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## Sales and Use Tax Exemption on Designated Professional Services and Services Rendered Between Merchants

Act 257-2018 amended Section 4010.01 of the Puerto Rico Internal Revenue Code of 2011 ("Code") with the purpose of increasing the Sales and Use Tax ("SUT") exemption on designated professional services and services rendered between merchants ("B2B") from \$50,000 to \$200,000, effective March 1, 2019. With this amendment, merchants engaged in rendering designated professional services or B2B services will not be required to collect the 4% SUT if their volume of business does not exceed \$200,000 ("Eligible Merchants").

On February 27, 2019, the Puerto Rico Treasury Department ("PRTD") issued Internal Revenue Circular Letter No. 19-05 ("CC 19-05") with the purpose of establishing the eligibility requirements for this exemption and the process to obtain an updated Non-Withholding Merchant's Certificate.

Pursuant to CC 19-05, effective March 1, 2019, Eligible Merchants will be considered non-withholding agents for SUT purposes if the following requirements are met:

1. All income reported in the Monthly Sales and Use Tax Return, Form SC 2915 ("Monthly SUT Return") must be derived from rendering designated professional services or B2B services, including exempt services ("Eligible Income").
2. The merchant must be in compliance with all its SUT obligations.
3. The sum of all Eligible Income reported in the Monthly SUT Returns filed for the calendar year 2018 cannot exceed \$200,000.
4. If the merchant did not operate during the entire year 2018, it shall be considered for purposes of this requirement the sum of all Eligible Income reported in the Monthly SUT Returns filed since the date of commencement of operations indicated at the time of registration until December 31, 2018.
5. In the case of merchants who commenced operations during 2019, the volume of business included as part of its registration in the Merchant's Registry shall be considered for purposes of determining the eligibility for this exemption.

An updated Merchant's Certificate indicating a non-withholding agent status will be issued by the PRTD automatically through the Internal Revenue Unified System ("SURI") to all merchants who comply with the aforementioned requirements.

The eligibility for this exemption must be determined annually, considering the volume of business for the immediately preceding natural year.

At RSM Puerto Rico we can provide you with advice regarding this exemption. Please contact our tax advisors at (787) 751-6164 | [tax@rsm.pr](mailto:tax@rsm.pr) for help or more information.