

September 8, 2015

## Tax Update

### *Technical Amendments to Puerto Rico Internal Revenue Code of 2011*

Weeks before the effectiveness of the provisions of Act 72-2015 imposing a 4% sales and use tax ("SUT") on the rendering of most business to business services, Senate Bill 1433 ("SB 1433") proposes to further modify the Puerto Rico Internal Revenue Code of 2011, as amended ("Code"). SB 1433 was approved by the Puerto Rico Senate on August 24, 2015 and, with amendments, by the House of Representatives June 25, 2015; therefore, a final version will come from a Conference Committee.

Below is a summary of the most important topics that are currently being considered by the Conference Committee:

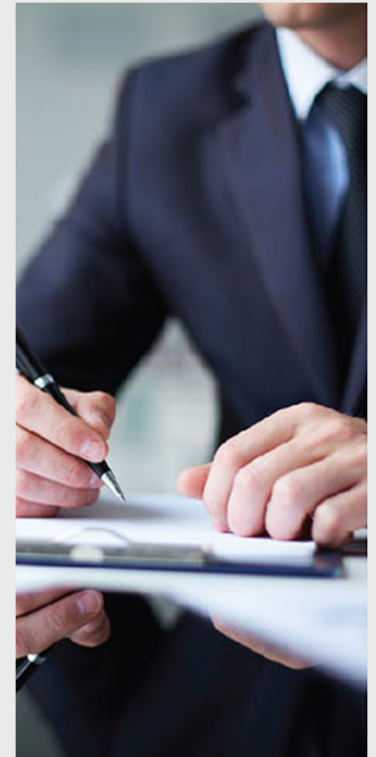
1. Amendments to the definition of "designated professional services" to exclude certain legal services, services rendered between members of a controlled group of corporations or a group of related entities when the recipient of such entities is a holder of a grant of tax exemption or tourism concession ("Services to Grantees"), among other services;
2. Amendments to the definition of "taxable services" to exclude Services to Grantees, the use of intangibles, the production of certain radio or television programs and commercials, shipping and logistics services, among other services;
3. Amendments to the definition of "services rendered to other merchants" to exclude the use of intangibles, Services to Grantees, among other services;
4. Amendments to the SUT and VAT provisions to exempt toll manufacturing and contract manufacturing services;
5. Amendments to the SUT provisions and to the zero-rate VAT provisions to exempt and include as zero-rated services, respectively, services rendered to entities with tax exemption grants when such services are directly related to the eligible business; and
6. Amendments to the term "export services" under the VAT regime to include Act 20-2012 and Act 73-2008 services.

The Conference Committee is expected to issue their final report in the coming weeks. Close monitoring of SB 1433 is recommended to determine the effects of its proposals on operations as of October 1, 2015.

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