

(S. B. 1189)
(Conference)

(No. 238-2014)

(Approved December 22, 2014)

AN ACT

To amend Section 1021.02; Section 1023.06; Section 1023.10A; Section 1023.21; Section 1023.22; Section 1023.23; Section 1032.09; Section 1034.01; Section 1052.02; Section 1062.08; Section 1062.13; Section 1071.02; Section 1091.01; Section 1114.06; Section 1115.04; Section 4010.01; Section 4020.02; Section 4020.03; Section 4030.04; Section 4041.02; Section 4050.04; Section 5001.01; Section 5021.01; Section 5021.04; and Section 6041.01 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” in order to incorporate technical amendments to clarify its scope and content; establish an incentive for early payment of traffic tickets; and for other related purposes.

STATEMENT OF MOTIVES

This Administration is committed to ensure that the tax provisions in effect are consistent with the legislative intent and are not subject to inconsistent interpretations that may adversely affect our people and the development of our economic activity. For such reasons, this Legislative Assembly deems it pertinent to promote the following technical amendments in order to clarify their scope and content.

Upon the approval of Act No. 77-2014, a series of temporary measures were introduced to increase revenues during the fiscal year while awaiting the approval of the Tax Reform. For instance, Section 14 of said Act establishes a temporary period during which beneficiaries of qualified or nonqualified retirement plans and deferred compensation plans in Puerto Rico may elect to prepay the tax at a reduced rate over the accrued value of their benefits in said plans. However,

Department of the Treasury issued Administrative Determination 14-16 on August 6, 2014, to regulate this matter, while the period established in the Act ends on October 31, 2014. Thus, this Legislative Assembly deems it necessary to extend the effective period of said provision to January 31, 2015, so that it may achieve its objective of generating revenues for the treasury.

Likewise, Act No. 77-2014 added Section 1023.23 to the Internal Revenue Code of 2011, as amended, (the “Code”) in order to establish a period during which any taxpayer or beneficiary of an Individual Retirement Account may elect to prepay the tax at a preferential rate. However, Administrative Determination 14-18 published by the Department of the Treasury was delivered to taxpayers on August 25, 2014, when the period expires on October 31, 2014. Likewise, this Legislative Assembly deems it necessary to extend the effective period of said provision to January 31, 2015.

Furthermore, Act No. 80-2014 amended several sections of Subtitle D of the Code. In accordance with said amendments, any tangible personal property shall be subject to the Sales and Use Tax (SUT) at the time of import, even if said taxable item has been acquired for resale. With regard to tangible personal property imported into Puerto Rico but destined for a Foreign Trade Zone, the amendments provide that said property shall be deemed to have entered into or arrived in Puerto Rico. The foregoing may be inconsistent with the regulations administered by the U.S. Customs and Border Protection and the purpose of the Zones which is to promote exports and the economic development of Puerto Rico. For such reason, we are amending said mechanism to reestablish the exemption in Foreign Trade Zones. The Department of the Treasury issued Administrative Determination 14-12 last August 1, 2014, to postpone until November 1, 2014, the effective date of Section 4010.01 (aaa) of the Code with respect to tangible personal property destined for a Foreign Trade Zone showing the same concern that this Legislative

Assembly is addressing today. Therefore, through this legislation we are providing the exemption in the Foreign Trade Zone consistent with the public policy to establish mechanisms that boost our economic development.

This Legislative Assembly is always seeking to promote legislation to secure the resources needed for the Government's operations. However, we should not lose perspective of the importance of providing stability and a favorable environment for doing business.

Moreover, in seeking to increase revenues into the General Fund and provide the people with a relief, we hereby establish a ninety (90) day window for early payment of traffic tickets. During said period, a thirty-five (35) percent reduction shall be applied to the amount of any outstanding traffic tickets issued in accordance with Act No. 22-2000, as amended, known as the "Puerto Rico Vehicle and Traffic Act."

