McV McCONNELL VALDÉS

MEMORANDUM TO CLIENTS AND FRIENDS

January 16, 2007

2007 Puerto Rico Retirement Plans Update - Part II

PR Treasury Issues Revised Form 480.6B To Report Distributions From Qualified Retirement Plans / Attorney Rejoins McV Employee Benefits Practice Area

I. Form 480.6B

The Puerto Rico Department of the Treasury (the "PR Treasury") recently issued a revised Form 480.6B, "Informative Statement - Income Subject to Withholding" (see attached sample). Form 480.6B is generally used to report the payment of various types of taxable income, including lump-sum distributions on account of separation from service from qualified retirement plans, and the applicable Puerto Rico tax withholding on said amounts. The revised Form 480.6B now includes a new box no. 12 (first column) to report amounts distributed from May 16 to December 31, 2006 (the "Window Period"), which either were subject to the special 5% tax withholding or for which the participant prepaid the 5% special tax, both pursuant to the provisions of Act 87 of May 13, 2006 ("Act 87"), as amended. The 5% tax withheld or prepaid should be reported in box no. 12 (second column).

Lump-sum distributions on account of separation from service and the 12.5% or 20% tax withholding, as applicable, should be reported in box no.11 (first and second columns, respectively).

Note that distributions which are not subject to income tax withholding (e.g. distributions other than lump-sum distributions on account of separation from service) should be reported on Form 480.6A, "Informative Statement - Income Not Subject to Withholding" (see box no. 8 in the attached sample of form 480.6A), except for amounts for which the tax was prepaid under Act 87, in which case they should be reported in Form 480.6B (first and second columns of box 12), as described above.

Neither the Puerto Rico Internal Revenue Code of 1994, as amended, nor the regulations issued thereunder (the "PR Code Regs.") require at any time prior to distribution the reporting of amounts for which the tax has been prepaid under Act 87.[1]

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1. Most record-keepers have decided to include a note in the participant's account statement indicating the plan account balance for which the tax was prepaid and the amount of the prepaid tax, so that those amounts for which the tax was prepaid are not subject to any tax withholding upon distribution and the amounts distributed (and related tax prepayment) are appropriately reported on Form 480.6B.

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At this time, it remains unclear how amounts distributed from a qualified plan during the "Window Period" for the exclusive purpose of the prepayment of the special 5% tax pursuant to Act 87 should be reported.[2] We expect guidance on this matter from the PR Treasury in the following days.

II. Attorney Rejoins McV - Tax Department Employee Benefits Area

We are pleased to announce that Ariadna Alvarez has rejoined the firm as Special Counsel in the Tax Practice Group. Ariadna commenced her legal career at McConnell in 1994, where she became a Partner. In 2005, Ariadna joined Banco Santander de Puerto Rico as Senior Vice President and Executive Trust Officer and Director of Santander Trust. During the years in which Ariadna was responsible for the administration and direction of Santander Trust, the division held approximately $7 billion in assets under management, was the second largest trust in Puerto Rico, and was listed among the 100 largest trust in the U.S. Ariadna will concentrate in the areas of Employee Benefits and Trust and Estates.

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If you have any questions or comments, or wish additional information regarding these matters, please contact any of the attorneys listed below, all members of our Employee Benefits Practice Area:

Juan Luis Alonso	787-250-5655	jla@mcvpr.com
Ariadna Alvarez	787-250-2602	aar@mcvpr.com
Roberto L. Cabañas	787-250-5611	rlc@mcvpr.com
José M. Falcón	787-250-2603	jmf@mcvpr.com
Yamary González	787-250-5687	yg@mcvpr.com
Alba I. Joubert[3]	787-250-5649	aj@mcvpr.com
Xenia Vélez Silva	787-250-2620	xv@mcvpr.com

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2. The PR Code Regs. provide that amounts distributed under Act 87 for the prepayment of the special 5% tax will not be subject to tax upon distribution.

