(H. B. 3410)
(Conference)

(No. 232-2011)

(Approved December 10, 2011)

AN ACT

To amend Sections 1000.01, 1001.02, 1010.01, 1010.02, 1010.04, 1010.05, 1021.01, 1021.02, 1021.03, 1021.04, 1022.02, 1022.03, 1022.04, 1022.06, 1023.06, 1023.08, 1031.01, 1031.02, 1031.04, 1032.01, 1032.06, 1032.07, 1032.08, 1033.01, 1033.02, 1033.05, 1033.06, 1033.07, 1033.09, 1033.10, 1033.13, 1033.14, 1033.15, 1033.16, 1033.17, 1033.18, 1033.30, 1034.01, 1034.02, 1034.04, 1034.06, 1034.09, 1035.03, 1040.02, 1040.07, 1040.08, 1040.12, 1051.07, 1051.08, 1052.01, 1052.02, 1052.03, 1052.04, 1053.04, 1053.06. 1061.04, 1061.07, 1061.12, 1061.15, 1061.16, 1061.17, 1061.20, 1061.24, 1062.01, 1062.02, 1062.03, 1062.04, 1062.05, 1062.06, 1062.07, 1062.08, 1062.10, 1062.11, 1063.02, 1063.03, 1063.06, 1063.07, 1063.08, 1063.09, 1070.01, 1071.02, 1071.04, 1071.05, 1071.06, 1071.09, 1072.03, 1073.03, 1073.05, 1076.01, 1081.01, 1081.02, 1081.03, 1081.04, 1081.05, 1081.06, 1082.01, 1082.02, 1083.02, 1083.06, 1091.07, 1091.08, 1092.01, 1092.02, 1092.04, 1092.06, 1101.01, 1102.01, 1102.02, 1102.03, 1102.06, 1111.04, 1111.05, 1113.02, 1114.01, 1114.12, and 1115.01, and add Sections 1023.09, 1063.12, 1063.13, 1076.02, 1076.03, 1116.14, and 1116.15 in Subtitle A; amend Sections 2021.01, 2023.02, 2024.04, 2030.06, and 2054.02 of Subtitle B; amend Sections 3010.01, 3020.08, 3020.09, 3020.10, 3030.03, 3030.04, 3030.16, 3050.01, 3050.09, 3060.11, and 3070.01 of Subtitle C; amend Sections 4010.01, 4030.05, 4030.12, 4030.14, 4050.06, 4050.07, and 4050.10 of Subtitle D; amend Sections 5001.01, 5021.01, 5021.03, 5022.01, 5023.13, 5033.04, 5033.05, and 5050.15 of Subtitle E; amend Sections 6010.02, 6010.05, 6030.03, 6030.17, 6030.21, 6041.01, 6041.04, 6041.11, 6041.12, 6041.13, 6041.14, 6042.14, 6042.16, 6042.19, 6042.21, 6043.01, 6043.06, 6044.03, 6051.14, 6051.15, 6052.01, 6053.01, 6054.01, 6080.08, 6080.15, and 6092.01, add Sections 6051.17, 6060.20, and 6080.16, and repeal Sections 6092.03, 6092.04, 6092.05, 6092.06, 6092.07, 6092.08, 6092.09, 6092.10, 6092.11, and 6092.12; renumber Sections 6100.01 to 6100.04 as Sections 6110.01 to 6110.04; and add a new Chapter 10 to Subtitle F of Act No. 1-2011, as amended, known as the "Internal Revenue Code for a New Puerto Rico," in order to

incorporate technical amendments, clarify definitions and terms, harmonize the wording, clarify the legislative intent on the provision of taxes and incentives granted under the Code in effect; to provide for effective terms; and for other purposes.

STATEMENT OF MOTIVES

The recent passing of the Internal Revenue Code for a New Puerto Rico does justice to taxpayers by significantly reducing their tax burden. Our administration is committed to constantly reviewing tax provisions in effect to ensure that they reflect the legislative intent and are not subject to opposite interpretations. For such reason, this Legislative Assembly deems it pertinent to promote the following technical amendments to Act No. 1-2011, as amended, known as the "Internal Revenue Code for a New Puerto Rico," in order to clarify its scope and content. These technical amendments also include a delegation of authority to the Secretary for issuing regulations to implement and clarify the scope and content of said legislation.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:

Section 1. – Section 1000.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1000.01. – Short Title. –

This Act, divided into Subtitles, chapters, subchapters, parts, and sections, shall constitute and be known as the 'Internal Revenue Code for a New Puerto Rico,' and also as the 'Puerto Rico Internal Revenue Code of 2011,' and shall be cited hereinafter as the 'Code.'"

Section 2. – Paragraph (2) of subsection (a) of Section 1001.02 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1001.02.- Taxpayer's Rights Protection Office.-

(a) …

…

(1) …

(2) Facilitate matters between the taxpayer and the Department in any complaint related to a violation of any right granted under this Code.

(3) …

(b) …"

Section 3. – Paragraphs (2) and (15) of subsection (a) of Section 1010.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1010.01. – Definitions. –

(a) …

(1) …

(2) Corporation.- The term 'corporation' includes limited companies, joint-stock companies, private corporations, insurance companies, limited companies, and any other corporations organized under Act No. 164-2009, as amended, known as the 'General Corporations Act,' or any other association receiving income or earning profits taxable under this Subtitle. The terms 'association' or 'partnership' also include other analogue entities, any organization other than a partnership created for purposes of carrying out transactions or achieving certain purposes, which in like manner as corporations, may continue to exist regardless of the changes in the membership or stockholders, and whose business is directed by one person, committee, board or any other body acting in a representative capacity. The terms 'association' and 'corporation' also include

voluntary associations, business trusts, Massachusetts trusts, and common law trusts, and except as otherwise provided in this Code, limited liability companies. The term ‘corporation’ also includes those entities not otherwise incompatible with the provisions of Subchapter M of Chapter 3 of this Subtitle A to Special Employee-owned Corporations.

(3) …

(15) Withholding agent.- The term ‘withholding agent’ means any person required to deduct and withhold any tax under the provisions of Sections 1023.06, 1023.07, 1023.04, 1023.05, 1062.02, 1062.03, 1062.04, 1062.05, 1062.08, 1062.09, 1062.10, and 1062.11.

(16) …”

Section 4. – Paragraphs (1), (6), and (7) of subsection (b) of Section 1010.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1010.02. – Types of Taxpayers. –

(a) …

(b) …

(1) Insurance Companies (See Chapter 11, Subchapter A);

(2) …

(3) …

(4) …

(5) …

(6) Entities holding an exemption decree under special tax incentive laws, (See Chapter 11, Subchapter F); and

(7) Claims Against Transferees and Fiduciaries, (See Chapter 11, Subchapter G.”

Section 5. – Paragraph (2) of subsection (a) and subparagraph (B) of paragraph (2) of subsection (c) and paragraphs (2) and (3) of subsection (e) of Section 1010.04 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1010.04. – Controlled Group of Corporations. –

(a) Controlled Group of Corporations. – For purposes of this Subtitle, the term 'controlled group of corporations' shall mean:

(1) …

(2) Brother-sister Controlled Group.- Two or more corporations, if five or fewer persons other than corporations own (within the meaning of subsection (d)(2)(A)) stock possessing more than fifty percent (50%) of the total combined voting power of all classes of stock entitled to vote or more than fifty percent (50%) of the total value of shares of all classes of stock of each corporation.

(3) …

(b) …

(c) Certain Stock Excluded. –

(1) …

(2) Stock treated as 'Excluded Stock'. –

(A) …

(B) Brother-sister Controlled Group. – For purposes of subsection (a)(2), if five (5) or fewer persons other than a corporation (referred to in this subparagraph as 'common owners') own (within the meaning of subsection (d)(2)(A)), fifty percent (50%) or more of the total combined voting power of all classes of stock entitled to vote or fifty percent (50%) or more of the total value of

shares of all classes of stock in a corporation, the following stock of such corporation shall be treated as excluded stock –

(d) …

(e) Constructive Ownership. –

(1) …

(2) Stock Owned by Partnerships. – Stock owned, directly or indirectly, by or for a partnership shall be considered as owned by any partner having an interest of five percent (5%) or more in either the capital or profits of the partnership in proportion to their interest in capital or profits, whichever is greater.

(3) Stock Owned by Estates or Trusts. –

(A) Stock owned, directly or indirectly, by or for an estate or trust shall be considered as owned by any beneficiary who has an actuarial interest of five percent (5%) or more in such stock, to the extent of such actuarial interest. For purposes of this subparagraph, the actuarial interest of each beneficiary shall be determined by assuming the maximum exercise of discretion by the fiduciary in favor of such beneficiary and the maximum use of such stock to satisfy his/her rights as a beneficiary.

(B) …

(C) This paragraph shall not apply to stock owned by any employees' trust described in Section 1081.01 which is exempt from tax under Section 1101.01 or Section 1081.01.

(4) …

…"

Section 6. – Subparagraph (B) of paragraph (2) of subsection (a) and paragraphs (3) and (4) of subsection (b) of Section 1010.05 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1010.05. – Affiliated Group, Related Party. –

(a) An Affiliated Group. – For purposes of this Subtitle an 'affiliated group' means:

(1) …

(2) …

(A) …

(B) For each of the corporations within the group, other corporation within such group owns fifty percent (50%) or more of the voting stock or the total value of all classes of stock of such corporation.

(b) …

(1) …

(2) …

(3) A corporation that owns directly or indirectly fifty percent (50%) or more of the value of its stock; or

(4) A corporation in which fifty percent (50%) or more of the value of its stocks is owned by a person who also owns, directly or indirectly, fifty percent (50%) or more of the value of the stock of the taxpayer; or

(5) …"

Section 7. – The last paragraph of subsection (a) of Section 1021.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1021.01. – Normal Tax on Individuals. –

(a) …

(7) For taxable years beginning after December 31, 2013, the tax imposed under paragraphs (4), (5), and (6) of this subsection, shall be subject to compliance with the test established in Section 6110.03 of Subtitle F on expenditure control, as certified by the Office of Management and Budget of the general fund's net income as certified by the Department of the Treasury, and on economic growth, as certified by the Planning Board."

Section 8. – Paragraphs (2) and (3) are hereby amended and subdivided, and sub-clauses (1) and (2) of clause (C) are hereby renumbered as clauses (i) and (ii) of clause (C) of paragraph (6), and paragraphs (7) and (8) are hereby eliminated from subsection (a) of Section 1021.02 of Act No. 1-2011, as amended, to read as follows:

"Section 1021.02. – Alternate Basic Tax on Individuals. –

(a) …

(1) …

(2) Net Income Subject to Alternative Basic Tax.- For purposes of this subsection, the term 'net income subject to alternative basic tax' shall mean:

(A) the taxpayer's gross income for the taxable year determined according to the provisions of Section 1031.01 of this Subtitle, minus:

(i) the exemptions established in paragraphs (1), (2), (3)(A), (3)(B), (3)(L), (3)(M), (4)(D), (6), (7), (10), (11), (12), (15), (16), (17), (18), (20), (22), (23), (24), (25), (26), (27), (29), (30), (32), (33), and (34) of subsection (a) of Section 1031.02,

(ii) the sum of the exempt income received from registered investment companies, in accordance with Section 1112.01,

(iii) the deductions allowed under Sections 1033.01(a)(1), 1033.01(a)(4), 1033.01(b)(3), 1033.01(b)(4), 1033.02(c), 1033.02(d), 1033.02(e), 1033.05(a), 1033.07, 1033.13, 1033.15, and 1033.16, and that part of Section 1031.03(a)(2) related to property taxes, license and permit fees paid during the taxable year, and payment for utilities such as water, electricity, and telephone service; and

(iv) the deductions allowed for personal exemptions and exemption for dependents provided in Section 1033.18.

(B) For purposes of determining the amount of the net income subject to alternative basic tax shall not apply to income exclusions or exemptions arising from this Subtitle, notwithstanding the same are granted under special laws, except for those provided in Act No. 225-1995, as amended, known as the 'Agricultural Tax Incentives Act,' Act No. 73-2008, known as the 'Economic Incentives Act for the Development of Puerto Rico,' or any similar previous or successor law, Act No. 83-2010, known as the 'Puerto Rico Green Energy Incentives Act,' or any similar previous or successor law, or in Act No. 78- 1993, as amended, known as the 'Puerto Rico Tourist Development Act of 1993,' or any successor law, including the 'Puerto Rico Tourist Development Act of 2010.'"

(3) Regular Tax. – For purposes of this subsection, the term 'regular tax' means the tax liability imposed by Section 1021.01, minus the credit granted by Section 1051.01, plus the special taxes provided and listed in Subchapter C of Chapter 2 of this Subtitle and any other tax at preferred tax rates granted by special laws.

(4) …

(5) …

(6) …

(C) …

(i) …

(ii) …

(D) …”

Section 9. – Paragraphs (4) and (5) of subsection (a) are hereby amended and subsection (a) and the title of Section 1021.03 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1021.03. – Optional Tax Computation in the Case of Married Individuals Living Together and Filing a Joint Return. –

(a) In the case of married individuals who live together and file a joint return, the tax under Sections 1021.01 and 1021.2 shall be, at their option, the sum of the taxes determined individually, in the form provided to such purposes by the Secretary, as follows:

(1) …

…

(4) Deductions allowed under paragraphs (1) through (4) and (10) of subsection (a) of Section 1033.15 shall be attributed to each spouse on a fifty percent (50%) of the total basis.

(5) Deductions allowed under paragraphs (5), (6), (7), (8), and (9) of subsection (a) of Section 1033.15 shall be granted to the spouse to whom they individually belong, up to the limits and subject to the provisions of such paragraphs; and

(6) …”

Section 10. – Subsection (a) is hereby amended and a new subsection (c) is hereby added to Section 1021.04 of Act No. 1-2011, as amended, to read as follows:

"Section 1021.04. – Option to File the Income Tax Return under the Provisions of the Internal Revenue Code of 1994, as amended. –

(a) Every taxpayer, who is an individual, shall have the option to compute his/her tax liability and file the tax return pertaining to his/her first taxable year beginning after December 31, 2010, and before January 1, 2012 and during the following four (4) taxable years, pursuant to the appropriate provisions of Act No. 120-1994, as amended, known as the 'Internal Revenue Code of 1994,' that are in effect as of December 31, 2010.

(b) …

(c) Individuals who are partners in a partnership or members of a limited liability company subject to the provisions of Chapter 7 of Subtitle A of this Code. – Any individual who has elected the option provided in subsection (a) of this Section and is, in turn, a partner in a partnership or a member of a limited liability company subject to the provisions of Chapter 7 of Subtitle A of this Code and who, during the five (5)-year term established in such subsection (a), has included as income under the Puerto Rico Internal Revenue Code of 1994, as amended, only the distributions received from such partnership or limited liability company, such partner or member shall include as ordinary income for the first year to which the provisions of this Code apply, and pay the taxes, subject to the maximum regular tax rate applicable to individuals provided in Section 1021.01 of Subtitle A for the taxable year immediately preceding, for the excess of:

(1) the amount of his/her distributive share in the items of income and expenses of such partnership or limited liability company for each of the taxable years covered by the option under subsection (a); over

(2) the amount of the distributions made by such partnership or limited liability company for each of said taxable years, which have been included as income by the taxpayer."

Section 11. – Paragraph (2) of subsection (b) and subsections (c) and (e) of Section 1022.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1022.02. – Surtax on Corporations. –

(a) …

(b) …

(2) For taxable years beginning after December 31, 2013, five percent (5%) of the net income subject to surtax, subject to compliance with the test established in Section 6110.03 of Subtitle F on expenditure control, certified by the Office of Management and Budget of the general fund's net income as certified by the Department of the Treasury, and on economic growth, as certified by the Planning Board.

(c) In the case of a controlled group of corporations, under Section 1010.04 or affiliated group under Section 1010.05, for purposes of determining the surtax rate established in this subsection applicable to each one of the corporations members of said group, the total sum of the net income subject to normal tax of each one of the corporations member of the controlled group or affiliated group that are required to file an income tax return under this Subtitle shall be taken into account, minus the deduction provided in subsection (d), subject to the limitations of subsection (e).

(d) …

(e) Determination of the Deduction Applicable to Certain Controlled Corporations under this Section. – If a corporation is a member of a controlled group of corporations on a December 31st , then, for purposes of subsection (d) of the deduction allowed under said subsection for such corporation for the taxable years that includes said December 31st, shall be equal to-

(1) …"

Section 12. – Paragraphs (1), (2), and (4) of subsection (c) and paragraph (3) of subsection (d) of Section 1022.03 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1022.03. – Alternative Minimum Tax Applicable to Corporations.–

(a) …

(b) …

(c) Definitions. – For purposes of this Section:

(1) Alternative Minimum Net Income. – For purposes of this Section, the term 'alternative minimum net income' means the net income subject to normal tax for the taxable year, as defined in Section 1022.01(a), determined on the basis of the adjustments provided in Section 1022.04.

(2) Regular Tax. – For purposes of this Section, the term 'regular tax' means the regular tax liability for the taxable year, as established in Sections 1022.01 and 1022.02, reduced by the credit granted by Section 1051.01.

(3) …

(4) Personal Property. – The term 'personal property' means tangible personal property used or to be used in connection with the operation of a trade or business in Puerto Rico, except for raw material and intermediate products to be used by the acquirer in manufacturing process in Puerto Rico. The term

'personal property' does not include any property subject to the provisions of Subtitle E or Sections 3020.06 and 3020.07 of Subtitle C.

(5) …

…

(d) Exceptions for the Tentative Minimum Tax in Subsection (b)(2) of this Section. – The tentative minimum tax imposed by subsection (b)(2) of this Section shall not apply to:

(1) …

…

(3) When the acquirer or any member of the controlled group of which he/she is a member is subject to excise taxes provided in Chapter 7 of Subtitle B of Act No. 120-1994, as amended, known as the 'Puerto Rico Internal Revenue Code of 1994.'"

Section 13. – Subsections (b) and (e) of Section 1022.04 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1022.04. – Alternative Minimum Net Income Computation Adjustments. –

(a) …

(b) …

(1) …

(2) Tax-exempt Interest. – The taxpayer shall exclude income from interest derived from tax-exempt liabilities the provisions of Section 1031.02(a)(3) or under the provisions of any special law. The net income on the books shall be increased by the amount of interest expense assigned to exempt interest under subsection (a)(4) of this Section and any amount that can be attributed to said exempt interest pursuant to the provisions of Section 1033.17(a)(5). Those

expenses (including interest expenses) incurred upon the acquisition or retention of exempt liabilities consisting of mortgage loans granted or secured before September 1, 1987, by the Government and its agencies, municipalities, and instrumentalities, which would have been deductible from gross income for purposes of the tax imposed by Act No. 34 of June 4, 1975, as amended, known as the 'Financial Institutions Franchise Act,' shall not be taken in consideration in the determination of this adjustment.

(3) …

(4) Dividends. – The taxpayer shall exclude the total amount received as dividends from a domestic corporation or from industrial development income or tourist development income (as defined in the Puerto Rico Tourist Development Act of 1993, as amended, or any similar previous or successor law) or green energy income under Act No. 83-2010, known as the 'Green Energy Incentives Act of Puerto Rico' or any similar previous or successor law, up to the amount that such dividends have not been included in the net income for regular tax purposes.

(5) Industrial Development Income, Green Energy Income, and Tourist Development Exempt Income. – Net income on the books shall not include net industrial development income, or green energy income under Act No. 83-2010, known as the 'Green Energy Incentives Act of Puerto Rico,' or any similar previous or successor law, or net income tax constitutes net tourist development income, as said term is defined in the Puerto Rico Tourist Development Act of 1993, as amended, or any previous or subsequent similar law.

(6) …

(e) Exception for Certain Corporations. – The provisions of Sections 1022.03 and 1022.04 shall not apply to:

(1) special partnerships that have an election in effect for the taxable year under the provisions of Section 1114.12;

(2) …

…"

Section 14. – Subsections (a) and (b) are hereby amended and a subsection (d) is hereby added to Section 1022.06 of Act No. 1-2011, as amended, to read as follows:

"Section 1022.06. – Election to File Under the Provisions of the Internal Revenue Code of 1994, as amended. –

(a) Any taxpayer that is a corporation, including limited liability companies and corporations of individuals, are hereby granted the option of computing its taxes and filing the income tax return pertaining to its first taxable year, beginning after December 31, 2010 and before January 1, 2012, and during the four (4) taxable years thereafter, in accordance with the provisions of Act No. 120-1994, as amended, known as the Internal Revenue Code of 1994, in effect as of December 31, 2010.

(b) Partnerships, including special partnerships, are hereby granted the option of determining their tax liability and filing the income tax return pertaining to its first taxable year beginning after December 31, 2010 and before January 1, 2012, and during the following four (4) taxable years, in accordance with the provisions of Act No. 120-1994, as amended, known as the Internal Revenue Code of 1994, in effect as of December 31, 2010.

(c) …

(d) Special Rule for Partnerships, Special Partnerships, Limited Liability Companies, and Corporations of Individuals. – In the case of partnerships, special partnerships, limited liability companies, and corporations of individuals, the option to determine their tax responsibility and file the tax return corresponding to their first taxable year beginning after December 31, 2010 and before January 1, 2012, and during the following 4 consecutive years, based on the pertinent provisions of Act No. 120-1994, as amended, known as the 'Internal Revenue Code of 1994,' in effect as of December 31, 2010, shall be made by the entity as well as by all of its stockholders, partners, or members. Once such election is made, the same shall be final and binding, pursuant to the provisions of subsection (c) of this Section, for the entity and its stockholders, partners, or members."

Section 15. – Paragraph (2) of subsection (a) of Section 1023.06 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1023.06. – Special Tax on Dividend Distribution from Certain Corporations. –

(a) …

(1) …

(2) of dividends of a foreign corporation when not less than eighty percent (80%) of its gross income derived during the three (3) taxable year period ending with the close of the taxable year prior to the declaration of such dividends, constitutes income that is actually related to the operation of a trade or business in Puerto Rico, the special tax provided in subsection (b), without taking into consideration any deduction or credit provided by this Subtitle. This section shall not apply to the amounts distributed in a total or partial liquidation of a corporation.

(b) …"

Section 16. – Paragraph (3) of subsection (b) of Section 1023.08 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1023.08. – Special Tax on Variable Annuities in Separate Accounts. –

(a) …

(b) …

(1) …

(3) Variable Annuity Contract. For the sole purposes of this section, the term 'variable annuity contract' means an annuity insurance contract or an endowment insurance contract, the funds of which were deposited in separate accounts subject to the special additional imposed under Section 1023.01of this Code."

Section 17. – A new Section 1023.09 of Act No. 1-2011, as amended, is hereby added to read as follows:

"Section 1023.09. – Special Tax on Total Distributions of Certain Employees' Trust. –

(a) Imposition of Tax.- When filing his/her income tax return, the taxpayer may elect to treat the amount of the total distribution that would be considered a long-term capital gain under Section 1081.01(b)(1), subject to the special tax imposed in such Section, or to pay taxes for such income as an ordinary income, whichever is more beneficial for the taxpayer."

Section 18. – Paragraph (4) of subsection (a) is hereby amended, a clause (iv) of subparagraph (B) of paragraph (10) is hereby added, and clause (ii) of subparagraph (A) of paragraph (11) of subsection (b) of Section 1031.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1031.01. – Gross Income. –

(a) …

(1) …

(4) Gains, profits, and income derived from pensions, annuities (including life insurance, annuity, or endowment contracts) estates, and trusts. For purposes of this paragraph, the amounts accumulated on which the five percent (5%) special tax was prepaid as provided in Section 1012D of the Puerto Rico Internal Revenue Code of 1994, as amended, shall be treated as amounts contributed by the participant on which tax was prepaid by him/her.

(b) Exclusions from Gross Income.- The following items shall be excluded from the definition of gross income:

(1) …

…

(10) …

(A) …

(B) …

(i) …

(iv) The tax basis of any other asset in the hands of the taxpayer, under the rules prescribed by the Secretary through regulations, administrative determination, circular letter, or general bulletin.

(11) …

(A) …

(i) …

(ii) Amounts received as an annuity under an annuity or endowment contract shall be included in gross income, except that there shall be excluded from gross income the excess of the amount received in the taxable year

over an amount equal to three percent (3%) of the aggregate amount of the premiums or consideration paid for such annuity, whether or not paid during such year, until the aggregate amount excluded from gross income under this Subtitle or prior income tax laws with respect to such annuity equals the aggregate premiums or consideration paid for such annuity. For purposes of this paragraph, the amounts accumulated on which the five percent (5%) special tax was prepaid as provided in Section 1012D of the Puerto Rico Internal Revenue Code of 1994, as amended, shall be treated as premiums or considerations paid by the participant.

(12) …"

Section 19. – Paragraph (12) and the first paragraph of paragraph (13) are hereby amended, a subparagraph (D) is hereby added to paragraph (13), and paragraphs (18), (20), and (24), as well as subparagraph (B) of paragraph (26) of subsection (a) of Section 1031.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1031.02. – Exemptions from Gross Income. –

(a) …

(1) …

…

(12) Prizes from the Lottery and the Additional Lottery of Puerto Rico.- The amounts received as prizes won in the Lottery of Puerto Rico and prizes won in the Additional Lottery.

(13) The amounts received from pensions granted, or to be granted, by the retirement systems or funds subsidized by the Government of Puerto Rico, from annuities or pensions granted by the Government of the United States of America, and by the instrumentalities or political subdivisions of both governments, and from qualified pension, retirement, or annuity plans under the

provisions of Section 1081.01, granted by private sector employers up to the limit provided below:

(A) …

…

(D) For purposes of this Section 1031.02(a)(13) and Section 1081.01, 'periodic payment' means:

(i) payments made during a fixed period of time in a substantially similar amount; or

(ii) minimum required distributions under the United States Internal Revenue Code of 1986, as amended, or any successor legal provision.

(14) …

(18) Cost-of-living Allowance. – The cost-of-living allowance received by employees of the Government of the United States of America who work in Puerto Rico, up to the amount exempt from taxation for purposes of the income taxes levied by the U.S. Internal Revenue Code. The taxpayer shall enclose with the tax return the evidence that proves the amount of cost-of-living allowance received during the year. The Department shall be responsible for verifying that the taxpayers have met their tax duties in the four (4) years preceding the year of filing the return. In case they have failed to meet their tax duty, the Department may revoke the privilege granted in this paragraph, and the taxpayer shall be required to pay the amount owed plus penalties and surcharges.

(19) …

(20) Active Military Service Rendered in 'Combat Zone.' – This exemption does not apply to military personnel mobilized outside of Puerto Rico to relieve military personnel sent to the combat zone.

(A) Enlisted Personnel. – The exemption includes the maximum basic pay received by enlisted personnel for active military service in a combat zone.

(B) Commissioned Officers. – In the case of commissioned officers, the exemption provided in subparagraph (A) shall be limited to the maximum basic pay received by the enlisted personnel.

(C) …

(23) …

(24) Federal Subsidy for Prescription Drugs Plans. – The payments on account of the subsidy received under the provisions of Section 1860D-22 of the Social Security Act, as amended or subsequently amended. This gross income exemption shall not affect the determination of any deduction allowed under Section 1033.01 of this Subtitle. Thus, a taxpayer may claim a deduction under Section 1033.01 of this Subtitle, even when said taxpayer also receives an exempt subsidy related to the deduction allowed under Section 1033.01 of this Subtitle.

(25) …

(26) …

(A) …

(B) Eligible Investigator or Scientist. – Means an individual who is a resident of Puerto Rico during the taxable year, contracted by the University of Puerto Rico or any other higher education institution in Puerto Rico, engaged mainly in conducting eligible scientific research and who has submitted a scientific research proposal to the National Institutes of Health or to other organizations of the Federal Government of the United States or Government of Puerto Rico, and that due to the approval of said proposal, the academic institution receives a grant for research under the R01 Research Project or its equivalent,

whose amount covers the costs of the research, including the compensation of said investigator and of key personnel, purchase of equipment and supplies, publications and other related expenses; provided, that with the exception of the cases of Multiple Principal Investigators (PI's) there shall be more than one individual eligible for this deduction for approved grant.

(C) …

…"

Section 20. – Paragraph (8) of subsection (a) of Section 1031.04 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1031.04. – Deductions. –

(a) …

(1) …

(8) Automobile expenses, as provided in Section 1033.07(a)(3).

(9) …

…"

Section 21. – Paragraph (9) of subsection (a) of Section 1032.01 of Act No. 1-2011, as amended, is hereby deleted.

"Section 1032.01. – Income Subject to Preferred Tax. –

(a) …

(1) …

…

(8) …"

Section 22. – The numbering of the first paragraph (3) of subsection (d) of Section 1032.06 of Act No. 1-2011, as amended, is hereby corrected to read as follows:

"Section 1032.06. – Cafeteria Plan. –

(a) …

(d) …

(1) …

(2) Highly Compensated Participant and Individual. –

(A) …

(3) Qualified Benefits. – …

…"

Section 23. – Paragraph (4) of subsection (f) of Section 1032.07 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1032.07. – Payment for Dependent Care. –

(a) …

(f) Special Rules. – For purposes of this Section. –

(1) …

(4) Information Required with Respect to Service Provider. – No amount shall be excluded from the gross income of the employee in accordance with the provisions of this Section unless the name, address, and employer identification number of the person to whom payment is made is included on the income tax return of the employee.

(5) …

…"

Section 24. – Subsection (b), (g), and (h) of Section 1032.08 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1032.08. – Amounts Received Under Accident or Health Plans. –

(a) …

(b) Amounts Expended for Medical Care in Health Reimbursement Arrangements. – Except in the case of amounts attributable to and not in excess of deductions allowed under Section 1033.15(a)(4) (relating to medical expenses) for any prior taxable year, gross income does not include amounts referred to in subsection (a) of this Section if such amounts are paid, directly or indirectly, by the employer to the taxpayer to reimburse the taxpayer through Health Reimbursement Arrangements for expenses incurred by him/her for the medical care (as described in subsection (c)).

(c) …

(g) Rule for the Application of Section 1033.15(a)(4). – For purposes of Section 1033.15(a)(4), the amounts excluded from gross income shall not be considered as a compensation (for insurance or otherwise) for expenses defrayed for medical care.

(h) Self-employed Persons shall be Considered Employees. – For purposes of this Section, the term 'employee' includes an individual who is self-employed or who works independently, as defined in Section 1081.01 (f)(1)(B)."

Section 25. – Paragraph (4) of subsection (b) of Section 1033.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1033.01. – Trade or Business Expenses. **–**

(a) …

(b) …

(1) …

(4) In the case of an individual carrying on his/her own trade or business whose gross income does not exceed five hundred thousand dollars ($500,000), he/she shall be able to deduct the cost of health insurance, individual and family, as an expense of his/her trade or business, provided that said health

insurance covers all employees, if any. In the case of those individuals opting for the provisions herein, they shall not be able to include the expense paid for health insurance under Section 1033.15(a)(4)(B).”

Section 26. – Paragraphs (1) and (2) of subsection (a) and subsections (b), (d), and (e) of Section 1033.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1033.02. – Expenses Not Related to the Principal Trade or Business. –

(a) In the case of an individual:

(1) All the ordinary and necessary expenses paid or incurred during the taxable year for the production or collection of income, or for the management, conservation, or maintenance of property held for the production of income, or in the conduct of one or more trades or businesses other than the principal trade or business shall be allowed as deductions up to the amount of the gross income derived from said activity, trade, or business

(2) The deductions of an activity in excess of the gross income from such activity shall be treated as deductions allowed against the gross income from such activity in subsequent years.

(3) …

(b) If during the taxable year, a taxpayer disposes of all of his/her interest or of the properties used in an activity other than his/her principal trade or business, the following rules shall apply:

(1) …

…

(c) …

(d) …

(1) …

(A) the income of other corporations of individuals whose taxable year ends within the shareholder's taxable year;

(B) the income of partnerships or special partnerships whose taxable year ends within the shareholder's taxable year;

(C) the income attributable to such corporation of individuals for taxable years ending within the subsequent taxable years of the shareholder;

(D) the income of other corporations of individuals, for taxable years ending within the subsequent taxable years of the shareholder; and

(E) the income of partnerships or special partnerships in taxable years ending within the subsequent taxable years of the shareholder.

(2) In the case of losses incurred by two or more corporations of individuals, the deduction allowed under paragraph (1) of subsection (d) of this Section shall be attributable to each corporation of individuals in an amount which bears same ratio to the total loss incurred by all corporations of individuals within the taxable year of the shareholder. The Secretary shall prescribe through regulations, circular letter, informational bulletin, or general administrative determination, the form and manner in which such losses shall be distributed.

(e) Losses of a Partnership or Special Partnership. – The distributive share of a partner in the loss of a partnership or special partnership incurred during a taxable year ending within the taxable year of a partner shall be allowed as a deduction to such partner in the following order, subject to the limitations established in this subsection and in Sections 1071.04 and 1114.15 of this Subtitle.

(1) General Rule. – For purposes of this subsection, the amount of the loss allowable as a deduction attributable to the distributive share of a partner in the net loss of one or more special partnerships shall be determined as follows:

(A) The distributive share of a partner in the loss described in Sections 1071.02(a)(9) and (10) and 1114.06(a)(9) and (10) shall be limited to the adjusted basis of the partner in the partnership or special partnership that sustained the loss. Once the loss in each of the partnerships and special partnerships is determined, the same shall be grouped to determine the amount of the net loss;

(B) …

(C) The total of the net loss determined in subparagraph (A) may be claimed as a deduction against the income of other partnerships or special partnerships, as determined in subparagraph (B). The excess of the net loss, if any, may be claimed as a deduction against the income of corporations of individuals.

(2) …

…"

Section 27. – Paragraph (1) of subsection (c) of Section 1033.05 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1033.05. – Deduction for Losses by Individuals, by Corporations, Capital Losses, and Wagering Losses. –

(a) …

(c) Capital Losses. –

(1) Limitation. – Losses from sales or exchanges of capital assets shall be allowed only to the extent provided in Section 1034.01.

(2) …

…"

Section 28. – Paragraphs (1), (3), and (5) of Subsection (a) of Section 1033.06 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1033.06. – Bad Debts. –

(a) Bad Debts. –

(1) General Rule. – For debts which become worthless within the taxable year; when satisfied that a debt is recoverable only in part, the Secretary may allow such debt as a deduction in an amount not in excess of the part charged off within the taxable year. This paragraph shall not apply with respect to a debt evidenced by securities as defined in paragraph (3). This paragraph shall not apply in the case of a taxpayer other than a corporation or partnership, with respect to a non-business debt, as defined in paragraph (4). The use of the reserve method for determining the deduction for bad debts shall not be allowed.

(2) …

(3) Definition of Securities. – As used in paragraphs (1), (2), and (4), the term 'securities' means bonds, debentures, notes, or certificates, or other evidence of indebtedness, issued by any corporation, including those issued by a government or political subdivision thereof, with interest coupons or in a registered form.

(4) …

(5) Securities of Affiliate Corporations.– Bonds, debentures, notes or certificates, or other evidences of indebtedness issued with interest coupons or in a registered form by any corporation affiliated with the taxpayer shall not be deemed capital assets for purposes of paragraph (2), and paragraph (1) shall apply with respect to such debt, except that no such deduction shall be allowed under such paragraph with respect to any such debt which is recoverable only in part.

For purposes of this paragraph, a corporation shall be deemed to be affiliated with the taxpayer only if–

(A) …

…"

Section 29. – Subparagraphs (A), (B), (F), and (H) of paragraph (1); subparagraph (B) of paragraph (2); and subparagraphs (B)(i), (C), (E), and (H) of paragraph (3) of subsection (a) of Section 1033.07 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1033.07. – Depreciation, Amortization, and Depletion. –

(a) …

(1) …

(A) Using the applicable straight-line method and the recovery and acquisition period provided in Section 1040.12 for tangible property (other than property described in subparagraph (B)) acquired after December 31, 2010, or similar provisions of the Federal Internal Revenue Code and the Regulations approved thereunder may apply, if no depreciation terms are fixed by Section 1040.12, until the Secretary promulgates the corresponding regulations; or

(B) using the applicable depreciation method and the recovery and acquisition period provided in Section 1040.12 for tangible property acquired by purchase during taxable years beginning after June 30, 1995;

(C) ...

…

(F) For purposes of subparagraphs (A) through (E) of this paragraph, the term 'purchase' means any acquisition of property, provided that the transferor is not a related party and the basis of the property in the hands of the transferee is not determined in whole or in part by reference to the basis of such

property in the hands of the transferor. The term ‘related party’ shall have the meaning provided in Section 1010.05.

(G) …

(H) Any business that during the taxable year has generated less than three million dollars ($3,000,000) of gross income may determine the deduction established in subparagraph (A) of this paragraph, by using the useful life of two (2) years for ground transportation equipment, except for automobiles (as defined in paragraph (3) of this Section), and environmental conservation equipment.

(I) …

…

(2) …

(A) …

(B) In the case of any structure, whose construction began after May 31, 1980, and before January 1, 1996, and which is destined to be leased for residential purposes, the allowance for depreciation shall be computed on a basis of a ten-year (10) period, if the structure is made of wood, or of fifteen (15) years in all other cases, while the same is used for residential purposes.

(3) …

(A) …

(i) …

…

(B) …

(i) Automobiles used directly in the business of transporting passengers or property for compensation or pay such as limousines, taxis, and public vehicles.

(ii) …

…

(C) Automobile Leases. – In the cases of automobile leases, which would be tantamount to a purchase as provided in subparagraph (D), no deduction for depreciation granted under subparagraph (A) of this paragraph shall be allowed. In lieu of the depreciation, the sum paid for leasing the automobile during the taxable year that shall not exceed six thousand dollars ($6,000) annually per automobile, up to thirty thousand dollars ($30,000) for the useful life of the automobile shall be allowed as deduction.

(i) …

(D) …

(E) Deduction in the Case of Operating Leases. – In the case of an operating lease, as established in subparagraph (F), the amount of rent paid during the taxable year shall be allowed as a deduction up to six thousand dollars ($6,000) annually per automobile. If the taxpayer is a salesperson, the amount of the deduction to be allowed on account of operating lease shall be the rent paid up to a maximum of ten thousand dollars ($10,000). Notwithstanding the foregoing, the amount of the rent paid on account of an operating lease shall not be deductible as an expenditure under the provisions of Section 1033.01.

(F) …

…

(H) Requirement to Report Payment Automobile Lease. – Any entity engaged in the automobile leasing business that are tantamount to a purchase, as defined in subparagraph (D), shall be required to file an information return that includes the amount paid for the automobile lease during the calendar year. Said information return shall be filed as provided in Section 1063.11.

(b) …"

Section 30. – Subclause (IV) of clause (i) of subparagraph (A) and subparagraph (G) of paragraph (1), paragraph (2), subparagraph (C) of paragraph (5) of subsection (a) of Section 1033.09 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1033.09. – Contributions by an Employer to Employees' Trust or Annuity Plan and Compensation under a Deferred-payment Plan. –

(a) …

(1) …

(A) …

(i) In the case of a Defined Benefit Pension Plan:

(I) …

(II) …

(III) …

(IV) In lieu of the amounts allowed under the preceding subclauses (I), (II), and (III), the amount necessary to satisfy the minimum funding standard provided by Sections 302(a)(2)(A) and (C) of the Employee Retirement Income Security Act of 1974 ('ERISA') or any section or provision of any successor law for the plan year which ends with or within the taxable year in which such amount is paid or for any prior plan year. In those cases in which this subclause (IV) applies, the limitation provided under subparagraph (F) shall not apply.