In addition to the amendments discussed herein, this measure incorporates other technical amendments to clarify ambiguities and the wording of other tax provisions.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:

Section 1.- Subparagraph (B) of paragraph (1) of subsection (a) of Section 1021.02 of Act No. 1-2011, as amended, known as the "Internal Revenue Code for a New Puerto Rico," is hereby amended to read as follows:

"Section 1021.02.- Alternate Basic Tax on Individuals.

(a) Imposition of Alternate Basic Tax on Individuals.

(1) General Rule. There shall be imposed, collected, and paid by every individual for each taxable year stated hereinbelow, in lieu of any other tax imposed under this part, a tax on the net income subject to alternate basic tax, determined according to the following table and reduced by the alternate basic credit for taxes paid abroad (when it is greater than the regular tax):

(A) ...

(B) Taxable years beginning after December 31, 2012, and before January 1, 2014:

If the net income subject to alternate basic tax is:

The tax shall be:

\$150,000 but not over \$250,000	10%
In excess of \$250,000 but not over \$500,000	15%
In excess of \$500,000	24%

plus the amount resulting from the application of the rates established in paragraph (1) of subsection (a) of Section 1023.10 of this Code, over the aggregate amount of its distributive share of the gross income determined in accordance with Sections 1071.02, 1114.06, and 1115.04, as amended, if any, and reduced by the alternate basic credit for taxes paid abroad (when it is greater than the regular tax).

(C) ...

(2) ...”

Section 2.- Paragraph (1) of subsection (e) 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 of Certain Corporations.

(a) ...

(e) Requirement to Deduct and Withhold at the Source and Pay or Deposit the Tax Imposed by this Section.

(1) Requirement to Deduct and Withhold.- Every person, notwithstanding the capacity in which the person is acting, having the control, receipt, custody, disposal, or payment of eligible distributions described in

subsection (c) shall deduct and withhold from said distributions an amount equal to ten percent (10%) of the total amount of each distribution of dividends of corporations made before November 1, 2014, and an amount equal to fifteen percent (15%) of the total amount of each distribution of dividends of corporations made after October 31, 2014. A partnership, special partnership, or corporation of individuals receiving an eligible distribution shall be the person required to meet the requirements of this subsection. For these purposes, the distributive share or proportional share of an eligible person in the net income of a partnership, special partnership, or corporation of individuals derived from eligible distributions shall be treated as if received by said eligible person at the same time that the distribution is received by the partnership, special partnership, or corporation of individuals.

(2) ...

(6) ...

(f) ...”

Section 3.- Subsections (a), (d), and (f) are hereby amended and a new subsection (h) is hereby added to Section 1023.10A of Act No. 1-2011, as amended, to read as follows:

“Section 1023.10A.- Imposition of an Additional Tax on Gross Income.-

(a) Applicable Tax.-

(1) General Rule.-

For the taxable year beginning after December 31, 2013, in the case of any corporation (or any entity filing as a corporation), and for the taxable year beginning after January 1, 2013 and ending after December 31, 2013, in the case of a partnership (or any entity filing as a partnership), special partnership, and corporation of individuals engaged in trade or business in Puerto Rico, except for a finance business, as defined in this Section, and the entities that are subject to

Section 1123(f) of the Puerto Rico Internal Revenue Code of 1994, there shall be imposed, collected, and paid an additional tax on its Gross Income, as defined in subsection (f) of this Section, which shall be determined by applying the rates established below:

If the gross income ...

(A) ...

(B) Coordination with Income Tax.- The tax imposed in this paragraph shall be determined separately from and in addition to the regular tax applicable to individuals, the normal tax and the additional tax applicable to corporations, the alternate basic tax applicable to individuals, and the alternative minimum tax applicable to corporations imposed under Subchapters A and B of Chapter 2 of this Subtitle A. Provided, however, that the amount of the tax imposed in this paragraph shall be allowed as a deduction in the computation of the taxpayer's net income, including those taxpayers who have elected to file under the provisions of the Internal Revenue Code of 1994, provided, that the tax has been paid on or before the deadline for filing the income tax return for said taxable year, as required under Subchapter A of Chapter 6 of Subtitle A of this Code.