3. Admission pending (January 2007).

Formulario **480.6B**
Form
Rev. 06.06

ESTADO LIBRE ASOCIADO DE PUERTO RICO - COMMONWEALTH OF PUERTO RICO
Departamento de Hacienda - Department of the Treasury

DECLARACION INFORMATIVA - INGRESOS SUJETOS A RETENCION O AL PAGO POR ADELANTADO
INFORMATIVE RETURN - INCOME SUBJECT TO WITHHOLDING OR PREPAYMENT

Uso Oficial - Official Use

EXHIBIT K

Número de Serie

AÑO CONTRIBUTIVO - TAXABLE YEAR: _____ **Duplicado** - Duplicate: ; **Enmendado** - Amended: ;

INFORMACION DEL AGENTE RETENEDOR - WITHHOLDING AGENT'S INFORMATION

Número de Identificación Patronal - Employer Identification Number

Nombre - Name

Dirección - Address

Código Postal - Zip Code

INFORMACION DE QUIEN RECIBE EL PAGO - PAYEE'S INFORMATION

Número de Seguro Social o Identificación Patronal - Social Security or Employer Identification Number

Nombre - Name

Dirección - Address

Código Postal - Zip Code

Número de Cuenta Bancaria Bank Account Number

Número Control - Control Number

Clase de Ingreso - Type of Income	**Cantidad Pagada** - Amount Paid	**Cantidad Retenida o Pagada por Adelantado** - Amount Withheld or Prepaid
1. **Pagos por Servicios Prestados por Individuos** Payments for Services Rendered by Individuals		
2. **Pagos por Servicios Prestados por Corporaciones y Sociedades** - Payments for Services Rendered by Corporations and Partnerships		
3. **Pagos por Indemnización Judicial o Extrajudicial** Payments for Judicial or Extrajudicial Indemnification		
4. **Dividendos** - Dividends		
5. **Distribuciones de Sociedades** - Partnership Distributions		
6. **Distribuciones Elegibles bajo la Sección 1012(j)** Eligible Distributions under Section 1012(j)		
7. **Distribuciones Elegibles Implícitas bajo la Sección 1012(j)** - Deemed Eligible Distributions under Section 1012(j)		
8. **Intereses (excepto IRA y Cuenta de Aportación Educativa)** Interest (except IRA and Educational Contribution Account)		
9. **Dividendos de Ingresos de Fomento Industrial (Ley 26 de 2 de junio de 1978)** - Dividends from Industrial Development Income (Act 26 of June 2, 1978)		
10. **Dividendos de Ingresos de Fomento Industrial (Ley 8 de 24 de enero de 1987)** - Dividends from Industrial Development Income (Act 8 of January 24, 1987)		
11. **Distribuciones de Planes de Pensiones** Pension Plan Distributions		
12. **Distribuciones de Planes de Pensiones (Ley 87 de 13 de mayo de 2006)** - Pension Plan Distributions (Act 87 of May 13, 2006)		
13. **Distribuciones del Programa de Cuentas de Ahorro para el Retiro** - Distributions from the Retirement Savings Accounts Program		
14. **Otros Pagos** - Other Payments		

FECHA DE RADICACION: 28 DE FEBRERO, VEA INSTRUCCIONES AL DORSO - FILING DATE: FEBRUARY 28, SEE INSTRUCTIONS ON BACK
ORIGINAL PARA EL NEGOCIADO DE PROCESAMIENTO DE PLANILLAS - ORIGINAL FOR THE RETURNS PROCESSING BUREAU

INSTRUCCIONES

Declaración Informativa - Ingresos Sujetos a Retención o al Pago por Adelantado

Prepare el Formulario 480.6B para cada persona, natural o jurídica, a quien le retuvo contribución en el origen o que pagó por adelantado la contribución con respecto a pagos por Servicios Prestados (incluyendo aquéllos mayores de $1,500 que están sujetos a un relevo total de retención), Indemnización Judicial o Extrajudicial, Dividendos, Distribuciones de Sociedades, Distribuciones Elegibles y Distribuciones Elegibles Implícitas bajo la Sección 1012(j) del Código de Rentas Internas de Puerto Rico de 1994, según enmendado, Intereses, Dividendos de Ingresos de Fomento Industrial (Ley 26 de 2 de junio de 1978 ó Ley 8 de 24 de enero de 1987), Distribuciones de Planes de Pensiones en suma global (un solo pago o en varios pagos dentro de un solo año), Distribuciones de Planes de Pensiones bajo la Ley 87 de 13 de mayo de 2006 y Distribuciones del Programa de Cuentas de Ahorro para el Retiro en suma global que sean de $10,000 ó más y aquellas cantidades transferidas a una cuenta de retiro individual no deducible. Además, se informarán otros pagos sujetos a retención no contemplados bajo las clases de ingresos antes mencionadas.

