

TAX ALERT
August 20, 2008

Puerto Rico Tax Developments

During the last days of the last ordinary session of this term, the Puerto Rico Legislature approved several tax related bills. In the last month, we issued several Tax Alerts and now provide an update on these bills, most of which have been enacted into law in July and during the first weeks of August 2008.

IVU Exemption of Equipment for Persons with Disabilities, Act No. 107 of July 11, 2008 ("Act 107"):

Act 107 exempts from the Sales and Use Tax ("IVU for its Spanish acronym) articles and equipment expressly designed to meet the physical and physiological needs of persons with disabilities, including wheelchairs, scooters, hearing-aids, communication assistance equipment, and mechanical reading equipment.

IVU Exemption of Bread, Crackers and Other Food Products, Act No. 108 of July 11, 2008 ("Act 108"):

Act 108 exempts from the IVU bread, crackers, and any other product considered food by the Nutritional Assistance Program.

Back to School IVU Tax Free Holiday, Act No. 111 of July 15, 2008 ("Act 111"):

Act 111 exempts from the IVU retail sales of certain articles that are normally bought during the so called "back to school shopping period," limited to certain major classes of items.

Incentives for the Development of Puerto Rico Small Business Act, Act No. 147 of August 1, 2008 ("Act 147"):

Act 147 reduces tax and economic burdens imposed on eligible small and medium businesses ("PYMES" for its Spanish Acronym) whose annual gross income does not exceed \$5 million.

Health Savings Accounts and Health Reimbursement Arrangements, Act 156 of August 4, 2008 ("Act 156"):

Act 156 amends the Puerto Rico Internal Revenue Code of 1994 (the "PR Code") to allow the establishment in Puerto Rico of Health Savings Accounts and Health Reimbursement Arrangements. We will be issuing a separate Tax Alert discussing Act 156 in greater detail.

Limitation on Pre-Tax Contributions to Retirement Plans Is Increased - Percentage Limitation is Eliminated, Act 186 of August 7, 2008 (“Act 186”):

Act 186 amends the PR 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”) and to eliminate the percentage limitation on such contributions previously imposed by the PR Code.

Tax Free Payments to Certain Discharged Employees, Act, Act No. 278 of August 15, 2008 (“Act 278”):

Act 278 exempts from Puerto Rico income tax any amount received by a discharged employee by reason of the liquidation or closing of a business, to the extent the discharge is due to closing of operations, changes in the design or nature of the product or in the services rendered, or lay off due to a decrease in the volume of production, sales or profits.

Agricultural Tax Incentives, House Bill 3194:

House Bill 3194 which would have provided certain exemptions from the IVU and would have extended certain tax benefits under the provisions of the Puerto Rico Agriculture Tax Incentives Act to Participant Farmers was recently vetoed by the Governor.

Amnesty on Real and Personal Property Taxes, House Bill 4165:

House Bill 4165 which would have granted an amnesty on interest, penalties, and surcharges accumulated on unpaid real and personal property taxes was vetoed by the Governor.

* * * * *

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 Tax Practice Group.

Juan Luis Alonso	787-250-5655	jla@mcvpr.com
Roberto L. Cabañas	787-250-5611	rlc@mcvpr.com
Carlos E. Serrano	787-250-5698	ces@mcvpr.com
Xenia Vélez Silva	787-250-2620	xv@mcvpr.com

The content of this Tax Alert has been prepared by us for information purposes only. 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 Tax Alert. Such a relationship may be formed only by express agreement with McConnell Valdés LLC.