(C) ...

(b) ...

(c) ...

(d) Taxpayers subject to the tax imposed in this Section shall pay, except for taxpayers subject to the transitory provisions of subsection (h) of this Section, the amount of the estimated tax imposed by this Section for the corresponding taxable year, which shall be paid on the dates and in the amounts established in Section 1061.23 of this Code, or under the corresponding provisions of the Internal Revenue Code of 1994, as amended, to the extent applicable to individuals who elected to file under Section 1022.06 of this Code.

(e) ...

(f) Definitions. - For the purposes of the tax imposed under this Section, the following terms shall have the meanings stated below:

(1) Gross Income.-

(A) ...

(E) Other Taxpayers.- In the case of any other taxpayers other than an insurance company, gas station, broker, dealer, representative agent, advertising agency, and contractor, gross income shall be that established in Section 1031.01 of this Code, minus the gross income exemptions provided in Section 1031.02 of this Code.

Provided, that in the case of earnings or income derived from the production or sale of property in the ordinary course of business, whether personal or real, gross income shall be that generated from the sale of property or goods without deducting the cost of the property or goods sold. The Secretary of the Treasury is hereby authorized to modify the computation of the gross income of a finance business for the purposes of this Section.

(F) All Taxpayers. - Gross income shall not include the following items:

(i) ...

(ix) the payment or cash flow received by duly certified voluntary chains from the members thereof, as said term is defined in Act No. 77 of June 25, 1964, as amended, as a result of the transfer of inventory or goods under a common negotiation program.

(x) the distributive share in the gross income determined pursuant to Sections 1071.02, 1114.06, and 1115.04.

(2) ...

(5) ...

(g) The tax imposed by this Section shall not apply to taxable years beginning after December 31, 2014, in the case of any corporation (or any entity filing as a corporation), and to taxable years beginning after January 1, 2014, in the case of partnerships (or any entity filing as a partnership), special partnerships, and corporations of individuals.

(h) Transitory Provisions. - In the case of partnerships (or any entity filing as a partnership), special partnerships, and corporations of individuals to which the provisions of paragraph (1) of subsection (a) of this Section apply, whose taxable year began after January 1, 2013, and ends on or before November 30, 2014, the following rules shall apply:

(1) Filing of Supplemental Return for Computing Additional Tax on Gross Income.- The entities listed in this subsection shall be required to file a Supplemental Return for Computing Additional Tax on Gross Income:

(A) If these entities have filed the corresponding Informative Income Tax Return (Forms 480.1(S), 480.1(E), or 480.2(I)) on or before December 31, 2014.- Such entities shall be required to file the Supplemental Return for Computing Additional Tax on Gross Income on or before January 31, 2015, or

(B) If these entities have not filed the corresponding Informative Income Tax Return on or before December 31, 2014.- Such entities shall be required to attach the Supplemental Return for Computing Additional Tax on Gross Income to the corresponding Informative Income Tax Return.

(2) Payment of Additional Tax on Gross Income.- The entities listed in this subsection shall be required to pay the Additional Tax on Gross Income together with and on the same date they are required to file the Supplemental Return for Computing Additional Tax on Gross Income.

(3) Determination of the amount required to be withheld under Sections 1062.04, 1062.05, and 1062.07 of the Code.- The entities listed in this

subsection shall determine the amount to be withheld for the taxable year beginning after January 1, 2013 and ending on or before November 30, 2014, under paragraph (1) of subsection (a) of Sections 1062.04, 1062.05, and 1062.07 of the Code, taking into consideration the deduction allowed by the Additional Tax on Gross Income paid, as provided in subparagraph (B) of paragraph (1) of subsection (a) of this Section, which determination shall be made in the Supplemental Return for Computing Additional Tax on Gross Income.