(V) …

(ii) …

(B) …

…

(G) Contributions to Employee Stock Ownership Plans. – Notwithstanding the provisions of subparagraphs (C) and (F), if contributions are paid into a trust which forms a part of an employee stock ownership plan (as described in paragraph (1) of subsection (h) of Section 1081.01) and such contributions are applied by the plan to the repayment of the principal of and interest on a loan incurred for the purpose of acquiring qualifying employer securities (as described in paragraph (2) of subsection (h) of Section 1081.01), such contributions shall be deductible under this Section for the taxable year in which they are paid in an amount that shall not exceed twenty-five percent (25%) of the compensation otherwise paid or accrued during the taxable year to the employees under such employee stock ownership plan. Any amount paid into such trust in any taxable year in excess of the amount allowed under this subparagraph shall be deductible in the succeeding taxable years in order of time to the extent of the difference between the amount paid and deductible in each such succeeding year and the maximum amount deductible for such year under the preceding sentence.

(2) Deductions Under Prior Income Tax Laws. – Any deduction allowable under the Internal Revenue Code of 1994, as amended, for a taxable year beginning before January 1, 2011, or under the Income Tax Act of 1954, as amended, for a taxable year beginning before July 1, 1995, which under said Code or Act, as applicable, was carried over to any taxable year beginning after December 31, 2010, shall be allowed as a deduction for the years to which it was so carried over to the extent allowable under the such Code or Act, whichever is applicable, if it had remained in force with respect to said year.

(3) …

(4) …

(5) Tax on Nondeductible Contributions to Qualified Retirement Plans. –

(A) …

(B) …

(C) Nondeductible Contributions. –

(i) The term ‘nondeductible contributions’ means the sum of:

(I) …

(II) the excess of any nondeductible contribution for the preceding taxable year which began after December 31, 2010, over the amount properly returned to the employer during the taxable year, and the amounts deductible under this Section for the current taxable year.

(ii) In determining the amount of nondeductible contributions, the deductible amount under this Section for any taxable year shall be treated first from nondeductible contributions made in preceding taxable years and carried forward to such taxable year. Then, nondeductible contributions made during such taxable year shall continue to be subject to the payment of the tax provided herein until they are properly returned to the employer or deducted in subsequent taxable years.

(iii) …

(iv) In determining the amount of nondeductible contributions, after tax contributions made to the plan pursuant to Section 1081.01(a)(15) shall be excluded.

(D) …

…”

Section 31. – Paragraphs (1) and (4) of subsection (a) of Section 1033.10 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1033.10. – Charitable Gifts and other Contributions by Corporations. –

(a) In the case of a corporation:

(1) …

(A) …

(B) An entity described in Sections 1101.01(a)(1) and (2) created or organized in Puerto Rico, the United States, or in any possession thereof, or any state or territory organized and operated exclusively for the purposes described therein, but in the case of a contribution or gift to a trust, chest, fund, or foundation only if it is to be used within Puerto Rico or the United States or any of its possessions exclusively for such purposes, provided that no part of the net earnings of which inures to the benefit of any private shareholder or individual. For denial of certain deductions for charitable contributions or gifts, otherwise admissible under this paragraph, see Sections 1083.02(e) and 1102.06; or

(C) a post or organization of war veterans, or an auxiliary unit of, or trust or foundation for, if any such post or organization unit, trust or foundation is organized in Puerto Rico, the United States, or any of its possessions, provided that no part of the net earnings of which inures to the benefit of any private shareholder or particular individual; or

(D) other entities listed in subparagraph (C) of paragraph (3) of subsection (a) of Section 1033.15; up to an amount that shall not exceed ten percent (10%) of the net income of the taxpayer computed without the benefits of this subsection.

(2) …

(4) In the case of a corporation or partnership reporting its taxable income on the accrual basis, at the option of the taxpayer, any payment of the contribution made after the close of the taxable year and on or before the fifteenth (15^{th}) day of the fourth (4^{th}) month following the close of the taxable year, shall be treated for purposes of this subsection, as paid during the taxable year if the Board of Directors or partners authorized said contribution or gift during such year. The option may be made only at the time of the filing of the return for the taxable year, and shall be signified in such manner as the Secretary shall by regulations prescribe.

(b) …"

Section 32. – Subsection (a) of Section 1033.13 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1033.13. – Alimony or Separate Maintenance Payment. –

(a) General Rule. – In the case of an individual, he/she may deduct an amount equal to the alimony or separate maintenance payments paid during the taxable year.

(b) …"

Section 33. – The first subsection (c) of Section 1033.14 of Act No. 1-2011, as amended, is hereby renumbered as (b) and its paragraphs (2)(A), (3)(A), and (4) are hereby amended to read as follows:

"Section 1033.14. – Net Operating Loss Deductions.–

(a) …

(b) Amount of Carryovers. –

(1) …

(2) Subject to the provisions of paragraph (3),

(A) A transferee that acquires all or substantially all the property of a transferor on an exchanged described in Section 1034.04(b)(4), (6) or

(8) of this Subtitle, may claim the deduction provided in paragraph (1) for the taxable years of the transferee ending after said exchange with respect to:

(i) Net operating losses incurred by the transferor during taxable years ending not later than such exchange and otherwise available under paragraph (1); provided, however, that the amount of the net operating loss of the transferor that qualifies under paragraph (1) as a net operating loss carryover to a taxable year of the transferee shall be an amount equal to the net income for such year derived from the same commercial activity or trade or business that generated the losses; and

(ii) Net operating losses of the transferee for taxable years ending not later than such exchange.

(B) …

…

(3) (A) If:

(i) fifty percent (50%) or more of the value of the stock of a corporation or interest in a partnership capital as of the close of the taxable year in which the net operating loss is incurred has been sold, exchanged or otherwise transferred after such taxable year; or

(ii) one or more persons acquire fifty percent (50%) or more of the value of the stock or capital interest in a corporation or partnership, or of a corporation or partnership that is a party to a reorganization, after a taxable year in which a net operating loss is incurred, then the amount of said net operating loss that qualifies as a net operating loss to be carried over to any taxable year of a corporation or partnership under paragraph (1), shall be an amount equal to the net income in the carryover year derived from the same commercial activity or trade or business that generated the net operating loss.

(B) …

…

(4) For rules related to net operating losses carryovers after certain transactions described in Section 1034.04(b)(5) and (g), see Section 1034.04(t)(3)(A). The provisions of paragraphs (2) and (3) of this subsection shall not apply to a net operating loss subject to Section 1034.04(t)(3)(A).

(5) …

(c) …"

Section 34. – Paragraphs (1), (2), (3), and (4) of subsection (a) of Section 1033.15 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1033.15. – Deductions Applicable to Taxpayers who are Individuals. –

(a) For purposes of this Section, the taxpayer may claim the following items as deduction:

(1) Deduction for Interest Paid or Accrued on the Residential Property.

(A) …

(D) Definition of Qualified Residence. – For purposes of this paragraph, the term 'qualified residence' means:

(i) the principal residence of the taxpayer within the meaning of Section 1034.04 (m), except that, for purposes of this subsection, said residence may be located within or outside of Puerto Rico, and

(ii) …

…

(2) Amounts Representing Interest Paid to Cooperative Housing Association. –

(A) Allowance of Deduction. – In the case of a tenant-stockholder (as defined in subparagraph (B)(ii)), there shall be allowed as a deduction amounts (not otherwise deductible) paid or accrued to a cooperative housing association within the taxable year, but only to the extent that such amounts represent the tenant-stockholder's proportionate share of:

(i) …

(ii) …

(I) Thirty percent (30%) of the adjusted gross income of the taxpayer, as modified pursuant to clause (iii), of the taxable year for which the deduction is claimed; or

(II) Thirty percent (30%) of the adjusted gross income of the taxpayer, as modified pursuant to clause (iii), for any of the three (3) taxable years preceding the year for which the deduction is claimed.

(iii) …

(iv) The limitation in clause (ii) shall not apply when the taxpayer (or, in the case of a married individual who is not filing a separate return, the taxpayer or his/her spouse) has attained the age of sixty-five (65) at the close of the taxable year.

(B) …

(3) Charitable Contributions and Other Gifts. –

(A) General Rule. – In the case of an individual, there shall be allowed as a deduction, the amount of charitable contributions or gifts made during the taxable year to, or for use by, nonprofit organizations or entities

described in this paragraph, subject to the limitations established in subparagraph (B).

(B) Limitation. – The deduction allowed under this paragraph shall be subject to the following limitations:

(i) In the case of contributions or gifts to:

(I) …

(II) Entities described in Section 1101.01(a)(1);

(III) Nonprofit entities described in Section 1101.01(a)(2) duly qualified by the Secretary or the United States Internal Revenue Service (other than gifts described in clause (ii)); and

(IV) Entities described in subparagraph (C), there shall be allowed a deduction equal to the amount contributed, the deduction of which shall not exceed fifty percent (50%) of the adjusted gross income of the taxpayer for the taxable year. The Secretary shall promulgate through regulations, administrative order, circular letter or any other information bulletin a list of nonprofit entities qualified to receive such contributions.

(ii) In the case of:

(I) donations of conservation easements to agencies of the Government of Puerto Rico or nonprofit organizations, subject to the requirements established in the Conservation Easement Act; or

(II) donations to private or public museological institutions consisting of works of art duly appraised or any other objects of acknowledged museological value, if the fair market value of the donated property exceeds its adjusted basis of the donor (as determined in Section 1034.02) for over twenty-five percent (25%), the fair market value of the contributed property up to

thirty percent (30%) of the adjusted gross income of the taxpayer for the taxable year shall be allowed as deduction.

(III) Exception. – If the museological institution to which the donation consisting of a work of art is made is a museum duly accredited by the American Association of Museums, and is located in Puerto Rico, the deduction provided in this paragraph shall be the fair market value of the work of art donated (including in the case of works of art donated by the artist who created them), up to a maximum of fifty percent (50%) of the adjusted gross income of the donor for the taxable year, without being subject to the limitation provided in clause (iii). Any excess not claimed as a deduction in the year the donation was made may be carried forward to the next five (5) taxable years, subject to the limit of the deduction herein provided.

(iii) …

…

(C) Are described in this subparagraph (C);

(i) …

(ii) …

(iii) …

(iv) …

(v) a post or organization of war veterans, or an auxiliary unit or society of, or trust or foundation for, if any such post or organization, unit or society, or trust of foundation have been organized in Puerto Rico, the United States or any of its States or possessions; provided, that no part of the net earnings of which inures to the benefit of any private shareholder or individual,

(vi) The Puerto Rico Symphony Orchestra Corporation.

(vii) The Curable Catastrophic Illnesses Service Fund, created under Act No. 150-1996.

(D) …

(E) The Secretary may, when he/she deems pertinent, require the organization receiving any donation described in this paragraph (3), a verification of the amount donated by the taxpayer during a particular taxable year. In addition, the Secretary shall be empowered to establish through regulations those reports and statements to be filed by the entities receiving the donations allowed as deductions in this paragraph so that taxpayers may claim such deduction.

(4) Deductions for Medical Expenses. – In the case of individuals, the amount by which the total amount of medical expenses not compensated by insurance or otherwise, paid during the taxable year exceeds six percent (6%) of his/her adjusted gross income. For purposes of this paragraph, the term 'medical expenses' includes:

(A) …

…"

Section 35. – Subsections (a) and (c) and the title are hereby amended, and subsections (e) and (f) are hereby added to Section 1033.16 of Act No. 1-2011, as amended, to read as follows:

"Section 1033.16. – Special Deduction for Certain Individuals. –

(a) In the case of an individual whose main source of income consists of the income described in paragraphs (1), (2), (3), and (5) of Section 1031.01(a), or that part of paragraph (4) of said Section related to pensions granted or to be

granted by the retirement systems or funds subsidized by the Government of Puerto Rico, of annuities or pensions granted by the Government of the United States of America, and by the instrumentalities or political subdivisions of both governments, and pension, retirement or annuity plans granted by private employers, there shall be allowed as deduction, in addition to any other deduction provided by this Subtitle, a deduction determined as follows:

…

(b) …

(c) Limitation. – The total amount of the deduction provided in subsection (a) of this Section shall be available for those individuals whose modified adjusted gross income does not exceed twenty thousand dollars ($20,000), provided that for each dollar of the modified adjusted gross income in excess of twenty thousand dollars ($20,000), the allowable deduction in subsection (a) shall be reduced as follows:

(1) For years beginning after December 31, 2010, but before January 1, 2012, the allowable deduction in subsection (a) shall be reduced by fifty cents (50¢) until it is reduced to zero.

(2) For years beginning after December 31, 2011, but before January 1, 2013, the allowable deduction in subsection (a) shall be reduced by forty-two cents (42¢) until it is reduced to zero.

(3) For years beginning after December 31, 2012, but before January 1, 2014, the allowable deduction in subsection (a) shall be reduced by twenty-eight point five cents (28.5¢) until it is reduced to zero.

(4) For years beginning after December 31, 2013, but before January 1, 2015, the allowable deduction in subsection (a) shall be reduced by twelve point five cents (12.5¢) until it is reduced to zero.

(d) …

(e) Deduction Denial. – No deduction whatsoever shall be allowed under subsection (a) if the taxpayer earns a net income on account of interest or dividends, rents or royalties, the sale of capital stock, or any other type of income other than those described in paragraphs (1), (2), (3), and (5) of Section 1031.01(a) or that part of paragraph (4) of said Section related to pensions granted or to be granted by the retirement systems or funds subsidized by the Government of Puerto Rico, of annuities or pensions granted by the Government of the United States of America, and by the instrumentalities or political subdivisions of both governments, and pension, retirement or annuity plans provided by private employers, in excess of five thousand dollars ($5,000) for the taxable year.

(f) Definitions. – For purposes of this Section, the term 'modified adjusted gross income' means the adjusted gross income as defined in Section 1031.03, plus exempt income as provided in Section 1031.02."

Section 36. – Paragraphs (10), (11), (12), (13), and (14) of subsection (a), subsection (b), and subparagraph (B) of paragraph (1) of subsection (e) of Section 1033.17 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1033.17. – Nondeductible Items. –

(a) General Rule. – In computing the net income in no case shall deductions be allowed with respect to:

(1) …

…

(10) Interest paid or accrued on indebtedness incurred or continued to purchase or carry obligations the interest upon which is wholly exempt from the taxes imposed by this Subtitle.

(11) Expenses related to the ownership, use, and maintenance, and depreciation of boats, except:

(A) Boats of all kinds which constitute fishermen's working instruments and fishing boats used exclusively for fishing as part of an industrial unit or tourist attraction, or of any entity engaged in fishing and to the exclusive transportation of fish for purposes of industrial elaboration in Puerto Rico;

(B) vessels used exclusively in the transportation of passengers or freight, and tugboats and ships used for bunkering, which have been duly authorized to engage in this type of business in Puerto Rico, or

(C) Expenses incurred by entities engaged in leasing ships.

(D) To be entitled to this deduction for the use of boats, the businesses described in subparagraphs (A), (B), and (C) of this paragraph shall derive more than eighty percent (80%) of their total income from fishing or passenger or freight transportation or from leasing ships, whichever applies;

(12) Amounts, other than interest, paid or accrued by a corporation that are directly or indirectly related with the redemption of its stock;

(13) Expenses related to the ownership, use, maintenance and depreciation of airplanes, helicopters or any other kind of aircraft, except for:

(A) airplanes, helicopters, or aircraft of all kinds which constitute working instruments of business exclusively engaged in the transportation of passengers or freight, duly authorized to carry out this kind of business in Puerto Rico, or

(B) expenses incurred by entities engaged in leasing aircraft.

(C) To be entitled to this deduction for the use of airplanes, helicopters, or other aircraft, said businesses shall derive more than eighty percent (80%) of their total income from the transportation of passengers or freight or the leasing of airplanes, helicopters, or other aircraft, whichever applies;

(14) Expenses related to the use, maintenance, and depreciation of residential property located outside of Puerto Rico, except in the case of businesses exclusively engaged in leasing properties to nonrelated parties. To be entitled to this deduction for the use of residential property located outside of Puerto Rico, said businesses shall derive more than eighty percent (80%) of their total income from the leasing activity, except for income derived from leasing property to related parties. For purposes of this paragraph, the term 'related party' shall have the meaning provided in Section 1010.05; or

(15) …

(b) Losses from Sales or Exchanges of Property. –

(1) …

(e) …

(1) …

(A) …

(B) For purposes of this paragraph, personal expenses for 'entertainment, amusement, or recreation' shall be considered as all those expenses related to an activity which is generally considered a family, entertainment, amusement, or recreation activity, unless the taxpayer establishes that the activity was mainly and directly related to, or, in the case of an activity preceding or following a substantial and bona fide business discussion, that such activity was associated with the active conduct of the taxpayer's trade or business.

(C) …

…"

Section 37. – Subparagraph (A) of paragraph (1) of subsection (a) of Section 1033.18 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1033.18. – Allowance of Deductions for Personal Exemptions and for Dependents. –

(a) …

(1) …

(A) In the case of an individual taxpayer, a personal exemption of three thousand five hundred dollars ($3,500).

(B) …

…"

Section 38. – Subsection (a) of Section 1033.20 of Act 1-2011, as amended, is hereby amended to read as follows:

"Section 1033.20. – Deductions Applicable to Taxpayers as Individuals – Limitation in Computing Net Income. –

(a) In the case of individuals who are taxpayers who have earned income subject to preferred rates of twenty thousand dollars ($20,000) or more during the taxable year, in computing the net income subject to regular taxes for said year, there shall not be allowed as deduction such part thereof described in Section 1033.15, that is attributable to income subject to preferred rates, as established in Section 1032.01.

(b) …"

Section 39. – Paragraph (11) of subsection (a), subsections (b), (d), and (f), paragraph (2) of subsection (g), paragraph (2) of subsection (h), paragraph (1) and subparagraph (C) of paragraph (2) and subparagraph (A) of paragraph (3) of subsection (i), and subsection (k) of Section 1034.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1034.01. – Capital Gains and Losses. –

(a) Definitions. – As used in this Subtitle –

(1) …

…

(11) Net capital loss. – The term 'net capital loss' means the excess of the losses from the sale or exchange of capital assets over the sum allowed under subsection (c). For purposes of determining losses under this paragraph, the amounts which are short-term capital losses under subsection (d) of this Section shall be excluded.

(b) Special Tax in the Case of a Taxpayer Other than a Corporation. – If for any taxable year, the net long-term capital gain of any taxpayer other than a corporation exceeds the net short-term capital loss, the tax provided in Section 1023.02 shall be levied, collected, and paid.

(c) …

(d) Capital loss carry-over. – If for any taxable year beginning after June 30, 1995, the taxpayer has a net capital loss, the total amount thereof shall be a short-term capital loss in each of the five (5) succeeding taxable years, to the extent that such amount exceeds the total of any net capital gains for each of the prior taxable years in which the net capital loss may be carried over and such succeeding taxable year. In the case of net capital losses realized in taxable years beginning after December 31, 2005 and before December 31, 2012, the carry-over period shall be ten (10) years. For purposes of this subsection, a net capital gain shall be computed regardless of such net capital loss or any net capital losses arising in any such prior taxable years.

(e) …

(f) Short sales and options. – For purposes of this Subtitle –

(1) Gains or losses from short sales of property shall be considered as gains or losses from sales or exchanges of capital assets; and

(2) gains or losses attributable to the failure to exercise privileges or options to buy or sell property shall be considered as short-term capital gains or losses.

(g) Determination of holding period of property. – For purposes of this Section. –

(1) …

(2) In determining the period for which the taxpayer has held property, however acquired, there shall be included the period during which such property was held by any other person, if under Sections 1034.02, 1072.01, 1114.26 or 1114.27, such property has, for purposes of determining gain or loss from a sale or exchange, the same basis, in whole or in part, in the hands of the taxpayer as it would have in the hands of such other person.

(3) …

…

(h) …

(1) …

(2) General Rule. – If during the taxable year the recognized gains on the sale or exchange of property used in the trade or business, plus the recognized gains from the compulsory or involuntary conversion (see Section 1034.04(f)(3) for cases of individuals, as a result of destruction, in whole or in part, theft or seizure, or an exercise of the power of requisition or condemnation or the threat or imminence thereof), of property used in the industry or business and capital assets held for more than six (6) months into other property or money,

exceed the recognized losses from such sales, exchanges, and conversions, such gains and losses shall be considered as gains and losses from sales or exchanges of capital assets held for more than six (6) months. If such gains do not exceed such losses, such gains and losses shall not be considered as gains and losses of capital assets. For purposes of this paragraph:

(A) …

(i) Collapsible Corporations.

(1) Treatment of Gain to Shareholders. – Gain from –

(A) The sale or exchange of stock of a collapsible corporation;

(B) a distribution in partial or complete liquidation of a collapsible corporation, which distribution is treated as in part or full payment in exchange for stock; and

(C) a distribution made by a collapsible corporation which is treated, to the extent it exceeds the basis of the stock, in the same manner as a gain from the sale or exchange of property, to the extent that it would be considered (except for the provisions of this subsection) gain from the sale or exchange of a capital asset shall, except as provided for in paragraph (4), be considered gain from the sale or exchange of property which is not a capital asset.

(2) Definitions. –

(A) …

…

(C) Section 1034.01(i) assets. – For purposes of this subsection, the term ‘Section 1034.01(i) assets’ means property held for a period of less than three (3) years, which is –

(i) …

…

(3) Presumption in Certain Cases. –

(A) In General. – For purposes of this subsection, a corporation shall be deemed to be, unless shown otherwise, a collapsible corporation if, at the time of the sale or exchange or the distribution described in paragraph (1), the fair market value of its Section 1034.01(i) assets (as defined in paragraph (2)(C)) is –

(i) …

(j) …

(k) Losses on small business investment company stock. – If a loss is on stock in a small business investment company operating in Puerto Rico under the Act of the United States Congress, known as the 'Small Business Investment Act of 1958,' and such loss would (but for this subsection) be a loss from the sale or exchange of a capital asset, then such loss shall be treated as a loss from the sale or exchange of property which is not a capital asset. For purposes of Section 1033.14 (relating to the net operating loss deduction), any amount of loss treated by reason of this subsection as a loss from the sale or exchange of property which is not a capital asset, shall be treated as attributable to a trade or business of the taxpayer.

(l) …"

Section 40. – Clause (ii) of subparagraph (C) of paragraph (5), paragraphs (7) and (8) of subparagraph (A) of paragraph (14) of subsection (a), and subparagraph (B) of paragraph (1) of subsection (b) of Section 1034.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1034.02. – Basis to Determine Gain or Loss. –

(a) …

(1) …

…

(5) Basis of Property Acquired from a Decedent. –

(A) …

(C) Property acquired by bequest, devise, or inheritance, or by the decedent's estate from the decedent after December 31, 2010. – If the property was acquired from the decedent by bequest, devise, or inheritance, or by the decedent's estate from the decedent after December 31, 2010, the basis shall be determined as follows:

(i) …

(ii) In the case of an estate that qualifies for the deduction provided in Section 2023.02 of Subtitle B of this Code, or the credit provided in Section 2024.04 of Subtitle B of this Code, the basis of the property shall be the same it had in the hands of the decedent, adjusted by such portion of the total of the fixed exemption provided in Section 2023.08 of Subtitle B of this Code that proportionately corresponds, as stated in the tax return filed pursuant to Section 2051.01 of Subtitle B of this Code, but said basis shall not exceed its fair market value at the date of the decedent's death.

(6) …

…

(7) Transfers to Corporations. – If the property was acquired. –

(A) after December 31, 1923, and in a taxable year beginning before January 1, 1954, by a corporation in connection with a reorganization, and immediately after the transfer, an interest in or control over such property of fifty percent (50%) or more remained in the hands of the same persons or any of them, or

(B) in a taxable year beginning after December 31, 1953, by a corporation in connection with a reorganization, then the basis shall be the same as it would be if said property were in the hands of the transferor, increased in the amount of gain or decreased in the amount of loss recognized to the transferor on such transfer under the law applicable to the year in which the transfer was made. This paragraph shall not apply if the property acquired consists of stock or securities in a corporation that is a party to the reorganization, unless such stock or securities were acquired by the exchange of stock or securities of the transferee (or of a corporation which is in control, determined under Section 1034.04(h), of the transferee) as the consideration in whole or in part for the transfer.

(8) Property acquired by issuance of stock or as paid-in surplus. – If the property was acquired after December 31, 1923, by a corporation:

(A) by the issuance of its stock or securities in connection with a transaction described in Section 1034.04(b)(5) (including, also, cases where part of the consideration for the transfer of such property to the corporation was property or money, in addition to such stock or securities), or

(B) as paid-in surplus or as a contribution to capital, then the basis shall be the same as it would be if such property were in the hands of the transferor, increased in the amount of gain or decreased in the amount of loss recognized to the transferor on such transfer under the law applicable to the year in which the transfer was made.

(9) …

…

(14) Property acquired by corporate stock distribution. –

(A) If the property was acquired by a shareholder in a corporation and consists of stock in such corporation, or rights to acquire such stock, acquired by him/her after February 28, 1913, in a distribution by such corporation (hereinafter referred to in this subparagraph as 'new stock'), or consists of stock in respect to which such distribution was made (hereinafter referred to in this subparagraph as 'old stock'), and

(i) the new stock was acquired in a taxable year beginning before January 1, 1954, or

(ii) the new stock was acquired in a taxable year beginning after December 31, 1953, and its distribution did not constitute income to the shareholders within the meaning of the Sixteenth Amendment to the Constitution of the United States, then the basis of the new stock and of the old stock, respectively, in the shareholder's hands, shall be determined by allocating among the old stock and the new stock the adjusted basis of the old stock, such allocation to be made under regulations which shall be prescribed by the Secretary.

(B) …

…

(b) Adjusted basis. – The adjusted basis for determining the gain or loss from the sale or other disposition of property, whenever acquired, shall be the basis determined under subsection (a), adjusted as provided hereinbelow.

(1) General rule. – Proper adjustment in respect of the property shall in all cases be made–

(A) …

(B) with respect to any period since February 28, 1913, for exhaustion, wear and tear, obsolescence, amortization, and depletion, to the extent of the amount allowed, but not less than the amount allowable under this Subtitle or prior income tax laws. The adjustment herein prescribed shall be only in respect to the current depreciation provided in Section 1033.07 and shall be made irrespectively of any option for or deduction of flexible depreciation under Section 1040.11 or accelerated depreciation under Section 1040.12, or the use of any method of accelerated depreciation or exception to the imputation of capital accounts allowed by special tax incentives laws;

(C) …

…"

Section 41. – Subparagraphs (A) and (B) of paragraph (5), subparagraph (E) of paragraph (7), and subparagraph (B) of paragraph (8) of subsection (b); subparagraphs (D) and (F) of paragraph (2) of subsection (m); subparagraph (B) of paragraph (4) of subsection (q); subparagraph (C) of paragraph (1), subparagraphs (B) and (C) of paragraph (2), clauses (i) of subparagraph (B) and (ii) and (iii) of subparagraph (D) of paragraph (3), subparagraph (A) of paragraph (7), and clause (ii) of subparagraph (B) of paragraph (8) of subsection (r); subparagraph (A) of paragraph (1) and subclause (II) of clause (i) of subparagraph (B) of paragraph (4) of subsection (s); paragraph (1) of subsection (t); and clauses (iii) of subparagraph (B) of paragraph (6) and (ii) of subparagraph (C) of paragraph (10) of subsection (u) are hereby amended; and a subparagraph (G) is hereby added to paragraph (10) of subsection (u) of Section 1034.04 of Act No. 1-2011, as amended, to read as follows:

"Section 1034.04. - Recognition of Gain or Loss. –

(a) …

(b) Exchanges Solely in Kind. –

(1) …

...

(5) Transfer to Corporation Controlled by Transferor. –

(A) No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock or securities in such corporation and immediately after the exchange such person or persons are in control of the corporation;

(B) Special Rules where Distributions to Shareholders. –

(i) The fact that any corporation that transfers property to another corporation in an exchange described in subparagraph (A) distributes part or all of the stock in the corporation which it receives in the exchange to its shareholders shall not be taken into account provided that the requirement of control of such subparagraph has been met.

(ii) Special Rule for Section 1034.04(s). – If the requirements of Section 1034.04(s) (or so much of Section 1034.04(c)(1) as relates to Section 1034.04(s)) are met with respect to a distribution described in item (i), then, solely for purposes of determining the tax treatment of the transfers of property to the controlled corporation by the distributing corporation, the fact that the shareholders of the distributing corporation dispose of part or all of the distributed stock, or the fact that the corporation whose stock was distributed issues additional stock, shall not be taken into account in determining control for purposes of this Section.

(C) …

…

(7) Transfer of Property between Spouses or Incident to Divorce. –

(A) …

…

(E) Transfers in trust where liability exceeds basis. – Subparagraph (A) shall not apply to the transfer of property in trust to the extent that the sum of the amount of the liabilities assumed, plus the amount of the liabilities to which the property is subject, exceeds the total of the adjusted basis of the property transferred.

(F) …

…

(8) …

(A) …

(B) in a proceeding under Chapter 11 of the United States Bankruptcy Code, as amended, to another corporation organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, in exchange solely for stock or securities in such other corporation.

(9) …

…

(c) …

…

(m) Gain from Sale or Exchange of Residence. –

(1) …

…

(2) Rules for Application of this Subsection. – For purposes of this subsection:

(A) …

…

(D) A residence, any part of which was constructed or reconstructed by the taxpayer, shall be considered as purchased by the taxpayer. In determining the taxpayer's cost of purchasing a residence, there shall be included only so much of the cost as is attributable to the acquisition, construction, reconstruction, and improvements made which are properly chargeable to capital account, during the period specified in paragraph (1).

(E) …

(F) If the taxpayer, during the period described in paragraph (1), purchases more than one residence which are used by him/her as his/her principal residences at some time within two (2) years after the date of the sale of the old residence, only the last of such residences so used by him/her after the date of such sale shall constitute the new residence. If within the two (2) years referred to in the preceding sentence, the property used by the taxpayer as his/her principal residence is object of destruction, theft, seizure, requisition or condemnation, or is sold or exchanged under threat or imminence thereof, then for purposes of the preceding sentence, such two (2)-year period shall be considered as ending on the date of such destruction, theft, seizure, requisition, expropriation, sale or exchange.

(3) …

…

(q) …

(1) …

(4) Exception. – No gain or loss shall be recognized to a corporation that is:

(A) …

(B) a corporation that has an election in effect under Section 1114.12 or 1115.02 for the taxable year in which the plan of liquidation is adopted; or

(C) …

(r) Sales of stock to employee stock ownership plans. –

(1) Nonrecognition of gain. – If–

(A) …

…

(C) the requirements of paragraph (2) are met with respect to such sale, then the gain (if any) on such sale shall be recognized only to the extent that the amount realized on such sale exceeds the cost to the taxpayer of such qualified replacement property.

(2) Requirements to qualify for nonrecognition. – A sale of qualified securities meets the requirements of this subsection if –

(A) …

(B) the plan specified in subparagraph (A) owns (after the application of paragraph (1) of subsection (e) of Section 1010.04) immediately after the sale,

(i) not less than ten percent (10%) of all the classes of outstanding stock of the corporation that issued qualified stocks (other than stock not entitled to vote; limited and preferred as to dividends, does not participate in corporate growth to any significant extent; or has redemption and liquidation rights which do not exceed the issue price of such stock except for a reasonable

redemption or liquidation premium, and is not convertible into another class of stock), or

(ii) at least ten percent (10%) of the total value of outstanding stock of such corporation (except for any above described stock), or

(iii) such lower stock holding percentage authorized by the Secretary when to his/her judgment it is justified, and

(C) the employer whose employees are covered by the plan described in subparagraph (A) shall file with the Secretary a written sworn statement consenting to the application of paragraphs (7) and (8).

(3) Definitions; Special rules. – For purposes of this subsection. –

(A) …

(B) Stock trading in the stock exchange. –

(i) The employer's stock (as defined in paragraph (2) of subsection (h) of Section 1081.01) shall not be considered qualified securities under the above subparagraph (A) unless that at least twenty percent (20%) of the equity of the company is offered to investors through a recognized stock exchange or a stock exchange in Puerto Rico as of July 1, 1998, not later than the third anniversary of the effective date of the plan of stock acquisition for employees of the company or business.

(ii) …

…

(D) Qualified replacement property. –

(i) …

(ii) Operating corporation. – The term 'operating corporation' means,

(I) a domestic corporation or a foreign corporation

(1) that has derived at least eighty percent (80%) of its gross income from sources within Puerto Rico or in connection with the active conduct of its trade or business in Puerto Rico during the period of three (3) taxable years ending with the close of the preceding taxable year before the security was purchased; and

(2) at the time the security was purchased or before the close of the replacement period, more than fifty percent (50%) of the assets were used in the active conduct of the trade or business.

(II) the term 'operating corporation' shall include any financial institution (as described in paragraph (4) of subsection (f) of Section 1033.17) and any insurance company.

(iii) For purposes of this subsection, if the corporation issuing the security owns stock representing control of one or more corporations, or one or more corporations own stock representing control of the corporation issuing the security, or both, then all such corporations shall be treated as one corporation. For purposes of this clause, the term 'control' means the ownership of stock with at least fifty percent (50%) of the total voting right combined of all the stocks entitled to vote, or at least fifty percent (50%) of the total value of all the classes of stock of the corporation. In determining control, any qualified replacement property of the taxpayer with respect to this Section shall be disregarded.

(iv) …

…

(7) Tax on Certain Dispositions by Employee Stock Ownership Plans.–

(A) If during the three (3)-year period after the date on which an employee stock ownership plan (as defined in paragraph (1) of subsection (h) of Section 1081.01) acquired any qualified securities (as defined in subparagraph (A) of paragraph (3) of this subsection (r) in a sale to which paragraphs (1) through (6) of this subsection apply, said plan disposes of any of the qualified securities and:

(i) the total number of shares held by the plan after such disposition is less than the total number of employer securities (as defined in paragraph (2) of subsection (h) of Section 1081.01) held immediately after the sale, or

(ii) except to the extent provided in regulations, the value of qualified securities held by such plan after the disposition is less than ten percent (10%) of the total value of all employer securities as of such disposition, a special tax equal to ten percent (10%) of the amount realized in such disposition is hereby imposed.

(B) …

…

(8) Tax on Certain Prohibited Allocations of Qualified Securities. –

(A) …

(B) For purposes of this Section, the term ‘prohibited allocation’ means –

(i) …

(ii) any benefit which accrues to any person in violation of the provisions of Section 1081.01(h)(1)(B)(iv).

(C) …

…

(s) Distribution of Stock and Securities of a Controlled Corporation. –

(1) Effect on Distributees. –

(A) No gain or loss shall be recognized to (and no amount shall be includible in the income of) a shareholder or security holder on the receipt of such stock or securities, if:

(i) …

…

(4) Taxability of Corporation on Distribution. –

(A) …

(B) Distribution of appreciated property. –

(i) In General.- If –

(I) …

(II) the fair market value of such property exceeds its adjusted basis in the hands of the distributing corporation, then a gain shall be recognized to the distributing corporation as if such property were sold to the distributee at its fair market value.

(ii) …

…

(t) Carryovers in Certain Corporate Acquisitions. –

(1) General Rule. – In the case of the acquisition of assets of a corporation by another corporation –

(A) in a distribution to such other corporation to which the provisions of Section 1034.04(b)(6) (relating to liquidations of subsidiaries) apply; or

(B) in a transfer to which the provisions of Section 1034.04(b)(4) (relating to non-recognition of gain or loss to corporations) apply, but only if the transfer is in connection with a reorganization described in subparagraph (A), (C), (D), or (F) of Section 1034.04 (g)(1),

the acquiring corporation shall succeed to and take into account, as of the close of the day of distribution or transfer, the items described in paragraph (3) of the distributor or transferor corporation, subject to the conditions or limitations specified in paragraphs (2) and (3). For purposes of the preceding sentence, a reorganization shall be treated as meeting the requirements of subparagraph (D) of Section 1034.04(g)(1) only if the transferee corporation substantially acquires all of the assets of the transferor corporation.

…

(u) Limitation on Net Operating Loss Carryforwards Following Ownership Change –

(1) …

…

(6) Ownership change. – For purposes of this section –

(A) …

(B) Owner shift involving five percent (5%) shareholders. – There is an owner shift involving a five percent (5%) shareholder if –

(i) …

…

(iii) such change occurs in taxable years beginning after December 31, 2010.

(C) …

…

(10) Certain Additional Operating Rules. – For purposes of this section –

(A) …

…

(C) Operating Rules Relating to Ownership of Stock.–

(i) …

(ii) Stock acquired by reason of death, gift, divorce, separation, etc. If –

(I) the basis of any stock in the hands of any person is determined –

a. under Section 1034.02(a)(2),

b. under Section 1034.02(a)(5), or

c. under Section 1034.04(b)(7),

(II) stock is received by any person in satisfaction of a right to receive a pecuniary bequest, or

(III) stock is acquired by a person pursuant to any divorce or separation instrument (within the meaning of Section 1032.02(a)(2)(B)), such person shall be treated as owning such stock during the period such stock was owned by the person from whom it was acquired.

(iii) …

…

(G) Certain Stock Issues by Public Corporations Organized in Puerto Rico.- Notwithstanding what is otherwise provided in subsection (u), the provisions thereof shall not apply to a (public or private) stock issue by a corporation or entity organized under the laws of Puerto Rico if:

(i) the purpose of the stock issue is to raise capital for its operations, and

(ii) immediately before the stock issue and for a term of not less than five (5) years following the date of issuance of such stock, the stocks of the corporation or entity organized are traded in one or more recognized stock market.

If the provisions of items (i) and (ii) of this subparagraph (G) are complied with, new stock issues by said corporation or entity shall not be considered a change in the ownership of stock and said stock issue shall not be considered as to constitute a change in the capital structure for purposes of this subsection (u), thus, said stock issue shall not constitute a charge of ownership for purposes of paragraph (6) of this subsection (u).”

Section 42. – Subsection (a), subparagraph (B) of paragraph (3) and paragraph (4) of subsection (b) of Section 1034.06 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1034.06. – Certain Stock Purchases Treated as Asset Acquisitions.–

(a) General Rule. – For purposes of this Subtitle, if a purchasing corporation makes an election under this Section (or is treated under subsection (d) of this Section as having made such an election), then, in the case of any qualified stock purchase, the target corporation –

(1) …

…

(b) Basis of Assets After Deemed Purchase. –

(1) …

…

(3) Election to Step-up the Basis of Certain Target Stock. –

(A) …

(B) Determination of Basis Amount. – For purposes of subparagraph (A), the basis amount determined under this subparagraph shall be an amount equal to the grossed-up basis of the stock described under subparagraph (A) of paragraph (1) multiplied by a fraction –

(i) …

…

(4) Grossed-up Basis. – For purposes of paragraph (1), the grossed-up basis shall be an amount equal to the basis of the stock described in subsection (b)(1)(A), multiplied by a fraction –

(A) …

…"

Section 43. – Paragraph (2) of subsection (a), subparagraph (A) of paragraph (2) of subsection (f), and paragraph (1) of subsection (o) of Section 1034.09 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1034.09. – Distributions by Corporations. –

(a) Dividend defined. –

(1) …

(2) The amount of the distribution in other property which qualifies as a dividend shall not exceed the earnings or profits of the corporation, without regard to the amount of the basis of the property in the hands of the corporation. To determine the amount of a distribution refer to subsection (j) of this Section.