Los intereses pagados a una Cuenta de Retiro Individual (IRA) o una Cuenta de Aportación Educativa deberán ser informados en el Formulario 480.7 ó 480.7B, respectivamente.

La declaración deberá entregarse a la persona natural o jurídica, y rendirse al Departamento de Hacienda no más tarde del 28 de febrero del año siguiente al año natural para el cual se efectuó la retención. El original de la declaración deberá ser enviado al: DEPARTAMENTO DE HACIENDA PO BOX 9022501 SAN JUAN PR 00902-2501. En el caso que la copia original se envíe en cinta magnética, **no envíe la copia original en papel**.

INSTRUCTIONS

Informative Return - Income Subject to Withholding or Prepayment

Prepare Form 480.6B for each person, natural or juridical, from whom you withheld tax at source or who prepaid the tax for payments for Services Rendered (including those over $1,500 subject to a total waiver from withholding), Judicial or Extrajudicial Indemnification, Dividends, Partnership Distributions, Eligible Distributions and/or Deemed Eligible Distributions under Section 1012(j) of the Puerto Rico Internal Revenue Code of 1994, as amended, Interest, Dividends from Industrial Development Income (Act 26 of June 2, 1978 or Act 8 of January 24, 1987), lump-sum Distributions from Pension Plans (one payment or various payments during one year), Distributions from Pension Plans under Act 87 of May 13, 2006, and lump-sum Distributions from the Retirement Savings Accounts Program of $10,000 or more and those amounts transferred to a non deductible individual retirement account. Also, it must be prepared for other payments subject to withholding not considered under the above mentioned types of income.

Interest paid to an Individual Retirement Account (IRA) or an Educational Contribution Account must be informed on Form 480.7 or 480.7B, respectively.

The return must be given to each natural or juridical person, and filed to the Department of the Treasury not later than February 28 of the year following the calendar year for which the withholding was made. The original of this return must be sent to: DEPARTMENT OF THE TREASURY PO BOX 9022501 SAN JUAN PR 00902-2501. In the case that the original copy is sent through magnetic tape, **do not send the original paper copy**.

Formulario **480.6A**
Form
Rev. 06.06

ESTADO LIBRE ASOCIADO DE PUERTO RICO - COMMONWEALTH OF PUERTO RICO
Departamento de Hacienda - Department of the Treasury

DECLARACION INFORMATIVA - INGRESOS NO SUJETOS A RETENCION
INFORMATIVE RETURN - INCOME NOT SUBJECT TO WITHHOLDING

Uso Oficial - Official Use

EXHIBIT J

Número de Serie

AÑO CONTRIBUTIVO - TAXABLE YEAR: _____ **Duplicado** - Duplicate: ; **Enmendado** - Amended: ;

INFORMACION DEL PAGADOR - PAYER'S INFORMATION

Número de Identificación Patronal - Employer Identification Number

Nombre - Name

Dirección - Address

Código Postal - Zip Code

INFORMACION DE QUIEN RECIBE EL PAGO - PAYEE'S INFORMATION

Número de Seguro Social o Identificación Patronal - Social Security or Employer Identification Number

Nombre - Name

Dirección - Address

Código Postal - Zip Code

Número de Cuenta Bancaria
Bank Account Number

Número Control - Control Number

Clase de Ingreso Type of Income	**Cantidad Pagada** Amount Paid
1. **Pagos por Servicios Prestados por Individuos** Payments for Services Rendered by Individuals	
2. **Pagos por Servicios Prestados por Corporaciones y Sociedades** Payments for Services Rendered by Corporations and Partnerships	
3. **Comisiones y Honorarios** Commissions and Fees	
4. **Rentas** Rents	
5. **Intereses (excepto IRA y Cuenta de Aportación Educativa)** Interest (except IRA and Educational Contribution Account)	
6. **Distribuciones de Sociedades (Ver instrucciones)** Partnership Distributions (See instructions)	
7. **Dividendos** Dividends	
8. **Distribuciones de Planes de Pensiones No Sujetas a Retención** Pension Plan Distributions Not Subject to Withholding	
9. **Distribuciones del Programa de Cuentas de Ahorro para el Retiro No Sujetas a Retención** Distributions from the Retirement Savings Accounts Program Not Subject to Withholding	
10. **Otros Pagos** Other Payments	
11. **Rédito Bruto** Gross Proceeds	

