

March 8, 2016

Tax Update

Secretary of the Treasury Postpones Implementation of Puerto Rico's Value Added Tax

As we have indicated in previous Legal Updates, Subtitle DD of the Puerto Rico Internal Revenue Code of 2011, as amended ("Code") contains value added tax ("VAT") provisions scheduled to become effective on April 1, 2016.

Nonetheless, Section 6110.04(a)(4) of the Code grants the Secretary of the Treasury ("Secretary") the authority to extend the effectiveness of the sales and use tax ("SUT") provisions of Subtitle D of the Code in case that implementation issues would prevent the commencement of the VAT regime. Under that authority, on December 29, 2015, the Secretary issued Administrative Determination 15-26, partially delaying commencement of the VAT regime so that it would be implemented in phases. The first phase to be effective on April 1, 2016, and the second phase to be effective on June 1, 2016.

Amidst public opposition against the VAT and fears of implementation issues, on March 7, 2016 the Puerto Rico Treasury Department issued a press release when the Secretary announced the **full delay of the implementation of the VAT until June 1, 2016**. As a consequence, the current provisions of Puerto Rico's SUT will continue in effect until May 31, 2016; this includes the 10.5% tax on transactions involving tangible personal property or certain business-to-business services and the 4% tax on services among merchants and designated professional services. With the extension of the SUT, merchants will be unable to claim credits for SUT paid (input taxes) on such business-to-business services, services among the merchants, designated professional services or on other taxable transactions that would have otherwise been creditable under the VAT regime.

In addition to this development, the President of the House Treasury Commission has announced his intent on filing a measure that would increase the proposed rate of the VAT to finance reductions in individual income taxation.

You may access the Puerto Rico Treasury Department's press release (in Spanish) [here](#).

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