…

(f) Dividends in Stock. –

(1) …

(2) …

(A) in capital stock or rights to acquire capital stock of a class that, if distributed without election, shall be tax exempt under paragraph (1), or

…

(o) Redemption through Use of Related Corporations. –

(1) Acquisition by related corporation (other than a subsidiary). – For purposes of subsections (c), (e) and (g), if –

(A) …

…"

Section 44. – Paragraphs (1) and (2) are hereby amended and a paragraph (3) is hereby added to subsection (a) of Section 1035.03 of Act No. 1-2011, as amended, to read as follows:

"Section 1035.03. – Sale or Exchange of Personal Property. –

(a) Except as provided in this Section or Sections 1035.04 and 1035.05, any gain, profit or income derived from the sale or exchange of personal property,

(1) by a domestic corporation or by a Puerto Rico Resident shall constitute income from sources within Puerto Rico; and

(2) by a foreign corporation or by an individual other than a Puerto Rico Resident shall constitute income from sources outside Puerto Rico.

(3) in the case of a partnership, special partnership, corporation of individuals or limited liability company subject to the provisions of Chapter 7 of this Subtitle, the source of income shall be determined at the partner, stockholder or member level, as the case may be.

(b) …

…"

Section 45. – Subsection (f) of Section 1040.02 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1040.02. – General Rule for Methods of Accounting. –

(a) …

…

(f) Requirements Respecting Change of Accounting Method. – Except as otherwise expressly provided in this Subtitle, a taxpayer who changes the method of accounting on the basis of which he/she regularly computes his/her income in keeping his/her books shall, before computing his/her taxable income under the new method, secure the consent of the Secretary.

(1) …

(A) Fifty percent (50%) of the amount resulting from such adjustments shall be included in the computation to determine the taxable income subject to taxation in the return for the taxable year in which the change of the method of accounting is effective, and

(B) …

…"

Section 46. – Subsections (a), (b), and (e) of Section 1040.07 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1040.07. – Last-in First-out Goods Inventory Method. –

(a) The taxpayer may use the following method, whether or not prescribed under Section 1031.01(a)(2)(B), in inventorying goods specified in an application required under subsection (b):

(1) …

…

(b) …

(1) Only in inventorying goods that under Section 1031.01(a)(2)(B) are required to be inventoried, specified in an application to use the method filed at such time and in the manner as the Secretary may prescribe; and

(2) Only if the taxpayer establishes, to the satisfaction of the Secretary, that the taxpayer has used no procedure other than that specified in paragraphs (2) and (3) of subsection (a) in inventorying such goods to ascertain the income, profit, or loss of the first taxable year for which the method described in subsection (a) is to be used, for the purpose of a report or statement covering such taxable year:

(A) …

(B) …

(c) …

…

(e) …

(1) …

(2) the Secretary determines that the taxpayer has used for any subsequent taxable year some procedure other than that specified in paragraph (2) of subsection (a) in inventorying the goods specified in the application to ascertain the income, profit, or loss of the subsequent taxable year for the purpose of a report or statement covering such taxable year,

(A) to shareholders, partners, or other proprietors or beneficiaries, or

(B) for credit purposes;

and requires a change to a method different from that prescribed in subsection (a) beginning with such subsequent taxable year or any taxable year thereafter.

(3) …”

Section 47. – Paragraph (2) of subsection (d) and paragraphs (1) and (2) of subsection (e) of Section 1040.08 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1040.08. – Incentive Stock Option. –

(a) …

…

(d) …

(1) …

(2) Permissible Provisions. – An option which meets the requirements of subsection (c) shall be treated as an incentive stock option even if–

(A) …

(B) the employee has a right to receive property at the time of exercise of the option, or

(C) the option is subject to any condition not inconsistent with the provisions of subsection (c) of this Section.

(3) …

…

(e) …

(1) Option to prepay the special tax on gains accrued on the incentive stock options or partnership interest or interest or on stock or transferred proprietary interest. It shall be subject to the provisions of paragraphs (2) and (3) of this subsection,

(A) …

(B) any individual who, being the holder of corporate stock or partnership interest acquired through the exercise of an option (whether or not it is an incentive stock option under Section 1046 of the Internal Revenue Code of 1994, as amended) or to acquire such stock or proprietary interest, had prepaid

during the period between July first (1st) of 2006 to December 31, 2006, a special five percent tax (5%) on the total or part of the gain accrued on the stock or proprietary interest so transferred.

(2) Increase in the basis to determine gain accrued on the option or corporate stock or partnership interest acquired through the exercise of the option.– The basis of the individual in the option or corporate stock or partnership interest acquired through the exercise of an option shall include the amount of the increase in the gain accrued upon which the individual made an election to pay taxes pursuant to the provisions of subsection (e) of Section 1046 of the Internal Revenue Code of 1994, as amended. The basis so determined shall be taken into account at the time or on the date in which the individual sells the transferred stock or partnership interest. Notwithstanding the foregoing, any increase in the gain accrued on such corporate stock or partnership interest, occurred after the election provided in said Section, shall pay taxes pursuant to the provisions of law in effect at the time in which the sale of such stock or partnership interest is finally completed.

(3) …"

Section 48. – Subsections (c), (d), (f), and (g) of Section 1040.12 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1040.12. – Accelerated Cost Recovery Depreciation Method. –

(a) …

(b) …

(c) Applicable Depreciation Method. – For purposes of this Section:

(1) The applicable depreciation method shall be:

(A) The two hundred percent (200%) declining balance method in the case of three (3), five (5), seven (7), and ten (10)-year property; and

(B) …

…

(d) Applicable Recovery Period. – For purposes of this section, the applicable recovery period shall be determined in accordance with the following table:

In the case of:	The recovery period shall be:
3-year property	3 years
5-year property	5 years
7-year property	7 years
10-year property	10 years
15-year property	15 years
20-year property	20 years
Residential rental real Property	30 years
Nonresidential real property	35 years

(e) …

(f) …

(1) …

(2) …

(A) …

(i) Definition. – For purposes of this paragraph –

(I) The term ‘dwelling unit’ means a house or apartment used to provide living accommodations in a building or structure, but does not include a unit in a hotel, motel, or other establishment more than fifty percent (50%) of such units in which are used on a transient basis, and

(II) …

(3) …

(A) …

(B) …

(C) Seven (7)-year property.- The term ‘seven (7)-year property’ shall include assets used in the business of wholesale and retail sales, personal and professional services, furniture and appliances, equipment used in certain agricultural activities, assets (except helicopters) used in the business of air transportation, equipment used in the manufacture of furniture and wood products, assets used in recreation or entertainment facilities, any other similar assets that qualify for a seven (7)-year recovery period.

(D) Ten (10)-year property. – The term ‘ten (10)-year property’ shall include assets such as manufacturing equipment used, among others, for making textiles, textile products, medical and dental products, chemical products, electrical machinery and aero-space products, in satellite, telegraph and undersea cable communications, waste reduction and resource recovery plants, assets used in the printing industry and any other similar assets that qualify for a ten (10)-year recovery period.

(E) Fifteen (15)-year property. – The term ‘fifteen-year property’ shall include assets used in air transportation, theme and recreation parks, satellite communications, natural gas production plants, structures for use in agricultural and horticultural activities, manufacturing equipment used, among others, for making jewelry, musical instruments, managing pulp and paper materials, glass products, tobacco products and any other similar assets that qualify for a fifteen (15)-year recovery period.

(F) Twenty (20)-year property. – The term ‘twenty-year property’ shall include ships, maritime transportation equipment, electric power generators in satellite communications, land improvements, electricity and steam generation systems, manufacturing equipment used, among others, for manufacturing natural gas with methanol, assets used in the production of sugar, vegetable oil, cement and any other similar assets that qualify for a twenty (20)-year recovery period.

(g) Treatment of Gain or Loss in the Transfer of Property Depreciated under Accelerated Depreciation Method.-

(1) General Rule. – A taxpayer who transfers property that has been depreciated under the accelerated depreciation method shall recognize ordinary gain or loss, as the case may be, in addition to any amount of gain or loss recognized under Section 1034.03, in an amount equal to the difference between the depreciation otherwise allowable under Section 1033.07 and the depreciation determined under this Section.

(2) Exceptions and limitations. –

(A) …

…

(C) Certain Tax-free Transactions. – If the base of the property in the hands of the assignee is determined with reference to the base in the hands of the transferor by reason of the application of Sections 1034.02(a)(7), 1034.02(a)(8), 11034.02(a)(13)(B), 1114.26, or 1114.27, the gain to be recognized by the transferor under paragraph (1) shall not exceed the amount of the gain to be recognized to the transferor in the transfer of said property (determined without considering this subsection). This subparagraph shall not apply to a transfer to an organization that is tax exempt.

(D) …

(E) Property Distributed by a Partnership or Special Partnership to a Partner.–

(i) …

…"

Section 49. – Section 1051.07 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1051.07. – Credit for Increase in Procurements of Puerto Rican Agricultural Products. –

(a) In General. –

(1) Every eligible business that increases the purchase of Puerto Rican agricultural products in lieu of products imported to be sold locally, may claim a credit against the tax imposed under Subtitle A, as provided in this Section.

(2) Amount of Credit. – The credit provided in this Section shall not be less than five percent (5%) and up to a maximum of twenty percent (20%) of the increase in the value of the purchase of agricultural products harvested, produced, and manufactured in Puerto Rico during the specific taxable year in which the credit is claimed on the purchase of said products during the base period. The credit to which the eligible business is entitled shall be fixed by means of a contract between the eligible business, the Secretary of Agriculture and the agricultural production centers developed by the Department of Agriculture or the agricultural sectors organized by the Department of Agriculture, through the implementation of Act No. 238-1996, known as the 'Puerto Rico Agriculture and Livestock Industry Regulating Act,' or with a qualified farmer. The criteria to determine the percentages to be granted shall be prescribed by regulations, approved by mutual agreement between the Secretary of Agriculture and the Secretary of the Treasury.

(b) …

(c) Definitions. – For purposes of this Section, the following terms shall have the meanings stated hereinbelow:

(1) Eligible Business. – Any business that acquires a Puerto Rican agricultural product under an agreement entered into by and between said business, the Secretary of Agriculture and an agricultural production center developed by the Department of Agriculture or an agricultural sector organized by the Department of Agriculture through the implementation of Act No. 238-1996, known as the 'Puerto Rico Agriculture and Livestock Industry Regulating Act,' or a qualified farmer, to be sold directly to consumers. To remain as an eligible business and benefit from the credit provided in this Section, the eligible business shall not reduce the level of purchases of qualified products in a proportion greater than fifteen percent (15%) of the level of purchases reached during the year preceding the period for which credit is requested. The Secretary of Agriculture shall issue a certificate of eligibility to qualify an eligible business under this Section.

(2) …

…

(4) Puerto Rican Agricultural Product.- Any product that can be sold to consumers, in its natural or processed state, which has been manufactured with purely Puerto Rican products or harvested in Puerto Rico by a qualified farmer. Products that qualify as 'manufactured products,' as said term is defined in Section 4050.10 of Subtitle D, are hereby excluded from the term 'Puerto Rican agricultural product.'

(5) Qualified Farmer.– A farmer engaged in agricultural production, whose specific sector has not been regulated under the 'Puerto Rico Agriculture and Livestock Industry Regulating Act,' of September 18, 1996, or for

which an Agricultural Production Center has not been developed, and is qualified by the Secretary of Agriculture pursuant to the parameters established by regulations.

(6) Base Period.– Means the three (3) taxable years prior to the first year in which the credit is claimed, or that part of said period that applies to businesses that do not have three (3) years of operations prior to the date of the request for credit. In the case of taxpayers who have claimed the credit provided in this Section, or its equivalent under Act No. 120-1994, as amended, known as the 'Puerto Rico Internal Revenue Code of 1994,' in previous years and who have maintained an increasing level of purchases of qualified products from the execution date of the agreement set forth in subsection (a), the base period shall be set as the three-year taxable period ending during calendar year 2003."

Section 50. – A subparagraph (C) is hereby added to paragraph (5) of subsection (b) of Section 1051.08 of Act No. 1-2011, as amended, to read as follows:

"Section 1051.08. – Tax Credit Moratorium. –

(a) …

(b) Credits Subject to Moratorium. –

(1) …

…

(5) …

(A) …

(B) …

(C) Credits granted during fiscal year 2011-12.- Up to fifty percent (50%) of said credit may be claimed in taxable years beginning after December 31st, 2011 and before January 1st, 2013; likewise, up to fifty percent

(50%) may be claimed in taxable years beginning after December 31st, 2012 and before January 1st, 2014; and any credit balance may be claimed in subsequent taxable years.

(6) …

…"

Section 51. – Subsection (a) of Section 1052.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1052.01. – Earned Income Credit. –

(a) …

(1) For taxable years beginning after December 31st, 2010, but before January 1st, 2012, the earned income credit shall be equal to three point five percent (3.5%) of such income earned up to a maximum credit of three hundred fifty dollars ($350) in a taxable year. In the case of individuals whose income earned is in excess of ten thousand dollars ($10,000), but not in excess of twenty-two thousand five hundred dollars ($22,500), the maximum credit prescribed in this paragraph shall be reduced by an amount equal to two percent (2%) of the income earned in excess of ten thousand dollars ($10,000).

(2) For taxable years beginning after December 31st, 2011, but before January 1st, 2013, the earned income credit shall be equal to four percent (4%) of such income earned up to a maximum credit of four hundred dollars ($400) in a taxable year. In the case of individuals whose income is in excess of ten thousand dollars ($10,000), but not in excess of twenty-five thousand dollars ($25,000), the maximum credit prescribed in this paragraph shall be reduced by an amount equal to two percent (2%) of the income earned in excess of ten thousand dollars ($10,000).

(3) For taxable years beginning after December 31st, 2012, but before January 1st, 2014, the earned income credit shall be equal to four point five percent (4.5%) of such income earned, up to a maximum of four hundred fifty dollars ($450) in a taxable year. In the case of individuals whose income is in excess of ten thousand dollars ($10,000), but not in excess of twenty-seven thousand five hundred dollars ($27,500), the maximum credit prescribed in this paragraph shall be reduced by an amount equal to two percent (2%) of the income earned in excess of ten thousand dollars ($10,000).

(4) For taxable years beginning after December 31st, 2013, but before January 1st, 2015, the earned income credit shall be equal to five percent (5%) of such income earned, up to a maximum of five hundred dollars ($500) in a taxable year. In the case of individuals whose income is in excess of ten thousand dollars ($10,000), but not in excess of thirty thousand dollars ($30,000), the maximum credit prescribed in this paragraph shall be reduced by an amount equal to two percent (2%) percent of the income earned in excess of ten thousand dollars ($10,000).

(5) For taxable years beginning after December 31st, 2014, but before January 1st, 2016, the earned income credit shall be equal to five point five percent (5.5%) of such income earned, up to a maximum of five hundred and fifty dollars ($550) in a taxable year. In the case of individuals whose income is in excess of ten thousand dollars ($10,000), but not in excess of thirty-two thousand five hundred dollars ($32,500), the maximum credit prescribed in this paragraph shall be reduced by an amount equal to two percent (2%) of the income earned in excess of ten thousand dollars ($10,000).

(6) For taxable years beginning after December 31st, 2015, the earned income credit shall be equal to six percent (6%) of such income earned up to a maximum of six hundred dollars ($600) in a taxable year. In the case of individuals whose income is in excess of ten thousand dollars ($10,000), but not in excess of thirty-five thousand dollars ($35,000), the maximum credit prescribed in this paragraph shall be reduced by an amount equal to two percent (2%) of the income earned in excess of ten thousand dollars ($10,000).

(b) …

…"

Section 52. – Subsection (a) and the title of Section 1052.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1052.02. – Credit for Low-income Individuals Older than Sixty-five (65) years of Age. –

(a) General Rule.– Any Puerto Rico Resident individual who has attained, on the last day of the taxable year, the age of sixty five (65) or more and who has not been claimed as a dependent by another taxpayer, shall be entitled to a refundable personal compensatory credit of four hundred dollars ($400), but only if the gross income of such individual for the taxable year added to the items included in the gross income under Section 1031.01(b) for such year does not exceed fifteen thousand dollars ($15,000). In the case of married taxpayers, each one, shall be entitled to claim the credit provided in this subsection; provided, that the aggregate income of both taxpayers does not exceed thirty thousand dollars ($30,000).

(b) …"

Section 53. – Paragraphs (3), (4), (5), (6), (8), and (9) of subsection (a) and paragraphs (1) and (2) of subsection (b) of Section 1052.03 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1052.03. – Tax Credit Program for the Acquisition of Newly-built Housing. –

(a) …

(1) …

…

(3) Developer. – Means any natural or juridical person duly licensed as developer by the Department of Consumers' Affairs, engaged in the construction business as entrepreneur or chief of marketing, design, sale, construction of housing developments and projects, whether single or multi-story type, provided, that solely for purposes of this Section, the term 'Developer' shall also include such financial institutions that by virtue of a judicial or extrajudicial proceeding, or by agreement of dation in payment or similar transaction become the successor in interest of a developer.

(4) Pre-designed Home Company. – Means any juridical entity registered in the Department of State of the Government of Puerto Rico to do business in Puerto Rico, engaged in the sale of one-story, two-story, or elevated pre-designed homes, whose plans have been approved by the Administration of Regulations and Permits (ARPE, Spanish acronym) on or before November 30, 2007.

(5) In the case of a financial institution holding a credit approved under this Section, at the close of any of its taxable years beginning after December 31, 2007, and which is not able to use the tax credit provided by this Section against its tax liability, if any, and has not assigned, sold or transferred the

same, it may request such credit as a refundable credit within the effective term of the certificate of credit granting the right to such credit, following the procedures and rules established by the Secretary of the Treasury through regulations or circular letter. Notwithstanding the foregoing, the Secretary of the Treasury shall not issue refunds under the provisions of this paragraph before January 1st, 2011, unless the credits have been duly requested on or before March 9, 2009. A refund requested under this provision shall not be subject to payment of interests, nor to the provisions of Section 9(j) of Act No. 230 of July 23, 1974, as amended, known as the 'Accounting Act of the Government of Puerto Rico.'

(6) Newly-Built Housing Inventory.- The inventory of structures suitable for family living kept by the Department of Consumer Affairs for purposes of the credit provided for in this Section, wherein the information required by this Section has been included by any Developer interested in qualifying any of such structures.

(7) …

(8) Qualified Residence.- Means a property that constitutes the main residence, acquired by an individual between December 14, 2007 and December 31, 2008; provided, that for these purposes a main residence shall mean a newly-built housing that has been owned or used by the acquirer as his/her main residence for a term of not less than three (3) years from its acquisition; provided, that if the acquirer fails to comply with the term herein provided, the credit originally granted shall not be invalidated.

(9) Newly-built Housing. –

(A) Means any housing unit included in the newly-built housing inventory that has not been previously occupied, and which has a sales price not exceeding two hundred twenty-five (225) percent of the limit set by the

Federal Housing Administration (FHA) for the corresponding location, and that also has all the endorsements, approvals, and permits required by the applicable laws and regulations, and which is directly acquired from a developer between December 14, 2007 and December 31, 2008 through a sale for which the financing of the sales price by a financial institution is required.

(B) Also, it means any pre-designed home model whose plan has been approved by the Administration of Regulations and Permits (ARPE, Spanish acronym) on or before March 31st, 2008, or whose permanent loan has been approved after such date, and which is suitable for family living, and has all the endorsements, approvals, and permits required by the applicable laws and regulations; and which is acquired directly from a pre-designed home company by an acquirer on or before December 31st, 2008, requiring financing by a financial institution for the acquisition thereof; provided, further that if such property may be eligible for the benefits provided in this Act it shall be completed together with the request for the corresponding use permit and a sworn certification of completion of works on or before March 31st, 2009.

(b) …

(1) General Rule. – In the case of an individual who acquires newly-built housing, a credit shall be granted equal to ten percent (10%) of the sales price of such newly-built housing up to a maximum of fifteen thousand dollars ($15,000). The credit herein provided shall be issued through three (3) separate certificates of credit, as provided below:

(A) …

(B) Second Installment. – In such cases in which the credit is approved for the maximum amount of fifteen thousand dollars ($15,000), the certificate attesting the second installment shall be issued for the amount of five

thousand five hundred dollars ($5,500). If the credit is approved for an amount lower than the maximum amount of fifteen thousand dollars ($15,000), the certificate attesting the second installment shall be issued for a sum with the same proportion as the one herein stated.

(C) Third Installment. – In such cases in which the credit is approved for the maximum amount of fifteen thousand dollars ($15,000), the certificate attesting the third installment shall be issued for the amount of five thousand eight hundred dollars ($5,800). If the credit is approved for an amount lower than the maximum amount of fifteen thousand dollars ($15,000), the certificate attesting the third installment shall be issued for a sum with the same proportion as the one herein stated.

(2) Qualified Residence Acquisition. – In case an individual acquires a qualified residence, the credit shall be equal to twenty percent (20%) of the sales price, up to a maximum amount of twenty-five thousand dollars ($25,000).

The credit herein provided shall be issued through three (3) separate certificates of credit, as provided below:

(A) …

(B) Second Installment. – In such cases in which the credit is approved for the maximum amount of twenty-five thousand dollars ($25,000), the certificate attesting the second installment shall be issued for the amount of nine thousand two hundred dollars ($9,200). If the credit is approved for an amount lower than the maximum amount of twenty-five thousand dollars ($25,000), the certificate attesting the second installment shall be issued for a sum with the same proportion as the one herein stated.

(C) Third Installment. – In such cases in which the credit is approved for the maximum amount of twenty-five thousand dollars ($25,000), the certificate attesting the third installment shall be issued for the amount of nine thousand six hundred dollars ($9,600). If the credit is approved for an amount lower than the maximum amount of twenty-five thousand dollars ($25,000), the certificate attesting the third installment shall be issued for a sum with the same proportion as the one herein stated.

(3) …

…"

Section 54. – Paragraph (5) of subsection (a), paragraph (1) of subsection (b), and subsection (i) of Section 1052.04 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1052.04. – Existing Housing Acquisition Tax Credit Program. –

(a) …

(1) …

…

(5) Existing Housing. – Means property included in the inventory kept by the Department of Consumers' Affairs for purposes of this Section, that has all permits, endorsements, and approvals required by the applicable laws and regulations, which constitutes the main residence acquired by an individual, on or before December 31st, 2008, through a sale for which the financing of the sales price by a financial institution is required; provided, that, for these purposes, a main residence shall mean an existing housing owned or used by the acquirer as his main residence for a term of not less than three (3) years after the acquisition thereof; provided, that if the acquirer fails to comply with the term herein provided the credit originally granted shall not be invalidated.

(6) …

…

(b) …

(1) General Rule. – In the case of an individual who acquires an existing housing, a credit shall be granted equal to ten percent (10%) of the sales price of such existing housing, up to a maximum of ten thousand dollars ($10,000).

(A) …

(i) …

(ii) Second Installment. – In such cases in which the credit is approved for the maximum amount of ten thousand dollars ($10,000), the certificate attesting the second installment shall be issued for the amount of three thousand six hundred dollars ($3,600). If the credit is approved for an amount lower than the maximum amount of ten thousand dollars ($10,000), the certificate attesting the second installment shall be issued for a sum with the same proportion as the one herein stated.

(iii) Third Installment. – In such cases in which the credit is approved for the maximum amount of ten thousand dollars ($10,000), the certificate attesting the third installment shall be issued for the amount of three thousand eight hundred dollars ($3,800). If the credit is approved for an amount lower than the maximum amount of ten thousand dollars ($10,000), the certificate attesting the third installment shall be issued for a sum with the same proportion as the one herein stated.

(2) …

(c) …

(i) Housing Inventory Registration Requirement. – Any individual, estate, financial institution, or any other juridical person interested in qualifying an existing residence for the credit provided in this Section shall resort to a financial institution in order for the latter to report to the Department of Consumers' Affairs the sales price offered for such housing and obtain a certification from the Department of Consumers' Affairs establishing that such existing housing is one of the three thousand five hundred (3,500) housing units that qualifies for the credit provided in this Section."

Section 55. – Subsection (a) is hereby amended and subsection (b) is hereby amended and subdivided in Section 1053.04 of Act No. 1-2011, as amended, to read as follows:

"Section 1053.04. – Credit for Tax Withheld on Wages and Interest. –

(a) In General. – The amount deducted and withheld as tax under Section 1062.01 during any calendar year on the wages of any individual shall be allowed as a credit to the recipient of the income against the tax imposed by this Subtitle for the taxable year beginning in such calendar year. If more than one taxable year begins within said calendar year, such amount shall be allowed as a credit against the tax for the taxable year beginning later.

(b) Credit for Withholdings on Interest. –

(1) When a recipient of interest opts to pay the ten percent (10%) tax or the seventeen percent (17%) tax, as applicable, provided in Sections 1023.04 or 1023.05, and then when he/she files his/her income tax return he/she decides to include and does include said interest as part of his/her net income subject to normal tax, the tax withheld pursuant to the provisions of Section 1062.09 shall be allowed as a credit against the tax that he/she should pay.

(2) In case the recipient of the interest opts not to include the same as part of his/her net taxable income subject to normal tax in his/her income tax return, he/she shall be allowed a credit for the tax withheld on the interest exempt under Section 1031.02(a)(3)(K).

(c) …

…"

Section 56. – Section 1053.06 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1053.06. – Credit for Taxes Withheld on the Distributive Share in a Partnership or Limited Liability Company. –

(a) The amount of tax withheld at source under Sections 1062.07 with respect to the distributive share in a partnership or limited liability company subject to the provisions of Chapter 7 of this Subtitle, shall be allowed as a credit against the tax imposed by this Subtitle to the partners of a partnership or members of a limited liability company."

Section 57. – Subsection (a) of Section 1061.04 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1061.04. – Limited Liability Company Return. –

(a) General Rule.- Every limited liability company shall file a return for each taxable year, stating specifically the items of its gross income and the deductions allowable by this Subtitle, the names, address, and account numbers of members who have a distributive share in the limited liability company gain or loss for such taxable year, and the amounts of such gains or losses. The returns filed under this Section on a calendar year basis shall be filed not later than March 15th following the close of such calendar year. Returns filed on a fiscal year basis shall be filed not later than the fifteenth (15th) day of the third (3rd) month following the

close of the taxable year of the limited liability company. Any amount due on the account of estimated payment, as provided in Section 1062.07, shall be paid in full when filing the return required by this Section. The return shall be signed under penalty of perjury by the president, vice-president, the treasurer or assistant treasurer or other chief financial officer. Notwithstanding the above, in those cases in which returns are filed through electronic means, the digital signature of the above mentioned officers shall be accepted as evidence of authentication that the returns are filed under penalty of perjury. Such returns must enclose financial statements, subject to the provisions of Section 1061.15. The Secretary may prescribe, by regulations, any other information that shall be included in said return.

(b) …

…"

Section 58. – Subsection (a) of Section 1061.07 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1061.07. – Corporation of Individuals Returns. –

(a) General Rule.- Every corporation of individuals shall file a return for each taxable year, stating specifically the items of its gross income and the deductions allowable by this Subtitle, the names, address, and account numbers of shareholders who shall have a share in the gain or loss of the corporation of individuals for such taxable year, and the amounts of such gains or losses. Returns filed under this Section on a calendar year basis shall be filed not later than March fifteenth (15^{th}) following the close of such calendar year. Returns filed on a fiscal year basis shall be filed not later than the fifteenth (15^{th}) day of the third (3^{rd}) month following the close of the taxable year of the corporation of individuals. Any amount due on account of estimated payment, as provided in Section 1062.05,

shall be paid in full when filing the return required by this Section. The return shall be signed under penalty of perjury by the president, vice-president, treasurer or assistant treasurer or other chief financial officer. Notwithstanding the above, in those cases in which returns are filed through electronic means, the digital signature of the above mentioned officers shall be accepted as evidence of authentication that the returns are filed under penalty of perjury. Such returns must enclose financial statements, subject to the provisions of Section 1061.15. The Secretary may prescribe, by regulations, any other information that shall be included in said return."

Section 59. – Section 1061.12 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1061.12. – Insurance Company Returns. –

(a) Any insurance company subject to taxation under this Subtitle shall file a return not later than the fifteenth (15^{th}) day of the fourth (4^{th}) month following the close of its taxable year stating specifically the items of its gross income, the deductions and the credits allowed under this Subtitle and any other information necessary to comply with the provisions of this Subtitle as prescribed through regulations by the Secretary. The return shall be sworn by the person or persons appointed as president, vice-president or other chief officer, or by the treasurer or assistant treasurer. Notwithstanding the above, in such cases in which the returns are filed through electronic means, the digital signature of the aforementioned officers shall be accepted as evidence of authentication.

(b) The provisions of this Section shall not apply to an International Insurer or to an International Insurer Holding Company that complies with Article 61.040 of the Puerto Rico Insurance Code. However, any International Insurer Holding Company that complies with the provisions of Article 61.040 of the

Puerto Rico Insurance Code shall file with the Secretary of the Treasury the certification required by Article 61.040(6) of the Puerto Rico Insurance Code."

Section 60. – Section 1061.15 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1061.15. – Requirement to Submit Financial Statements with the Returns. –

(a) Financial Statements. – Any business, including an individual business, corporation, partnership, special partnership, limited liability company, corporation of individuals, insurance company, registered investment company, special employee-owned corporation, association, cooperative, real estate investment trust or any other entity engaged in a trade or business or in the generation of income in Puerto Rico, shall submit financial statements enclosed with its income tax return subject to the following requirements:

(1) When the business volume during a taxable year is equal to or higher than one million dollars ($1,000,000), but lower than three million dollars ($3,000,000), the business may opt to submit the financial statements required by this Section enclosed with an Auditor's Report issued by a Certified Public Accountant with license to practice in Puerto Rico, which statements shall be in accordance with the Generally Accepted Auditing Standards of the United States of America (hereinafter, US GAAS). Any business that is up to date with its tax liability and that opts to enclose financial statements with the Auditor's Report under this paragraph shall be entitled to be exempt by the Secretary, in whole or in part, as provided in subsection (g) of Section 1062.03 of this Code, from the withholding at source provided in Section 1062.03 on payments received for services rendered.

(2) When the business volume during a taxable year is equal to or higher than three million dollars ($3,000,000), the business shall submit the financial statements required by this Section enclosed with an Auditor's Report issued by a Certified Public Accountant with license to practice in Puerto Rico. Said Auditor's Report shall state that the financial statements have been prepared in accordance with the Generally Accepted Auditing Standards of the United States of America (hereinafter US GAAS), however, it shall not be necessary, for the Certified Public Accountant to issue an unqualified opinion. Qualified opinions shall be allowed as defined by US GAAS, provided, that the qualified report is not due to restrictions within the scope of the audit imposed by the business. No disclaimer report due to restrictions within the scope of the audit imposed by the business shall be allowed. No adverse opinion reports shall be allowed.

(3) Any group of related entities, as defined by Section 1010.05(a), constituted by entities engaged in trade or business in Puerto Rico shall submit the financial statements required in paragraphs (1) and (2) as consolidated or combined financial statements, in accordance with the Generally Accepted Accounting Principles of the United States (US GAAP). However, such consolidated or combined financial statements shall include an attachment showing in columns the financial situation and the results of the operations of each one of the affiliate entities that constitute the group of related entities. The Secretary may prescribe by regulations, circular letter, administrative determination or general communication, such conditions as he deems appropriate to waive the requirement to file consolidated or combined financial statements and, in lieu thereof, require separate financial statements by entity; provided, that the information of the related entities engaged in trade or business in Puerto Rico be included in the notes, along with an attachment showing in columns, the financial situation and the results of the

operations of each one of the affiliate entities that constitute the group of related entities.

(4) In the case of foreign entities engaged in trade or business in Puerto Rico subject to the provisions of this Section, an auditing report showing financial statements as supplementary information shall not be allowed to meet this requirement, since such financial statements have not been prepared in accordance with auditing standards that allow for a separate opinion on the operations in Puerto Rico. An Auditor's Report only stating that the entity was subject to a consolidated audit shall not be allowed either. Foreign entities that have branches engaged in trade or business in Puerto Rico may issue financial statements including the results from the operations carried out in Puerto Rico and shall not be required to issue consolidated or combined financial statements, but including in the notes of such financial statements information of related entities also engaged in trade or business in Puerto Rico, in which case an attachment showing in columns, the financial situation and the results of the operations of each one of the affiliate entities engaged in trade or business in Puerto Rico. In case they opt to issue consolidated or combined financial statements, they shall meet the requirement set forth in this Section; provided that the financial statements required under this Section show the result of the total operations of the foreign entity, together with an attachment showing in separate columns the financial situation and the results of the operations of the home office and the branch, including columns with the consolidated totals and the entries of write-offs between the branch and the home office.

(5) The audit requirement shall not apply to nonprofit corporations or persons engaged in trade or business in Puerto Rico, whose business volume does not exceed three million dollars ($3,000,000) during the taxable year.

(b) For purposes of this Section, the term 'volume of business' means gross income, as defined in Section 1031.01 except that, in the case gains or income described in Section 1031.01(a)(2)(A), the total amount derived from the sale of goods or products shall be taken into account without reducing the cost of the goods or products sold. In the case of a group of related entities, as defined in Section 1010.05, the volume of business shall be determined by adding up the volume of business of each of the entities included in such group.

(c) For purposes of this Section, the term 'financial statements' means, with respect to any taxable year, a report that includes: an income statement that shows the results of the operation of the business for said taxable year, a balance sheet as of the date of the close of the taxable year in question, a statement of cash flow and a statement of stockholders equity for such year. Such financial statements shall be prepared in accordance with the Generally Accepted Accounting Principles of the United States of America (US GAAP) and be enclosed with notes that constitute a summary of major accounting policies and other corresponding disclosures, according to the disclosure requirements of said accounting principles.

(d) The Secretary shall prescribe by regulations, circular letter, information bulletin, or administrative determination of general character, the applicability and effectiveness of the provisions of this Section."

Section 61. – Paragraphs (2), (3), and (4) of subsection (a) of Section 1061.16 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1061.16. – Date and Place to File Returns. –

(a) Filing Date. –

(1) …

(2) Automatic Extension. –

(A) In General. – Except as otherwise provided in this Subtitle, an automatic extension shall be granted to individuals, corporations and estates for filing returns, provided that they comply with such rules and regulations that the Secretary prescribes to grant such extension. This automatic extension shall be granted for a three (3)-month period counted as of the date prescribed for filing the returns; provided, that the taxpayer requests such extension not later than on the return filing date prescribed in this Subtitle.

(B) Taxpayers who are partners in partnerships subject to taxation under the United States Internal Revenue Code of 1986, Title 26 of the United States Code, as amended.- In the case of a taxpayer who is a partner in a partnership subject to taxation under the United States Internal Revenue Code of 1986, Title 26 of the United States Code, as amended, the automatic extension established in subparagraph (A) of this paragraph shall be for a six-month period counted as of the date prescribed for filing the returns. The Secretary shall prescribe, by regulations to such purposes, the conditions under which the extension shall be granted.

(3) Additional Extension. – In the case of individuals who are outside of Puerto Rico, the Secretary may, under such rules and regulations as he/she prescribes, grant an extension in addition to the automatic extension to file the returns. Such additional extension shall not exceed three (3) months. This

additional extension shall not be available to individuals who have requested the automatic extension under subparagraph (B) of paragraph (2) of this subsection.

(4) Extension for Military Service in an Armed Conflict.- See Section 6080.16.

(b) …"

Section 62. – Subsection (c) of Section 1061.17 of Act 1-2011, as amended, is hereby amended to read as follows:

"Section 1061.17. – Payment of Tax. –

(a) …

(b) …

(c) Payment Extension. –

(1) In General. – By request from the taxpayer, the Secretary may extend the term to pay the determined tax amount by the taxpayer, or any installment thereof, for a term which shall not exceed six (6) months from the date established for the payment of the tax or any installment thereof. In such case, the amount with respect to which the extension was granted shall be paid on or before the due date of the extension period. A six (6)-month payment extension shall be granted to any taxpayer who during an armed conflict is activated and transferred to render military service outside of Puerto Rico. Such extension shall be granted as of the date on which the taxpayer ceases active military service.

(2) Extension for Military Service in an Armed Conflict.- See Section 6080.16.

(d) …

…"

Section 63. – Paragraph (4) of subsection (a), subsections (b) and (c), paragraphs (1) and (2) of subsection (d) and subsection (e) of Section 1061.20 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1061.20. – Obligation to Pay Estimated Tax by Individuals. –

(a) …

(1) …

(4) any individual who, in addition to the income established in paragraphs (1), (2), and (3) of this subsection, receives an income of less than five thousand dollars ($5,000) from other sources.

(b) Computation of the Estimated Tax and Information Required by the Secretary. –

(1) The estimated tax required under subsection (a) shall be the excess of:

(A) the amount that the individual estimates to be the amount of the tax under this Subtitle for the taxable year, including the alternative basic tax and, for taxable years beginning before January 1st, 2015, the gradual adjustment, among other taxes, over

(B) the amount that the individual estimates as credits provided by this Code or special laws for the taxable year, including the non-refunded tax paid in excess corresponding to the previous taxable year.

(2) When making payments of estimated tax, the taxpayer shall enclose with such payment any other information as prescribed by the Secretary through regulations or any public determination to such effect in order to enforce the provisions of this Subtitle.

(c) Husband and Wife. – In the case of married taxpayers, as defined in Section 1010.03(a)(2), they shall make joint estimated tax payments, unless they chose to file separate tax returns under Section 1061.01(b)(2) for said taxable year in which case such payments shall be made separately. If a joint payment is made with regard to a taxable year, married individuals shall not chose to file separate returns for said taxable year. However, if married individuals separate during the taxable year under any divorce or separation decree, they may file separate returns following such rules and requirements established by the Secretary of the Treasury through regulations or any public determination issued to that effect.

(d) …

(1) If not required to pay estimated tax during the taxable year, but required to pay it on or before said January fifteenth (15^{th}), such return, for purposes of this Subtitle, shall be treated as payment; and

(2) If the tax reported in the return, minus the credits provided in this Code or special laws for the taxable year, is greater than the tax estimated by the taxpayer, such return shall be treated, for purposes of this Subtitle, as a change in the computation of the estimated tax, as established in Section 1061.21 of this Subtitle.

(e) Persons with Disabilities. – If the taxpayer has a disability and, therefore, is not able to make an estimated tax payment, such payment shall be made by a duly authorized agent or by the guardian, or any other person in charge of the care of the person or property of the taxpayer.

