recapture of the credit for industrial development when a small or medium business ceases operations before the lapsing of a 10 year period counted as of the date of the eligible investment. It also provides that a small or medium business is a business which sales, including those of other members of the controlled group of corporations, are less than $10 million. The credit for industrial development is the credit provided to businesses which acquired a business in the process of closing operations. The business purchased has to have a tax exemption grant issued under Act 73-2008.	No amendment	No amendment
Green Energy Incentive Act of Puerto Rico (Act 83-2010)			
Green Energy Fund	Reduces the amount contributed by the Government of Puerto Rico to the Green Energy Fund to $20 million. The amount allocated for future years was between $30 and $40 million. The Green Energy Fund is used to provide credit for certain investments in green energy generation.	No amendment	No amendment