

August 28, 2025

Tax Update

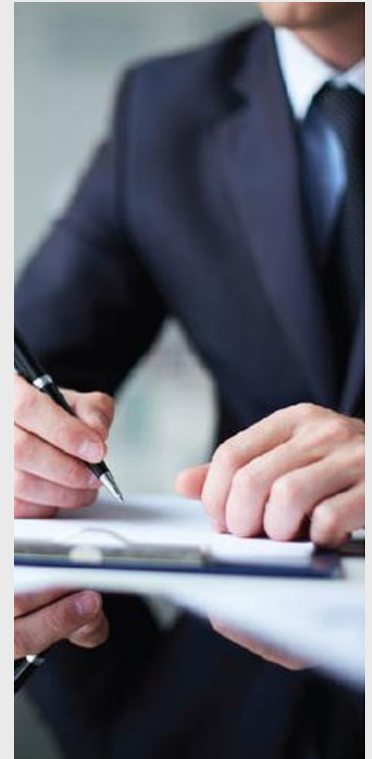
Recent Legislation Incorporates Changes Geared Towards Tax Compliance Simplification

On July 17, 2025, Act 65-2025 ("Act") was enacted to amend provisions of the Puerto Rico Internal Revenue Code of 2011, as amended ("Code"); Act 107-2020, as amended, known as the Puerto Rico Municipal Code ("Municipal Code"); Act 60-2019, known as the Puerto Rico Incentives Code ("Incentives Code"); and Act 164-2009, as amended, known as the Puerto Rico General Corporations Act ("Corporations Act"). As indicated in the Act's Statement of Motives, fundamental objectives of the legislation include facilitating tax compliance, reducing operational costs for businesses, and modernize the local tax treatment of entities such as limited liability companies ("LLCs") and trusts.

The following is an overview of salient changes resulting from amendments made by the Act to the aforementioned legislation.

Code

- Effective for taxable years beginning after December 31, 2023, domestic LLCs may now elect to be treated as disregarded entities even if their sole owner is not a resident individual.
- It is clarified that any foreign entity that is not considered a corporation, partnership, or trust pursuant to the applicable Code definitions, shall be classified as an LLC thereunder.
- The definition of "Trade or Business" now specifies that local activities must be considerable, continuous, and regular, considering operations inside and outside Puerto Rico, to amount to the undertaking of a trade or business in Puerto Rico. This is a welcomed clarification that incorporates U.S. judicial precedent that is considered persuasive locally.
- It is clarified that a remote employee's residence will not be deemed its employer's office or place of business in Puerto Rico and that having such employee working in Puerto Rico does not, in and of itself, cause the foreign employer to be considered a merchant for sales and use tax purposes. Furthermore, the criterion that required such an employer not to have economic nexus with Puerto Rico was eliminated.
- The definition of pass-through entity now includes any entity that has a legal personality separate from its owners, partners, or members, but whose income and expenses are attributed to them for income tax purposes and expressly excludes Special Employee-Owned Corporations.



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- For taxable years beginning after December 31, 2024, amounts distributed or made available to a participant or beneficiary by an employee trust exempt under Section 1081.01(a) of the Code, as well as by bank charges and electronic transaction processing fees, provided these are properly reported on an informative return, are excluded from income subject to the alternate basic tax.
- For taxable years beginning after December 31, 2024, in determining the alternative net income subject to the alternative minimum tax, corporate taxpayers may also exclude bank charges and electronic transaction processing fees, provided these are properly reported on an informative return. Also, a new provision was added to the alternative minimum tax provisions excluding from alternative net income the total amount received as dividends from a domestic corporation, certain foreign corporations, or from income derived from activities covered under an exemption decree issued pursuant to the Incentives Code or any similar prior or subsequent legislation, to the extent such dividends have been excluded net income for regular tax purposes pursuant to the dividends received deduction.
- In the case of an income tax classification change pursuant to Code Section 1078.02, the 183-day period for a foreign corporation to request a ruling request demonstrating that the transaction is not intended to evade Puerto Rico income tax begins on the date the election is filed. Furthermore, for taxable years beginning after December 31, 2024, in cases of deemed liquidations triggered by a change in income tax classification the notices required by Code Section 1063.05, including those related to liquidating distributions, will not be required. Rather, the effect of such deemed liquidation must be disclosed as part of the classification election form.
- Effective for taxable years beginning after December 31, 2024, businesses whose average annual gross income does not exceed \$10 million will be permitted to adopt the cash basis method of accounting. Taxpayers who used the accrual method for their last taxable year beginning before January 1, 2025, and who qualify under the new threshold may switch to the cash basis method for their first taxable year beginning after December 31, 2024, without having to request approval from the Secretary of the Treasury.
- The due date for the filing of income tax returns by pass-through entities, estates and trusts has been extended from the 15th day of the 3rd month after the end of their taxable year to the last day of the third month after the end of such year. Furthermore, any owner may now sign the pass-through entity return, which is a change from the prior requirement that only the managing partner had such authority.
- Businesses engaged in electronic transaction processing or which clients use their platforms to collect payments must file annual informative returns on such transactions and specify processing charges collected in said informative return.
- Informative returns for payments related to advertising, insurance, telecommunications, cable, satellite, internet services, or bank charges will only be required for commercial clients engaged in a trade or business in Puerto Rico.

- Income tax returns that are under audit or have been audited with a resulting income tax assessment cannot be amended.
- The Interagency Compliance Portal may now become part of SURl. Once enabled and announced by the Department of the Treasury, agencies will have 90 days to begin providing the required information. Furthermore, the Tourism Company is added as an issuing agency and must provide the Secretary of the Treasury with information regarding persons subject to the room occupancy tax.

Municipal Code

- The due date for the filing of the volume of business declarations by an exempt business is now five business days after June 15th. This now aligns with the income tax return due date for exempt businesses that are calendar year taxpayers.
- Municipalities are now required to honor income tax return extensions granted by the Department of the Treasury for purposes of determining the due date to file the corresponding volume of business declaration.

Incentives Code

- For taxable years beginning after December 31, 2024, the Exempt Annual Report must be submitted electronically to the Secretary of the Treasury along with the income tax return, including the corresponding filing fees. This can be postponed by the Secretary of the Treasury for a year through a publication of general application.

Corporations Act

- Effective January 1, 2025, corporations will no longer be required to file an annual report but must still pay the corresponding annual fee to the Department of State.

With the objective of establishing a framework for interagency collaboration, the following stand-alone provisions have also been included in the Act:

- The Department of the Treasury and the Department of Labor must formalize a collaborative agreement by no later than July 1, 2026, to consolidate employer wage-related filings through SURl.
- The Department of Public Works and Transportation, the Department of Natural and Environmental Resources, and the Tourism Company are required to transfer to the Department of the Treasury information related to registered motor vehicles, vessels, and the room occupancy tax.

If you have any questions or need additional information regarding the changes outlined above, our team is available to assist. Please don't hesitate to get in touch with us for an in-depth discussion regarding the impact of any such changes for your particular business.

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