

May 15, 2015

Tax Update

Puerto Rico Governor and Popular Democratic Party Legislature Reach an Agreement on Revenue Raising Measure

Last night, Governor Alejandro García Padilla and the Popular Democratic Party Legislature reached an agreement as to the revenue raising measure needed to approve a balanced budget for the Government's fiscal year 2015-2016. Please note that no bill has been filed to date.

The proposal includes an increase to the current sales and use tax ("SUT") from 7% to 11.5% for a period of 9 months. The 11.5% increased SUT would be comprised of a 10% state level SUT and a 1.5% municipal level SUT. In addition, a 4% tax on services currently exempt from SUT would be imposed.

The agreed-upon initiatives would be in effect as we transition to a state level 10.5% value added tax ("VAT"). Because the 4% tax on services would be imposed under the currently applicable SUT system, it would not be creditable until the transition to a VAT is completed.

In addition to the consumption tax proposals, legislation to be presented is expected to include additional taxes that would typically impact large retailers, such as the additional tax on purchases of property from affiliates (the so-called "transfer pricing tax") included in the recently defeated tax reform bill (House Bill 2329).

A bill reflecting the agreement reached yesterday is anticipated to be filed soon. We will closely monitor related developments and will keep you informed through our Legal Updates.

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