(4) Determination of amount withheld and remitted in excess or not withheld and remitted.- The entities listed in this subsection shall compare the result of the computation made under the preceding paragraph with the amount withheld and remitted for said taxable year, including the payments described in paragraph (7) of this subsection, prior to filing the Supplemental Return for Computing Additional Tax on Gross Income, which shall be stated in said return.

(A) Amount Remitted in Excess.- If the above computation shows that the entity withheld and remitted to the Secretary an excess amount, the entity may apply such excess to the Additional Tax on Gross Income it is required to pay under subsection (a) of this Section, which shall also be stated in the Supplemental Return for Computing Additional Tax on Gross Income.

(B) Amount not Remitted.- If, on the contrary, the above computation shows that the entity withheld and remitted to the Secretary an amount lower than the required amount, such entity shall be required to pay the amount not remitted along with the Supplemental Return for Computing Additional Tax on Gross Income.

(5) Deduction of Additional Tax on Gross Income. The entities listed in this subsection may deduct, as allowed in subparagraph (B) of paragraph (1) of subsection (a) of this Section, in the Supplemental Return for Computing Additional Tax on Gross Income, the Additional Tax on Gross Income that,

pursuant to subparagraph (A) of the preceding paragraph, is paid with the amount remitted in excess or paid with said return.

(6) Amended Informative Returns for Partners, Members, or Shareholders (Form 480.6S, 480.6SE, 480.6CI).- Entities listed in this subsection that, by the filing date of the Supplemental Return for Computation of Additional Tax on Gross Income, have submitted the corresponding Informative Return to their partners, members, or shareholders shall be required to amend it, to the extent practicable, to show the correct amount of the distributive share in the net income of the corresponding entity and the amount withheld from the partner, member, or shareholder. Amended Informative Returns shall be attached to the Supplemental Return for Computing Additional Tax on Gross Income.

(7) Payments of Additional Tax on Gross Income made for Taxable Years Beginning after January 1, 2014. If the entities listed in this subsection have made payments to pay the Tax on Gross Income for years beginning after January 1, 2014, said payments shall be considered withheld and remitted during the preceding taxable year in order to compute the amount remitted in excess or any amount not remitted in the Supplemental Return under paragraph (4) of this subsection.

Section 4.- Subsections (a), (b), (c), and (d) of Section 1023.21 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1023.21.- Special Tax for Individuals, Estates, and Trusts upon the Sale or Tax Prepayment on the Appreciation of Certain Assets.-

(a) Election to pay a special tax on the sale, or to prepay tax on the appreciation of certain assets.- Any individual, estate, or trust may elect to pay the special tax established in this Section on the sale of capital assets during the period between July 1, 2014, and January 31, 2015. Furthermore, the taxpayer may elect to pay said special tax on all or part of the appreciation of capital assets held by

any such person, without taking into account or requiring the sale or disposition of such assets to recognize and realize such gains. Said special tax shall only apply in the case of assets held in the long-term. The special tax, whether upon sale or prepayment provided in this Section, shall apply to the shareholders, members, or partners of an entity filing as a partnership under Chapter 7 of the Code, special partnership under Subchapter D of Chapter 11 of the Code, or an election as a corporation of individuals under Subchapter E of Chapter 11 of the Code who are individuals, estates, or trusts with respect to the capital assets covered by this Section that are held by said partnership, special partnership, or corporation of individuals.

(b) Special Tax.- The special tax established in this Section shall be eight percent (8%) in the case of capital assets, any amount accrued but not distributed under a qualified employee trust under Section 1081.01(a) of this Code, and any amount paid or distributed to a participant or beneficiary under a qualified employee trust under Section 1081.01(a) of this Code in the event of separation from service or termination of the plan during the period established in this Section, or fifteen percent (15%) in the case of Included Assets which income is taxed as ordinary income in accordance with this Code, of the appreciation at the time of the sale or distribution in the case of shares in a nonqualified plan under this Code, or the appreciation determined by said persons on the assets at the time of the prepayment. Consistent with the foregoing, in the case of a qualified retirement plan under Section 1081.01(a) of this Code, the prepayment rate shall be eight percent (8%), in the case of a nonqualified deferred compensation plan, the prepayment rate shall be fifteen percent (15%). For the purpose of making the payment of this Special Tax, the employee may withdraw funds from the trust for such purposes and none of the penalties imposed by this Code for the withdrawal of said amount shall apply. The employer or withholding agent, as the case may be,

shall be required to withhold and remit the Special Tax, in the case of total distributions in the manner provided in Sections 1081.01(b) (3) and (4) at the applicable rate in accordance with this subsection.

