



THE POWER OF BEING UNDERSTOOD

EFFECTIVE DATE FOR THE VALUE ADDED TAX

Year 2015 Issue #22

The Puerto Rico Treasury Department (hereinafter "PRTD") issued Administrative Determination 15-26 (hereinafter "AD 15-26") with the purpose establishing the effective date for the imposition of the Value Added Tax ("VAT").

As you may recall, Act #72 of May 29, 2015 enacted the dispositions of the VAT. Also, Act #72-2015 established that the effective date of the VAT was on April 1, 2016 unless the PRTD exercised the option to extend its effective date for a maximum of 60 days.

The most important information provided by this Administrative Determination is that the VAT will be implemented starting April 1st, 2016. One of the most notable changes this will bring is that the tax rate applicable to services will increase to 10.5%. Also, equally important will be the new requirements to claim credits under the VAT system.

The PRTD will implement the VAT in two phases. The first phase will commence on April 1, 2016 and the second phase will commence on June 1, 2016. AD 15-26 mentions that the PRTD will issue several official communications related to the VAT in order to inform how the system will be established and its applicable rules and required filings. Some of the rules or guidance that will be included in the communications will discuss the following:

- Basis over which the VAT will be imposed and the rate of 10.5%. Designated professional services and services provided between merchants will be subject to the VAT rate of 10.5% stating April 1st, 2016. These services have been subject to the Sales & Use Tax special 4% rate since October 1, 2015.
- Starting on April 1, 2016, merchants will be able to claim credits for VAT paid in accordance with Section 4150.02 of Subtitle DD of the Puerto Rico Internal Revenue Code, as amended (hereinafter "Code").
- Before June 1, 2016, **merchants will not be allowed to request from PRTD a reimbursement** for excess VAT paid.
- The Fiscal Notes established in Section 4130.02 of the Code, which allow merchants to claim credits for VAT paid, will be accepted through **manual or alternate** methods which will be later described by the PRTD.
- Information related to the current Sales & Use Tax Certificates and the new certificates to be issued for the VAT and its effective dates. Some of these certificates include: Exemption Certificates, Small Business Certificates, Eligible Reseller's Certificates, etc.
- Guidance for the use of the new PRTD's system that will be established to inform, pay and collect the VAT.

Please note that the PRTD still has to issue several communications related to the VAT and how it will be implemented. Here at RSM we will continue to monitor the PRTD's publications and will keep you informed of developments. Please contact us here at RSM where we are prepared to answer all your inquiries related to these new rules.

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