(f) …”

Section 64. – Subsection (a) of Section 1061.24 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1061.24. – Returns for a Period of Less than Twelve Months. –

(a) Returns for Short Period Due to Change of Accounting Period. – When the taxpayer, with the approval of the Secretary, changes the basis on which the net income is computed from fiscal year to calendar year, the taxpayer shall file a separate return for the period comprised between the close of the last fiscal year for which the taxpayer filed a return and the following December 31st. If the change is from calendar year to fiscal year, a separate return shall be filed for the period comprised between the end of the last calendar year for which a return was filed and the date established as the close of the fiscal year. If the change is from one fiscal year to another fiscal year, a separate return shall be filed for the period comprised between the close of the previous fiscal year and the date established as the close of the new fiscal year.

(b) …"

Section 65. – Paragraphs (1) and (7) of subsection (a), and subsections (h) and (r) of Section 1062.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1062.01. – Income Tax Withholding at Source in the Case of Wages. –

(a) Definitions. – As used in this Section:

(1) Wages. – The term 'wages' means any remuneration for services rendered by an employee for his/her employer, and every remuneration as pension for services rendered, including the cash value of all remuneration paid by any medium other than cash; except that said term shall not include remuneration paid –

(A) …

…

(D) services rendered by a citizen or resident of Puerto Rico for a foreign government or an international organization, or

(E) …

…

(H) for services rendered outside of Puerto Rico by an individual resident of Puerto Rico if, at the time the remuneration is paid the employer is required by the laws of the United States or of any possession of the United States or of any foreign country to withhold at the source the tax on all or any part of said remuneration, or

(I) …

(2) …

(7) Dependent. – The term ‘dependent’ means a person included in a withholding exemption certificate in effect under subsection (f) as a dependent of the employee according to the definition of ‘dependent’ provided in Section 1033.18 (c)(1).

(8) …

(b) …

…

(h) Overlapping Pay Periods. – If a payment of wages is made to an employee by an employer –

(1) …

…

(4) through an agent, fiduciary, or other person who also pays or has the control, receipt, custody, or disposal of the wages payable by another employer to such employee; the manner of withholding and the amount to be deducted and withheld under this Section shall be determined in accordance with regulations prescribed by the Secretary under which the withholding exemption allowed to the employee in any calendar year shall approximate the withholding exemption allowable with respect to an annual payroll period.

(i) …

…

(r) In cases regarding wages for services rendered in occasional, temporary or seasonal work in which the payroll period with respect to the employee is daily and the amount thereof is based on an hourly wage, if the employer shows to the satisfaction of the Secretary that by determining the amount of the tax to be deducted and withheld from said wages under the provisions of subsection (b) it would cause him serious hardship, such employer may, upon authorization of the Secretary, deduct and withhold the income tax at source on said wages applying two percent (2%) to the total amount thereof, without considering any withholding exemption. For purposes of determining whether the application of the provisions of subsection (b) would cause serious hardship to the employer, the following factors, among others, shall be taken into consideration:

(1) Number of employees that the employer has and who receive wages under such circumstances.

(2) Regularity of employment of each of the employees.

(3) Rotation of employees in the business of the employer.

(4) Amount of compensation per employee.

(5) Available time for preparing and transacting the payrolls corresponding to said wages.

(6) Difficulties in determining the amount of the wage of the employee because of being unable to foresee the duration of the job."

Section 66. – Subsection (b) of Section 1062.02 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1062.02. – Withholding of Tax at Source on Awards and Settlements –

(a) …

(b) Withholding Subject to Provisions on Withholding at Source on Wages. – Deductions and withholdings under subsection (a) shall be subject to the provisions of this Subtitle that apply to income tax withheld at source on wages as it relates to the manner and time to make the deposit of the amounts withheld and the payer's responsibilities with respect to the amounts withheld. Likewise, there shall apply the penalties established for employers who fail to withhold and deposit the amounts withheld established in Subtitle F, including any person that has failed, at the time of filing his income tax return, to remit to the Department of the Treasury the total amount deducted and withheld on payments described in subsection (a) of this Section corresponding to the taxable year reported on the return, shall not claim such payments as operating expenses.

(c) …

…"

Section 67. – Subsection (c) and paragraph (2) of subsection (g) are hereby amended, a new paragraph (3) is hereby added and former paragraph (3) is hereby renumbered as paragraph (4) of subsection (g) of Section 1062.03 of Act No.1-2011, as amended, to read as follows:

"Section 1062.03. – Withholding at Source on Payments for Services Rendered. –

(a) …

(c) Responsibility of the Payer. – Except as otherwise provided, any person required to deduct and withhold any taxes under the provisions of this Section, shall be responsible to the Secretary for the payment of such taxes and shall not be responsible to any other person for the amount of any of such payments. Any person who, at the time of filing the income tax return has failed to remit to the Department of the Treasury the total amount deducted and withheld on payments described in subsection (a) of this Section, shall not claim such payments as operating expenses.

(d) …

(g) Waivers. –

(1) ...

(2) In the case of corporations with a volume of business of one million dollars ($1,000,000) or more that are up to date with their tax liabilities and submit financial statements enclosed with an Auditor's Report subject to the provisions of Section 1061.15, in lieu of the withholding provided in subsection (a), no withholding shall be made on account of payments for services rendered by these corporations.

(3) In the case of individuals and entities not included in paragraph (2) of this subsection with a volume of business of one million dollars ($1,000,000) or more, and that are up to date in their tax liabilities and file financial statements together with an Auditor's Report, subject to the provisions of Section 1061.15, the applicable withholding percentage shall be three percent (3%), in lieu of the withholding provided for in subsection (a).

(4) In the case of other sectors or categories of enterprises or businesses where it is shown to the satisfaction of the Secretary, or that the Secretary determines that the obligation of this Section shall result in undue hardship to said sectors or categories of enterprises or businesses, without serving any practical purpose, since the amounts thus withheld would be refunded to the taxpayers, or because said withholding would be excessive, the Secretary may, under such rules and regulations as he may promulgate, release the withholding agent from making such withholding wholly or partially, from all enterprises or businesses included in the sector or category. The Secretary may use the aforementioned criteria to release the withholding agent, wholly or partially, from performing the withholding provided in subsection (a) or in this subsection, in the cases of the corporations and partnerships that carry over a substantial amount of net operating loss with regard to the annual business volume of said corporation.

(h) …"

Section 68. – Subsection (a) of Section 1062.04 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1062.04. – Requirement of Estimated Income Tax Payment Attributable to Distributive Share of a Partner Resident or a Nonresident U.S. Citizen Partner in a Special Partnership. –

(a) Requirement to Withhold. – The partner to whom the administration of the special partnership has been delegated, or any other persons to whom the obligation to furnish the report described in subsection (b) of Section 1061.06 to the partners has been delegated, shall determine and remit an amount equal to: (1) thirty percent (30%) of the estimated amount of the distributive share in the income of the special partnership of a partner who is a resident individual, nonresident United States citizen, or a Puerto Rico resident estate or trust and, in

the case of a domestic or resident foreign corporation, an amount equal to thirty percent (30%) of the item described in Section 1114.06(a)(10) minus, (2) the amount withheld pursuant to Sections 1062.02 and 1062.03 during those periods specified in subsection (b).

(b) …"

Section 69. – Subsection (a) of Section 1062.05 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1062.05. – Requirement of Estimated Income Tax Payment on Distributive Share in the Income of a Corporation of Individuals. –

(a) Requirement to Withhold. – The corporation, or any other persons to whom the obligation to furnish the report described in subsection (b) of Section 1061.07 to shareholders has been delegated, shall determine and remit an amount equal to: (1) thirty percent (30%) of the estimated amount of the distributive share of a shareholder in the income of a corporation of individuals described in Section 1115.04(b)(10) minus, (2) the amount withheld pursuant to Sections 1062.02 and 1062.03 during those periods specified in subsection (b).

(b) …"

Section 70. – The content of Section 1062.06 of Act No. 1-2011, as amended, is hereby eliminated, and is left reserved.

"Section 1062.06. – Reserved"

Section 71. – Subsections (a) and (b) are hereby amended, a subsection (g) is hereby added and former subsection (g) is hereby renumbered as subsection (h), and the title of Section 1062.07 of Act No.1-2011, as amended is hereby amended to read as follows:

"Section 1062.07. – Requirement of Estimated Income Tax Payment Attributable to the Distributive Share of a Partner in a Partnership or a Member of a Limited Liability Company subject to the Provisions of Chapter 7 of Subtitle A of this Code. –

(a) Requirement to Withhold. – The partner or member to whom has been delegated the administration of a partnership or limited liability company subject to the provisions of Chapter 7 of this Subtitle, or any other persons to whom have been delegated the duty to deliver the report to the partners as described in subsection (b) of Section 1061.03 or to deliver the report to the direct members of a limited liability company subject to the provisions of Chapter 7 of this Subtitle, the report described in subsection (b) of Section 1061.04 shall determine and remit an amount equal to:

(1) thirty percent (30%) of the estimated amount of the distributive share in the income of a partner or member in the items described in paragraphs (1) through (3), (10), and (11) of subsection (a) of Section 1071.02 minus, the amount withheld pursuant to Sections 1062.02 and 1062.03, during those periods specified in subsection (b); or

(2) the applicable tax rate on the income or profits derived from the partnership or limited liability company subject to the provisions of Chapter 7 of this Subtitle, that are subject to taxation at a preferential rate, in accordance with the provisions of Subchapter C of Chapter 2 of Subtitle A or any applicable special law.

(b) Return and Payment of Tax Withheld Requirement. – Every partnership shall file a return and pay the tax determined, pursuant to subsection (a) not later than the fifteenth (15^{th}) day of the fourth (4^{th}), sixth (6^{th}), ninth (9^{th}), and twelfth (12^{th}) month of the taxable year of such partnership. Such return shall

be filed with the Secretary and shall contain such information and be made in such manner as the Secretary may prescribe by regulation to that effect. Any unpaid balance at the close of the fiscal year of the partnership shall be paid not later than the fifteenth (15^{th}) day of the third (3^{rd}) month following the close of the taxable year together with the filing of the return required under Section 1061.03(a) or the corresponding request for extension.

(c) …

(g) In determining the estimated payment requirement imposed in this Section, a partnership or limited liability company subject to the provisions of Chapter 7 of Subtitle A of the Code, that is a partner or member of another partnership or limited liability company subject to the provisions this Section, and that withheld and paid the tax imposed under subsection (a) of this Section may, upon determining the amount of the tax to be paid in accordance with subsection (a), credit the portion of the tax withheld and paid by the corresponding partnership or subsidiary limited liability company to the percentage of the share of the investment partnership or limited liability company.

(h) …"

Section 72. – Subsection (a), paragraph (1) of subsection (b), subsections (d) and (f), paragraph (2) of subsection (g), subsection (j), and the title of Section 1062.08 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1062.08. – Tax Withholding at the Source in the Case of Nonresident Individuals, due to the Revocation of the Authorization to do Business in Puerto Rico, for the Sale of Certain Assets, and in the Case of Certain Exempt Organizations. –

(a) Requirement to Withhold. –

(1) In General. –

(A) All persons, in whatever capacity acting, including lessees or mortgagors of real or personal property, fiduciaries, employers, and all officers and employees of the Government of Puerto Rico, and its agencies, instrumentalities, and political subdivisions, having the control, receipt, custody, disposal, or payment of any interest, dividends, rents or royalties, salaries, wages, annuities, compensations, remunerations, emoluments, distributions made by exempt entities under the provisions of paragraphs (a)(8)(F), (a)(6), or (a)(5) of Section 1101.01 or other fixed or determinable annual or periodical gains, profits, and income (except for insurance premiums) of any nonresident individual (only to the extent that any of the above mentioned items constitutes taxable gross income from sources within Puerto Rico), shall deduct and withhold from such annual or periodical gains, profits, and income:

(i) an amount equal to twenty-nine percent (29%) thereof, if the receiver is an alien, or

(ii) an amount equal to twenty percent (20%) thereof if the receiver is a United States citizen.

(B) The Secretary may authorize such tax to be deducted and withheld from the interest on any of the securities, whose owners were unknown to the withholding agent.

(2) …

(3) …

(4) Withholding Exemption. – In those cases where the withholding agent shows to the satisfaction of the Secretary, or when the Secretary himself determines, that the withholding provided in this subsection will cause undue hardship without any practical result whatsoever because the amounts thus withheld would have to be reimbursed to the recipient of the income, or the

withholding would be excessive, the Secretary may, under such rules and regulations as he/she may prescribe, relieve the withholding agent of the obligation of withholding, in whole or in part.

(5) Special Rules. –

(A) …

(B) No deduction or withholding shall be made pursuant to the provisions of this subsection, in the case of any item of income which is effectively connected to the exploitation of a trade or business within Puerto Rico and which is included in the gross income of the recipient for the taxable year, pursuant to Section 1091.02, except if said item is by reason of compensation for personal services.

(C) …

(D) For special rules with regard to withholding at source in the case of corporations of individuals, see Sections 1062.05 and 1062.10.

(E) …

(b) …

(1) General Rule. – Every person required to deduct and withhold any tax under this Section shall file a return thereof no later than April 15th of the following year and pay to the Secretary said tax or such portion thereof which has not been deposited in the form and manner prescribed in Section 6080.08 of Subtitle F. Every such person shall be liable to the Secretary for the payment of such tax and shall not be liable to any other person for the amount of any such payments.

(2) …

…

(d) Tax Paid by Recipient. – If any tax required to be deducted and withheld under this Section is paid by the recipient of the income, it shall not be recollected from the withholding agent; nor any penalty be imposed upon or collected from the recipient of the income or withholding agent for failure to declare or pay the same in cases in which the tax is so paid, unless such failure was fraudulent and for the purpose of evading payment of the tax.

(e) …

(f) Withholding Required of Foreign Corporations Requesting Withdrawal from Puerto Rico. –

(1) A foreign corporation that has filed with the Secretary of State of Puerto Rico a surrender of its authority to transact business in Puerto Rico, pursuant to the General Corporations Act of the Government of Puerto Rico, shall withhold from its shareholders and pay to the Secretary the corresponding tax in the same manner as if the undistributed amount of its earnings and profits from sources in Puerto Rico (including the earnings and profits attributable to the period comprised between the close of the last taxable year and the date on which the corporation gave notice to the Secretary of State of its withdrawal from Puerto Rico) had actually been distributed as dividends in the year in which such surrender of authority had been filed.

(2) For purposes of this Subtitle, the earnings and profits deemed to have been distributed under this subsection shall constitute taxable income for the shareholders in the taxable year in which the corporation filed the surrender of its authority to do business in Puerto Rico with the Secretary of State.

(3) The provisions of this subsection shall not be applicable to the above mentioned earnings and profits in the event of their distribution if, under the different tax and industrial incentive laws, no taxes may be levied thereon. The provisions of this subsection shall not apply to earnings and profits subject to the tax imposed by Section 1092.02.

(g) …

(1) …

(2) For purposes of this paragraph, the term 'purchase price' when referring to real property means the total amount of payments that the purchaser is bound to make, reduced by:

(A) …

…

(E) No other reduction shall be allowed to the purchase price for purposes of this paragraph. If the seller acquired the real property through bequest, legacy, inheritance or donation, the purchase price shall only be reduced by the expenses described in subparagraphs (B), (C) and (D).

(3) …

…

(h) …

…

(j) Information Return. – Every person who is required to deduct and withhold any tax under this Section, in addition to filing the return required by subsection (b), shall file an information return with the Secretary, as he/she establishes through regulations. Said return shall include the total amount paid, the tax deducted and withheld, and the name, address, and account number of the person to whom the payment was made. A copy thereof shall be handed to the

person to whom payment was made no later than the fifteenth (15th) of April of the year following the calendar year for which the return was filed."

Section 73. – Subsection (a) of Section 1062.10 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1062.10. – Income Tax Withholding at Source Attributable to Distributive Share of a Nonresident Alien Individual Partner of a Special Partnership or Shareholder of a Corporation of Individuals. –

(a) Requirement to Withhold. – The partner or shareholder to whom the administration of the special partnership or of the corporation of individuals has been delegated, or any other persons to whom the requirement to furnish the report described in Sections 1061.02 or 1061.07 to the partners or stockholders, has been delegated, shall deduct and withhold an amount equal to twenty-nine percent (29%) of the distributive share of a partner in the income of the special partnership, or an amount equal to thirty-three percent (33%), or the maximum applicable rates as provided in Section 1021.01, of the distributive share of a shareholder in the income of the corporation of individuals, of a partner or of a shareholder who is a foreign individual, an estate, or a nonresident trust. The distributive share in the income of the partnership or the corporation of individuals shall be deemed to be distributed pursuant to the provisions of Sections 1114.16 or 1115.04(j), as applicable. The provisions of this subsection shall not apply to the share attributable to a nonresident shareholder not engaged in trade or business in Puerto Rico of international insurers or of international insurer holding companies which are compliant with Article 61.040 of the Puerto Rico Insurance Code.

(b) …"

Section 74. – The title and subsections (a), (b), and (e) are hereby amended and a new section (f) is hereby added to Section 1062.11 of Act No. 1-2011, as amended, to read as follows:

"Section 1062.11. – Tax Withholding at Source on Foreign Corporations and Partnerships Not Engaged in Trade or Business in Puerto Rico. –

(a) Requirement to Withhold. – (1) General Rule. – In the case of foreign corporations and partnerships not engaged in trade or business in Puerto Rico, there shall be deducted and withheld at the source, in the same manner and on the same items of income that are provided for in Sections 1062.08 (including its subsection (g)) and 1062.10, a tax equal to twenty-nine percent (29%) of said income.

…

(1) …

…

(4) In the case of interest received by a foreign corporation or partnership not engaged in trade or business in Puerto Rico, the requirement to deduct an amount equal to twenty-nine percent (29%) of such interest imposed by this subsection shall apply only if such corporation or partnership is a person related (as defined in Section 1010.05) to the debtor of the obligation. In the case of any item of income effectively connected to the exploitation of a trade or business within Puerto Rico and that, pursuant to Section 1092.01(c)(2), may be included in the gross income of the recipient's income for the taxable year, there will be no deduction or withholding.

(b) Limitation. – If a corporation or partnership organized under the laws of a foreign country receiving dividends from an entity which is or was exempt and is engaged in a trade in Puerto Rico or is the owner or operator of a hotel or hotels

in Puerto Rico, or leases property, machinery, or equipment for use in a trade or hotel in Puerto Rico can establish to the satisfaction of the Secretary:

(1) that said corporation or partnership is not bound to pay, in any jurisdiction outside Puerto Rico or outside the United States, any tax on dividends derived from industrial development income, then no tax shall be deducted or withheld on such dividends; or

(2) that the tax withheld under subsection (a) may not be claimed as credit against the tax payable on the dividends to the country where the corporation was organized, or that said tax may only be taken partially as credit, because the tax withheld is greater than the tax imposed in said country, the tax so withheld, or the part thereof that could not be claimed as credit, shall be reimbursed to the taxpayer.

(c) …

…

(e) Income Tax Withheld on Nonresident Alien of a Partnership or Special Partnership.– In the case of a nonresident foreign corporation that is a partner in a partnership or special partnership, there shall be deducted and withheld an amount equal to twenty-nine percent (29%) of the amount of the distributive share of the corporation in the income of the partnership or special partnership. The income tax to be withheld under this subsection shall be subject to the provisions of Section 1062.10.

(f) Withholding Exemption. – In those cases where the withholding agent shows to the satisfaction of the Secretary, or when the Secretary himself determines, that the withholding provided in this subsection will cause undue hardship without any practical result whatsoever because the amounts thus withheld would have to be reimbursed to the recipient of the income, or the

withholding would be excessive, the Secretary may, under such rules and regulations as he/she may prescribe, relieve the withholding agent of the obligation of withholding, in whole or in part."

Section 75. – Subsection (c) of Section 1063.02 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1063.02. – Information on Transactions with Finance Businesses.–

(a) …

(c) For purposes of this Section, the term 'finance business' shall mean and include every agency, branch, office, or establishment of any person doing business in the Commonwealth of Puerto Rico, in one or more of the following capacities:

(1) …

…"

Section 76. – The numbering of the first subsection of Section 1063.03 of Act No. 1-2011, as amended, is hereby corrected to read as follows:

"Section 1063.03. – Reports on Interest Payments. –

(a) Any person who credits or makes payments of fifty dollars ($50) or more for interest as described in Sections 1023.04 or 1023.05 to any individual and is required under Section 1062.09 to withhold taxes on the payment of such interest, shall file a return in accordance with the forms and regulations prescribed by the Secretary, specifying the total amount of interest paid or credited, the tax deducted and withheld, and the name, address, social security number or employer identification number issued by the Internal Revenue Service, and account number, if granted, of the person to whom the payment was made, or the tax withheld. Said return shall be filed on or before February 28th of the year following the calendar year in which the interest was paid or credited.

(b) …"

Section 77. – Section 1063.06 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1063.06. – Statements of Brokers and Stockbrokers. –

(a) Any person doing business as a broker or stockbroker, as determined by the Secretary through regulations, including financial institutions established in Section 1063.02(c) of this Subtitle, acting as a broker or stockbroker shall submit to the Secretary a true and exact statement containing the name, residential or mailing address, his/her taxpayer account number, and information concerning interests, gross interests, and dividends paid to every natural person, as determined by the Secretary through regulations. This statement shall be filed on or before February 28th of the year following the calendar year in which said income payment was made.

(b) The broker or stockbroker shall exercise the highest degree of diligence in complying with the obligation imposed by this Section."

Section 78. – Subsections (e) and (h) of Section 1063.07 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1063.07. – Information Returns on Credit Extension Transactions – Positive Statement on Transaction Amounts. –

(a) …

…

(e) For purposes of this Section, the term 'financial information' shall mean an itemization of the assets, liabilities, income, and expenditures that an applicant or co-applicant, affiliate entity, shareholder, or partner submits to the Finance Business to support the income level and the source of repayment of the credit requested. Financial information shall include, in addition to any other detail of the income reported by the applicant to the financial institution when opening an

investment account, information provided by the applicant when updating the account from time to time. The Secretary of the Department of the Treasury shall adopt regulations for the purpose of defining the information fields to the reported to the Secretary.

(f) …

(h) No contractual or extra-contractual civil or criminal liability shall be imposed to a Finance Business or any official, employee, or agent of a Finance Business for filing with the Secretary or any other governmental agency the information return of Positive Statement on Transaction Amounts with the information required by them, in accordance with the provisions of this Section and the regulations thereunder. Any intermediary financial institution that furnishes financial information to another finance business to issue a Positive Statement on Transaction Amounts shall be subject to the provisions of this subsection (h).”

Section 79. – Subsections (b) and (c) of Section 1063.08 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1063.08. – Information Required from Certain Tax-exempt Organizations and Trusts. –

(a) …

(b) Trusts Claiming Deductions for Charitable or Other Contributions Under Section 1083.02(a). – Every trust claiming deductions for charitable or other contributions under Section 1083.02(a) for the taxable year shall furnish such information with respect to such taxable year, as the Secretary may by regulation prescribe, setting forth:

(1) …

(2) The amount paid within such year which represents amounts for which deductions for charitable or other contributions made under Section 1083.02(a) have been taken in prior taxable years;

(3) …

…

(c) Information Available to the Public.- The information required to be furnished under subsection (a) or (b), together with the names and addresses of such organizations, shall be made available to the public at such times and in such places as the Secretary prescribes.

(d) …"

Section 80. – Subsections (a) and (b) of Section 1063.09 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1063.09. – Regulations to Require Information Statements Using Electronic Means. –

(a) In General. – The Secretary may require that the information statements that must be filed under the provisions of this Subtitle, be filed using magnetic or electronic means. The Secretary shall promulgate the regulations needed to establish the standards that shall apply when electronic means are required to be used for these purposes.

(b) Requirements of the Regulations. – Upon promulgating the regulations under subsection (a), the Secretary shall not require a person to file information statements using electronic means unless such person must file at least five (5) statements during a calendar year. However, the Secretary may, whenever he/she deems it convenient, reduce to less than five (5) the number of information statements required to be filed through electronic means in any taxable year.

(c) …

…"

Section 81. – A Section 1063.12 is hereby added to Act No. 1-2011, as amended, to read as follows:

"Section 1063.12. – Reports on Income Subject to Alternative Base Tax.-

(a) Any person, in whatever capacity acting, that credits or makes payments of payments of five hundred dollars ($500) or more for interest, rents dividends, or pensions, annuities or any other item of income subject to alternate base tax shall be required to report such payments to the Secretary and the individual, in such forms and in such manner as prescribed by the Secretary through regulations, circular letter or any other general administrative determination or communication."

Section 82. – A Section 1063.13 is hereby added to Act No. 1-2011, as amended, to read as follows:

"Section 1063.13. – Information Declaration and Return on Distributions made by Pension, Stock Bonus, or Profit-sharing Plans subject to the provisions of Section 1081.01.-

(a) Any person required to deduct and withhold any tax under the provisions of Section 1081.01(b)(3) shall furnish an information declaration to the recipient of the distribution or payment and file with the Secretary a return relating to the tax deducted and withheld not later than February 28th of the following year. Said information declaration and return shall contain such information and shall be made in such form as the Secretary may prescribe by regulations. If the person making the distribution or payment fails to furnish the information return or to file the return as required under this subsection shall be subject to the penalties established in Sections 6041.01 and 6041.11, respectively."

Section 83. – Subsections (a), (c), and (e) of Section 1070.01 of Act 1-2011, as amended, are hereby amended to read as follows:

"Section 1070.01. – Definitions. –

(a) Partnership. –

(1) In General. – For purposes of this Subtitle, the term 'partnership' includes a syndicate, group, pool, joint venture, or other unincorporated organization through or by means of which any business, financial operation, or venture is carried on, and which is not, within the meaning of this Subtitle, a corporation or a trust or estate. The Secretary may, at the election of all the members of an unincorporated organization, exclude such organization from the application of all or part of this Chapter, if it is availed of–

(A) for investment purposes only and not for the active conduct of a business;

(B) for the joint production, extraction, or use of property, but not for the purpose of selling services or property produced or extracted; or

(C) by dealers in securities for a short period for the purpose of underwriting, selling, or distributing a particular issue of securities, if the income of the members of the organization may be adequately determined without the computation of partnership taxable income.

(2) The term 'partnership' also includes such limited liability companies that, pursuant to the provisions of Section 1010.01(a)(3), are subject to taxation under the provisions of this Chapter.

(b) …

(c) Partnership Agreement. – For purposes of this Chapter, a partnership agreement includes any modifications of the partnership agreement made prior to, or at the time prescribed by law for filing the partnership return for the taxable year

(not including extensions) which are agreed to by all the partners, or which are otherwise adopted pursuant to the provisions of the partnership agreement.

(d) …

(e) Distributions of Partnership Interests Treated as Exchanges. –

Except as otherwise provided in regulations, for purposes of –

(1) …

…

(3) Any other provision of this Chapter specified in regulations prescribed by the Secretary, any distribution of an interest in a partnership (not otherwise treated as an exchange) shall be treated as an exchange.

(f) …

…"

Section 84. – Paragraph (5) of subsection (a) of Section 1071.02 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1071.02. – Income and Credits of Partner. –

(a) …

(1) …

…

(5) charitable contributions

(6) …"

Section 85. – Subsections (b) and (c) of Section 1071.04 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1071.04. – Partner's Distributive Share. –

(a) …

(b) Determination of Distributive Share. –

(1) In General. – A partner's distributive share of income, gain, loss, deduction, or credit of the partnership shall be determined in accordance with the partner's interest in the partnership (determined by taking into account all facts and circumstances), if. –

(A) the partnership agreement does not provide specifically as to the partner's distributive share of income, gain, loss, deduction, or credit of the partnership; or

(B) the allocation to a specific partner of the share of income, gain, loss, deduction, or credit of the partnership does not have substantial economic effect.

(2) For purposes of this subsection, it shall be understood that the appropriations provided under partnership agreements operating under the Tourist Development Act of 1993, the Puerto Rico Tourist Development Act of 2010 or any successor law similar in nature, have a substantial economic effect.

(c) Contributed Property. –

(1) General Rule. – Under regulations prescribed by the Secretary.–

(A) …

(B) if any property so contributed is distributed (directly or indirectly) by the partnership (other than to the contributing partner) within seven (7) years of being contributed –

(i) the contributing partner shall be treated as recognizing gain or loss (as the case may be) from the sale of such property in an amount equal to the gain or loss which would have been allocated to such partner under subparagraph (A) by reason of the variation described in subparagraph (A) if the property had been sold at its fair market value at the time of the distribution,

(ii) the character of such gain or loss shall be determined by reference to the character of the gain or loss which would have resulted if such property had been sold by the partnership to the distributee; and

(iii) appropriate adjustments shall be made to the adjusted basis of the contributing partner's interest in the partnership and to the adjusted basis of the property distributed to reflect any gain or loss recognized under this subparagraph; and

(C) if any property so contributed has a built-in loss –

(i) such built-in loss shall be taken into account only in determining the amount of items allocated to the contributing partner; and

(ii) except as provided in regulations, in determining the amount of items allocated to other partners, the basis of the contributed property in the hands of the partnership shall be treated as being equal to its fair market value at the time of contribution.

(iii) For purposes this subparagraph, the term 'built-in loss' means the excess of the adjusted basis of the property (determined without regard to subparagraph (C)(ii)) over its fair market value at the time of contribution.

(2) …

(A) property contributed by a partner (hereinafter referred to as the 'contributing partner') is distributed by the partnership to another partner; and

(B) other property of a like kind (within the meaning of Section 1034.04(b)(1)) is distributed by the partnership to the contributing partner not later than the earlier of –

(i) …

(ii) the due date (including extensions) for the contributing partner's income tax return filling for the taxable year in which the distribution described in subparagraph (A) occurs, to the extent of the fair market value of the property described in subparagraph (B), paragraph (1)(B) shall be applied as if the contributing partner had contributed to the partnership the property described in subparagraph (B).

(3) Other Rules. – Under regulations prescribed by the Secretary, rules similar to the rules of paragraph (1) shall apply to contributions by a partner (using the cash receipts and disbursements method of accounting) of accounts payable and other accrued but unpaid items. Any reference in paragraph (1) or (2) to the contributing partner shall be treated as including a reference to any successor of such partner.

(d) …

…"

Section 86. – Subsection (a) of Section 1071.05 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1071.05. – Determination of Basis of Partner's Interest. –

(a) General Rule. –The adjusted basis of a partner's interest in a partnership shall be the basis of such interest determined under Section 1072.02 (relating to contributions to a partnership) or Section 1074.02 (relating to transfers of partnership interests) –

(1) …

(A) …

…

(C) the amount of the deductions of agricultural income granted by Section 1033.12 of this Subtitle; and

(2) …

(A) …

(B) the amount of credits allowed under Section 5 of the Puerto Rico Tourist Development Act of 1993, Section 5(a) of the Puerto Rico Tourist Development Act of 2010, or from any other law granting similar credits.

(C) the withholdings at source of Sections 1062.10, and 1062.04; and

(D) expenditures of the partnership not deductible in computing its net income and not properly chargeable to capital account."

Section 87. – Paragraph (1) is hereby amended and the last paragraph of subsection (d) is hereby renumbered in Section 1071.06 of Act No. 1-2011, as amended, to read as follows:

"Section 1071.06. – Taxable Years of Partner and Partnership. –

(a) …

…

(d) …

(1) In General. – Except as provided in paragraphs (2) and (3), if during any taxable year of the partnership there is a change in any partner's interest in the partnership, each partner's distributive share of any item of income, gain, loss, deduction, or credit of the partnership for such taxable year shall be determined by the use of any method prescribed by the Secretary through regulations which takes into account the varying interests of the partners in the partnership during such taxable year.

(2) …

(3) …

(4) Taxable year determined without regard to subsection (c)(2)(A).–

…"

Section 88. – Paragraph (2) of subsection (b) of Section 1071.09 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1071.09. – Treatment of Organization and Syndication Fees. –

(a) …

(b) …

(1) …

(2) Dispositions before Close of Amortization Period. – In any case in which a partnership is liquidated before the end of the period to which paragraph (1) refers, any deferred expenses attributable to the partnership which were not allowed as a deduction by reason of this Section may be deducted from the gross income of the partnership.

(3) …"

Section 89. – Section 1072.03 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1072.03. – Basis of Property Contributed to Partnership. –

The basis of property contributed to a partnership by a partner shall be the adjusted basis of such property to the contributing partner at the time of the contribution increased by the amount (if any) of gain recognized under Section 1072.01(b), (c), (d) or (e) to the contributing partner at such time."

Section 90. – Section 1073.03 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1073.03. – Basis of Distributee Partner's Interest. –

(a) In the case of a distribution by a partnership to a partner other than in liquidation of a partner's interest, the adjusted basis to such partner of his/her interest in the partnership shall be reduced (but not below zero) by. –

(1) …

(2) …"

Section 91. – Subsection (b) of Section 1073.05 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1073.05. – Character of Gain or Loss on Disposition of Distributed Property. –

(a) …

(b) Holding Period for Distributed Property. – In determining the period for which a partner has held property received in a distribution from a partnership (other than for purposes of subsection (a)), the provisions of Section 1034.01(g) of this Code shall apply.

(c) …"

Section 92. – A new Subchapter F is hereby added to Chapter 7 of Subtitle A, before Section 1076.01, and Section 1076.01 of Act No.1-2011, as amended, is hereby amended to read as follows:

"SUBCHAPTER F. – TRANSITORY PROVISIONS. –

Section 1076.01.– Effect of the Application of the Provisions of Chapter 7.–

(a) Partnerships and Limited Liability Companies subject to Taxation as Corporations pursuant to Subtitle A of the Internal Revenue Code of 1994.– Any partnership or limited liability company subject to taxation as a corporation

pursuant to the provisions of Subtitle A of the Puerto Rico Internal Revenue Code of 1994, during the last taxable year beginning prior to January 1, 2011, and which for the first taxable year beginning after December 31, 2010, is subject to taxation under the provisions of this Chapter shall be considered that, on the last day of the last taxable year beginning prior to January 1, 2011, transferred its assets and liabilities to its partners and members, as the case may be, in liquidation of the partnership or limited liability company and, immediately after, the partners and members, as the case may be, contribute the assets and liabilities distributed to a new partnership in a transaction subject to the provisions of Section 1072.01. Except as provided in this subsection, no gain or loss shall be recognized to the partnership limited liability company and partners or members thereof, as the case may be, as a result of the distributions made under this subsection. Except as otherwise provided in this Code, such partnership or limited liability company shall be subject to the provisions of subsections (d), (e), (f), (g) and (h) of Section 1115.03 and Section 1115.08 of Subchapter E of Chapter 11.

(b) Partnerships and Limited Liability Companies Subject to Taxation under the provisions of Subchapter B of Chapter 2 or under Subtitle A of the Puerto Rico Internal Revenue Code of 1994, pursuant to Section 1022.06.– Any partnership or limited liability company that, prior to the taxable year during which it is subject to taxation under this Chapter, was subject to taxation under the provisions of Subchapter B of Chapter 2 or under Subtitle A of the Puerto Rico Internal Revenue Code of 1994 pursuant to Section 1022.06 shall be considered that, on the last day of such year, transferred its assets and liabilities to its partners or members, as the case may be, in liquidation of the partnership or limited liability company in a transaction subject to the provisions of Section 1034.04(q), and immediately after, the members or partners, as the case may be, contributed the

assets and liabilities distributed to the new partnership in a transaction subject to the provisions of Section 1072.01. Except as otherwise provided in this Code, such partnership or limited liability company shall be subject to the provisions of subsections (d), (e), (f), (g) and (h) of Section 1115.03 and Section 1115.08 of Subchapter E of Chapter 11."

Section 93. – A Section 1076.02 is hereby added to Act No. 1-2011, as amended, to read as follows:

"Section 1076.02. – Special Transition Rules for Partnerships and Limited Liability Companies subject to the Provisions of Chapter 7.-

(a) Any partnership or limited liability company subject to taxation as a corporation pursuant to the provisions of Subtitle A of the Puerto Rico Internal Revenue Code of 1994, during the last taxable year beginning prior to January 1, 2011, and which for the first taxable year beginning after December 31, 2010, would have been subject to taxation under the provisions of this Chapter shall, not later than December 31, 2011, carry out a reorganization under Section 1034.04(g)(1)(F) in order to change its form of organization to a corporation and to carry back, for purpose of this Subtitle, the effect of said reorganization to the first day of the first taxable year beginning after December 31, 2010, subject to the requirements established by the Secretary through regulations, circular letter or other general communication."

Section 94. – A Section 1076.03 is hereby added to Act No. 1-2011, as amended, to read as follows:

"Section 1076.03. – Special Transition Rules for Partners or Members of Partnerships and Limited Liability Companies not engaged in Trade or Business in Puerto Rico.-

(a) In the case of partnerships or limited liability companies not engaged in trade or business in Puerto Rico subject to taxation as a partnership under the United States Internal Revenue Code of 1986, Title 26 of the United States Code, as amended, or similar provision of a foreign country, the partner or member shall report in Puerto Rico the income as reported by said partnership or limited liability company for purposes of federal or foreign country income taxes."

Section 95. – Subsections (a), (b), and (d) are hereby amended and a subsection (h) is hereby added to Section 1081.01 of Act No. 1-2011, as amended, to read as follows:

"Section 1081.01. – Employee Trusts.-

(a) Exemption. – A trust organized under the laws of Puerto Rico that forms part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of its employees resident of Puerto Rico or who performs services primarily in Puerto Rico, or of their beneficiaries; or a trust organized under the laws of Puerto Rico or considered a domestic trust under the United States Internal Revenue Code of 1986, as amended, or any successor legal provision, that forms part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of its employees resident of Puerto Rico or employees resident of Puerto Rico and the United States or of their beneficiaries shall not be taxable under this Subchapter and no other provision of this Subchapter shall apply with regard to said trust or its beneficiaries–

(1) …

(2) …

(3) …

(A) …

(i) The plan benefits at least seventy percent (70%) of the employees who are not highly compensated employees, as defined in subsection (d)(3)(E)(iii); or

(ii) …

…

(4) …

…

(11) …

(A) …

(i) The applicable limitation for a determined taxable year under Section 415(b) of the United States Internal Revenue Code of 1986, as amended, or any successor legal provision, as adjusted by the United States Internal Revenue Service, or

(ii) …

(iii) In the case of a defined benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the limitation of the annual benefit with respect to a participant under this subsection shall not affect the vested rights of the participant under ERISA on his annual accrued benefits as of December 31, 2011.

(B) …

(i) The applicable limitation for a determined taxable year under Section 415(c) of the United States Internal Revenue Code of 1986, as amended, or any successor legal provision, as adjusted by the United States Internal Revenue Service, or

(ii) …

(C) …

(12) For taxable years beginning after January 1, 2012, a trust shall not constitute an exempt trust under subsection (a) of this Section, if the plan of which such trust is a part, the annual compensation of a participant taken into account for purposes of determining the contributions or benefits under the plan and the application of nondiscrimination testing and the limitations in benefits and contributions established in subsections (a) and (d) exceed the applicable limitation for a determined taxable year under Section 401(a) (17) of the United States Internal Revenue Code of 1986, as amended, or any successor legal provision, as adjusted by the United States Internal Revenue Service. In the case of defined benefit plans subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the limitation of the annual compensation with respect to a participant under this subsection shall not apply with respect to compensation earned in taxable years beginning before January 1, 2012.