(1) Distributions for Prepayment.- Every participant or beneficiary, subject to the provisions of the plan document, may request the administrator of the trust of the plan or the employer the distribution of an amount equal to the Special Tax on the portion of the balance accrued but not distributed on which the participant or beneficiary shall prepay the tax. The amount so distributed shall reduce the participant or beneficiary's interest in the trust or account established. The administrator or employer shall report the amount distributed for prepayment in the form prescribed therefor by the Secretary. The participant or beneficiary shall include the amount distributed in the income tax return for taxable year 2014, as a distribution not subject to income tax, because the applicable tax was paid.

(2) Amendments to Allow Distribution of Special Tax.- Every employer subject to the rules and limitations applicable to deferred compensation plans or governmental plans, including, but not limited to, the provisions of the United States Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act, as amended, known as "ERISA," may amend the plan document to allow a distribution solely to satisfy a portion equal to the special tax corresponding to the portion of the balance accrued but not distributed on which the participant or beneficiary shall prepay the tax. Said amendment shall include language stating that the payor shall issue the payment instrument (certified check, manager's check, or postal money order) to the order of the Secretary of the Treasury. If the participant or beneficiary uses the amount so distributed for other purposes, even to pay other taxes owed to the Secretary, the

amount distributed to pay the Special Tax shall pay income taxes according to tax rates in effect at the time of the distribution.

(c) Included Assets.- The election provided in this Section regarding the following assets may be made:

(i) ...

(iv) Shares in an employer plan, whether qualified pursuant to Section 1081.01 or not. Provided, that, in the case of a nonqualified plan under Section 1081.01 of this Code, the plan must have been established through an agreement executed before November 1, 2014, and the balance of the deferred amounts may only be included together with the income derived from such amounts, payable to the employee at the time he availed himself of the benefits of this Section, if the deferral was not made;

(v) Bonds, obligations, notes, or certificates or other evidence of indebtedness, issued by any corporation, partnership, or limited liability company, including those issued by a government or a political subdivision thereof, with interest coupons or in registered form, provided, that these shall constitute capital assets held by the taxpayer.

(d) Increase of basis in the case of prepayment. - For all purposes under the Code, the basis of the individual, estate, or trust's capital assets subject to the foregoing election and on which he chose to prepay shall include the appreciation over which any of said persons chose to pay tax pursuant to the provisions of this Section. The basis thus determined shall be taken into account at the time or date on which said persons sell or dispose of the capital assets or, in the case of employee trusts, when the distribution under said trust is received. The recovery of the basis shall be governed by the rules promulgated or to be promulgated by the Secretary for the recovery of basis in the case of qualified trusts under Section 1081.01 of this Code. Sponsors of plans held in qualified trusts under Section

1081.01 shall be required to account for the established basis by reason of the prepayments. Notwithstanding the foregoing, any amount or appreciation in such capital assets or employee trusts generated after the election or special treatment provided in this Section shall pay taxes in accordance with the provisions of the laws in effect at the time of the sale or disposition of said capital assets, or the distribution. The amount of gain attributable to the payment for the increase of basis provided in this Section shall neither be part of the net income subject to alternate basic tax, nor be subject to the provisions of Section 1021.02.

- (e) ...
- (f) ...
- (g) ...
- (h) ...”