FECHA DE RADICACION: 28 DE FEBRERO, VEA INSTRUCCIONES AL DORSO - FILING DATE: FEBRUARY 28, SEE INSTRUCTIONS ON BACK
ORIGINAL PARA EL NEGOCIADO DE PROCESAMIENTO DE PLANILLAS - ORIGINAL FOR THE RETURNS PROCESSING BUREAU

INSTRUCCIONES

Declaración Informativa - Ingresos No Sujetos a Retención

Todas las personas dedicadas a industria o negocio en Puerto Rico que hicieran pagos a corporaciones y sociedades por concepto de servicios prestados o a individuos por cualesquiera de los siguientes conceptos, deben preparar el Formulario 480.6A:

1. Pagos por servicios prestados por individuos, corporaciones y sociedades entre $500 y $1,500;
2. Honorarios, comisiones (cuando no exista la relación obrero patronal), y otra compensación ascendentes a $500 ó más, que no hayan sido informados en el Comprobante de Retención (Formulario 499R-2/W-2PR) o en el Formulario 480.6B;
3. Rentas, primas, anualidades, regalías y otros ingresos fijos o determinables ascendentes a $500 ó más hechos a individuos;
4. Intereses (que no sean los exentos de tributación) ascendentes a $500 ó más hechos a individuos, no informados en el Formulario 480.6B. Los intereses pagados a una Cuenta de Retiro Individual (IRA) o a una Cuenta de Aportación Educativa deberán ser informados en el Formulario 480.7 ó 480.7B, respectivamente;
5. Distribuciones de sociedades hechas a individuos;
6. Dividendos (que no sean distribuciones en liquidación) ascendentes a $500 ó más hechos a individuos, no informados en el Formulario 480.6B;
7. Distribuciones de planes de pensiones no sujetas a retención. Las distribuciones en suma global de planes de pensiones cualificados, relacionadas con la separación de empleo, deberán ser informadas en el Formulario 480.6B.
8. Distribuciones del Programa de Cuentas de Ahorro para el Retiro no sujetas a retención, que sean menores de $10,000 y se hayan pagado en suma global.

La declaración deberá prepararse a base de año natural y deberá entregarse a la persona y rendirse al Departamento de Hacienda, no más tarde del 28 de febrero del año siguiente al año natural en que se efectúan los pagos. El original de la declaración deberá ser enviado al: DEPARTAMENTO DE HACIENDA PO BOX 9022501 SAN JUAN PR 00902-2501. En caso de que la copia original se envíe en cinta magnética, **no envíe la copia original en papel**.

El Código impone penalidades por dejar de informar los ingresos en el Formulario 480.6A o por dejar de rendir el mismo.

INSTRUCTIONS

Informative Return - Income Not Subject to Withholding

All persons engaged in trade or business within Puerto Rico, that made payments to corporations and partnerships for services rendered or to individuals for any of the following items, must prepare Form 480.6A:

1. Payments for services rendered by individuals, corporations and partnerships between $500 and $1,500;
2. Fees, commissions (when an employer-employee relation does not exist), and other compensation amounting to $500 or more, that have not been reported on the Withholding Statement (Form 499R-2/W-2PR) or Form 480.6B;
3. Rents, premiums, annuities, royalties and other fixed or determinable income amounting to $500 or more made to individuals;
4. Interest (other than tax exempt interest) amounting to $500 or more made to individuals, not reported on Form 480.6B. Interest paid to an Individual Retirement Account (IRA) or to an Educational Contribution Account must be informed on Form 480.7 or 480.7B, respectively;
5. Partnership distributions made to individuals;
6. Dividends (other than distributions in liquidation) amounting to $500 or more made to individuals, not reported on Form 480.6B;
7. Pension plan distributions not subject to withholding. Lump-sum distributions from qualified pension plans, resulting from a job termination, must be reported on Form 480.6B.
8. Lump-sum distributions under $10,000 not subject to withholding, from the Retirement Savings Accounts Program.

The return must be prepared on a calendar year basis and must be given to the person and filed with the Department of the Treasury, not later than February 28 of the year following the calendar year in which payments were made. The original of this return must be filed with the: DEPARTMENT OF THE TREASURY PO BOX 9022501 SAN JUAN PR 00902-2501. In case that the original copy is sent through magnetic tape, **do not send the original paper copy**.

The Code imposes penalties for not reporting the income on Form 480.6A or for not filing such return.