

Puerto Rico Treasury issues Circular Letter of Tax Policy 15-16

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PRACTICE AREAS

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On December 28, 2015, the Puerto Rico Treasury Department issued Circular Letter of Tax Policy 15-16 (“CL TP 15-16”) notifying the cost-of-living adjustments announced by the U.S. Internal Revenue Service (“IRS”) for taxable year 2016 in IRS News Release 2015-118 that will apply to retirement plans qualified under the provisions of Section 1081.01 of the Puerto Rico Internal Revenue Code of 2011, as amended (the “PR Code”).

The following limitations effective for the taxable year beginning on or after January 1, 2016 remain unchanged from 2015:

The limitation on the annual benefit under a defined benefit plan under PR Code Section 1081.01(a)(11)(A)(i) remains unchanged at \$210,000.

- The limitation on annual additions to a participant’s account under a defined contribution plan under PR Code Section 1081.01(a)(11)(B)(i) remains at \$53,000.
- The annual compensation limit under PR Code Section 1081.01(a)(12) also remains at \$265,000.
- The dollar limitation used in the definition of a highly compensated employee under PR Code Section 1081.01(d)(3)(E)(iii)(IV) remains at \$120,000.
- The elective deferral (contribution) limit under PR Code Section 1081.01(d)(7)(A)(ii) for an employee who participates in a dual-qualified retirement plan (a plan qualified under both the PR Code and the U.S. Internal Revenue Code of 1986, as amended) –if elected by the dual qualified plan-, as well as for an employee who participates in a retirement plan sponsored by the federal government remains at \$18,000.
- The limit on catch-up contributions under PR Code Section 1081.01(d)(7)(C)(v) for employees who participate in retirement plans sponsored by the federal government remains at \$6,000.
- The elective deferral (contribution) limit for a participant of a Puerto Rico-only qualified retirement plan under PR Code Section 1081.01(d)(7)(A)(i) remains unchanged at \$15,000.
- The limitation under PR Code Section 1081.01(d)(7)(C)(i) on catch-up contributions applicable to participants that are 50 years old in a retirement

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plan—other than a plan sponsored by the federal government remains unchanged at \$1,500.

- The limitation on voluntary after-tax contributions under PR Code Section 1081.01(a)(15) remains at 10% of participant's aggregate compensation for all years of participation in the plan.

CL TP 15-16 further provides as follows:

- Benefit distributions from plans qualified under the PR Code to participants and beneficiaries that reside in Puerto Rico, or that resided in Puerto Rico while being active participants accumulating benefits or while receiving contributions under the plan, are subject to the taxation requirements of PR Code Section 1081.01(b) irrespective that the plans are maintained by a U.S. employer.
- Clarifies that regardless that a plan is established or operated in the United States, distributions to participants and beneficiaries from plans qualified under the PR Code are subject to the PR Code withholding at source and reporting requirements (i.e. reported to participants and the Puerto Rico Treasury Department using *Form 480.7C – Informative Return Retirement Plans and Annuities*).
- The provisions clarifying the taxation, withholding and reporting requirements under the PR Code are effective retroactively as of January 1, 2011.

A copy of CL TP 15-16 is available [here](#).

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