Section 5.- Subsections (a) and (c) of Section 1023.22 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1023.22.- Special Tax for Corporations upon the Sale or Tax Prepayment on the Appreciation of Capital Assets.-

(a) Election to pay a special tax upon the sale or to prepay tax on the appreciation of capital assets.- Any corporation may elect to pay the special tax established in this Section on the sale of certain capital assets during the period between July 1, 2014 and January 31, 2015. Furthermore, the corporation may elect to pay said special tax on all or part of the appreciation of capital assets held by any such taxpayers, without taking into account or requiring the sale or disposition of such assets to realize such gains. Said special tax shall only apply in the case of long-term capital assets. The election or the special tax provided in this Section shall apply to the shareholders, members, or partners of an entity that holds an election as a partnership under Chapter 7 of the Code or as a special partnership under Subchapter D of Chapter 11 of this Code that are corporations with respect

to qualified capital assets covered by this Section that are held by said special partnership.

(b) ...

(c) Capital Assets Included.- The election provided in this Section regarding the following assets may be made insofar as they constitute capital assets:

(i) ...

...

(ii) ...

(iv) Bonds, obligations, notes or certificates, or other evidence of indebtedness issued by any corporation, partnership, or limited liability company, including those issued by a government or political subdivision thereof, with interest coupons or in registered form; provided, that these constitute capital assets held by the taxpayer.

(v) In the case of an entity that has made an election to file as a partnership under Section 1076.01 of the Code, or as a special partnership under Section 1114.12 of the Code, or as a corporation of individuals under Section 1115.02 of the Code, such capital assets as defined in this subsection, whose gains on the sale would be subject to the tax on certain built-in gains provided in Section 1115.08.

(d) ...

(e) ...

(f) ...

(g) ...”

Section 6.- Subsections (a) and (c) of Section 1023.23 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1023.23. - Prepayment Individual Retirement Accounts.-

(a) Election to prepay the tax on amounts accrued but not distributed.-

(1) General Rule. - Any individual who is the owner or beneficiary of an individual retirement account may elect to prepay, during the period between July 1, 2014 and January 31, 2015, the eight percent (8%) tax imposed by this subsection on all or part of any amount accrued but not distributed in an individual retirement account that, if distributed or paid would be subject to income tax under Section 1081.02. The taxpayer's basis in such individual retirement account shall increase by the amount by which the taxpayer elected to prepay the tax.

(2) Election and Payment. - The election shall be made within the period provided in paragraph (1) of this subsection, by completing the form provided by the Secretary for such purposes. The tax shall be paid at the Internal Revenue Collections Offices of the Department of the Treasury of Puerto Rico. It shall be the responsibility of the taxpayer to keep proof of the prepayment form of the individual retirement account and submit a copy of such proof to the financial institution where the account is held.

(3) Exceptions. - The special eight percent (8%) tax rate shall not apply to the following distributions:

(A) Distribution of funds contributed to individual retirement accounts corresponding to taxable year 2014 and thereafter.

(b) ...

(c) Penalties for distributions before the age of sixty (60).- Any distributed amount, or understood as distributed, of an individual retirement account wherein the taxpayer was bound to the provisions of subsection (a) of this Section shall be subject to the penalty provided in subsection (g) of Section 1081.02; however, said penalty shall be an amount equal to fifteen percent (15%) of the distributed amount, in lieu of the ten percent (10%) established in subsection (g) of Section 1081.02. The provisions of subsection (b) of this Section shall not

apply for purposes of calculating the penalty provided in this subsection. However, no penalty shall be applied to distributions made before the age of sixty (60), as long as such distribution is used for the payment of the eight percent (8%) preferential rate provided in this Section.”

Section 7.- Subsection (b) of Section 1032.09 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 1032.09.- Compensation for Services Rendered for a Period of Thirty-six (36) Months or More and Back Pay.

(a) ...