(13) Proof of Exemption. –

(A) Exemption Requirements.- Any trust claiming an exemption under subsection (a) must apply for and obtain an administrative determination of the Secretary to such effects.

(B) Term to Apply for Administrative Determination.- The application shall be submitted not later than the last day prescribed under this Subtitle for filing the income tax return of the employer maintaining or sponsoring the plan of which such trust is a part, including any extension granted by the Secretary for the filing thereof, for the corresponding taxable year of the employer beginning on or after January 1, 2012 in which such plan began to cover participants residing in Puerto Rico or rendering services principally in Puerto Rico.

(C) Effectiveness of Administrative Determinations.- Administrative determinations relating to the exemption of an employee trust under subsection (a) shall be effective during the period prescribed by the Secretary through regulations, circular letters, or general administrative determinations.

(14) …

(A) In general. – For purposes of Sections 1081.01(a) and 1081.02(d), beginning January 1, 2012, all employees of all corporations, partnerships, or other persons that are members of a controlled group of corporations, as defined in Section 1010.04, of a group of related entities, as defined in Section 1010.05, or of an affiliated service group, as defined in this paragraph, or under common control as defined by the Secretary through regulations, and whose employees are *bona fide* residents of Puerto Rico shall be treated as employed by a single employer.

(B) …

(i) …

(ii) …

(I) a significant portion of the business of such organization consists of service rendering (whether for the first organization, organizations described in clause (i) or both) of the type traditionally rendered in said are of services by employees, and

(II) …

(iii) …

…

(15) A pension, profit sharing, or stock bonus plan may allow participants to make after-tax contributions to the plan; provided that said after-tax contributions:

(A) do not exceed ten percent (10%) of the aggregate compensation of the employee for all the years he is a participant; and

(B) are used solely for purposes of providing benefits to the participant or his beneficiaries.

(b) Taxability of Beneficiary. –

(1) In General. – The amount actually distributed or made available to any participant or beneficiary by any such trusts shall be taxable to such participant or beneficiary in the taxable year in which it is so distributed or made available under Section 1031.01(b)(11)(A), as if it were an annuity whose price or consideration are the amounts contributed by the participant, except for those amounts contributed by the participant on the basis of a cash or deferred arrangement under subsection (d). If the total payable distributions with respect to any participant or beneficiary are paid to the participant or beneficiary within a single taxable year of the latter due to the participant's separation from service for any reason, or the termination of the plan (hereinafter referred to as 'total distribution'), the amount of such distribution, in the amount which exceeds the amount contributed by the participant, which has already been paid by him/her shall be deemed to be long-term capital gains subject to a twenty percent (20%) rate. The preceding notwithstanding, in the case of total distributions made by a trust which is part of a stock bonus, pension, or profit-sharing plan or the acquisition of stock for employees, if

(A) …

(B) At least ten percent (10%) of the total assets of the trust attributable to participants residents of Puerto Rico, computed on the basis of the average balance of the trust investments during the year of the plan in which the distribution is made and during each of the two years preceding the distribution date, have been invested in registered investment companies organized under the laws of Puerto Rico and subject to taxation under Section 1112.01 of the Code, in fixed or variable annuities issued by a domestic or foreign insurance company that during the three calendar years preceding the distribution date derived more than eighty percent of its gross income from sources in Puerto Rico, deposits in interest-bearing accounts in commercial and mutual banks, cooperatives, savings associations authorized by the Federal Government or the Government of Puerto Rico or in any other baking institution located in Puerto Rico including, but not limited to certificates of deposit or any other property qualified by the Secretary as property located in Puerto Rico through regulations or circular letter, then the amount of such distribution in excess of the amount contributed by the participant that has been paid by him, shall be deemed to be long-term capital gains subject to a ten percent (10%) rate. In the case of defined contribution plans whereby a separate account is maintained for each participant or beneficiary, the requirement for investing in 'property located in Puerto Rico' may be met in relation to the assets accredited to the account of the participant or beneficiary. In the case of the transfer of a qualified plan under subsection (a) of this Section (the transferor plan) to another qualified plan under subsection (a) of this Section, the requirement for investing in 'property located in Puerto Rico' of this subparagraph (B) shall be met with respect to the transferor plan taking into account the period of time during which the transferor plan or the account of the participant in the transferor plan met the investment requirement of this subparagraph (B). The Secretary may, through

regulations, circular letter, administrative determination or final agreement, provide the manner in which the requirement of investing in Puerto Rico shall be met.

(2) …

(A) At the option of the participant or beneficiary, the provisions of paragraph (1) of this subsection shall not apply to that portion or to the entire total distribution that the plan of which the exempt trust is part transfers directly or that the participant contributes to an individual retirement account or annuity under the provisions of Section 1081.02, to a nondeductible individual retirement account under the provisions of Section 1081.03, or to a qualified retirement plan under the provisions of this Section for the benefit of said participant or beneficiary not later than sixty (60) days after the payment or distribution was received. In the case of a transfer to a nondeductible individual retirement account, the exception to which this paragraph refers shall only apply to those distributions described in Section 1081.03(d)(5)(A). The preceding notwithstanding, contributions by transfers to nondeductible individual retirement accounts shall be subject to taxation as provided in Section 1081.03(d)(5) and, for purposes of this paragraph it shall be considered that the requirements of the same have been met if a contribution is made to the nondeductible individual retirement account in an amount equal to the total amount received from the qualified trust by the participant or beneficiary minus the contribution provided in said Section 1081.03(d)(5) that has been withheld as therein provided.

(3) Requirement to Deduct and Withhold. –

(A) …

(B) Other Distributions.- Any person, in whatever capacity acting, who makes distributions or payments other than total distributions or nontaxable loans to participants payable with respect to any participant or beneficiary, such as partial distributions made after the participant's separation from service and withdrawals made before separation from service, shall deduct and withhold from said distributions or payments an amount equal to ten percent (10%) of the amount thereof in excess of the portion of said distributions or payments corresponding to amounts contributed by the participant to the plan that have already been paid by the latter. Notwithstanding the foregoing, in the case of distributions made to a participant or beneficiary in the form of an annuity or periodical payments to a beneficiary as a result of separation from employment, there shall be deducted and withheld ten percent (10%) of the amount of the distributions paid during the taxable year in excess of the contributions made by the participant to the plan that have been paid by him, increased by:

	Amount not subject to withholding	
Taxable year	Pensioners under 60 years of age	Pensioners 60 years of age or older
2011	$19,500	$23,500
2012	$21,000	$25,000
2013	$23,500	$27,500
2014	$26,500	$30,500
2015, and thereafter	$31,000	$35,000

(C) For purposes of this Section the term 'periodical payments' shall have the same meaning, as defined in Section 1031.02(a)(13)(D).

(D) Other Amounts Not Subject to Withholding.- The provisions of subparagraphs (A) and (B) of this paragraph (3) shall not apply to total or partial distributions that, at the option of the participant, are contributed to an individual retirement account or annuity under the provisions of Section 1081.02, to a nondeductible individual retirement account under the provisions of Section 1081.02 or to a qualified retirement plan under the provisions of this Section for the benefit of said participant or beneficiary, in accordance with subparagraph (A) of paragraph (2) of this subsection.

(E) For purposes of this subsection (b), any loans made by a plan to a participant or beneficiary that fail to satisfy the following requirements shall be deemed to be a taxable to participant or beneficiary:

(i) the loan, according to its terms and in its operation, must be repaid by means of partial payments substantially similar at least quarterly; and

(ii) the loan, according to its terms and in its operation, must be repaid within a term not to exceed five (5) years or, in the case of loans taken by the participant to finance the purchase of his principal residence, that term provided in the plan.

(4) …

(5) …

(6) Information Declaration and Return. – Any person required to deduct and withhold any tax pursuant to the provisions of paragraph (3), shall file an information declaration and return relating thereto, pursuant to the provisions of Section 1063.13.

(7) …

…

(c) …

(d) Cash or Deferred Arrangement. –

(1) …

(2) …

(3) Application for Participation and Discrimination Standards. –

(A) …

…

(E) Definitions. – For purposes of this Section –

(i) …

(ii) Qualified non-elective contributions. – The term ‘qualified non-elective contribution’ means any employer contribution, other than a matching contribution, with respect to which –

(I) …

(II) the requirements of subsection (d)(2)(B) and (C) are met.

(iii) Highly compensated employees. – For purposes of this subsection, the term ‘highly compensated employee’ means any employee who:

(I) is an official of the participating employer,

(II) owns five percent (5%) or more of the voting stock or the total value of all classes of stock of the corporation that is a participating employer,

(III) owns five percent (5%) or more of the capital or profit interests of the employer,

(IV) for the preceding taxable year had compensation from the employer in excess of the limit applicable for a specific taxable year under Section 414(q)(1)(B) of the United States Internal Revenue Code of 1986, as amended, or any other successor legal provision, as adjusted by the United States Internal Revenue Service.

(V) In order to determine whether an employee owns five percent (5%) of more of the stock, capital or profits, there shall be taken into account the rules of the controlled group of the employer, as defined in Section 1010.04, of the group of related entities, as defined in Section 1010.05 and of affiliated services group, as defined in Section 1081.01(a)(14)(B).

(4) …

…

(7) Limitations on Cash or Deferred Contributions. –

(A) Cash or Deferred Contributions. –

(i) Cash or deferred contributions with regard to which the employee has exercised the option provided in paragraph (2)(A) for any taxable year, shall not exceed the amounts stated below:

Taxable year beginning on	Amount
January 1, 2011	$10,000
Taxable year beginning on	Amount
January 1, 2012	$13,000
Taxable year beginning on	Amount
January 1, 2013	$15,000

(ii) If the employee participates in two (2) or more plans, said plans shall be treated as if they were one for the purpose of determining the amount of the preceding limitation. Notwithstanding the provisions of clause

(1), in the case of an employee of the Federal Government, or an employee that participates in a qualified plan under Section 1081.01(d) and Section 401(k) of the United States Internal Revenue Code of 1986, as amended, or any other successor provision, in lieu of the limitation provided in said clause (i), the limitation provided in Section 402(g) of the United States Internal Revenue Code of 1986, as amended, or any other successor provision shall apply.

(iii) in the case of an employee participating in a qualified plan under Section 1081.01(d) and Section 401(k) of the United States Internal Revenue Code of 1986, as amended, or any other successor provision who also makes contributions to an individual retirement account under Section 1081.02 for any taxable year, the maximum limitation of contributions under clause (ii), added to the contribution made under the provisions of Section 1081.02, shall not exceed the sum of the limitation of contributions under clause (1) and the limitation of contributions under Section 1081.02, excluding any contribution to an individual retirement account attributable to the spouse of the taxpayer.

(iv) If the employee participates in two (2) or more plans, such plans shall be treated as one for purposes of determining the amount of the limitations of subparagraph (A) of this paragraph 7.

…

(B) Catch-up Contributions.

(i) A catch-up contribution shall be allowed to employees participating in a plan containing a cash or deferred agreement, if at the close of the plan year, the employee has attained the age of fifty (50). Catch-up contributions shall not exceed the amounts indicated below:

Taxable year starting on	Contribution
January 1, 2011	$1,000
After December 31, 2011	$1,500

(ii) These amounts shall not affect the actual deferral percentage test, itemized in subclauses (I) and (II) of clause (ii) of subparagraph (A) and clauses (i) and (ii) of subparagraph (B) of paragraph (3) of this subsection. Catch-up contributions shall not be taken into account for purposes of the limitation established in subparagraph (A) in cases where a participant of a plan containing a cash or deferred agreement also makes contributions to an individual retirement account.

(iii) These catch-up contributions may receive matched contributions, as they are defined in paragraph (3)(E)(i) of this subsection.

(iv) If the employee participates in two (2) or more plans, such plans shall be treated as one for purposes of determining the amount of the preceding limitation.

(v) Notwithstanding the provisions of clause (i), in the case of an employee of the federal government, in lieu of the limitation provided for in said clause, the limitation provided in Section 414(v) of the United States Internal Revenue Code of 1986, as amended, or any other successor legal provision, as adjusted by the United States Internal Revenue Service, shall apply.

(e) …

…

(h) Notification Requirement.- For purposes of this Section 1081.01, before the beginning of each taxable year, the Secretary shall notify the limitations applicable under the United States Internal Revenue Code of 1986, as amended or any other successor legal provision, through regulations, circular letter, or

administrative determination to be issued upon the publication by the United States Internal Revenue Service of the limitations applicable under said Code."

Section 96. – Paragraphs (1), (2), (3), (4), (5), (6), (7), and (8) of subsection (a), subsection (b), subparagraphs (A) and (C) of paragraph (1) and paragraph (2) of subsection (d), paragraph (4) of subsection (e), paragraph (1) of subsection (f), and subsection (g) of Section 1081.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1081.02. – Individual Retirement Accounts. –

(a) …

(1) That, except in the case of a rollover, described in subsection (d)(4), every contribution to the fund shall be in cash and not exceed the amount allowed as a deduction pursuant to Section 1033.15(a)(7), per taxable year on behalf of any individual.

(2) That the fund be administered by a bank, savings and loan association, savings bank, securities brokerage house, trust company, insurance company, federation of credit and savings unions, credit and savings union, or life insurance cooperative, which demonstrates to the satisfaction of the Commissioner of Financial Institutions that the system whereby the trust shall be administered shall be consistent with the requirements of this section. The federations of credit and savings cooperatives and the credit and savings cooperatives which this subsection refers to include both federal and local ones the depositor accounts of which are secured by the Credit and Savings Cooperatives' Shares and Deposits Fund, or pursuant to the provisions of Act No. 99 of June 4, 1980, or insured by the National Credit Union Administration of the Federal Government as provided by the Federal Credit Union Act (P.L. 86-354, 12 U.S.C. § 1751), whichever the case may be.

(3) Investment Requirements:

(A) That thirty-four percent (34%) or more of the contributions received pursuant to paragraph (1) of subsection (a) and paragraph (4) of subsection (d) of this Section, and in paragraph (2) of subsection (b) of Section 1081.01, may be invested in obligations of the Government of Puerto Rico or any of its instrumentalities or political subdivisions, or in mortgage loans constituted for the financing of construction or the acquisition of residential properties in Puerto Rico, or in loans enabled to special employee-owned corporations, their members or stockholders in accordance with the purposes established in Section 1031.02(a)(3)(L) and (M) of this Subtitle.

(B) That not more than sixty six percent (66%) of the contributions received pursuant to paragraph (1) of subsection (a) and paragraph (4) of subsection (d) of this Section, and in paragraph (2) of subsection (b) of Section 1081.01, be invested in general assets in Puerto Rico, pursuant to the regulations that to these effects shall be promulgated by the Commissioner of Financial Institutions. For purposes of this subsection, the stock of domestic corporations registered in the capital stock index of Puerto Rico of the Government Development Bank for Puerto Rico shall be deemed to be general assets in Puerto Rico.

(C) Up to thirty three percent (33%) of the contributions received pursuant to paragraph (1) of subsection (a) and paragraph (4) of subsection (d) of this Section, and in paragraph (2) of subsection (b) of Section 1081.01, be invested in assets in the United States, including capital stock and investment grade assets, pursuant to the regulations to be promulgated by the Commissioner of Financial Institutions.

(D) …

…

(4) That the interest of an individual in the balance of his/her account is irrevocable and non-transferable.

(5) That the assets of said trust be held in a common trust fund or common investment fund for these purposes, but separate accounting shall be held for each trust.

(6) That the entire interest of the owner be distributed on or before the close of the taxable year in which he/she attains the age of seventy-five (75) years, or shall be distributed according to the regulations approved by the Secretary to such effect, which shall prescribe for such interest to be distributed during:

(A) …

(B) …

…

(7) That if the individual for whose benefit the trust is maintained dies before the entirety of his/her interest in the trust has been distributed, or when the distribution of the benefits of the trust would have begun for the benefit of the surviving spouse, in accordance with paragraph (6), and the latter dies before the totality of the benefits has been distributed to him/her, then the total undistributed interest shall be distributed within a period of five (5) years as of the date of the death of the trust's owner, or that of the surviving spouse. The preceding provision shall not be applicable if, prior to the death of the owner, the distribution of the benefits of the contract had been initiated on the basis of a fixed term, insofar as said term would have been allowed under paragraph (6) of this subsection.

(8) That no part of the trust funds be invested in life insurance contracts.

(b) …

(1) …

(2) That under the contract:

(A) …

(B) the annual premium on behalf of any individual shall not exceed the amount allowable as a deduction pursuant to paragraph (7) of subsection (a) of Section 1033.15;

(C) in the case of married individuals who file a joint return under Section 1061.01, the annual premium regarding each spouse shall not exceed the permissible amount as deduction pursuant to paragraph (7) of subsection (a) of Section 1033.15, and

(D) any refund of premiums shall be applied before the close of the calendar year following the year of the refund toward the payment of future premiums or the purchase of additional benefits.

(3) That the entire interest of the owner will be distributed on or before the close of the taxable year in which he/she attains the age of seventy-five (75), or shall be distributed according to the regulations that the Secretary may prescribe to such effects –

(A) …

(B) …

(4) That, if the owner dies before the entirety of his/her interest in the policy has been distributed, or if the distribution of the contract's benefits had begun for the benefit of his/her surviving spouse, as provided in the preceding paragraph (3), and the latter dies before the entirety of the benefits of the policy have been distributed to him/her, then the total undistributed interest shall be distributed within a period of five (5) years as of the date of the demise of the owner or of the surviving spouse. The preceding sentence shall not be applicable if, prior to the death of the owner, the distribution of the benefits of the policy had

been initiated on the basis of a fixed term, insofar as said term is one of those allowed under the preceding paragraph (3).

(5) That the interest of the owner shall be nonforfeitable, in whole or in part.

(6) That one hundred percent (100%) of the premiums received as contributions described in subsections (a)(1) and (d)(4) of this section, and in subsection (b)(2) of Section 1081.01, be invested according to the provisions of Act No. 77 of June 19, 1977, as amended, known as the 'Insurance Code of Puerto Rico.' Should the investment requirements provided in the Insurance Code of Puerto Rico not be complied with, it shall be necessary to comply with the investment requirements described below:

(A) That thirty four percent (34%) or more of the premiums received as contributions described in subsections (a)(1) and (d)(4) of this Section, and in subsection (b)(2) of Section 1081.01, shall be invested in obligations of the Government of Puerto Rico or of any of its instrumentalities or political subdivisions, or in mortgage loans executed for financing the construction or acquisition of residential properties.

(B) That not more than sixty six percent (66%) of the premiums received as contributions described in subsections (a)(1) and (d)(4) of this Section, and in subsection (b)(2) of Section 1081.01, shall be invested in general assets in Puerto Rico, pursuant to the regulations that to such effects shall be promulgated by the Commissioner of Insurance together with the Commissioner of Financial Institutions. For these purposes, shares in domestic corporations registered in the Puerto Rico index of capital stock of the Government Development Bank for Puerto Rico shall be deemed general assets in Puerto Rico.

(C) Up to thirty three percent (33%) of the premiums received as contributions described in subsections (a)(1) and (d)(4) of this section, and in subsection (b)(2) of Section 1081.01, may be invested in assets in the United States, including capital stock and investment grade assets, pursuant to the regulations to be promulgated by the Commissioner of Insurance together with the Commissioner of Financial Institutions.

(D) The income derived from securities that qualify for the investment portfolios of thirty four percent (34%) or more, up to sixty six percent (66%) or up to thirty three percent (33%) of the premiums, as described above, must be reinvested in any of the assets described in the portfolio corresponding to the asset that generated such an income. It shall be the responsibility of both the Commissioner of Financial Institutions and the Commissioner of Insurance of the Commonwealth of Puerto Rico to ensure faithful compliance with the provisions of this paragraph.

(7) The term 'individual retirement annuity' does not include an annuity contract for any taxable year of the owner in which he/she is disqualified on the application of subsection (e) or for any subsequent taxable year. For purposes of this subsection, no contract shall be treated as an endowment contract if it matures on or before the taxable year in which the individual in whose name such contract is purchased attains the age of seventy-five (75), and if it is not for the exclusive benefit of the individual in whose name it is purchased, or his/her beneficiaries, and only if the aggregate annual premiums under all such contracts do not exceed the amount allowed as deduction pursuant to Section 1033.15.

(c) …

(d) Distribution of Individual Retirement Account Assets. –

(1) Taxing of payments or distributions out of an individual retirement account. –

(A) Unless otherwise provided in this subsection, any amount paid or distributed out of an individual retirement account shall be included in gross retirement income by the payee or distributee in the taxable year during which the payment or distribution is received. The basis of any person in said account is zero, increased by the proportion of tax exempt income derived from these funds. In case a partial distribution is made, the basis, if any, shall be prorated.

(B) …

(C) Seventeen-percent (17%) Special Tax:

(i) The owner or beneficiary of an individual retirement account who receives a total or partial distribution from an individual retirement account which does not constitute a distribution of interest described in Section 1023.04, nor a distribution of his/her contribution to the individual retirement account, and which consists of income from sources within Puerto Rico, as defined in clause (ii) of this paragraph, received by said individual retirement account, may opt to pay a tax on said amount, in lieu of any other tax imposed by this Subtitle, equal to seventeen percent (17%) for the taxable year in which the owner or beneficiary of the individual retirement account actually receives said total or partial distribution. If the owner or beneficiary of the individual retirement account opts to pay the seventeen percent (17%) tax provided in this clause (i), the trustee of the individual retirement account shall be required to deduct and withhold the seventeen percent (17%) tax of the distributed amount. The trustee shall not be required to make the deduction and withholding provided herein if the

distribution qualifies as a rollover under Section 1081.02(d)(4), and the distribution is made directly by the trustee to the trustee of another individual retirement account by the instructions of the owner or beneficiary thereof.

(ii) …

(D) …

…

(2) Excess Contributions Returned Before the Due Date of Return.- The provisions of paragraph (1) do not apply to the reimbursement of any contribution made during a taxable year to an individual retirement account to the extent that said contribution exceeds the amount allowable as a deduction under Section 1033.15(a)(7), if:

(A) …

(B) no deduction is allowed under Section 1033.15(a)(7) with respect to such excess contributions, and

(C) …

(3) …

…

(e) Tax Treatment of Individual Retirement Accounts.–

(1) …

(4) Withdrawal of Contributions and Closing of the Account.– If, at any time during the first seven working days after opening an individual retirement account, the person or entity that opened the account decides not to continue it, said person or entity may withdraw any contribution made to the account and close it without the application of the provisions of this Section and Section 1033.15(a)(7).

(f) Reports.–

(1) Every trustee of an individual retirement account created under the terms of subsection (a) and the every life insurance company or cooperative that issues an endowment contract or an individual retirement annuity under the terms of subsection (b) shall make reports to the Secretary and to the individuals for whom the account**,** endowment contract, or annuity is maintained. Such reports shall be made with respect to the contributions, distributions and such other matters as the Secretary may require through regulations. The reports required in accordance with this subsection shall be filed on such date and manner as required by said regulations.

(2) …

(g) Penalties for Distributions prior to Attaining the Age of Sixty (60).–

(1) Any amount distributed, or deemed to be distributed, in accordance with the provisions of this section, before the beneficiary of the individual retirement account attains the age of sixty (60) years shall be subject to a penalty of an amount equal to ten percent (10%) of the amount distributed which is includable as income in said year. The preceding ten percent (10%) penalty shall be withheld by the trustee and sent to the Secretary, in accordance with the provisions of Section 1062.01.

(2) The provisions of the preceding paragraph (1) shall not apply in the following situations:

(A) In the case that the amount paid or distributed, or considered as distributed, pursuant to subsection (d) is attributed to a taxpayer who became disabled.

(i) An individual shall be deemed to be disabled if he/she is incapable of being employed in any significant lucrative activity, due to a medically-determined disability, whether it be physical or mental, which is expected to have a long or indefinite duration or that may result in death.

(ii) An individual shall not be deemed to be disabled unless he/she proves his/her disability in the form and manner required by the Secretary.

(B) …

(C) …

(D) In those cases in which the taxpayer withdraws funds for the repair or reconstruction of his/her principal residence that has been affected by a fire, a hurricane, an earthquake, or other fortuitous cause; or when he/she withdraws funds to avoid the foreclosure of the mortgage, or default thereof, of his/her principal residence, including refinancing, due to loss of employment or a verifiable substantial reduction of income; subject to the presentation of evidence of such need, circumstance, and use, provided, that in this last case, and regarding refinancing to avoid default, the person may withdraw up to half of the funds deposited in each financial institution, or up to twenty thousand dollars ($20,000), whichever is greater.

(E) In those cases in which the taxpayer withdraws up to the maximum amount of one thousand two hundred dollars ($1,200) for the acquisition or purchase of a computer for the enjoyment of a dependent to the second degree of consanguinity who is pursuing studies up to university level. This withdrawal may only be made once (1) every six (6) years.

(F) In those cases in which the taxpayer withdraws the funds for the treatment of severe, chronic, degenerative, and terminal illness of any family member, up to the fourth degree of consanguinity and the second degree of affinity. For purposes of this Section, a severe, chronic, degenerative, and terminal illness is a disease whose foreseeable effect, as certified by a physician, is the loss of life or the permanent physical disability of the patient."

Section 97. – Subparagraph (A) of paragraph (2) and paragraph (3) of subsection (c), and paragraphs (4) and (5) of subsection (d) of Section 1081.03 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1081.03. – Nondeductible Individual Retirement Account.–

(a) …

(c) Treatment of Contributions.–

(1) …

(2) …

(A) the maximum amount allowable as a deduction under Section 1033.15(a)(7) with respect to such individual for such taxable year (computed without regard to subparagraph (D) of said Section 1033.15(a)(7), over

(B) …

(3) Contributions allowed after attaining the age of seventy and a half (70½) years. – Contributions to nondeductible individual retirement accounts shall be allowed even after the individual in whose name the account is maintained has attained the age of seventy and a half (70½) years.

(4) …

…

(d) …

(1) …

(4) Rollovers from an individual retirement account to a nondeductible individual retirement account.–

(A) In General. – Notwithstanding the provisions of Section 1081.02(d)(4), in the case of any distribution to which the provisions of this paragraph apply,

(i) …

…

(B) …

(F) …

(i) Obligation to deduct and withhold at the source and pay or deposit the tax imposed by subparagraph (A)(iii) of this paragraph:

(I) …

…

(5) Transfers of Distributions of an Employee Trust to a Nondeductible Individual Retirement Account.-

(A) In General. – Notwithstanding the provisions of Section 1081.01(b)(2), a distribution that has been fully paid to or placed at the disposal of any participant, by an exempt trust under Section 1081.01, within only one (1) taxable year of the participant by reason of separation of service, which is contributed to a nondeductible individual retirement account as a qualified rollover contribution, shall be subject to taxation and the withholdings applicable thereto pursuant to the provisions of 1081.01(b).

(B) …

(6) …

…”

Section 98. – Clause (ii) of subparagraph (C) of paragraph (2) and paragraph (6) of subsection (b), paragraph (1) of subsection (d) and paragraph (2), subparagraph (C) of paragraph (4) and paragraphs (6) and (7) of subsection (f) of Section 1081.04 of Act No.1-2011, as amended, are hereby amended to read as follows:

"Section 1081.04. – Health Savings Accounts with a High Annual Deductible Health Plan. –

(a) …

(b) …

(1) …

(2) …

(A) …

(C) ..

(i) …

(ii) in the case of individuals making direct contributions to a Health Savings Accounts, the amounts in excess to the limitations set forth in this subsection shall not be deductible under Section 1033.15(a)(4)(B) (related to medical expenses).

(3) …

(6) Eligible Individuals under the Federal Medicare Program. – The limitations in this subsection for any taxable year with respect to an individual shall be zero for each year said individual is entitled to the benefits under Title XVIII of the Social Security Act and for each month thereafter.

(c) …

(d) …

(1) In General. – The term ‘Health Savings Account’ means an account created exclusively for the purpose of paying the qualified medical expenses of the account holder or beneficiary, but only if the insurance contract meets the following requirements:

(A) Except in the case of a rollover contribution described in this Section, no contribution shall be accepted:

(i) …

…

(e) …

(f) Tax Treatment of Distributions. –

(1) …

(2) Amounts used for Unqualified Medical Expenses. – Any amount paid or distributed out of a health savings account which is not used exclusively to pay for the qualified medical expenses of the owner of the account, shall be included in gross income, provided, that any distributions made after the taxpayer has attained the age of sixty-five (65) shall be exempt from taxation, and also in the case of a distribution made to another account by means of a rollover.

(3) …

(4) Additional tax on Distributions not used for Qualified Medical Expenses.–

(A) …

…

(C) Exception for Distributions after Medicare Eligibility. – Subparagraph (A) shall not apply to any payment or distribution after the date on which the account beneficiary attains the age specified by the Medicare Program to

be eligible under said program and as specified in Section 1811 of the Social Security Act.

(5) …

(6) Coordination with Medical Expense Deduction. – For purposes of determining the amount of the deduction under this Code, any payment or distribution out of a health savings account for qualified medical expenses shall not be treated as an expense paid for medical care.

(7) Transfer of Account Incident to Divorce. – The transfer of an individual's interest in a health savings account to an individual's spouse or former spouse under a divorce decree or separation instrument shall not be considered a taxable transfer made by such individual notwithstanding any other provision of this Code, and such interest shall, after such transfer, be treated as a health savings account with respect to which such spouse or former spouse is the accoun beneficiary.

(8) …

…"

Section 99. – Subsections (a) and (b), paragraph (2) of subsection (c), subparagraph (B) of paragraph (2), subparagraph (B) of paragraph (3), and paragraph (4) of subsection (d) of Section 1081.05 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1081.05. – Education Savings Account. –

(a) Education Savings Account:

(1) For purposes of this Section, the term 'Education Savings Account' shall mean a trust created or organized under the laws of Puerto Rico by an individual for the exclusive benefit of his/her children or relatives up to the third degree of consanguinity or second degree of affinity, or the share of an individual

for the exclusive benefit of his/her children or relatives up to the third degree of consanguinity or second degree of affinity, in a trust created or organized under the laws of Puerto Rico.

(2) An individual may contribute the maximum amount allowed in subparagraph (A) of paragraph (5) of this subsection, without limitation regarding the number of education savings accounts, provided, that the beneficiary of said accounts is described in this subsection.

(3) For purposes of this Section, the individual authorized to open an education savings account shall be understood solely as the person having the legal and physical custody of the beneficiary of said account. This individual shall be responsible for informing the parents and other relatives of the beneficiary of the account, as to where it is held, and also shall be responsible in the event that there is an interest in using the account transfer provisions per beneficiary for the same taxable year.

(4) In the case of an employer, he/she shall be allowed to make contributions to the education savings accounts of the beneficiaries of its employees, up to the maximum amount allowed by this Section. The contributions of an employer shall be deemed as regular operating expenses of a trade or business and as such, shall be deducted in the year they are made, under the provisions of Section 1033.01 of this Subtitle. These contributions shall be included as income of the employees for the year they are made by the employer, as provided in Section 1031.01 of this Subtitle, and may be claimed as a deduction by the employee in that same year.

(5) The governing instrument creating the trust shall state that the participants thereof shall be those individuals who, through a contract or application to such effects, accept the provisions of said trust provided the governing instrument creating the trust meets the following requirements:

(A) That, except in the case of a rollover contribution described in subparagraph (G) of this paragraph, in paragraph (4) of subsection (b), and paragraph (3) of subsection (c), every contribution to the fund shall be in cash and shall not be in excess of five hundred dollars ($500) for each beneficiary for each taxable year. In no event shall it be allowed, for the total contributions received in the education savings account established for each beneficiary, to exceed five hundred dollars ($500) for each taxable year.

(B) That the fund shall be administered by a bank, savings and loan association, savings bank, stock brokerage house, trust company, insurance company, credit and savings cooperative federation, savings and credit cooperative bank, or life insurance cooperative that demonstrates to the satisfaction of the Commissioner of Financial Institutions that the manner in which it shall administer the trust shall be consistent with the requirements of this Section. The credit and savings federations of cooperatives and the saving and credit cooperatives referred to in this subparagraph, include both Federal and State cooperatives whose depositors' accounts are secured by the Share and Deposit Insurance Corporation for Cooperative Saving and Credit Unions as provided by Act No. 5 of January 15, 1990, as amended, or by the Federal Government's National Credit Union Administration insurance, provided by the Federal Credit Union Act (P.L. 86-354.12 USC 1751), as the case may be.

(C) That it satisfies the investment requirements provided in Section 1081.02(a)(3) of this Subtitle.

(D) That the total balance of the education savings account created by the individual on behalf of the beneficiary shall be irrevocable and nontransferable by law, except as provided by this Section.

(E) That the assets of said trust shall be held in a common trust fund or investment fund to such purposes, but holding a separate accounting for each trust.

(F) That the total balance of the education savings account shall be distributed to the beneficiary after graduating from high school, and not later than the taxable year that the beneficiary attains the age of thirty (30), and is used to defray the cost of the post-secondary education of the beneficiary and is distributed pursuant to the regulations adopted to such effect by the Secretary. Said regulations shall include a definition of the term ‘post-secondary education,’ which shall include, without being construed as a limitation, studies in universities, technical colleges, and vocational schools.

(G) That, if the person for whose benefit the trust is maintained dies before the total balance of the trust is distributed during the period he/she is receiving the same, the total undistributed balance then shall be returned to the person or persons who contributed to the trust. Notwithstanding the foregoing, the total balance of the trust or any part thereof may be transferred in benefit of other members of the same family who qualify under this Section, authorizing the transfer of the interest in the account, from one institution to another, in order to obtain higher benefits or yields.

(H) That no part of the trust assets shall be invested in life insurance contracts.

(I) That the ownership of the education savings account belong to the beneficiary for whom it is created. However, the individual who contributed to the same retains the rights stipulated in this Section regarding the return of the sums contributed under the circumstances described in this Section.

(J) That the total balance of the beneficiary's account shall be non-forfeitable in whole or in part.

(K) That the education savings account shall be established by the individual (or his/her authorized representative) who holds the legal custody of the beneficiary for whom said account is created.

(b) …

(1) …

(2) That under the contract:

(A) the premiums shall not be fixed;

(B) the annual premium with regard to any individual does not exceed five hundred dollars ($500) for each beneficiary; and

(C) any refund of premiums be used prior to the close of the calendar year following that year in which the refund for the payment of future premiums or the purchase of additional benefits was made.

(3) That the total balance of the account is distributed to the beneficiary after he/she graduates from high school, and not later than the taxable year in which he/she attains thirty (30) years of age, to be used to defray the cost of post-secondary education of the beneficiary and be distributed pursuant to the regulations approved by the Secretary to such effect. In said regulations, a definition of the term 'post-secondary education' shall be included which shall, without it being construed as a limitation, include studies in universities, technical colleges, and vocational schools.

(4) That, if the beneficiary of the trust dies before the total balance of the trust is distributed or while he/she is receiving the same, then the total undistributed balance shall be returned to the person or persons who contributed to the annuity. Notwithstanding the foregoing, the total of the annuity or part thereof, may be transferred for the benefit of other members of the same family who qualify under this Section. In addition, the transfer of the account's interest, from an institution to another, in order to obtain higher benefits or yields is also authorized.

(5) That the total balance of the beneficiary's account shall be non-forfeitable in whole or in part.

(6) That the total balance of the education savings account created by the individual on behalf of the beneficiary shall be irrevocable and nontransferable by law, except as provided in this Section.

(7) That it satisfies the investment requirements provided by Section 1081.02(a)(3) of this Subtitle.

(8) The term 'educational savings annuity' does not include an annuity contract for any taxable year of the taxpayer during which he/she does not qualify for reason of the application of subsection (d) or for any subsequent taxable year. For purposes of this subsection, an endowment contract shall only be deemed to be that which matures on or before the taxable year in which the individual, on whose behalf the contract is acquired, attains the age of thirty (30), and only that which is created for the exclusive benefit of the individual on whose behalf it is acquired and only if the total sum of the annual premiums corresponding to such annuity does not exceed five hundred dollars ($500) per taxable year per beneficiary.

(c) …

(1) …

(2) Excess Contributions Returned Before the Due Date for Filing.– The provisions of paragraph (1), shall not apply to the reimbursement of any contribution made during a taxable year to an education savings account up to the amount that said contribution exceeds the amount allowable as a deduction pursuant to Section 1033.15(a)(8) of this Subtitle, if:

(A) …

(B) No deduction whatsoever shall be allowed under Section 1033.15(a)(8) of this Subtitle, with respect to said excess contributions, and

(C) …

(3) …

…

(d) …

(1) …

(2) …

(A) …

(B) In every case in which the beneficiary for whom the account was created, having attained legal age under the Civil Code, decides not to use the funds for post-secondary education; and the individual or individuals that contributed to the account are returned the total balance or undistributed portion of the contribution made, and do not use it or transfer it in benefit of other persons who qualify under this Section.

(3) …

(A) …

(B) If during any tax year the beneficiary of an education savings account borrows any amount of money under, or using said contract, it shall cease to be an education savings account for purposes of Section 1033.15(a)(8), as of the first day of said taxable year. The beneficiary shall include in his/her gross income for said year an amount equal to the fair market value of said contract on the first day of said year.

(4) Withdrawal of Contributions and Closing of the Account. – If at any time during the first seven (7) business days after opening an education savings account, the individual who opened the account determines not to continue it, said person or entity may withdraw any contribution made to the account and close it without the provisions of this Section and Section 1033.15(a)(8) being applied.

(e) …

…"

Section 100. – Subsection (b) of Section 1081.06 of Act No. 1-2011, as amended, is hereby repealed.

"Section 1081.06. – Transitory Provisions for Individual Retirement Accounts. –

(a) …"

Section 101. – Subsection (b) and paragraph (6) of subsection (c) of Section 1082.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1082.01. – Definition of Real Estate Investment Trust.–

(a) …

(b) Determination of Status. – The conditions described in paragraphs (1) to (4), inclusive, of subsection (a) of this Section must be met during the entire taxable year, and the condition described in paragraph (5) of subsection (a) of this

Section must exist during at least three hundred thirty-five (335) days of each taxable year of twelve (12) months, or during a proportionate part of a taxable year of less than twelve (12) months. The days during which the last condition must exist during the taxable year are not necessarily consecutive. However, the conditions set forth in paragraphs (5) and (6) of subsection (a) of this Section shall need not to be satisfied during the first taxable year on which the election described in subsection (c)(1) of this Section is made.

(c) …

(1) …

(6) The acquisition of the real property by the trust and/or its subsidiaries (as this term is defined in Section 1082.01(c)(7)(G)), or the interest of the trust on the subsidiaries, is conducted through transactions for the purchase of assets, stock or shares in partnerships that generate income from sources within Puerto Rico and that are subject (with the exception of assets purchased from the Government of Puerto Rico, its agencies, and instrumentalities), to income taxes under this Code.

