

**TAX ALERT**  
**August 18, 2008**

**Limitation on Pre-Tax Contributions to Retirement Plans Is Increased - Percentage Limitation is Eliminated**

Act 186 of August 7, 2008 ("Act 186") was recently enacted amending the Puerto Rico Internal Revenue Code of 1994 ("Code") to increase the annual limitation on employee pre-tax contributions to Puerto Rico qualified retirement plans with a cash or deferred arrangement ("1165(e) Plans"). Prior to the enactment of Act 186, the Code limited annual pre-tax contributions to the lesser of 10% of compensation or \$8,000.

Effective for year 2008 and thereafter, Act 186 eliminates the 10% of compensation limit previously imposed by the Code. That is, pre-tax contributions in 2008 will only be limited to \$8,000 and any percentage limitation imposed by the terms of the plan.

Effective for taxable years beginning on January 1, 2009, Act 186 increases the dollar limitation on pre-tax contributions to: \$9,000 (years 2009 and 2010), \$10,000 (years 2011 and 2012), and \$12,000 (year 2013 and thereafter). That is, pre-tax contributions for year after 2008 will only be limited to the applicable dollar limit and any percentage limitation imposed by the terms of the plan.

It is important to mention that Act 186 does not modify the Code provision that reduces a participant's applicable annual pre-tax contribution limit by any amounts contributed by the participant to a Puerto Rico individual retirement account ("IRA").

Plan documents will have to be reviewed to determine if an amendment is required to benefit participants from the increased annual limits and the elimination of the percentage limitation. In addition, summary plan descriptions may have to be updated.

\* \* \* \* \*

If you have any questions or comments, or wish additional information regarding this matter, please contact any of the attorneys listed below, members of our Employee Benefits Practice Area.

Juan Luis Alonso	787-250-5655	jla@mcvpr.com
Ariadna Alvarez	787-250-2606	aar@mcvpr.com
Yamary Gonzalez	787-250-5689	yg@mcvpr.com

This Tax Alert has been prepared by us for information purposes only for distribution to clients and friends of McConnell Valdés LLC. It is not intended as, and does not constitute, either legal advice or solicitation of any prospective client. An attorney-client relationship with McConnell Valdés LLC cannot be formed by reading or responding to this memorandum. Such a relationship may be formed only by express agreement with McConnell Valdés LLC.