(b) Artistic Works or Inventions.- For purposes of this subsection, the term ‘artistic work or invention,’ in the case of an individual, means a literary, musical, or artistic composition of such individual or a patent or copyright covering an invention or a literary, musical, or artistic composition of such individual, the performance of which by such individual covered a period of thirty-six (36) calendar months or more from the beginning to the completion of such composition or invention. If, during the taxable year, the gross income derived by an individual from a particular artistic work or invention of such individual is not less than eighty percent (80%) of the gross income derived from such artistic work or invention during the taxable year plus the gross income derived from such work or invention during previous taxable years and during the twelve (12) months immediately succeeding the close of the taxable year, the tax attributable to the portion of the taxable year’s gross income that is not taxable as a gain from the sale or exchange of a capital asset held for more than six (6) months, if the sale or exchange occurred before July 1, 2014, and for one (1) year, if the sale or exchange occurred after June 30, 2014, shall not be greater than the aggregate of the taxes attributable to such portion had it been received ratably over that portion

of the period preceding the close of the taxable year but not more than thirty-six (36) calendar months.

(c) ...

(d) ...”

Section 8.- Subsections (d) and (h) 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) ...

(d) Capital Loss Carry-over.-

(1) Taxable years beginning after June 30, 1995, but before January 1, 2006.- If for any taxable year beginning after June 30, 1995, but before January 1, 2006, 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 any of the taxable years between the year in which the net capital loss arose and said following taxable year.

(2) Taxable years beginning after December 31, 2005, but before January 1, 2013.- If for any taxable year beginning after December 31, 2005, but before January 1, 2013, the taxpayer has a net capital loss, the total amount thereof shall be a short-term capital loss in each of the ten (10) succeeding taxable years, to the extent that such amount exceeds the total of any net capital gains for any of the taxable years between the year in which the net capital loss arose and said following taxable year.

(3) Taxable years beginning after December 31, 2012.- If for any taxable year beginning after December 31, 2012, the taxpayer has a net capital loss, the total amount thereof shall be a short-term capital loss in each of the seven (7) succeeding taxable years, to the extent that such amount exceeds the total of

any net capital gains for any of the taxable years between the year in which the net capital loss arose and said following taxable year.

For the purposes of this subsection, a net capital gain shall be computed without regard to said net capital loss or any net capital losses arising in any such taxable years.

(e) ...

(h) Gains and Losses from Involuntary Conversion and from the Sale or Exchange of Certain Property Used in the Trade or Business.-

(1) Definition of property used in the trade or business.- For the purposes of this subsection, the term ‘property used in the trade or business’ means property used in the trade or business, of a character which is subject to the allowance for depreciation provided in Section 1033.07 and real property used in the trade or business, held for more than six (6) months if the involuntary conversion or sale or exchange occurred before July 1, 2014 or held for more than one (1) year, if the involuntary conversion, or sale or exchange occurred after June 30, 2014, which is not:

(A) Property of a kind which would properly be includible in the inventory of the taxpayer if on hand at the close of the taxable year;

(B) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business; or

(C) a copyright, a literary, musical, or artistic composition, a letter or memorandum, or similar property held by a taxpayer described in subsection (a)(1)(C).

(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 trade or business and capital assets held for more than six (6) months if the sale or exchange or conversion occurred before July 1, 2014 or held for more than one (1) year if the sale or exchange or conversion occurred after June 30, 2014 into other property or money, exceed the recognized losses from such sales, exchanges, and conversions, such gains and losses shall be treated as gains and losses from sales or exchanges of capital assets held for more than six (6) months or more than one (1) year as appropriate, in accordance with the foregoing. If such gains do not exceed such losses, such gains and losses shall not be treated as gains and losses from capital assets. For purposes of this paragraph:

(A) In determining under this paragraph whether gains exceed losses, the gains described therein shall be included only if, and to the extent taken into account in computing gross income, and the losses described therein shall be included only if, and to the extent taken into account in computing net income, except that subsection (c) shall not apply.

(B) Losses on the destruction, in whole or in part, theft or seizure, or requisition or condemnation of property used in the trade or business, or capital assets held for more than six (6) months or more than one (1) year as appropriate, in accordance with the foregoing, shall be treated as losses from a compulsory or involuntary conversion.