(7) …

(d) …

…"

Section 102. – Paragraphs (1), (2), (3), and (4) of subsection (d), paragraphs (3) and (5) of subsection (e), and subsection (f) of Section 1082.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1082.02. – Method of Taxation of Real Estate Investment Trusts and Beneficiaries. –

(a) …

(d) Taxation of Stockholders or Beneficiaries of a Real Estate Investment Trust.–

(1) Puerto Rico Residents or United States Citizens.– Every individual resident of Puerto Rico or citizen of the United States and every domestic corporation or partnership subject to taxation –

(A) …

(B) shall include in its gross income and pay taxes at a tax rate of ten percent (10%) in lieu of any other tax imposed by this subtitle:

(i) …

(ii) …

(2) Requirement to Withhold. – The trustee or director who has been entrusted with the management of the real estate investments trust must deduct and withhold an amount equal to ten percent (10%) of the distributed taxable dividends. The deduction, withholding, and payment of said tax shall be governed by the provisions of subsections (e), (f), (g), and (h) of Section 1023.06

(3) Foreign Individuals and Foreign Corporations and Partnerships.– Any real estate investment trust that pays taxable dividends to a stockholder or beneficiary subject to the ten percent (10%) tax rate imposed by subsection (d)(1)(B) of this Section, and shall, subject to the limitations of Section 1051.01, deduct and withhold said tax according to the provisions under Sections 1062.08 and 1062.11 and credit said tax with the proportionate part pertaining to said stockholder from the income taxes and benefits paid in excess to the United States, to any possession or any other part of the United States other than a state or any foreign country, by such a real estate investment trust on or with respect to the benefits from which it is considered that such dividends have been paid. For the purpose of determining the gross amount of the tax that must be deducted and

withheld prior to said credit, the dividends paid during the tax year by the real estate investment trust to the beneficiary shall be considered:

(A) …

(B) …

(4) Definitions. – For purposes of this Section:

(A) Exempt Dividends. – 'Exempt Dividends' means any dividend or benefit, or a part thereof, designated as such by a real estate investment trust in a notice sent by mail to its stockholder or beneficiaries on any date prior to the expiration of the period of sixty (60) days following the close of the taxable year, or the date of the statement of dividends, whichever is later. If the aggregate total thus designated with respect to a taxable year of the trust is greater than its current or accumulated earnings and profits attributable to exempt income under Section 1031.02(a)(4) of the Code, the portion of each distribution that shall constitute exempt dividends shall be only the proportion of the total thus designated that such current or accumulated earnings and profits bear to the aggregate total thus designated.

(B) …

(C) …

(5) …

(e) …

(1) …

(3) Certain Sales Not to Constitute Prohibited Transactions. – For purposes of this Section, the term 'prohibited transaction' does not include a sale of property which is a real estate asset as defined in Section 1082.01(c)(7)(B), if:

(A) …

(B) aggregate expenditures made by the trust, or any partner, stockholder, or beneficiary of the trust, during the four (4) year period preceding the date of sale which are includible in the basis of the property do not exceed thirty percent (30%) of the net selling price of the property; and

(C) (i) during the taxable year the trust does not make more than seven (7) sales of property; or

(ii) …

(D) the trust has held the property for more than four (4) years for production of rental income in the case of property, which consists of land or improvements, and

(E) If the requirement of clause (C)(i) of this paragraph is not satisfied, substantially all of the marketing and development expenditures with respect to the property were made through an independent contractor (as defined in Section1082.01(d)(3)) from whom the trust itself does not derive or receive any income.

(4) …

(5) Sales Not Meeting Requirements of Paragraph (3). – In determining whether or not any sale constitutes a 'prohibited transaction' for purposes of paragraph (1), the fact that such sale does not meet the requirements of paragraph (3) of this subsection shall not be taken into account; and such determination, in the case of a sale not meeting such requirements, shall be made as if paragraphs (3) and (4) had not been enacted.

(f) Imposition of Tax in Case of Failure to Meet Certain Requirements. – If a real estate investment trust fails to meet the requirements of subsection (c)(2) or (c)(3) of Section 1082.01, or both subsections, for any taxable year, but its

option under subsection (c)(1) of Section 1082.01 is not deemed to be terminated by virtue of Section 1082.01(f)(4), then there shall be imposed on such trust a one hundred percent (100%) tax to the greater of:

(1) …

…"

Section 103. – Subsection (a), subparagraphs (B) and (E) of paragraph (2), and paragraph (4) of subsection (e) of Section 1083.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1083.02. – Net Income. –

The net income of the estate or trust shall be computed in the same manner and on the same basis as in the case of an individual, except as provided herein below:

(a) Subject to the provisions of subsection (e), there shall be allowed as a deduction, instead of the deduction for gifts authorized by Section 1033.15(a)(3), any part of the gross income, without limitation, that complying with the terms of the testament or the instrument creating the trust, is paid or permanently separated during the tax year with the purpose and in the manner specified in Section 1033.15(a)(3), or it must be used exclusively for religious purposes, for the establishment, acquisition, maintenance, or operation of a public cemetery not operated for profit, or for the purposes established in Section 1101.01(a)(2)(A).

(b) …

…

(e) …

(1) …

(2) Operations of Trusts. –

(A) …

(B) Prohibited Transactions. – For purposes of this paragraph, the term ‘prohibited transactions’ means any transaction in which any trust holding income or corpus that has been permanently set aside or is to be used exclusively for charitable or other purposes described in subsection (a)-

(i) …

…

(vi) engages in any other transaction which results in a substantial diversion of such income or corpus, to:

the grantor of such trust; any person who has made a substantial contribution to such trust; a member of the family (as defined in Section 1033.17(b)(2)(D)) of an individual who is the grantor of the trust or who has made a substantial contribution to the trust; or a corporation controlled by any such grantor or person, or by the trust itself, through the ownership, directly or indirectly, of fifty percent (50%) or more of the total combined voting power of all classes of stock entitled to vote, or fifty percent (50%) or more of the total value of all classes of stock of the corporation.

(C) …

(D) …

(E) Disallowance of Certain Deductions for Charitable or Other Contributions. – No gift or bequest for religious purposes, or those established in Section 1101.01(a)(2)(A), otherwise allowable as a deduction under Section 1033.10(a)(1), 1033.15(a)(3), or 1083.02(a), shall be allowed as a deduction if made in trust and, in the taxable year of the trust in which the gift or bequest is made, the deduction allowed to the trust under subsection (a) is limited under subparagraph (A). With respect to any taxable year of a trust in which such deduction has been so limited by reason of entering into a prohibited transaction

with the purpose of diverting such corpus or income from the purposes described in subsection (a), and such transaction involved a substantial part of such income or corpus, and which taxable year is the same, or prior to the taxable year of the trust in which such prohibited transaction occurred, such deduction shall be disallowed to the donor only if such donor or, if such donor is an individual, any member of his/her family, as defined in Section 1033.17(b)(2)(D), was a party to such prohibited transaction.

(F) …

(3) …

(4) Accumulated Income. – If the amounts permanently set aside or to be used exclusively for charity and other purposes described in subsection (a) during the taxable year or any preceding taxable year and not actually paid out by the end of the taxable year are-

(A) …

(B) …

(C) invested in such a manner as to jeopardize the interests of religious, charitable, scientific, etc..-

The amount otherwise allowable under subsection (a) as a deduction shall be limited to the amount actually paid out during the taxable year and shall not exceed fifty percent (50%) of the net income of the trust (computed without the benefit of subsection (a)).”

Section 104. – Subsection (a) of Section 1083.06 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 1083.06. – Income for the Benefit of the Grantor. –

(a) Where any part of the income of a trust:

(1) …

(2) …

(3) is, or at the discretion of the grantor or any person not having a substantial adverse interest in the disposition of such portion of the income may be, applied to the payment of premiums for insurance policies on the life of the grantor, except insurance policies irrevocably payable for the purposes and in the manner specified in Section 1033.15(a)(3), related to the deduction for charitable contributions, then such portion of the income of the trust shall be included when computing the net income of the grantor.

(b) …"

Section 105. – Subsection (b) of Section 1091.07 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1091.07. – Returns. –

(a) …

(b) Exemption from Requirement to File. – Subject to such conditions, limitations, and exceptions, and under such regulations promulgated by the Secretary, nonresident alien individuals not engaged in trade or business in Puerto Rico subject to the tax imposed by Section 1091.01(a), as well as those treated as engaged in trade or business in Puerto Rico solely by virtue of Section 1071.01, may be exempt from the requirement to file income tax returns if the income tax withheld satisfies their tax liability in Puerto Rico."

Section 106. – Subsection (a) of Section 1091.08 of Act 1-2011, as amended, is hereby amended to read as follows:

"Section 1091.08. – Payment of Tax. –

(a) Time of Payment. – In the case of a nonresident alien individual not engaged in trade or business within Puerto Rico with respect to whose wages, as defined in Section 1062.01(a), withholding under said Section is not applicable,

the total amount of tax imposed by this Subtitle shall be paid, in lieu of the time prescribed in Section 1061.16(a), on the fifteenth (15th) day of June following the close of the calendar year, or, if the return should be filed on a fiscal year basis, then on the fifteenth (15th) day of the sixth (6th) month following the close of the fiscal year.

(b) …"

Section 107. – Subparagraph (B) of paragraph (2) and paragraphs (3) and (4) of subsection (a) of Section 1092.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1092.01. – Tax on Foreign Corporations and Partnerships. –

(a) …

(1) …

(2) …

(A) …

(B) Investment of Eligible Funds in Obligations of the Government Development Bank for Puerto Rico or any of its Subsidiary Corporations, for the Financing of Construction, Acquisition, or Improvements of Housing in Puerto Rico. – A sum equal to the principal derived from industrial development income accumulated during tax years beginning before January 1, 1993 and invested in obligations of the Government Development Bank for Puerto Rico, or any of its subsidiary corporations, for financing through the purchase of mortgages for the construction, acquisition, or improvement of housing in Puerto Rico begun after December 31, 1984, or for refinancing mortgage obligations the interests of which are subsidized according to the provisions of Act No. 10 of July 5, 1973, as amended, Act No. 58 of June 1, 1979, as amended, and Act No. 141 of June 14, 1980, as amended, under the terms and conditions established by

said Bank through regulations, could be distributed exempt from taxation and shall not be subject to taxes imposed by paragraph (1) of this subsection, at a rate of a fraction whose numerator shall be the number one (1) and whose denominator shall be the total number of periods established for the payment of interests on said obligations and in no case shall said fraction be less than one eighth (1/8) annually or one sixteenth (1/16) semi-annually, based on the dates established for the payment of interest on said obligations, as long as the investing corporation has possessed the obligation for the totality of the year or semester immediately preceding said dates. At the option of the investing corporation, the amounts that qualify for annual or semi-annual distribution under this paragraph may be accumulated for distribution at any later dates. In the case of investments described in subparagraph (A) of this paragraph (2) of this Section:

(i) …

…

(3) Definition of 'Related Person'. –

(A) General Rule. – For purposes of paragraph (1), a foreign corporation not engaged in trade or business in Puerto Rico shall be treated as a related person in accordance with Section 1010.05 of this Subtitle.

(B) Any foreign corporation not engaged in trade or business within Puerto Rico shall also be considered a related person when the debtor of the obligation possesses fifty percent (50%) or more of the value of the stocks of said corporation. For the purpose of determining whether the debtor of the obligation possesses fifty percent (50%) or more of the value of the stocks of a foreign corporation not engaged in trade or business within Puerto Rico, the rules of Section 1010.05 shall be applied, but substituting the phrase 'foreign corporation' where it appears in said clauses, with the phrase 'debtor of the obligation'.

(4) The provisions of paragraph (1) of this Section shall not apply to the interests (including the original issue discount, letters of credit, and other financial guarantees), dividends, interest in a partnership, or other items of income similar to those received from an International Insurer or from an International Insurer Holding Company that complies with Section 61.040 of the Insurance Code of Puerto Rico, or to the amount of any benefits or interests received by virtue of a life insurance or annuity contract issued by an International Insurer.

(b) …

…"

Section 108. – Paragraph (2) of subsection (f) of Section 1092.02 of Act 1-2011, as amended, is hereby amended to read as follows:

"Section 1092.02. – Tax on Dividend Equivalent Amount. –

(a) …

…

(f) …

(1) …

(2) Industrial development income, in accordance with the provisions of the Economic Incentives Act for the Development of Puerto Rico and any previous or subsequent law similar in nature, green energy income under Act No. 83-2010, known as the 'Green Energy Incentives Act of Puerto Rico,' or any other previous or subsequent law of a similar nature, tourism development income exempt pursuant to the provisions of the Puerto Rico Tourist Development Act of 1993, and income derived by international banking entities organized under the provisions of Act No. 52 of August 11, 1989, known as the 'International Banking Center Regulatory Act,' shall not be subject to the provisions of this Section.

(3) …

…"

Section 109. – Paragraphs (2) and (3) of subsection (a) of Section 1092.04 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1092.04. – Requirements for Allowing Deductions and Credits. –

(a) …

(1) …

(2) The corporation shall have available at all times the accounting books containing the operations of branches or divisions in Puerto Rico, including all the pertinent documents evidencing such deductions and the basis used for the apportionment and allocation of deductions to income effectively connected with the conduct of trade or business within Puerto Rico.

(3) The corporation shall accompany its income tax return with financial statements in relation to the assets and liabilities effectively related to its trade or business in Puerto Rico in accordance with Section 1061.15."

Section 110. – Subsection (b) of Section 1092.06 of Act 1-2011, as amended, is hereby amended to read as follows:

"Section 1092.06. – Returns. –

(a) …

(b) Exemption from Requirement to File. – Subject to such conditions, limitations, and exceptions, and under such regulations promulgated by the Secretary, corporations and partnerships subject to the tax imposed by Section 1092.01(a)(1)(A), as well as those treated as engaged in trade or business in Puerto Rico solely by virtue of Section 1071.01, may be exempt from the requirement to file income tax returns if the income tax withheld satisfies their tax liability in Puerto Rico."

Section 111. – Subparagraph (C) of paragraph (6), paragraph (7) and subparagraph (F) of paragraph (8) of subsection (a), paragraph (2) of subsection (b), and paragraph (4) are hereby amended, a paragraph (5) is hereby added to subsection (d), the last subsection is renumbered as subsection (e), and a subsection (f) is hereby added to Section 1101.01 of Act No. 1-2011, as amended, to read as follows:

"Section 1101.01. – Tax Exemption on Nonprofit Organizations and Corporations. –

(a) …

(1) …

(6) Organizations providing residential rental property:

(A) …

(C) Nonprofit associations providing rental housing to persons over sixty (60) years of age; provided, that said corporations qualify under Section 202 of the National Housing Act, as amended (Public Law 86-372, 73 Stat. 654), when so certified by the Department of Housing of Puerto Rico or any other agency, instrumentality, or political subdivision authorized for these purposes, which have duly requested a tax exemption before January 1, 2011, and that have been declared as tax exempt by the Secretary.

(7) Cooperatives:

(A) Subject to the requirements of Act No. 239-2004, known as the 'General Cooperative Associations Act of 2004,' as amended, the cooperative associations organized and operated under the provisions of said Act.

(B) Subject to the requirements of Act No. 255-2002, as amended, known as the 'Cooperative Savings and Credit Unions Act of 2002,' the cooperative credit unions organized and operated under the provisions of said Act.

(C) Subject to the requirements of Act No. 77 of June 19, 1957, as amended, known as the 'Puerto Rico Insurance Code,' the insurance cooperatives organized and operated under the provisions of said Act.

(D) Subject to the requirements of Act No. 220-2002, as amended, known as the 'Special Act for Youth Cooperatives,' cooperative associations organized and operated under the provisions of said Act.

(8) Other Organizations:

(A) …

(F) Any entity created or organized under the laws of the United States of America, or those of any state of the United States of America, and that, during the taxable year, qualifies as a registered real estate investment company or investment trust under the United States Internal Revenue Code of 1986, as amended, including persons that are part of the group of related entities of the real estate investment trusts. In the case of these real estate investment trusts, including persons that are part of its group of related entities, the exemption on all income from sources within or outside Puerto Rico shall be granted to the real estate investment trust and persons that are part of the related entities only if all the assets in real property held by the trust and persons that are part of its group of related entities in Puerto Rico constitute real property as such term is defined in Section 1082.01(c)(7)(D), and assets related to the possession and operation of said properties, and the acquisition or development of said real property by the trust and persons that are part of its group of related entities or the interest of the trust in its

subsidiaries, occurred after December 31, 2010, and through transactions concerning the development or construction of such property, or the purchase of assets, stocks, or interests in partnerships that generate income from sources within Puerto Rico and subject (except for assets purchased from the Government of Puerto Rico, its agencies, and instrumentalities) to taxation under this Subtitle, or its equivalent under preceding laws. For purposes of this subparagraph (F):

(i) In determining whether a person is part of a group of related entities, rules similar to those provided in Section 1010.05 shall be applied regarding related entities or persons.

(ii) The development of a property shall be deemed as constituting a transaction that generated income from sources within Puerto Rico subject to taxation.

(iii) The date of acquisition or development of a property developed by the trust or the related entities thereof shall be the date on which the use permit was granted.

(iv) If a trust has more than one related person engaged in trade or business in Puerto Rico, but not all related persons comply with the provisions of this subparagraph (F), the exemption provided herein shall only be granted to the trust and those related persons that comply with the provisions of this subparagraph (F).

(9) …

(b) …

(c) …

(d) In the case of organizations declared as tax exempt under paragraphs (2), (3), (4)(A), (4)(B), (4)(C), (5), (6), (8)(A), (8)(B), and (9) of subsection (a):

(1) …

(2) …

(3) …

(4) The process of revoking a tax exemption determination pursuant to paragraph (3) shall be governed by the provisions of the 'Commonwealth of Puerto Rico Uniform Administrative Procedures Act,' Act No. 170 of August 12, 1988, as amended.

(5) The Secretary shall prescribe through regulations, administrative determination, or circular letter the information that such organizations shall submit in order to determine compliance with the provisions of subparagraphs (A) and (B) of paragraph (3) of this subsection (d).

(e) For the loss of the exemption under certain circumstances, in the case of organizations exempt under paragraphs (2)(A) and (4)(D), see Sections 1102.06 and 1102.07.

(f) Transitory Provisions. – Nonprofit organizations that, on the effective date of this Code, have failed to obtain a determination from the Secretary approving the tax exemption granted under the provisions of Section 1101 of Act No. 120-1994, as amended, known as the 'Puerto Rico Internal Revenue Code of 1994,' may request that such exemption be granted retroactively to the date of organization of the entity; provided, that the tax responsibilities of said entity are up to date and it complies with the requirements set forth in this Section. Such request shall be submitted not later than June 30, 2012. Entities that have obtained a determination approving their tax exemption under the provisions of Section 1101 of the Puerto Rico Internal Revenue Code of 1994, but that, as of the effective date of this Code, fail to comply with the provisions of Chapter 10 of Subtitle A of this Code, may request a new tax exemption determination under the

provisions of this Code, insofar as they show to the satisfaction of the Secretary that they meet the requirements of Chapter 10 of Subtitle A of this Code."

Section 112. – Paragraph (2) of subsection (a) and paragraph (2) of subsection (b) of Section 1102.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1102.01. – Imposition of the Tax on Unrelated Business Income of Charitable, Etc., Organizations. –

(a) Charitable, Etc., Organizations, Taxable at Corporation Rates. –

(1) …

(2) Organizations Subject to Tax. – The tax imposed by paragraph (1) shall apply in the case of any organization (other than a trust as described in subsection (b)) which is exempt, except as provided in this Subchapter, from taxation under this Subtitle by reason of subsection (a) of Section 1101.01 (except for paragraphs (1), (3), and (7) of said subsection); subsection (a) of Section 1081.01; or subsection (e) of Section 1081.02. Said tax shall also apply in the case of a corporation described in Section 1101.01(a)(9)(A) if the income is payable to an organization which in itself is subject to the taxes imposed by paragraph (1) or to a church or a convention or association of churches.

(b) …

(1) …

(2) Charitable, Etc., Trusts Subject to Tax. – The tax imposed by paragraph (1) shall apply in the case of any trust which is exempt, except as provided in this Subchapter, from taxation under this Subtitle by reason of Sections 1101.01(a)(2)(A), 1101.01(a)(4)(D), 1081.01(a) or 1081.02(a), and which, if it were not for such exemption, would be subject to the tax imposed by Chapter 8 related to estates and trusts."

Section 113. – Paragraphs (10) and (11) of subsection (b) of Section 1102.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1102.02. – Unrelated Business Net Income. –

(a) …

(b) …

(1) …

…

(10) In the case of any organization described in Section 1102.01(a), the deduction allowed by Section 1033.10 (related to charitable and other gifts and contributions), shall be allowed (whether or not directly connected with the conduct of the trade or business), but shall not exceed ten percent (10%) of the unrelated business net income computed without the benefit of this paragraph.

(11) In the case of any trust described in Section 1102.01(b), the deduction allowed by Section 1033.15(a)(3) (related to charitable and other gifts and contributions), shall be allowed (whether or not directly connected with the conduct of the trade or business), and for that purpose a distribution made by the trust to a beneficiary described in Section 1033.15(a)(3) shall be considered as a gift or contribution. The deduction allowed by this paragraph shall not exceed fifty percent (50%) of the unrelated business net income computed without the benefit of this paragraph.

(12) …"

Section 114. – Paragraph (1) of subsection (b) of Section 1102.03 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1102.03. – Unrelated Trade or Business. –

(a) …

(b) …

(1) A trust computing its unrelated business net income under Section 1102.02 for purposes of Section 1083.02(e)(1); or

(2) …

…

(c) …"

Section 115. – Paragraph (2) of subsection (a) and paragraph (2) of subsection (c) of Section 1102.06 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1102.06. – Exemption Requirements. –

(a) …

(1) …

(2) Taxable Years Affected.– An organization as described in Sections 1101.01(a)(1), 1101.01(a)(2), 1101.01(a)(4)(D), 1101.01(a)(8)(A), 1101.01(a)(9), or 1081.01 shall be denied exemption from taxation by reason of paragraph (1) only for taxable years after the taxable year during which it is notified by the Secretary that it has engaged in a prohibited transaction, unless such organization entered into such prohibited transaction with the purpose of diverting corpus or income of the organization from its exempt purposes, and such transaction involved a substantial part of the corpus or income of such organization.

(b) …

(c) …

(2) Any organization that is not described in paragraph (1) and which is subject to the provisions of this Section –

(A) …

(B) …

(C) …

(D) …

(E) engages in any other transaction which results in a substantial diversion of its income or corpus to;

the creator of such organization (if a trust); a person who has made a substantial contribution to such organization; a member of the family (as defined in Section 1033.17(b)(2)(D)) of an individual who is the creator of such trust or who has made a substantial contribution to such organization; or a corporation controlled by such creator or person, or by the organization itself, through the ownership, directly or indirectly, of fifty percent (50%) or more of the total combined voting power of all classes of stock entitled to vote or fifty percent (50%) or more of the total value of shares of all classes of stock of the corporation.

(d) …

(1) …

…”

Section 116. – Subparagraph (B) of paragraph (1) of subsection (c) and paragraph (2) of Section 1111.04 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1111.04. – Taxation on Foreign Life Insurance Companies. –

(a) …

(c) …

(1) …

(A) …

(B) under the laws of any other country, which engages in the business of life insurance in Puerto Rico and which would qualify as a life insurance company under subsection (a) of Section 1111.01, if it were not for the fact of it having been organized outside Puerto Rico.

(2) Foreign life insurance net income subject to normal tax shall mean the amount resulting after applying to the taxable income of the life insurance company a fraction whose numerator shall be the sum of direct premiums written for life, accident, and health insurance and direct premiums, as annuity considerations apportioned to Puerto Rico, as the same are reported in the annual statement required by Article 3.310 of the Puerto Rico Insurance Code; and the denominator of which shall be the sum of all the direct premiums written for life, accident, and health insurance and direct premiums, as annuity considerations written everywhere by the foreign life insurance company, as the same are reported in the aforementioned annual statement.

(3) …

(d) …"

Section 117. – Subsection (a) of Section 1111.05 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1111.05. – Taxable Income Not Declared in Return Filed with the Secretary by a Foreign Life Insurance Company. –

(a) Every life insurance company subject to the provisions of Section 1111.04 to which notice of deficiency has been served in accordance with the provisions of Section 6212 of the United States Internal Revenue Code or any similar provision in the country of origin or organization, shall be required to notify in writing to the Secretary the amount attributable to Puerto Rico of the taxable income of the life insurance company determined by the Federal Internal

Revenue Commissioner or tax official of the country of origin or organization, in excess of that declared in the income tax return filed with said official for the taxable year in question, and to pay the tax corresponding to the taxable income not declared in the return filed with the Secretary.

(b) …

(c) …"

Section 118. – Paragraph (2) of subsection (a) of Section 1113.02 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1113.02. – Special Corporation Computations. –

(a) Income and Deductions. –

…

(1) …

(2) There shall not be allowed a deduction for taxes as provided for in Section 1033.04 of this Subtitle with respect to the taxes described in Section 1051.01 of this Subtitle."

Section 119. – Subsection (a) and (b) of Section 1114.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 1114.01. – General Rule. –

(a) Application of Provisions. – The provisions of this Subchapter shall apply only to those partnerships that have opted to operate as a special partnership; provided, that they derive at least seventy percent (70%) of their gross income during each taxable year from sources within Puerto Rico, and at least seventy percent (70%) of said income is derived from the operation of one of the following activities:

(1) …

(2) …

(3) …

(4) …

(5) A business for the lease of buildings or structures, excluding the lease of residential property to related persons;

(6) …

(7) A tourist business, including income from the operation of casinos;

(8) …

…

(b) Special Rules. –

(1) Sale of Assets Used in Eligible Activity. – Gross income from the operation of an activity described in paragraphs (1) through (12) of subsection (a) shall include gains derived from the sale, exchange, or other disposition of property used in the corresponding activity described in subsections (a) and (h) of Section 1034.01.

(2) Gross Income during Special Partnership Organization Period.–

(A) General Rule. – The gross income of the operation of one of the activities described in paragraphs (1) through (12) of subsection (a) shall include income derived from the temporary investment of the funds of a special partnership during the period prior to the beginning of operations of the activity that qualifies the special partnership for the benefits of this Subchapter. Said period shall not be greater than thirty-six (36) months starting from the organization of the partnership.

(B) Time Extension. – In those cases in which the special partnership demonstrates to the satisfaction of the Secretary that it has been impossible to start the operations of the activity that shall qualify it as a special partnership within the period established under subparagraph (A), the Secretary can grant a time extension for a period that does not exceed eighteen (18) months from the expiration of the original period, for the partnership to begin the eligible activity. The income from the temporary investment of funds from the special partnership during the extended period shall constitute gross income from the operation of one of the activities described in paragraphs (1) through (12) of subsection (a).

(3) …

(4) …

(5) Business Engaged in Nautical Tourism.– Tourist businesses engaged in nautical tourism that enjoys exemption, as provided in the Tourism Development Act of 2010, or any successor law similar in nature, shall only be required to satisfy the requirement that at least seventy percent (70%) of its gross income be derived from the operation of such activity.

(c) …"

Section 120. – Subsection (c) of Section 1114.12 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1114.12. – Election. –

(a) …

(b) …

(c) Effect of Election. – A partnership making an election under Section 1114.12 shall be subject to the provisions of subsections (d), (e), (f), and (g) of Section 1115.03 and Section 1115.08 of Subchapter E of Chapter 11.

(d) …"

Section 121. – Paragraph (3) of subsection (c) of Section 1115.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 1115.01. – General Rule. –

(a) …

(b) …

(c) Eligible Corporations of Individuals. –

(1) …

(2) …

(3) Eligible Corporations. – For purposes of paragraph (1), the term 'eligible corporation' means any domestic corporation other than—

(A) an insurance company subject to taxation under the provisions of Subchapter A of Chapter 11 of Subtitle A of this Code,

(B) a regulated investment company subject to taxation under the provisions of Subchapter B of Chapter 11 of Subtitle A of this Code,

(C) a special corporation subject to taxation under the provisions of Subchapter C of Chapter 11 of Subtitle A of this Code,

(D) a tax-exempt corporation under the provisions of Act No. 57 of June 13, 1963, Act No. 26 of June 2, 1978, Act No. 8 of January 24, 1987, or any other similar laws, except for an exempt corporation under the provisions of Act No. 78-1993,

(E) an exempt corporation under Section 1101.01,

(F) a financial institution as defined in Section 1033.17(f)(4), or

(G) an entity that holds a license issued by the Commissioner of Financial Institutions pursuant to Act No. 3 of October 6, 1987, known as the 'Puerto Rico Investment Capital Fund Act of 1996,' as amended.

(d) …

…"

Section 122. – Section 1116.14 is hereby added to Subchapter F of Chapter 11 of Subtitle A of Act No. 1-2011, as amended, to read as follows:

"Section 1116.14. – Green Energy. –

Entities covered under Act No. 83-2010, known as the 'Green Energy Incentives Act of Puerto Rico,' as amended, or any previous or subsequent law similar in nature."

Section 123. – Section 1116.15 is hereby added to Subchapter F of Chapter 11 of Subtitle A of Act No. 1-2011, as amended, to read as follows:

"Section 1116.15. – Conservation Easement. –

Conservation Easement Tax Benefit. – The tax benefits received under Act No. 183-2001, as amended, known as the 'Puerto Rico Conservation Easement Act.'"

Section 124. – Subsection (c) of Section 2021.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 2021.01. – Tax Imposition and Rates. –

(a) …

(c) The tax to be paid on the transfer of the taxable estate of any decedent who was a Puerto Rico resident shall be equal to the tax assessed, pursuant to subsections (b) of this Section, minus the credits provided in Sections 2024.01, 2024.02, and 2024.04 of this Subtitle.

Section 125. – Paragraph (3) of subsection (b) of Section 2023.02 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 2023.02. – Deduction in Relation to Properties Located in Puerto Rico. –

(a) …

(b) …

(1) …

(3) Stock issued by any foreign corporation or partnership, when not less than eighty percent (80%) of the gross income of such foreign corporation or partnership for the three (3)-year period ending at the close of its taxable year before the date of death of the decedent, or the corresponding period from the date of existence of such corporation or partnership, if such income was actually connected with the conduct of trade or business in Puerto Rico, pursuant to the provisions of Subtitle A of this Code; provided, that if the decedent owned over ten percent (10%) of the stock (voting stock or value) in said foreign corporation or partnership, for purposes of determining whether it satisfies the requirement of having eighty percent (80%) or more of its gross income being actually connected with the conduct of trade or business in Puerto Rico for the period mentioned above, the gross income of any corporation or partnership in which such foreign corporation or partnership holds, directly or indirectly, over fifty percent (50%) of stock (voting stock or value), shall be taken into consideration, in addition to the gross income of such foreign corporation or partnership.

(4) …

…"

Section 126. – A subsection (c) is hereby added to Section 2024.04 of Act No. 1-2011, as amended, to read as follows:

"Section 2024.04. – Credit to Liable Taxpayer. –

(a) …

(b) …

(c) For purposes of the credit provided in this Section, it shall be understood that, at the time of death, the decedent did not have any debts pending payment on account of taxes if the total amount of such taxes does not exceed the

lesser of one percent (1%) of the decedent's gross estate or five thousand dollars ($5,000)."

Section 127. – Subsection (c) is hereby renumbered as subsection (b) of Section 2030.06 of Act No. 1-2011, as amended, to read as follows:

"Section 2030.06. – Taxable Decedent's Estate. –

(a) …

(b) Obligation to Furnish Copy of Tax Return Liquidated in the Other Jurisdiction. – No deduction shall be granted under paragraphs (1), (2), (3), and (4) of Section 2030.06(a), unless the Administrator submits as a supplement to the tax return required under Section 2051.01 of this Subtitle, a certified copy of the tax return as liquidated in the other jurisdiction. In default thereof, a sworn statement shall be submitted, listing the properties owned by the decedent in such other jurisdiction, as well as their value."

Section 128. – Subsection (a) of Section 2054.02 of Act No.1-2011, as amended, is hereby amended to read as follows:

"Section 2054.02. – Lien Cancellation. –

(a) Obligation Has Been Met. – The Secretary shall, subject to such rules and regulations as he/she may promulgate, issue a lien cancellation certificate in connection with any and all property subject to the lien imposed under Section 2054.01, if the obligation secured by such lien has been fully met.

Notwithstanding the foregoing provisions, the Secretary shall not issue the certificate cancelling the lien in full on property intended for release from such lien, if it is proven that the self-assessed taxes under this Subtitle were not reasonably determined. Neither shall the Secretary issue the lien cancellation certificate in those cases in which the decedent or donor holds stock of a corporation or shares in a limited liability company or a partnership that constitute

control of said corporation, limited liability company, or partnership, as defined in Section 1010.04 of Subtitle A of this Code, and the deduction for property located in Puerto Rico provided for under paragraphs (b)(2), (b)(3), and (b)(5) of Section 2023.02 and under paragraphs (b)(2) and (b)(4) of Section 2042.02 is claimed, unless the corporation, limited liability company or partnership, whichever applies, is current in the payment of its tax obligations with the Department.

(b) …

…"

Section 129. – Subparagraph (B) of paragraph (11) of subsection (a) of Section 3010.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 3010.01. – General Definitions. –

(a) …

(1) …

(11) …

(A) …

(B) New Vehicles for Private Use. – In the case of new automobiles introduced from abroad by persons who will use them for private purposes, the 'suggested consumer sales price' means the suggested manufacturer's retail price as published in the most recent edition of the *Black Book New Car Market Guide* or the *Black Book Truck and Vans Guide* available on the date of introduction of the vehicle, depending on the corresponding vehicle, or in any other authorized and independent sources duly recognized by the industry, as determined by the Secretary. The amount found in the corresponding publication shall then be multiplied by one point thirty (1.30) in order to configure the 'suggested consumer sales price' in order to apply the tax rate and determine the excise tax to be paid.

(C) …

(12) …

…"

Section 130. – Paragraph (10) of subsection (a) of Section 3020.08 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 3020.08. – Vehicles. –

(a) …

(10) Category III ambulances are excluded from the tax provided in this Section, in which case no amount shall be levied or collected on account of excise taxes. For purposes of this Code, 'Category III ambulance' shall refer to every ambulance devoted to the transportation of the sick, injured, wounded, handicapped, disabled, or invalid, as per the regulations established by the Public Service Commission for such category. Moreover, ambulances under this category shall be especially designed, built, and equipped as a mobile emergency room. Said ambulances shall be operated by medical emergency technicians authorized by the Secretary of Health.

…"

Section 131. – Subsection (d) of Section 3020.09 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 3020.09. – Vessels and Heavy Equipment. –

(a) …

…

(d) Vessels and heavy equipment in stock on the effective date of the levied excise tax provided in this Section shall be deemed to be introduced to Puerto Rico on said date. The Excise Tax Declaration required by Section 3020.10 shall be filed on said date of introduction. Notwithstanding the foregoing and the provisions of Section 3060.01 –

(1) …

(2) …

(e) …

…”

Section 132. – Subparagraph (A) of paragraph (1) of subsection (a) of Section 3020.10 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 3020.10. – Excise Tax Declaration and Monthly Excise Tax Return. –

(a) …

(1) Exceptions. –

(A) Dealers bonded to introduce vehicles, vessels, and heavy equipment shall file the declaration stated in subsection (a) no later than ten (10) days after the date on which they take possession of the vehicles, vessels, and heavy equipment; and

(B) …

(b) …

…”

Section 133. – Subsection (f) is hereby renumbered as subsection (g) and a new subsection (f) is hereby added to Section 3030.03 of Act No. 1-2011, as amended, to read as follows:

“Section 3030.03. – Excise Tax Refund for Combined or Alternative Fuel Vehicles. –

(a) …

(b) …

…

(f) For purposes of the refund granted by this Section, the term ‘motor vehicles’ means automobiles and buses, as such terms are defined in paragraphs (1) and (2) of subsection (b) of Section 3020.08, respectively.

(g) The Secretary shall prescribe by regulations, circular letter, or any other administrative determination or communication of a general character, the procedure and requirements for requesting the refund in accordance with this Section.”

Section 134. – The paragraphs of Section 3030.04 of Act No. 1-2011, as amended, are hereby numbered as subsections (a) and (b) to read as follows:

“Section 3030.04. – Conditional Exemption; Goods in Transit, for Re-export or Return. –

(a) No conditional exemption shall be recognized in the cases indicated in Sections 3030.10 and 3030.11 of this Chapter, unless the goods to which the exemption is granted is once again exported, returned to the manufacturer, destroyed, or otherwise disposed of as required by the provisions of said Sections.

(b) Subject to the provisions of Subtitle F, the Secretary may extend or broaden the time limit for a taxpayer to once again export, return to the manufacturer, destroy, or otherwise dispose of the goods subject to conditional exemptions for any of the reasons or causes established in Sections 3030.10 and 3030.11 of this Chapter.”

Section 135. – Subsection (b) of Section 3030.16 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 3030.16. – Exemptions on Goods Acquired by Government Agencies.–

(a) …

(b) Vehicles, vessels, and heavy equipment acquired for official use by the departments, agencies, administrations, bureaus, boards, commissions, offices, public corporations, public instrumentalities, and municipalities of the Commonwealth of Puerto Rico, including the Legislative Branch and the Judicial Branch, shall be exempt from the payment of the excise taxes prescribed in Sections 3020.08 and 3020.09 of Chapter 2 of this Subtitle.

(c) …

…"

Section 136. – Paragraph (3) of subsection (c) of Section 3050.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 3050.01. – License Fees for Wholesalers or Retailers of Certain Goods. –

(a) …

(c) …

(1) …

(3) If cigarettes, alcoholic beverages, and auto parts and accessories (or two of these items) are sold in the same location, the license for 'Cigarette and Alcoholic Beverage Retailer for a Limited Time Only' may be requested, and all other requirements and permits for the sale of such goods shall also be met, and in order to qualify for this consolidated license, a turnover greater than five million dollars ($5,000,000) per natural year cannot be generated, and aggregate sales of the three activities covered by this consolidated license cannot exceed thirty percent (30%) of the total turnover of the facility to which the license is issued.

…"

Section 137. – Section 3050.09 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 3050.09. – Restrictions and Requirements – Air, Sea, or Land Carrier Businesses. –

No license whatsoever shall be granted to operate an air, sea, or land carrier business unless, in addition to complying with the applicable requirements of Section 3050.05 of this Chapter, the applicant presents a copy of the rates filed at the Federal Maritime Commission to the Secretary and posts a bond to secure payment of the taxes and any surcharges, interest, or penalties that may be imposed under this Subtitle."

Section 138. – Section 3060.11 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 3060.11. – Disposition of Funds. –

(a) The proceeds from the taxes and license fees collected by virtue of this Subtitle shall be deposited into the General Fund of the Treasury of Puerto Rico except as provided below:

(1) …"

Section 139. – Section 3070.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 3070.01. – Tax levied on the Acquisition of Certain Personal Property and Services. –

The provisions related to the excise tax on acquisitions of personal property and services between related persons made after December 31, 2010, shall be those established in Sections 2101, 2102, 2103, 2104, 2105, and 2106 of Act No. 120-1994, as amended, known as the "Internal Revenue Code of Puerto Rico of 1994," in effect as of the date of approval of this Code, except that any reference in said

Sections to specific provisions of the Puerto Rico Internal Revenue Code of 1994 (other than subsections (f) and (h) of Section 1123 of said Code) shall be understood, for purposes of this Code, as referring to the analogous provision of this Code."

Section 140. – Section 4010.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

'Section 4010.01. – General Definitions. –

For purposes of this Subtitle, the following terms, words, and phrases shall have the general meaning stated below, except when the context clearly indicates another meaning:

(a) …

(1) …

…

(5) Bakery products;

(i) This term does not include bread, crackers, or any other bakery product considered food by the Federal Nutrition Assistance Program (FNAP), which shall be exempt from the SUT pursuant to the provisions of subsection (aa) of this Section.

(b) …

(f) …

(1) …

(7) Financial lease constituting a sale pursuant to subsection *(ss)* of this Section, and the financial leases that meet the requirements set forth in Section 1(c) of Act No. 76-1994, as amended.

…

(g) …

(h) Retail Merchant or Vendor. – Any person engaged in the business of selling taxable items in Puerto Rico, including any wholesaler. For purposes of this Section, a person shall be deemed to be engaged in the business of selling taxable items in Puerto Rico when:

(1) …

…

(i) …

…

(aa) Taxable Item. – Tangible personal property, taxable services, admission fees, and bundled transactions. However, items acquired with funds received from the Federal Nutrition Assistance Program (FNAP) or from the WIC program shall not constitute taxable items and shall be exempt from any tax imposed under this Subtitle D.

(bb) …

…

(gg) Tangible Personal Property. –

(1) …

(2) The term 'tangible personal property' excludes –

(A) …

(B) Automobiles, truck tractors, all-terrain vehicles, motorcycles, vessels, heavy equipment, buses, and trucks, as such terms are defined in Sections 3020.08(b) and 3020.09(a);

(C) The intangibles;

(D) Gasoline, aviation fuel, gas oil or diesel oil, crude oil, partially finished and finished oil by-products, as well as on any other hydrocarbon blend, except for propane gas and its derivatives and other gases of similar nature;

(E) Electric power generated by the Electric Power Authority or any other entity which generates electric power; and

(F) The water supplied by the Puerto Rico Aqueduct and Sewer Authority.

(hh) …

(ii) …

(jj) Endorsement. – The authorization issued by the Secretary to a promoter approving the sale and collection of admission fees to a public event, after receiving the written notice required to such effects.

(1) The promoter is under the obligation to request the Secretary's endorsement for ticket sales not later than forty eight (48) hours prior to the date in which such sale begins. Noncompliance with this requirement shall result in the imposition of administrative fines as provided in Subtitle F.

(2) …

(3) …

(kk) …

…"

Section 141. – Subsection (b) of Section 4030.05 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 4030.05. – Exemption for Promotional Giveaways. –

(a) …

(b) Promotional giveaways are defined as any tangible personal property that is handed out free of charge for promotional purposes by a promoter, exhibitor, as such term is defined in Section 4060.04, or by a meeting or conference planner to a participant at conventions, trade shows, forums, meetings, incentive trips, and conferences.

(c) …"

Section 142. – Paragraph (5) of subsection (b) of Section 4030.12 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 4030.12. – Exemption on Prescription Drugs. –

(a) …

(b) …

(1) …

(5) Any device used for medical treatment and that qualifies for total or partial reimbursement by Medicare, Medicaid, the Government of Puerto Rico Health Insurance, or by a health insurance contract or policy issued by a person authorized to underwrite health service insurance or contracts in Puerto Rico.

(c) …"

Section 143. – Subsection (a) of Section 4030.14 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 4030.14. – Exemption on Real Property Leases.–

The following shall be exempt from the sales and use tax:

(a) The rent for leasing real property paid by a lessee to a lessor on that which constitutes the main residence of the lessee or student housing; and

(b) …"

Section 144. – Subsections (a) and (b) are hereby eliminated, subsections (c), (d), (e), (f), (g), and (h) are hereby renumbered as (a), (b), (c), (d), (e), and (f), and the new subsections (a) and (c) are hereby amended in Section 4050.06 of Act No. 1-2011, as amended, to read as follows:

"Section 4050.06. – Special Disposition of Funds –

(a) An amount equal to zero point five percent (0.5%) of the reported admission fees shall be deposited in a special fund, without fiscal year limitation,

for the operating expenses of the Casals Festival, Inc., the Puerto Rico Symphony Orchestra Corporation, the Strings Program for Children, and the Puerto Rico Conservatory of Music Corporation.

Every three (3) months, the Secretary of the Treasury shall transfer sixty-six percent (66%) of the amounts deposited in said fund to the Musical Arts Corporation, created by Act No. 4 of July 31, 1985, so that according to the applicable laws they may be put at the disposal of the Casals Festival, Inc., and the Puerto Rico Symphony Orchestra; in equal parts; the remaining thirty-four percent (34%) of the amounts deposited in said fund shall be transferred by the Secretary of the Treasury every three (3) months to the Puerto Rico Conservatory of Music Corporation so that they may be used for its operation and the operation of the String Program for Children in equal parts.

(b) …

(c) The proceeds from the zero point five percent (0.5%) portion of the municipal sales and use tax authorized by Section 4020.10 and Subtitle F shall be collected by the Secretary, in accordance with Subtitle F, to be deposited in special accounts or funds in the Government Development Bank for Puerto Rico (hereinafter, the 'Bank'), which shall be used exclusively for the purposes indicated hereinafter. Said sums may not be deposited, transferred, or loaned at any time in the General Fund of the Government of Puerto Rico, with no exception whatsoever. In this same context, the Commonwealth may not deduct any amount whatsoever for debts the municipalities may have with any department, agency, instrumentality, or public corporation of whatever nature, with the exception of the amount established in Section 4050.06(h). The revenues generated from the sales and use tax shall be specifically distributed for the following purposes:

(1) …

…

(d) …

(e) …

(f) …”

Section 145. – Subsection (a) of Section 4050.07 of Act No. 1-2011, as amended, is hereby amended, to read as follows:

“Section 4050.07.- Creation of the Municipal Development Fund.-

(a) Creation of the Fund. – A Municipal Development Fund is hereby created under the custody of the Bank, which shall be nourished from the deposits made from the revenues corresponding to zero point two percent (0.2%) of the proceeds of the zero point five percent (0.5%) authorized by Section 4020.10 and Subtitle F, obtained from the zero point five percent (0.5%) of the sales and use tax imposed by the municipalities, and collected and deposited by the Secretary, pursuant to Section 4050.06(e)(1).

(b) …

…”

Section 146. – Subparagraph (A) of paragraph (2) of subsection (b) of Section 4050.10 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 4050.10. – Credit for Purchasing Products Manufactured in Puerto Rico. –

(a) …

(b) …

(1) …

(2) …

(A) The term ‘products manufactured in Puerto Rico’ means products transformed from raw materials into commodities through any process, and any product made in a manufacturing business in Puerto Rico, as defined in subparagraph (A) of paragraph (1) of subsection (b) of Section 1051.09.

(B) …

…

(c) …

…”

Section 147. – Paragraphs (12), (25), and (57) of subsection (a) of Section 5001.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 5001.01. – Definitions –

(a) …

(1) …

…

(12) Champagne and Sparkling or Carbonated Wines. – Sparkling wine is made effervescent by the carbonic gas produced in a later fermentation of wine inside a closed tank or bottle; champagne is sparkling wine from the Champagne region of France. Carbonated wines are those wines which are made effervescent by adding carbonic gas so that such an addition shall produce a total content of said gas of zero point three hundred ninety-two (0.392) grams or more in one hundred (100) cubic centimeters of wine. For purposes of the labeling requirements provided in Section 50.33.05, the term ‘Champagne’ may be used even if the beverage has not originated in said region of France, provided, that the label includes the actual place of origin of said sparkling wine.

(13) …

…

…

(25) Handcrafted Distilled Spirits. – Any distilled spirit obtained by fermenting or distilling any product derived from sugarcane, excluding wines fortified with sugarcane alcohol, when the production of the manufacturer or distiller (within or outside of Puerto Rico) for the preceding calendar year is less than one hundred thousand (100,000) gallons, considering all sugarcane byproducts, without regard to the percentage of alcohol by volume thereof. Spirits shall be considered to be derived from sugar cane only if:

(A) …

(B) …

(26) …

…

(57) Substandard Wine. – Any wine manufactured in its country of origin using sugar, water, sugarcane alcohol, or any other substance in excess of what is needed to correct the natural deficiencies of the fruit, and the alcoholic content by fermentation of which has been complemented by fortifying it exclusively with distilled spirits obtained from the fermentation or distillation of products derived from sugar cane. The product may have a carbonation level of up to zero point three hundred ninety-two (0.392) grams in one hundred (100) cubic centimeters of wine. To convert wines manufactured under other categories into substandard wines by merely adding sugar, water, or sugarcane alcohol shall not be permitted. In addition, in order to qualify under this category, the total wine production of the manufacturer (within and outside of Puerto Rico) for the preceding calendar year, must be less than two million (2,000,000) gallons.

…”

Section 148. – Paragraphs (4) and (6) of subsection (a) are hereby amended, paragraph (1) is hereby amended, a paragraph (2) is hereby added, and current paragraphs (2), (3), (4), and (5) are hereby renumbered as (3), (4), (5), and (6), respectively, and new paragraphs (5) and (6) of subsection (b) are hereby amended in Section 5021.01 of Act No. 1-2011, as amended, to read as follows:

"Section 5021.01. – Tax Provision. –

An internal revenue tax shall be levied, collected, and paid once on the following products kept in a warehouse or which have been or may be, in the future, distilled, rectified, produced, manufactured, imported, or introduced to Puerto Rico at the following rate:

(a) Distilled spirits. –

(1) …

(2) …

(3) …

(4) Any handcrafted distilled spirit shall pay taxes as follows:

(A) In the case of handcrafted distilled spirit whose alcohol content is less than forty (40) percent alcohol by volume, a six dollar and thirty cent ($6.30)-tax shall be paid on each gallon, and a proportional tax at equal rate shall be paid of each fraction of a gallon;

(B) In the case of handcrafted distilled spirit whose alcohol content is equal to or more than forty (40) percent alcohol by volume, a twelve dollar and nine cent ($12.09)-tax shall be paid on each gallon, and a proportional tax at equal rate shall be paid of each fraction of gallon;

(5) …

(6) For a distilled spirit to qualify under paragraphs (3) and (4) of subsection (a) of this Section, as a spirit derived from sugar cane and aged for a period of time equal or greater than twelve (12) months, or as a handcrafted distilled spirit, it shall be an indispensable requirement that the manufacturer, distiller or importer file, with the Bureau of Alcoholic Beverages and Licenses of the Department of the Treasury, a certification of the formula and process of the spirit issued by a government agency or entity with a rank or standing similar to that of the Alcohol and Tobacco Tax and Trade Bureau (TTB) or the Bureau of Alcoholic Beverages and Licenses of the Department of the Treasury of Puerto Rico. Furthermore, the manufacturer, distiller or importer shall file with the Bureau of Alcoholic Beverages and Licenses a certification from the TTB approving the label of the product. The Secretary or the official designated by him shall be authorized to order chemical tests or analyses, or tests or analyses of any other nature, to verify the correctness of any information regarding a formula registered with the Bureau of Alcoholic Beverages and Licenses.

(b) …

(1) On wines elaborated from concentrated must (excluding sparkling or carbonated wines, or imitations thereof) the alcohol content of which does not exceed twenty four percent (24%) by volume, a seven dollar ($7.00)-tax per wine gallon, and a proportional tax at equal rate per fraction of a wine gallon.

(2) On substandard wines whose alcoholic content by fermentation has been complemented by fortifying it exclusively with distilled spirits obtained from the fermentation or distillation of products derived from sugar cane. (excluding champagne and sparkling and carbonated wines or imitation thereof,) and whose alcohol content does not exceed twenty-four (24) percent by volume, a

two dollar ($2.00)-tax per gallon, and a proportional tax at equal rate per fraction of a gallon.

(3) …

(4) …

(5) …

(A) …

(B) On sub-standard sparkling or carbonated wines, or wines from concentrate must wines whose alcohol content does not exceed twenty-four percent (24%) by volume, a two dollars and fifty five cent ($2.55)-tax per each gallon, and a proportional tax at an equal rate on every fraction of a gallon.

(6) For wines manufactured outside of the United States or Puerto Rico to qualify as sub-standard wines, wines obtained from concentrated must, or wines made from tropical fruit, it shall be an indispensable requirement that the manufacturer or importer file, with the Bureau of Alcoholic Beverages and Licenses of the Department of the Treasury, a certification of the formula of said wines issued by a government agency or entity with a rank or standing similar to that of the Alcohol and Tobacco Tax and Trade Bureau (TTB) or the Bureau of Alcoholic Beverages and Licenses of the Department of the Treasury. Furthermore, the manufacturer or importer must file with the Bureau of Alcoholic Beverages and Licenses a certification from the TTB approving the label of the product. The Secretary or the official designated by him shall be authorized to order chemical tests or analyses, or tests or analyses of any other nature, to verify the correctness of any information regarding a formula registered with the Bureau of Alcoholic Beverages and Licenses.

(c) …

…”

Section 149. – Subsection (a) of Section 5021.03 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 5021.03. – Time of Taxation. –

(a) Distilled Spirits. – The tax shall apply to distilled spirits, spirits, and alcohols as soon as they are separated in either a pure or impure state, by distillation or other evaporation process, from any substance, whether fermented or not, even if at any time they are transformed into any other substance, either during the original distillation or evaporation process or through any other process. However, the tax rate and the tax basis to be paid shall be imposed on the basis of the finished product.

(b) …

…"

Section 150. – Subsection (a) of Section 5022.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 150. – Occupations Levied with License Fees –

(a) Table of Annual License Fees

	1st Class	2nd Class	3rd Class	4th Class	5th Class	6th Class	7th Class
Distillers	$7,200	$4,700	$3,300				
Beer Manufacturers	2,700	1,400	900				
Wine Manufacturers	2,000	1,400	900	500			
Rectifiers	3,700	2,700	1,800	500			
Denatured Alcohol Manufacturers	2,200	1,200	700				
Alcoholic Beverage Canners and Bottlers	2,200	1,200	700				
Public Bonded Warehouses	2,200	1,200	700				
Distilled or Rectified	500	300	150				

Spirits Wholesalers							
Wine Wholesalers	500	250	150				
Dealer of Beer at Wholesale	500	300	200				
Importer-Wholesaler of alcoholic beverages	7,500	5,000	3,300	2,500			
Industrial Alcohol Wholesaler	600	400	200				
Alcoholic Beverages Wholesalers	2,500	2,200	1,300	800			
Motor Vehicle Wholesalers	200						
Category 'A' Alcoholic Beverage Retailers	1,800	1,500	700	500	350	250	200
Category 'B' Alcoholic Beverage Retailers	1,800	1,500	700	500	350	250	200
Category 'C' Alcoholic Beverage Retailers	1,300						
Industrial Alcohol Retailers	200	100	50				
Alcoholic Beverage Retailers for a Limited Time (daily)	15						
Retailer – Sale of alcoholic beverages, cigarettes, and vehicle parts and accessories-per establishment	200						

Section 151. – Paragraph (8) of subsection (a) and subsection (b) of Section 5023.13 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 5023.13. – Distilled Spirits and Alcoholic Beverages to be Exported or Furnished to Vessels. –

(a) …

(1) …

(8) Sold in establishments located in air or sea terminals in Puerto Rico to persons who travel outside of the jurisdictional limits of Puerto Rico.

(b) The operations stated in subsection (a) shall be subject to the conditions provided by the Secretary. The exemption established with regards to the alcoholic beverages sold in establishments located in air or sea terminals in Puerto Rico to persons who travel outside of the jurisdictional limits of Puerto Rico shall only be recognized when:

(1) …

(c) …

…"

Section 152. – Section 5033.04 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 5033.04. – Exemption from Meeting Requirements. –

Spirits and alcoholic beverages that are bottled for export shall be exempt from meeting the requirements established in this Subtitle for said products, with the exception of the provisions in Section 5031.13, with regard to the minimum aging requirement for rum. In the case of aged rum for export, the Secretary, upon consultation with the Executive Director of the Industrial Development Company, shall have the power to allow distillers, rectifiers, manufacturers, or bottlers not to identify the product on their labels as '*Ron de Puerto Rico*' or 'Puerto Rican Rum'."

Section 153. – Paragraph (10) of subsection (a) and paragraph (1) of subsection (c) of Section 5033.05 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 5033.05. – Labeling. –

(a) …

(1) …

…

(10) The phrase '*Libre de Impuesto*' or 'Tax Free', insofar as the alcoholic beverage is sold tax-free in Puerto Rico. Any person who distills, rectifies, manufactures, bottles, introduces, or imports spirits or alcoholic beverages in Puerto Rico, shall have the obligation to submit an application for the approval of the new container, cap, label, or additional label including the phrase '*Libre de Impuesto*' or 'Tax Free' within one hundred eighty (180) days following the approval of this Code, or a subsequent date authorized by the Secretary at the request of said distiller, rectifier, manufacturer, bottler, or importer; and

(11) …

(b) …

(c) Identification for malt and beer products. –

(1) Any fermented or unfermented malt beverage, as well as beer that has been imported, introduced, or manufactured in Puerto Rico, and in the possession of any person for sale or consumption in Puerto Rico, shall be labeled with an inscription on the body of the container or cap, or printed on the label. Said inscription shall appear in letters of at least eight points, and shall bear the name 'PUERTO RICO' and the trademark, or the name or brand of the manufacturer of said beverages. In the case of fermented or unfermented malt beverage or beer sold tax-free, the container, cap or label shall also include the phrase '*Libre de*

Impuesto' or 'Tax Free', or any other emblem authorized by the Secretary. Any person who manufactures, bottles, introduces, or imports fermented or unfermented malt beverages or beer into Puerto Rico shall have the obligation to submit an application for the approval of the container, cap, or label including the phrase '*Libre de Impuesto*' or 'Tax Free' or any other emblem authorized by the Secretary within one hundred eighty (180) days following the approval of this Code, or a subsequent date authorized by the Secretary at the request of said manufacturer, bottler, or importer."

Section 154. – Subsection (b) of Section 5050.15 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 5050.15. – Prohibition on the Sale or Donation of Alcoholic Beverages to Persons under the Age of Eighteen (18). –

(a) …

(b) Every alcoholic beverage wholesaler or retailer shall require any person who appears to be younger than twenty-seven (27) years of age to present an identification card with a picture and date of birth prior to the sale of alcoholic beverages, or the employment or use of said person in dispensing, selling, or dealing in alcoholic beverages."

Section 155. – Paragraphs (1) and (2) and subparagraph (B) of paragraph (3) of subsection (g) are hereby amended and the numbering of the last two subsections is hereby corrected in Section 6010.02 of Act No. 1-2011, as amended, to read as follows:

"Section 6010.02. – Procedures in General. –

(a) …

…

(g) Exceptions to Restrictions on Assessment. –

(1) Assessment Attributable to Mathematical or Transcription Error. – If the taxpayer has been notified that, due to a mathematical or transcription error readily visible in the tax return or tax declaration, he/she owes taxes exceeding those declared in the tax return or tax declaration and that a tax assessment has been made or is to be made based on what would have been the right amount of taxes, were it not for the mathematical or transcription error, such notice shall not be deemed to be a notice of deficiency under subsection (a) of this Section or subsection (f) above; and the taxpayer shall not be entitled to file a recourse before the Court of First Instance based on such notice, nor shall such assessment or collection be prohibited under the provisions of subsection (a) of this Section. Any notices under this paragraph shall state the nature of the alleged error and an explanation of the same.

(2) Reduction of Assessment Due to Mathematical or Transcription Error. –

(A) …

(B) …

(3) …

(A) …

(B) Mathematical or Transcription Error. – The term ‘mathematical or transcription error’ means:

(i) …

(ii) …

(iii) An entry in a tax return of an item that is inconsistent with another entry in the same item or with another item in said tax return or another return filed with the Department,

(iv) …

(v) …

(vi) …

(h) Time Extension for Payment of Deficiencies. –

(i) Address to Notify Deficiency. –

(1) …

…"

Section 156. – Paragraph (1) of subsection (a) is hereby amended and subsections (f) and (g) are hereby added to Section 6010.05 of Act No. 1-2011, as amended, to read as follows:

"Section 6010.05. – Limitations for Assessment and Collection. –

(a) General Rule. –

(1) Except as provided for in Sections 6010.06 and 6080.01, the amount of taxes or levies set forth under any Subtitle of this Code shall be assessed within four (4) years after the date the tax return or declaration was filed, and no court proceedings without assessment for the collection of such taxes shall be initiated after the expiration of such term. If a taxpayer amends his/her tax return within a term of one hundred eighty-three (183) days before the expiration of the limitation for assessing taxes, the Secretary shall have two (2) years from the receipt of the amended tax return or declaration to assess additional taxes or levies.

(2) …

(b) …

…

(f) Tax Returns or Declarations filed after Deadline in Cases under Investigation.- A tax return or declaration filed after the deadline to file the same established by the applicable Subtitle shall not be accepted if as of the filing date the taxpayer is under investigation for tax evasion.

(g) Tax Returns or Declarations filed after Expiration of Limitation. The Secretary is hereby authorized to reject any amended returns that are filed after the expiration date of the limitation period. The Secretary shall prescribe by regulations, circular letter, information bulletin, or general administrative determination, the circumstances under which amended returns shall be accepted after the expiration of the limitation for assessment and collection. In such cases, the Secretary shall have four (4) years from the receipt of the amended return or declaration to assess additional taxes or levies."

Section 157. – The last subparagraphs of paragraph (1) are hereby renumbered and clause (ii) of subparagraph (B) of paragraph (6) of subsection (a) are hereby amended in Section 6030.03 of Act No. 1-2011, as amended, to read as follows:

"Section 6030.03. – Additions to Taxes in Cases of Deficiency. –

(a) …

(1) …

(A) …

(B) …

(C) …

(D) A substantial overvaluation of obligations for contributions under Section 1033.09 of Subtitle A; or

(E) Denial of tax benefits claimed by reason of an absence of financial substance in the transaction, but with no intention to defraud,

twenty percent (20%) of the total amount of the deficiency (in addition to such deficiency) shall be assessed, charged, and paid in the same manner as a deficiency, except that the provisions of Section 6030.01 of this Subtitle in relation to interest on deficiencies, shall not apply.

(2) …

(6) …

(A) …

(B) …

(i) …

(ii) Any substantial overvaluation of the obligations for contributions under Section 1033.09 of Subtitle A, of a pension as determined under paragraph (5), except that the phrase 'four hundred percent (400%)' shall replace the phrase 'two-hundred percent (200%)' in such paragraph.

(b) …

…"

Section 158. – Section 6030.17 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6030.17. – Misrepresentation. –

(a) Any person who misrepresents him/herself as an internal revenue official, employee, or agent of the Department and who in such capacity attempts to collect or does collect taxes, levies or license fees under this Code, or who attempts to obtain or does obtain information which taxpayers are under the obligation to furnish exclusively to duly authorized internal revenue agents or fiscal officials, shall be guilty of a third-degree felony.

(b) In relation to any other issue that arises under this Code, and except as otherwise provided in this subsection:

(1) A person shall be guilty of a third-degree felony if, he knowingly:

(A) Falsifies, conspires or agrees with any person to conceal a fraudulent material fact or scheme from the Department of the Treasury;

(B) makes a false statement to an official or employee of the Department of the Treasury;

(C) voluntarily delivers or furnishes to the Secretary any return, declaration, sworn statement, certification, report, claim, or other document or information knowing that it is false or fraudulent.

(c) Exception.- This subsection shall not apply in cases of representations made as part of a judicial proceeding or in the event any other provision under this Code applies."

Section 159. – Section 6030.21 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6030.21. – Offenses and Civil Fines for General Violations of this Code. –

(a) Any person who fails to comply with any provision of any Subtitle of this Code or the regulations promulgated thereunder, or of any other law or regulation of Puerto Rico related to this Code, or any person who in any way assists in the violation of the laws and regulations thereunder and for which there is no specific provision dictating otherwise in any Subtitle of this Code, shall be guilty of a misdemeanor.

(b) Civil Fine.- In addition to the penalty imposed in subsection (a) of this Section, the Secretary may impose a civil fine that shall not exceed five thousand dollars ($5,000) for each violation. In the event of recidivism, the civil fine shall not be less than ten thousand dollars ($10,000) for each violation.

(c) If only criminal sanctions are provided for the violations of any provision of this Code or the laws or regulations thereunder, the Secretary may process the case administratively and impose the fine provided in subsection (b) of this Section, or both, at his discretion."

Section 160. – Subsection (a) of Section 6041.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6041.01. – Penalty for Failure to Withhold or Deposit Certain Taxes. –

(a) In the event that any person fails to deposit taxes deducted and withheld under Sections 1023.06, 1023.07, 1062.01, 1062.02, 1062.03, 1062.04, 1062.05, 1062.08, 1081.01(b)(3), 1081.02, 1081.06, and 1081.03, which should have been withheld and deposited within the term established in Subtitle A of this Code, there shall be imposed on such person, in addition to any other penalties imposed under the Code, a penalty of two percent (2%) of the sum total of the insufficiency if the omission persists for thirty (30) days or less, and an additional two percent (2%) for any additional term of thirty (30) days or fraction thereof while the omission persists, not to exceed twenty-four percent (24%) in total.

(b) …"

Section 161. – Section 6041.04 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6041.04. – Penalty for Failure to Furnish an Information Return to Receiver of Income. –

In the event that the person required to furnish to the receiver of income any information return required by Subtitle A of this Code fails to do so, unless it is shown that such an omission is due to a reasonable cause, said person shall be imposed a penalty of one hundred dollars ($100) for each declaration not furnished on time or at all."

Section 162. – Paragraphs (1), (2), (4), (7), and (8) are hereby amended and a paragraph (9) is hereby added to subsection (a), and subsection (b) is hereby amended in Section 6041.11 of Act No. 1-2011, as amended, to read as follows:

"Section 6041.11. – Penalty for Failure to File Certain Information Returns, Reconciliation Statements and Returns, Transaction Reports, Securities Broker or Trader Declarations. –

(a) …

(1) A return on the total amount paid to another person, as required under Sections 1062.01(n)(2), 1062.08, 1062.11, 1063.01(a), 1063.03, 1063.04, 1063.05(a), 1063.12, and 1063.13,

(2) The returns required under Sections 1061.05 and 1061.10,

(3) …

(4) The annual reconciliation return required under Sections 1062.01(n)(1), 1062.03(h), and 1063.10,

…

(7) The declarations required from securities brokers or traders under Section 1063.06,

(8) The information return on the plotting, merger, or transfer of real property required under Section 11 of Act No. 75 of July 2, 1987, as amended, known as the 'Puerto Rico Notarial Act' or,

(9) Any other information return required by Subtitle A of this Code that is not included in paragraphs (1) through (8) of this subsection (a).

(b) …

(1) For every return required under Sections 1062.01(n)(2), 1062.08, 1062.11, 1063.01(a), 1063.02, 1063.03, 1063.04, 1063.05(a), 1063.06, 1063.12, and 1063.13, five hundred dollars ($500);

(2) For each return required under Section 1062.01(j) of this Code that is not filed, five hundred dollars ($500).

(3) For each annual reconciliation return required under Sections 1062.01(n)(1), 1062.03(h), and 1063.10 of this Code, five hundred dollars ($500);

(4) For each annual return required under Sections 1061.05 and 1061.10, five hundred dollars ($500);

(5) For each information return required under Section 11 of the Puerto Rico Notarial Act, five hundred dollars ($500); and

(6) For any other information return required by Subtitle A of this Code, that is not included in paragraphs (1) through (5) of this subsection (b), five hundred dollars ($500)."

Section 163. – Subsection (a) and the title of Section 6041.12 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 6041.12. – Penalty for Failure to Deposit Taxes Withheld Under Sections 1062.08, 1062.10, 1062.11, and 1081.01(b)(3). –

(a) In the event that any person fails to deposit taxes deducted and withheld under Sections 1062.08, 1062.10, 1062.11, and 1081.01(b)(3) of this

Code within the term established by law, unless it is shown that such omission is due to a reasonable cause, a penalty shall be imposed on such person, equal to two percent (2%) of the amount of the insufficiency if such omission persists for thirty (30) days or less, and an additional two percent (2%) for each additional period of thirty (30) days or fraction thereof in which such omission persists, not to exceed twenty-four percent (24%) in total.

(b) …

…"

Section 164. – Subsection (a) of Section 6041.13 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6041.13. – Penalties for Failure to Furnish Reports to Special Employee-Owned Corporation Members or to Include the Correct Information. –

(a) Penalty for Failure to Submit Reports. – In the event that the special corporation fails to furnish to any of its members the report required under Section 1061.11(b) on the date prescribed, taking any time extension granted into account, unless it is shown that such omission is due to a reasonable cause, it shall pay a penalty of one thousand dollars ($1,000) for each report not furnished. The total amount of this penalty shall not exceed four thousand dollars ($4,000) for each taxable year.

(b) …"

Section 165. – Paragraph (1) of subsection (e) of Section 6041.14 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6041.14. – Penalty for Payment of Excessive Benefits. –

(a) …

(e) …

(1) …

(A) …

(B) A relative of the individual described under subparagraph (A); and

(C) A thirty-five percent (35%) entity controlled described in subparagraphs (A) and (B) of this subsection.

(2) …

…"

Section 166. – Subsection (a) and subparagraphs (A), (B), and (C) of paragraph (1) of subsection (b) of Section 6042.14 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 6042.14. – Violations. –

(a) Jurisdiction to Try Infringement Cases and to Impose Penalties. – Exclusive original jurisdiction is hereby conferred to the Court of First Instance of Puerto Rico to try all cases of misdemeanors for violations of the provisions of Subtitles C and E, relating to license fees, as well as the regulations promulgated or to be promulgated for the enforcement thereof. If in any case of misdemeanor for violations of the provisions of Subtitles C and E, relating to license fees, or the regulations promulgated or to be promulgated for the enforcement thereof, the accused presents for the consideration of the Judge not later than the date the case is to be tried, a certification issued by the Secretary attesting that an civil fine has been imposed and collected on account of the same infraction that caused the complaint or accusation in lieu of a criminal accusation, the Court is empowered to decree that said case be shelved and overridden, after paying to the Court Clerk for court costs incurred in processing the case up to that time.

(b) Crimes Relating to Holding or Absence of a License. –

(1) A person shall be guilty of a misdemeanor if:

(A) He/she engages or continues to engage in a trade, business, or occupation that requires a license or permit under the provisions of Subtitles C and E without obtaining or renewing the corresponding license in the manner and within the term established in Subtitles C and E, or whose license has been revoked;

(B) He/she is engaged in the manufacture, import, or sale of alcohol or beverages that are taxable under the provisions of Subtitle E and which require licenses as established under Subtitles C and E, and he/she fails to comply with or violates such provisions;

(C) He/she is engaged or continues to engage in the business of distilling, rectification or manufacture of products that are taxable under Subtitle E, in a building that houses a similar industry belonging to another person who holds a license under Subtitles C or E;

(D) …

…"

Section 167. – Section 6042.16 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6042.16. – Information on Suggested Retail Price and Penalty for Absence of Placard in Vehicles. –

The salesperson shall keep in the vehicle the suggested retail price for consumer information purposes. Absence of placards that contain the information indicating the suggested retail price to consumers shall entail the imposition of a civil fine of five thousand dollars ($5,000) for each infraction. Such omission shall constitute a misdemeanor."

Section 168. – Section 6042.19 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6042.19. – License to Operate as Motor Vehicle Trader or Seller and Penalty for Operating Without Such License. –

Any trader or seller of motor vehicles, whether new or used, who operates as such without having obtained a license pursuant to the provisions of Section 3050.01(a) of Subtitle C and Act No. 22-2000, as amended, known as the 'Puerto Rico Vehicle and Traffic Act,' shall be subject to an civil fine of ten thousand dollars ($10,000), regardless of any criminal sanctions provided for in this Code and in the Puerto Rico Vehicle and Traffic Act."

Section 169. – Paragraph (1) of subsection (a) and paragraph (1) of subsection (b) of Section 6042.21 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 6042.21. – Requirement to Keep and Furnish Documents. –

(a) …

(1) He/she is subject to payment of taxes levied under Subtitle C or is required to withhold such taxes.

(2) …

…

(b) …

(1) Any document, report, register, invoice, record, declaration, or any other relating to articles on which a lien has been imposed under Subtitle C or with any business, trade, transaction, or activity for which fees are payable pursuant to said Subtitle, shall be kept for a term of not less than five (5) years counted from the date such documents are prepared or obtained.

(2) …

…"

Section 170. – Subsection (b) of Section 6043.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6043.01. – Civil Fines. –

(a) …

(b) Inappropriate Advertising. – Any vendor who fails to comply with the provisions established in Section 4020.05(e), shall be subject to a civil fine of not less than one thousand dollars ($1,000) nor more than twenty thousand dollars ($20,000), to be determined by the Secretary based on the frequency, duration, or medium used for the advertisement or announcement, and the number of establishments to which it applies.

(c) …

…"

Section 171. – Subsection (c) of Section 6043.06 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6043.06. – Penalties for Violations of Other Provisions. –

(a) …

(b) …

(c) Any vendor or person who in any way refuses to have installed, either by the Secretary or his/her authorized representative, or to allow the use of a fiscal terminal, application, or other electronic medium, or who disconnects, removes, alters, destroys, modifies, manipulates, or intervenes with a fiscal terminal, application, or other electronic medium, or who in any way obstructs the inspections or oversight operations conducted by the Secretary or his/her authorized representative in accordance with Sections 4030.01(a)(3), 6054.01(a)(2)(C), and 6054.01(a)(4) of the Code, shall, in addition to any other penalty provided for in this Code and any crime established in this Code or the

Penal Code, be imposed a penalty of up to twenty thousand dollars ($20,000) for each infraction, unless such violation is due to a reasonable cause."

Section 172. – Subsection (a) of Section 6044.03 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6044.03. – For Violations of Section 2054.05. –

(a) Any person who willingly violates the provisions of Section 2054.05 of this Code, relating to Prohibited Acts, unless a document is presented which credits lien cancellation, shall, in addition to any other penalty provided for in this Subtitle, be liable for all taxes, plus any additions thereto, not paid as a result of said violation, except in cases covered by paragraph (3) of subsection (a) of said Section 2054.05, in which case, the violation shall constitute a misdemeanor.

(b) …"

Section 173. – Subsection (a) of Section 6051.14 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6051.14. – Powers of Officials in Charge of Enforcing Subtitles of this Code. –

(a) General Rule. – The Secretary or any of the agents, officers, officials, or employees designated by him/her to enforce the provisions of Subtitles A, C, D, E, and F of this Code, as well as the provisions of Act No. 465 of May 15, 1947 and Act No. 10 of May 24, 1989 relating to lotteries, shall have all the powers conferred by the laws of Puerto Rico to Law Enforcement Officers including, but not limited to, the power of the officers of the Puerto Rico Police to have, bear, possess, transport, and carry arms under the provisions of Act No. 404-2000, as amended, known as the 'Puerto Rico Weapons Act,' as well as the power to make arrests pursuant to the provisions of Rule No. 11 of the Rules of Criminal Procedure of 1963, for the General Court of Justice, as amended.

(b) …"

Section 174. – Subparagraph (A) of paragraph (5) of subsection (b) of Section 6051.15 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6051.15. – Expenses Relating to Detection of Fraud and Undervaluation of Taxes. –

(a) …

(b) …

(5) …

(A) Any action of a taxpayer, but in the case of an individual, only if the individual's gross income exceeds two hundred thousand dollars ($200,000) for any taxable year subject to such action, and

(B) …

(6) …"

Section 175. – A Section 6051.17 is hereby added to Act No. 1-2011, as amended, to read as follows:

"Section 6051.17. – Alternative Dispute Resolution Process.

(a) Mediation.- The Secretary shall prescribe by regulations the procedure whereby taxpayers or the Department of the Treasury may request to resolve a dispute through a non-binding mediation process while the case in under the agency's consideration.

(b) Arbitration.- The Secretary shall prescribe by regulations the procedure whereby taxpayers or the Department of the Treasury may request to resolve a dispute through a binding arbitration process while the case in under the agency's consideration."

Section 176. – Paragraph (6) of subsection (a) of Section 6052.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6052.01. – Powers of the Secretary. –

(a) For purposes of the application and administration of this Subtitle, and in addition to any other duties and powers established therein, the Secretary is hereby empowered to:

(1) …

(6) Revoke the license of any person who fails to comply with the provisions of Subtitle C or the regulations thereunder. The Secretary may, after such revocation, deny the issue of a new license during such period as he/she, in his/her judgment, may deem necessary. This action shall not constitute an impediment for any other court or administrative proceeding authorized by law.

(7) …

…"

Section 177. – Paragraphs (1) and (4) of subsection (l) of Section 6053.01 of Act No. 1-2011, as amended, also known as the 'Internal Revenue Code for a New Puerto Rico,' are hereby amended to read as follows:

"Section 6053.01. – Powers of the Secretary. –

(a) …

(b) …

(l) Destination of the Federal Taxes Collected on Puerto Rican Rum Shipped to the United States. –

(1) The Secretary is hereby directed to set aside, in a Special Account, up to twenty-five percent (25%) of the amount covered over by the United States Government to the Treasury of the Government of Puerto Rico on account of the excise tax on rum bottled in Puerto Rico or shipped in bulk from

Puerto Rico to the United States and sold to consumers in the United States. The Governor of Puerto Rico, upon recommendation of the Secretary and the Government Development Bank for Puerto Rico, may increase such cap up to forty-six percent (46%) by means of an Executive Order to such effect, after December 31, 2011, when such increase is necessary or convenient to allow rum producers in Puerto Rico to compete in overseas markets on an equal footing with their competitors in other United States jurisdictions. Notwithstanding the foregoing, the Treasury of the Commonwealth of Puerto Rico may never withhold an amount lesser than fifty-four percent (54%) of the amount covered over by the United States Government on account of the excise tax on rum bottled in Puerto Rico and sold in the United States or shipped in bulk from Puerto Rico to the United States and sold to United States consumers. For fiscal years ending on June 30, 2011 and 2012, rum producers whose rum-producing operations in Puerto Rico include inclusively the fermentation of molasses, rum distillation, and effluent treatment, shall be granted an incentive of not less than ten percent (10%) of the total amounts covered over by the United States to the Treasury of the Government of Puerto Rico during each one of said fiscal years. In addition, after July 1, 2012, that the total amount of incentives for rum producers whose rum-producing operations in Puerto Rico include inclusively the fermentation of molasses, rum distillation, and effluent treatment, shall be not less than forty-six percent (46%) of the total amounts covered over by the United States to the Treasury of the Government of Puerto Rico."[sic]

(2) …

(3) …

(4) The Government Development Bank for Puerto Rico, the Department of the Treasury of Puerto Rico, the Department of Economic Development and Commerce, the Puerto Rico Industrial Development Company, and the Department of Agriculture are hereby directed to conduct any such acts, appearances, transactions, and/or to execute any such instruments and documents, whether public or private, as convenient and necessary to implement the purposes described in detail in subsection (l) of this Section.

(5) …

(6) …"

Section 178. – Paragraph (2) of subsection (a) of Section 6054.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6054.01. – Powers of the Secretary under Subtitle D. –

(a) …

(1) …

(2) Establish, through regulations, circular letter, information bulletin, or any other determination of public character issued to such effect, any conditions concerning the issuance of vendor registration certificates, certificates of exemption from payment of or withholding taxes levied under Subtitle D and requirements for the collection, payment, or deposit of sales and use tax. In order to ensure due compliance with the terms, provisions, and purposes of Subtitle D, the Secretary may impose, among any others that he/she may deem necessary, the following requirements and conditions:

(A) …

(B) …

(C) …

(D) Require the merchant to post signs to duly notify and inform consumers on their right to receive a sales receipt indicating the SUT drawing number and impose penalties for failure to satisfy the requirement of posting such signs."[sic]

(3) …"

Section 179. – Section 6060.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

"Section 6060.01. – Tax Lien Certification; Seizure and Sale of Debtor's Property.–

(a) In General.–

(1) If any person fails or refuses to pay any taxes, levies, fines, interest, surcharges, and penalties within the term established in this Code, the Secretary shall proceed to collect any such taxes, fines, interest, surcharges, and penalties owed to the Department by seizing and selling the property of such debtor that is not exempt from seizure in the manner provided further.

…

(6) …

(b)…

(c) Lien on Property or Rights.–

(1) The notice and demand made by the Secretary to the person in possession of the property or any requirement to pay to the taxpayer any amount of money on any grounds shall constitute a levy on such property or rights that the depositary shall be required to withhold until the amount owed is paid in full to the Secretary.

(2) The seizure of accounts receivable or income on any grounds which belong or are payable to the taxpayer, and which are not exempt from seizure, shall constitute a preferred continuing levy on such wages, salaries, accounts receivable, bank deposits, or income on any grounds to be earned until the amount owed is paid in full to the Secretary.

(3) The garnishment of wages and salaries belonging or payable to the taxpayer shall constitute a continuing levy until the notified amount is fully paid. Garnishment shall constitute a preferred continuing levy on twenty-five percent (25%) of the wage or salary of the taxpayer, after making the deductions required by law (social security, income tax, and mandatory contributions to retirement systems) as well as child support and the payment of any judgment. The payment authorization of other obligations to be deducted from the salary (loans, savings, etc.) shall have no priority over the garnishment.

(4) The garnishment of income payable to the taxpayer under a professional services contract shall constitute a preferential continuing levy until the total amount is fully paid to the Secretary. However, if these payments constitute the main source of income of the taxpayer, the Secretary shall have the authority to accept a payment in an amount lower than the garnished amount.

(5) The garnishment of bank accounts belonging to the taxpayer shall constitute a preferential levy and shall have effect only on the account's balance available at the time of the notice, or the amount owed, whichever is less. Deposits made after the garnishment notice shall not be subject thereto.

(c) …

…

(f) …"

Section 180.- A Section 6060.20 is hereby added to Act No. 1-2011, as amended, to read as follows:

"Section 6060.20. – Release of Lien or Discharge of Property

(a) Release of Lien.- The Secretary shall issue a Certificate of Release of any lien imposed pursuant to this Chapter with respect to any tax debt when:

(1) Liability Satisfied or Unenforceable.- The Secretary finds that the liability for the amount assessed, together with all interest, fines, penalties, and surcharges, have been fully satisfied or have become legally unenforceable; or

(2) Bond Accepted.- There is furnished to the Secretary and accepted by him/her a bond that is conditioned upon the payment of the amount assessed, together with all interest, fines, penalties, and surcharges, subject to the terms, conditions, and form determined by the Secretary in those circumstances that the Secretary deems to be prudent and in the best interest of the Government of Puerto Rico.

(b) Discharge of Property.- The Secretary may issue a Certificate of Discharge of any part of the property or properties subject to a lien imposed with respect to any tax debt in the following circumstances:

(1) Property Double the Amount of the Liability.- The Secretary may issue a Certificate of Discharge of any part of the property subject to any lien imposed under this Chapter if the Secretary finds that the fair market value of that part of such property remaining subject to the lien is at least double the amount of:

(A) the unsatisfied liability secured by such lien, and

(B) the amount of all other liens upon such property which have priority over such lien.

(2) Part Payment; Interest of Government of Puerto Rico Valueless.- The Secretary may issue a Certificate of Discharge of any part of the property subject to the lien if—

(A) there is paid over to the Secretary in partial satisfaction of the liability secured by the lien an amount determined by the Secretary, which shall not be less than the value (as determined by the Secretary) of the interest of the Government of Puerto Rico in the part to be so discharged, or

(B) the Secretary determines at any time that the interest of the Government of Puerto Rico in the part to be so discharged has no value.

In determining the value of the interest of the Government of Puerto Rico in the part to be so discharged, the Secretary shall give consideration to the value of such part and to such liens thereon as have priority over the lien of the Government of Puerto Rico.

(3) Substitution of Proceeds of Sale.- The Secretary may issue a Certificate of Discharge of any part of the property subject to the lien if such part of the property is sold and, pursuant to an agreement with the Secretary, the proceeds of such sale are to be held, as a fund subject to the liens and claims of the Government of Puerto Rico, in the same manner and with the same priority as such liens and claims had with respect to the discharged property.

(4) Right of Substitution of Value.-

(A) In General.- At the request of the owner of any property subject to any lien, the Secretary shall issue, at his discretion, a Certificate of Discharge of such property if such owner—

(i) deposits with the Secretary an amount of money equal to the value of the interest of the Government of Puerto Rico (as determined by the Secretary) in the property; or

(ii) furnishes a bond acceptable to the Secretary in a like amount, in that form and subject to the terms and conditions determined by the Secretary, in such circumstances as the Secretary may deem to be prudent, and in the best interest of the Government of Puerto Rico.

(B) Refund of Deposit with Interest and Release of Bond.- The Secretary shall refund in whole or in part the amount so deposited (without interest), and shall release such bond in whole or in part, to the extent that the Secretary determines that:

(1) the unsatisfied liability giving rise to the lien can be satisfied from a source other than such property; or

(2) the value of the interest of the C Government of Puerto Rico in the property is less than the Secretary's prior determination of such value.

(C) Use of Deposit.- The Secretary may, at any given time or at the time prescribed agreed between the Secretary and the owner of the property, (i) apply the amount deposited, or collect on such bond, to the extent necessary to satisfy the unsatisfied liability secured by the lien; and (ii) refund any portion of the amount deposited which is not used to satisfy such liability.

(D) Exception.- Subparagraph (A) shall not apply if the owner of the property is the person whose unsatisfied liability gave rise to the lien.

(c) Subordination of Lien.- The Secretary may issue a Certificate of Subordination of any lien imposed upon any part of the property subject to such lien if:

(1) there is paid over to the Secretary an amount equal to the amount of the lien or interest to which the Certificate subordinates the lien of the Government of Puerto Rico,

(2) the Secretary believes that the amount realizable by the Government of Puerto Rico from the property to which the certificate relates, or from any other property subject to the lien, will ultimately be increased by reason of the issuance of such Certificate and that the ultimate collection of the tax liability will be facilitated by such subordination, or

(3) the Secretary determines that the Government of Puerto Rico will be adequately secured after such subordination.

(d) Nonattachment of Lien.- If the Secretary determines that, because of confusion of names or otherwise, any person (other than the person against whom the tax was assessed) is or may be injured by the appearance that a notice of lien refers to such person, the Secretary may issue a certificate that the lien does not attach to the property of such person.

(e) Effect of Certificate.- A certificate of release, subordination, or discharge issued by the Secretary in accordance with this Section and filed with the Property Registry corresponding to the place of residence of the debtor, or in such places where real property belonging to the debtor or subject to lien is located shall be conclusive of the release, subordination, or discharge of the property as provided in such Certificate. Notwithstanding the foregoing, any lien imposed by this Chapter shall attach any property with respect to which a certificate of release, subordination, or discharge has been issued, that is reacquired by the person liable for the tax after such certificate has been issued."

Section 181.- Paragraphs (4) and (5) of subsection (a) of Section 6080.08 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 6080.08. – Requirement to Deposit Deducted and Withheld Taxes for Nonresident Individuals or Foreign Corporations Not Engaged in Trade or Business in Puerto Rico.–

(a) …

(1) …

(2) …

(3) …

(4) In the case of taxes withheld from income attributable to distributive shares of a nonresident stockholder in the earnings of a corporation of individuals, such taxes shall be deposited not later than the fifteenth (15^{th}) day of the third month following the close of the taxable year for the corporation of individuals.

(5) In the case of taxes withheld from income attributable to distributive shares of a nonresident member in the earnings of a liability company, such taxes shall be deposited not later than the fifteenth (15^{th}) day of the third month following the close of the taxable year for the limited liability company.

(b) …

…"

Section 182. – Subsections (b) and (e) of Section 6080.15 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 6080.15. – Fines Applicable to Public Show Promoters and Establishment Owners.–

(a) …

(b) Failure to Amend Endorsement or to Apply Therefor.–

(1) When, prior to presenting a show, the promoter fails to amend the endorsement when there is a change as to the performer, the place, date, and time of the show, or the price of tickets or number of tickets issued therefor, he/she shall be subject to a fine of one thousand dollars ($1,000), or five thousand dollars ($5,000) if admission fees exceed one hundred thousand dollars ($100,000), for the first violation.

(2) …

…

(c) …

(e) Any ticket-selling company or any representative of a promoter who sells tickets or administers any public show for any other person, he/she shall be subject to an administrative fine of ten thousand dollars ($10,000) if:

(1) such other person is not a registered promoter or does not have an endorsement to sell and collect admission fees, or

(2) fails to file returns, declarations, or forms required by this Code and prescribed by the Secretary through regulations or any determination of public character issued to such effect."

Section 183. – A Section 6080.16 is hereby added to Act No. 1-2001, as amended, to read as follows:

"Section 6080.16. – Time Postponed by Reason of Military Service during an Armed Conflict.-

(a) Service in Combat Zone or Contingency Operation.-

(1) In General.- In the case of an individual: serving in the Armed Forces of the United States, or serving in support of such Armed Forces, in an area designated by the President of the United States by Executive Order as a 'combat zone,' or when deployed outside Puerto Rico or the United States while participating in an operation designated by the Secretary of Defense as a 'contingency operation' (as defined in Section 101(a)(13) of Title 10, United States Code), or which became such a contingency operation by operation of law, at any time during the period designated by the President by Executive Order as the 'period of combatant activities' in such zone or at any time during the period of such contingency operation, the period in which said individual served in said

combat zone or contingency operation, as well as any period of qualified hospitalization as a result of wounds or injuries received while serving in such area or operation, and the next six (6) months thereafter, shall be disregarded and deemed to be postponed for purposes of the terms established in this Code in determining any tax liability (including any interest, penalty, additional amount, or addition to the tax) of such individual, under this Code, including, but not limited to:

(A) Filing any information return or statement required under this Code;

(B) Payment of any tax or any installment thereof imposed under this Code;

(C) Filing a claim for credit or refund of any tax;

(D) Filing a petition for reconsideration and administrative hearing;

(E) Bringing suit challenging a determination of a deficiency made by the Secretary, or upon any such claim for credit or refund;

(F) Any notice, assessment, or collection of any tax imposed under this Code.

(2) For purposes of this subsection, the term 'qualified hospitalization' means:

(A) any hospitalization outside Puerto Rico or the United States, and

(B) any hospitalization inside Puerto Rico or the United States for not more than five (5) years.

(b) In the case of an individual who, during any armed conflict, is called to active duty and transferred outside of Puerto Rico to serve in the Armed Forces of the United States, or to serve in support of such Armed Forces, the filing date of any return that said individual is required to file and the payment date of any tax that said individual is required to pay under Subtitle A of this Code shall be, in lieu of any other date prescribed in said Subtitle A of this Code, the fifteenth (15^{th}) day of the tenth month following the date in which the individual separates from active duty.

(c) If the individual described in subsections (a) and (b) is married, the extended terms provided in subsections (a) and (b) shall apply to both the individual and his spouse, unless the spouse chooses to file a separate return."

Section 184. – Paragraphs (5) and (7) of subsection (b) of Section 6092.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 6092.01. – Tax Attributes.–

(a) …

(b) …

(1) …

(5) Accounting Method.– Except as otherwise provided in this Code, a person shall use the accounting method used for purposes of the Puerto Rico Internal Revenue Code of 1994.

(6) …

(7) Depreciation.– The depreciation granted in connection with any property acquired before the start of the first taxable year beginning after December 31, 2010, shall be determined by using the depreciation method used for purposes of the Puerto Rico Internal Revenue Code of 1994.

(8) …

…"

Section 185.- Sections 6092.03, 6092.04, 6092.05, 6092.06, 6092.07, 6092.08, 6092.09, 6092.10, 6092.11, and 6092.12 of Subchapter B of Chapter 9 of Subtitle F of Act No. 1-2011, as amended, are hereby repealed.

Section 186.- Chapter 10 is hereby renumbered as Chapter 11 and a new Chapter 10 is hereby added to Subtitle F of Act No. 1-2011, as amended, to read as follows:

"**CHAPTER 10. – PROVISIONS APPLICABLE TO PARTNERSHIPS AND MEMBERS**

Section 6100.01. – Application of this Chapter.–

The provisions of Sections 6100.01 through 6100.10 shall apply to partnerships and partners in such partnerships subject to taxation in accordance with the provisions of Chapter 7 of Subtitle A.

Section 6100.02. – Partner Return must be Consistent with Partnership Return. –

(a) A partner shall, on the partner's return, treat each partnership item attributable to such partnership in a manner which is consistent with the treatment of such partnership item on the partnership return.

(b) Underpayment due to Inconsistent Treatment Assessed as Math Error.- Any underpayment of tax by a partner by reason of failing to comply with the requirements of subsection (a) shall be assessed and collected in the same manner as if such underpayment were on account of a mathematical or clerical error appearing on the partnership's return. Paragraph (2) of Section 6010.02(g) shall not apply to any assessment of an underpayment referred to in this subsection.

(c) Adjustments not to Affect Prior Year of Partners.-

(1) In General.– Except as provided in paragraph (2), subsections (a) and (b) shall apply without regard to any adjustment to the partnership item under Sections 6100.04, 6100.05, 6100.06, 6100.07, 6100.08, and 6100.09.

(A) Certain Changes in the Distributive Share Taken into Account by Partner.–

(B) In General.– To the extent that any adjustment under Sections 6100.04, 6100.05, 6100.06, 6100.07, 6100.08, and 6100.09 involves a change under Section 6100.05 in the distributive share of partner of the amount of any item of the partnership shown on the partnership return, such adjustment shall be taken into account in applying the Code to such partner for the partner's taxable year for which such item was required to be taken into account.

(C) Coordination with Deficiency Procedures.–

(i) In General.– No penalty provided for in this Code shall apply to the assessment or collection of any underpayment of tax attributable to an adjustment referred to in subparagraph (A).

(ii) Adjustment not Precluded.– Notwithstanding the foregoing, the provisions of clause (i) shall preclude the assessment or collection of any underpayment of tax or the allowance of any credit or refund of any overpayment of tax attributable to an adjustment referred to in subparagraph (A) and such assessment or collection or allowance (or any notice thereof) shall not preclude any notice, proceeding, or determination of a penalty.

(D) Period of Limitations.– The period for –

(i) assessing any underpayment of tax, or

(ii) filing a claim for credit or refund of any overpayment of tax, attributable to an adjustment referred to in subparagraph (A) shall not expire before the close of the period prescribed by Section 6100.07 for making adjustments with respect to the partnership taxable year involved.

(E) Tiered Structures.- If the partner referred to in subparagraph (A) is another partnership or a corporation of individuals, the rules of this paragraph shall also apply to persons holding interests in such partnership or corporation of individuals (as the case may be). .

(d) Addition to Tax for Failure to Comply with this Section. For addition to tax in case of partner's disregard of requirements of this Section, see Sections 6030.02, 6030.04, 6030.08.

Section 6100.03. – Procedures for Taking Partnership Adjustments into Account. –

(a) Adjustments Flow Through Partners for Year in which Adjustment Takes Effect.-

(1) In General.– If any partnership adjustment with respect to any partnership item takes effect (within the meaning of subsection (d)(2)) during any partnership taxable year, such adjustment shall be taken into account in determining the amount of such item for the partnership taxable year in which such adjustment takes effect. In applying this Code to any person who is (directly or indirectly) a partner in such partnership during such partnership taxable year, such adjustment shall be treated as an item actually arising during such taxable year.

(2) Partnership Liable in Certain Cases.-If-

(A) a partnership elects under this paragraph to not take an adjustment into account under paragraph (1),

(B) a partnership does not make such an election but in filing its return for any partnership taxable year fails to take fully into account any partnership adjustment as required under paragraph (1), or

(C) any partnership adjustment involves a reduction in a credit which exceeds the amount of such credit determined for the partnership taxable year in which the adjustment takes effect, the partnership shall pay to the Secretary an amount determined by applying the rules of subsection (b)(4) to the adjustments not so taken into account and any excess referred to in subparagraph (C).

(3) Offsetting Adjustments Taken into Account.- If a partnership adjustment requires another adjustment in a taxable year after the adjusted year and before the partnership taxable year in which such partnership adjustment takes effect, such other adjustment shall be taken into account under this subsection for the partnership taxable year in which such partnership adjustment takes effect.

(4) Coordination.- Amounts taken into account under this subsection for any partnership taxable year shall continue to be treated as adjustments for the adjusted year for purposes of determining whether such amounts may be readjusted under Sections 6100.04, 6100.05, 6100.06, 6100.07, 6100.08, and 6100.09.

(b) Partnership Liable for Interest and Penalties.-

(1) In General.- If a partnership adjustment takes effect during any partnership taxable year and such adjustment results in an imputed underpayment for the adjusted year, the partnership—

(A) shall pay to the Secretary interest computed under paragraph (2), and

(B) shall be liable for any penalty, addition to tax, or additional amount as provided in paragraph (3).

(2) Determination of Amount of Interest.- The interest computed under this paragraph with respect to any partnership adjustment is the interest which would be determined under Section 6030.01 on the imputed underpayment determined under paragraph (4) with respect to such adjustment for the period beginning on the day after the return due date for the adjusted year and ending on the return due date for the partnership taxable year in which such adjustment takes effect (or, if earlier, in the case of any adjustment to which subsection (a)(2) applies, the date on which the payment under subsection (a)(2) is made).

Proper adjustments in the amount determined shall be made for adjustments required for partnership taxable years after the adjusted year and before the year in which the partnership adjustment takes effect by reason of such partnership adjustment.

(3) Penalties.- A partnership shall be liable for any penalty, addition to tax, or additional amount for which it would have been liable if such partnership had been an individual subject to tax under Subtitle A for the adjusted year and the imputed underpayment determined under paragraph (4) were an actual underpayment (or understatement) for such year.

(4) Imputed Underpayment.- For purposes of this subsection, the imputed underpayment determined under this paragraph with respect to any partnership adjustment is the underpayment (if any) which would result.

(A) by netting all adjustments to items of income, gain, loss, or deduction and by treating any net increase in income as an underpayment equal to the amount of such net increase multiplied by the highest rate of tax in effect under Section 1021.01 or 1022.01 for the adjusted year, and

(B) by taking adjustments to credits into account as increases or decreases (whichever is appropriate) in the amount of tax.

(C) For purposes of the subparagraph (B), any net decrease in a loss shall be treated as an increase in income and a similar rule shall apply to a net increase in a loss.

(c) Administrative Provisions.-

(1) In General.- Any payment required by subsection (a)(2) or (b)(1)(A).

(A) shall be assessed and collected in the same manner as if it were a tax, and

(B) shall be paid on or before the return due date for the partnership taxable year in which the partnership adjustment takes effect.

(2) Interest.- For purposes of determining interest, any payment required by subsection (a)(2) or (b)(1)(A) shall be treated as an underpayment of tax.

(3) Penalties.-

(A) In General.- In the case of any failure by any partnership to pay on the date prescribed therefor any amount required by subsection (a)(2) or (b)(1)(A), there is hereby imposed on such partnership a penalty of ten percent (10%) of the underpayment. For purposes of the preceding sentence, the term ‘underpayment’ means the excess of any payment required under this Section over the amount (if any) paid on or before the date prescribed therefor.

(B) Additions to the Tax and Applicable Penalties.- For purposes of Subchapter C of Chapter 9 of this Subtitle, any payment required by subsection (a)(2) shall be treated as an underpayment of tax.

(d) Definitions and Special Rules.- For purposes of this Section—

(1) Partnership Adjustment.- The term ‘partnership adjustment’ means any adjustment in the amount of any partnership item of a partnership.

(2) When Adjustment Takes Effect.- A partnership adjustment takes effect

(A) in the case of an adjustment pursuant to the decision of a court in a proceeding brought under Sections 6100.04 through 6100.10, when such decision becomes final and binding,

(B) in the case of an adjustment pursuant to any administrative adjustment request under Section 6100.08, when such adjustment is allowed by the Secretary, or

(C) in any other case, when such adjustment is made.

(3) Adjusted Year.- The term ‘adjusted year’ means the partnership taxable year to which the item being adjusted relates.

(4) Return Due Date.- The term ‘return due date’ means, with respect to any taxable year, the date prescribed for filing the partnership return for such taxable year (determined without regard to extensions).

(5) Adjustments Involving Changes in Character.- Under regulations to be promulgated by the Secretary, appropriate adjustments in the application of this Section shall be made for purposes of taking into account partnership adjustments which involve a change in the character of any item of income, gain, loss, or deduction.

(e) Payments Nondeductible.- No deduction shall be allowed under Subtitle A for any payment required to be made by a partnership under this Section.

Section 6100.04. – Authority of the Secretary.-

(a) General Rule. – The Secretary is authorized and directed to make adjustments at the partnership level in any partnership item to the extent necessary to have such item be treated in the manner required.

(b) Notice of Partnership Adjustment.-

(1) In General.- If the Secretary determines that a partnership adjustment is required, the Secretary is authorized to send notice of such adjustment to the partnership by certified mail. Such notice shall be sufficient if mailed to the partnership at its last known address even if the partnership has terminated its existence.

(2) Further Notices Restricted.- If the Secretary sends a notice of a partnership adjustment to any partnership for any partnership taxable year and the partnership files a petition under Section 6100.06 with respect to such notice, in the absence of a showing of fraud, malfeasance, or misrepresentation of a material fact, the Secretary shall not send another such notice to such partnership with respect to such taxable year.

(3) Authority to Rescind Notice with Partnership Consent.- The Secretary may, with the consent of the partnership, rescind any notice of a partnership adjustment sent to such partnership. Any notice so rescinded shall not be treated as a notice of a partnership adjustment, for purposes of this Section, Section 6100.05, and Section 6100.06, with respect to such notice. Nothing in this subsection shall affect any suspension of the running of any period of limitations during any period during which the rescinded notice was outstanding.

Section 6100.05. – Restrictions on Partnership Adjustments.-

(a) General Rule.- Except as otherwise provided in this Chapter, no adjustment to any partnership item may be made (and no levy or proceeding in any court for the collection of any amount resulting from such adjustment may be made, begun or prosecuted) before-

(1) the close of the ninetieth (90) day after the day on which a notice of a partnership adjustment was mailed to the partnership, and

(2) if a petition is filed under Section 6100.06 with respect to such notice, the decision of the court has become final and binding.

(b) Premature Action may be Enjoined.- Any action which violates subsection (a) may be enjoined in the Court of First Instance. The Court of First Instance shall have no jurisdiction to enjoin any action under this subsection unless a timely petition has been filed under Section 6100.06 and then only in respect of the adjustments that are the subject of such petition.

(c) Exceptions to Restrictions on Adjustments.-

(1) Adjustments Arising out of Math or Clerical Errors.-

(A) In General.- If the partnership is notified that, on account of a mathematical or clerical error appearing on the partnership return, an adjustment to a partnership item is required, rules similar to the rules of paragraphs (1) and (2) of Section 6010.02 (g) shall apply to such adjustment.

(B) Special Rule.- If a partnership is a partner in another partnership, any adjustment on account of such partnership's failure to comply with the requirements of Section 6100.02(a) with respect to its interest in such other partnership shall be treated as an adjustment referred to in subparagraph (A), except that paragraph (2) of Section 6010.02(g) shall not apply to such adjustment.

(2) Partnership may Waive Restrictions.- The partnership shall at any time (whether or not a notice of partnership adjustment has been issued) have the right, by a signed notice in writing filed with the Secretary, to waive the restrictions provided in subsection (a) on the making of any partnership adjustment.

(d) Limit where no Proceeding Begun.- If no proceeding under Section 6100.06 is begun with respect to any notice of a partnership adjustment during the ninetieth (90)-day period described in subsection (a), the amount for which the partnership is liable under Section 6100.03 (and any increase in any partner's liability for tax under Subtitle A by reason of any adjustment under Section 6100.03(a)) shall not exceed the amount determined in accordance with such notice.

Section 6100.06. – Judicial Review of Partnership Adjustment.-

(a) General Rule.- Within ninety (90) days after the date on which a notice of a partnership adjustment is sent to the partnership with respect to any partnership taxable year, the partnership may file a petition with the Court of First Instance for a readjustment of the partnership items for such taxable year, filing a complaint as provided by law within a term of thirty (30) days after the mailing date of the notice of final determination, upon posting a bond in favor of the Secretary, before him and subject to his approval, in the amount stated in the aforementioned final determination; provided however, that the taxpayer may pay the portion of the tax for which it agrees to be liable and litigate the remaining portion, in which case, the bond shall not exceed the amount of the litigated tax, plus interest, surcharges and any other additions to the tax on the deficiency computed in the manner provided in paragraph (1). Except as otherwise provided in this subsection, the Court of First Instance shall not address the issue if the

requirement to post a bond in the amount stated by the Secretary in the notice of final determination and to file a complaint with the Court of First Instance, both within the term provided above, are not met. The bond shall not exceed the amount of the notified tax, plus interest on the deficiency computed for the period of one additional year at a ten percent (10%) annual rate.

(b) The provisions of Section 6010.02 shall apply supplementarily to the provisions of this Section, except for paragraphs (1) and (2) of subsection (a).

Section 6100.07.- Period of Limitations for Making Adjustments.-

(a) General Rule.- Except as otherwise provided in this Section, no adjustment to any partnership item may be made after the date which is four (4) years after the later of—

(1) the date on which the partnership return for such taxable year was filed, or

(2) the last day for filing such return for such year (determined without regard to extensions).

(b) Extension by Agreement.- The period described in subsection (a) (including an extension period under this subsection) may be extended by an agreement entered into by the Secretary and the partnership before the expiration of such period.

(c) Special Rule in case of Fraud, etc.-

(1) False Return.- In the case of a false or fraudulent partnership return with intent to evade tax, the adjustment may be made at any time.

(2) Substantial Omission of Income.- If any partnership omits from gross income an amount properly includible therein which is in excess of twenty-five percent (25%) of the amount of gross income stated in its return, subsection (a) shall be applied by substituting ‘four (4) years’ for ‘six (6) years.’

(3) No Return.- In the case of a failure by a partnership to file a return for any taxable year, the adjustment may be made at any time.

(4) Return filed by Secretary.- For purposes of this Section, a return executed by the Secretary under Section 6051.05 on behalf of the partnership shall not be treated as a return of the partnership.

(d) Suspension when Secretary mails Notice of Adjustment.- If notice of a partnership adjustment with respect to any taxable year is mailed to the partnership, the running of the period specified in subsection (a) (as modified by the other provisions of this section) shall be suspended.

(1) for the period during which an action may be brought under section 6100.06 (and, if a petition is filed under section 6100.06 with respect to such notice, until the decision of the court becomes final and binding), and

(2) for one (1) year thereafter.

Section 6100.08.- Administrative Adjustment Requests.-

(a) General Rule. A partnership may file a request for an administrative adjustment of partnership items for any partnership taxable year at any time-

(1) within four (4) years after the later of-

(A) the date on which the partnership return for such year is filed, or

(B) the last day for filing the partnership return for such year (determined without regard to extensions), and

(2) before the mailing to the partnership of a notice of a partnership adjustment with respect to such taxable year.

(b) Secretary Action.- If a partnership files an administrative adjustment request under subsection (a), the Secretary may allow any part of the requested adjustments.

(c) Special Rule in case of Extension under Section 6100.07.- If the period described in section 6100.07(a) is extended pursuant to an agreement under Section 6100.07(b), the period prescribed by subsection (a)(1) shall not expire before six (6) months after the expiration of the extension under section 6100.07(b).

Section 6100.09.- Judicial Review Where Administrative Adjustment Request is not Allowed in Full.-

(a) In General.- If any part of an administrative adjustment request filed under Section 6100.08 is not allowed by the Secretary, the partnership may file a petition for an adjustment with respect to the partnership items to which such part of the request relates.

(b) Period for Filing Petition.- A petition may be filed under subsection (a) with respect to partnership items for a partnership taxable year only.

(1) after the expiration of six (6) months from the date of filing of the request under Section 6100.08, and

(2) before two (2) years after the date of such request.

The two (2)-year period set forth in paragraph (2) shall be extended for such period as may be agreed upon in writing by the partnership and the Secretary.

(c) Coordination.-

(1) Notice of Partnership Adjustment before Filing of Petition.- No petition may be filed under this Section after the Secretary mails to the partnership a notice of a partnership adjustment for the partnership taxable year to which the request under Section 6100.08 relates.

(2) Notice of Partnership Adjustment after Filing but Before Hearing of Petition.- If the Secretary mails to the partnership a notice of a partnership adjustment for the partnership taxable year to which the request under Section 6100.08 relates after the filing of a petition under this subsection, but before the hearing of such petition, such petition shall be treated as an action brought under Section 6100.06 with respect to such notice, but the bond required under paragraph (2) of subsection (a) of Section 6100.06 shall not be required.

(3) Notice must be Before Expiration of Statute of Limitations.- A notice of a partnership adjustment for the partnership taxable year shall be taken into account under paragraphs (1) and (2) only if such notice is mailed before the expiration of the period prescribed by Section 6100.07 for making adjustments to partnership items for such taxable year.

(d) Scope of Judicial Review.- Except in the case described in paragraph (2) of subsection (c), the Court of First Instance shall have jurisdiction to determine only those partnership items to which the part of the request under Section 6100.08 not allowed by the Secretary relates and those items with respect to which the Secretary asserts adjustments as offsets to the adjustments requested by the partnership.

Section 6100.10.- Definitions and Special Rules.-

(a) For purposes of this Chapter, the term ‘partnership item’ means with respect to a partnership, any item required to be taken into account for the partnership’s taxable year under any provision of Subtitle A to the extent regulations prescribed by the Secretary provide that, for purposes of this subtitle, such item is more appropriately determined at the partnership level than at the partner level.

(b) Partners Bound by Actions of Partnership, etc.-

(1) Designation of Partner.- Each partnership shall designate (in the manner prescribed by the Secretary) a partner (or other person) who shall have the sole authority to act on behalf of such partnership. In any case in which such a designation is not in effect, the Secretary may select any partner as the partner with such authority.

(2) Binding Effect.- A partnership and all partners of such partnership shall be bound—

(A) by actions taken under this Chapter by the partnership, and

(B) by any decision in a proceeding brought under this subchapter.

(c) Partnerships having principal place of business outside the United States

For purposes of Sections 6100.06 and 6100.09, a principal place of business located outside Puerto Rico shall be treated as located in the San Juan, Puerto Rico.

(d) Treatment where Partnership Ceases to Exist.- If a partnership ceases to exist before a partnership adjustment takes effect, such adjustment shall be taken into account by the former partners of such partnership under regulations prescribed by the Secretary.

(e) Partnerships in Cases under Title 11 of the United States Code.-

(1) Suspension of Period of Limitations on Making Adjustment, Assessment, or Collection.- The running of any period of limitations provided in this subchapter on making a partnership adjustment (or provided in this subtitle on the assessment or collection of any amount required to be paid under Section

6100.03) shall, in a case under title 11 of the United States Code, be suspended during the period during which the Secretary is prohibited by reason of such case from making the adjustment (or assessment or collection).

(A) for adjustment or assessment, sixty (60) days thereafter, and

(B) for collection, six (6) months thereafter.

For purposes of this subsection, the filing of a proof of claim, action of demand of payment or any other action in a case under Title 11 of the United States Code shall not be treated as an action prohibited under this subsection.

(2) Suspension of Period of Limitation for Filing for Judicial Review.- The running of the period specified in Section 6100.06(a) or 6100.09(b) shall, in a case under title 11 of the United States Code, be suspended during the period during which the partnership is prohibited by reason of such case from filing a petition under Section 6100.06 or 6100.09) and for sixty (60) days thereafter.

(f) Regulations.- The Secretary shall prescribe such regulations as may be necessary to carry out the provisions of this Chapter, including regulations to prevent abuse through manipulation of the provisions of this Chapter.

CHAPTER 11.– SUPPLEMENTARY PROVISIONS

Section 187.- Section 6100.01 is hereby renumbered as 6110.01 and paragraphs (2), (3), (4), and (6) of subsection (a) of Section 6110.01 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section [6100.01]6110.01. – Repeal

Except for subsections (f) and (h) of Section 1123 of Subtitle A, and Chapter 7 of Subtitle B of the Puerto Rico Internal Revenue Code of 1994, Act

No. 120-1994, as amended, known as the "Puerto Rico Internal Revenue Code of 1994," is hereby repealed as of the effective date of this Code, and any law or part of a law that is contrary to the provisions of this Code is hereby repealed with the following provisions:

(a) Applicability of the Puerto Rico Internal Revenue Code of 1994.–

(1) …

(2) Subtitle B. – Except as otherwise provided, the provisions of Subtitle B of the Puerto Rico Internal Revenue Code of 1994 shall apply to taxable events taking place before April 1, 2011.

(3) Subtitle BB. – Except as otherwise provided, the provisions of Subtitle BB of the Puerto Rico Internal Revenue Code of 1994 shall apply to taxable events taking place before April 1, 2011.

(4) Subtitle C. – Except as otherwise provided, the provisions of Subtitle C of the Puerto Rico Internal Revenue Code of 1994 shall apply to estates of individuals who die before January 1, 2011, and to gifts made before April 1, 2011.

(5) …

(6) Subtitle D. – Except as otherwise provided, the provisions of Subtitle D of the Puerto Rico Internal Revenue Code of 1994 shall apply to taxable events taking place before April 1, 2012.

…

(b) …

…"

Section 188.- Section 6100.02 is hereby renumbered as Section 6110.02 of Act 1-2011, as amended, to read as follows:

"Section 6110.02. – Severability of Provisions.-

If any clause, paragraph, article, section, title, or part of this Code were held to be unconstitutional by a competent Court, such holding shall not affect, impair, or invalidate the remaining provisions of this Code. The effect of such holding shall be limited only to the clause, paragraph, article, section, title, or part of said Code thus held to be unconstitutional."

Section 189.- Section 6100.03 is hereby renumbered as Section 6110.03 of Act No. 1-2011, as amended, to read as follows:

"Section 6110.03. – Fiscal Responsibility Tests.–

(a) …

…"

Section 190.- Section 6100.04 is hereby renumbered as Section 6110.04 and clause (i) of subparagraph (B) of paragraph (1), paragraphs (2), (3), (4), and (5) of subsection (a), and paragraphs (2), (3), (4), and (5) of subsection (b) of the new Section 6110.14 of Act No. 1-2011, as amended, are hereby amended to read as follows:

"Section 6110.04. – Effectiveness.–

(a) This Act, known as the "Internal Revenue Code for a New Puerto Rico," shall take effect on January 1, 2011, with the following provisions:

(1) Subtitle A. –

(A) …

(B) Exceptions.–

(i) The provisions of Section 1062.03 shall apply to payments made after December 31, 2010; and

(ii) …

(2) Subtitle B. – The provisions of Subtitle B shall apply to estates of individuals who die after December 31, 2010, and to gifts made after April 1st, 2011.

(3) Subtitle C. – The provisions of Subtitle C shall apply to taxable events taking place after April 1st, 2011.

(4) Subtitle D. – The provisions of Subtitle D shall apply to taxable events taking place after April 1st, 2011.

(5) Subtitle E. – The provisions of Subtitle E shall apply after January 1st, 2011.

(6) …

(b) …

(1) …

(2) The provisions of Subtitle B of the Puerto Rico Internal Revenue Code of 1994, to taxable events taking place before April 1st, 2011. However, the provisions relating to license fees shall apply to taxable events taking place before January 1st, 2012.

(3) The provisions of Subtitle BB of the Puerto Rico Internal Revenue Code of 1994, to taxable events taking place before April 1st, 2011.

(4) The provisions of Subtitle C of the Puerto Rico Internal Revenue Code of 1994, to estates of individuals who die before January 1, 2011, and to gifts made before April 1st, 2011.

(5) …

(6) The provisions of Subtitle D of the Puerto Rico Internal Revenue Code of 1994, to taxable events taking place before January 1st, 2012.”

Section 191.- Severability.-

If any Section or part of this Act were held to be null or unconstitutional, such holding shall not affect, impair, or invalidate the remaining provisions of this Act. The effect of such holding shall be limited only to the Section or part thereof held to be null or unconstitutional.

Section 192.- This Act shall take effect immediately after its approval and its provisions shall take effect retroactively to January 1, 2011, effective date of Act No. 1-2011, known as the "Internal Revenue Code for a New Puerto Rico." However, the provisions of Section 188 are hereby excepted from the preceding provision and the provisions of Section 177 shall apply prospectively and shall not affect contracts or agreements entered into prior to its approval. Notwithstanding the foregoing relating to Section 177, mandatory incentives granted for fiscal years ending in June 30, 2011 and 2012 to rum producers whose rum-producing operations in Puerto Rico include inclusively fermentation of molasses, rum distillation, and treatment of effluents, shall be effective as of the beginning of the fiscal year for which the incentive applies.

CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 232-2011 (H. B. 3410) (Conference)** of the **6th Regular Session** of the **16th Legislative Assembly of Puerto Rico:**

AN ACT to amend Sections 1000.01, 1001.02, 1010.01, 1010.02, 1010.04, 1010.05, 1021.01, 1021.02, 1021.03, 1021.04, 1022.02, 1022.03, 1022.04, 1022.06, 1023.06, 1023.08, 1031.01, 1031.02, 1031.04, 1032.01, 1032.06, 1032.07, 1032.08, 1033.01, 1033.02, 1033.05, 1033.06, 1033.07, 1033.09, 1033.10, 1033.13, 1033.14, 1033.15, 1033.16, 1033.17, 1033.18, 1033.30, 1034.01, 1034.02, 1034.04, 1034.06, 1034.09, 1035.03, 1040.02, 1040.07, 1040.08, 1040.12, 1051.07, 1051.08, 1052.01, 1052.02, 1052.03, 1052.04, 1053.04, 1053.06. 1061.04, 1061.07, 1061.12, 1061.15, 1061.16, 1061.17, 1061.20, 1061.24, 1062.01, 1062.02, 1062.03, 1062.04, 1062.05, 1062.06, 1062.07, 1062.08, 1062.10, 1062.11, 1063.02, 1063.03, 1063.06, 1063.07, 1063.08, 1063.09, 1070.01, 1071.02, 1071.04, 1071.05, 1071.06, 1071.09, 1072.03, 1073.03, 1073.05, 1076.01, 1081.01, 1081.02, 1081.03, 1081.04, 1081.05, etc.

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on this 1st day of December, 2016.

Juan Luis Martínez Martínez
Director