(i) ...”

Section 9.- Subsections (a) of Section 1052.02 of Act No. 1-2011, as amended, is 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 who has reached, 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, but only if the gross income of such individual for the taxable year added to the items excluded from 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 spouse 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). The credit shall be in the following amount:

(1) four hundred dollars (\$400), for taxable years beginning before January 1, 2014; and

(2) two hundred dollars (\$200), for taxable years beginning after December 31, 2013.

For taxable years beginning after December 31, 2013, the credit may be claimed using the form prescribed by the Secretary, which shall be filed after July 1 and before October 15 of the year following the taxable year for which the credit is claimed.

(b) ...”

Section 10.- Paragraph (2) of subsection (a) and subsection (g) 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.

(a) Obligation to Withhold.

(1) ...

(2) Withholding on Dividends. In the case of dividend income (except as provided in Sections 1062.04 and 1062.10), a ten percent (10%) tax shall be deducted and withheld with respect to dividends distributed before

November 1, 2014, and an amount equal to fifteen percent (15%) with respect to dividends distributed after October 31, 2014.

(3) ...

(b) ...

(g) Special Rule in Cases of Sale of Property by Nonresident Individuals.-

(1) Obligation to Withhold.- Notwithstanding any other provisions of this Subtitle, a person who acquires real property or shares from any nonresident individual (if the profit made in the transaction constitutes income from sources in Puerto Rico) shall deduct and withhold twenty-five percent (25%) of the payments made to the nonresident individual during the current taxable year, or in subsequent taxable years, as part of the purchase price of said property. Such withholding shall be of the same nature and be declared and paid to the Secretary in the same manner and subject to the same conditions provided in the other subsections of this Section. When the recipient is an individual who is a United States citizen, the withholding provided herein shall be ten percent (10%) with respect to sales occurring before November 1, 2014, and fifteen percent (15%) with respect to sales occurring after October 31, 2014.

(2) ...

(h) ...”

Section 11.- Subsections (a), (b), (d), and (e) of Section 1062.13 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 1062.13.- Tax on Deemed Dividend.

(a) Imposition of Tax.- For taxable years beginning after December 31, 2013, a ten percent (10%) tax shall be imposed on every foreign owner (as such term is defined in subsection (b) of this Section) without regard to any deduction or credit provided in this Subtitle, on the amount of the deemed dividend (as said term is defined in subsection (b) of this Section), considered as received from a

corporation (as said term is defined in subsection (b) of this Section) during any taxable year. Said tax shall be remitted, paid, or deposited by the corporation in the name and in favor of the foreign owner subject to the tax on deemed dividend imposed herein.

(b) ...

(1) ...

(A) ...

(E) ...

(i) ...

(iv) an obligation of a Foreign Owner or related person arising in connection with the sale of property or service rendering; provided, that the amount of such obligation at no time during the taxable year exceeds the amount which would be resulting if the transaction had been made between unrelated persons;

(v) ...

(2) ...

(3) Deemed Dividend – An amount equal to the lesser of:

(A) the average total value of the Foreign Assets (as defined in this subsection) held by the Corporation, or

(B) ...

(4) Foreign Owner – Any of the following persons who holds directly or indirectly fifty percent (50%) or more of the interest, stock, or shares of a Corporation;

(A) a Puerto Rico nonresident individual, estate, or trust;

(B) an entity not filing as a corporation, not doing business in Puerto Rico; and

(C) an entity filing as a corporation that, for the three (3) taxable year period ending on the close of the taxable year for which the determination is being made, has derived less than eighty percent (80%) of its gross income from sources within Puerto Rico or income connected or treated as effectively connected with the conduct of a trade or business within Puerto Rico.

(5) Earnings and Profits of the Corporation Accumulated as of the Close of the Taxable Year – Means the total earnings and profits of the Corporation as of the close of the taxable year, reduced by:

(A) ...

(D) the amount of the deemed dividend that has been subject to the tax imposed in this Section.

(6) ...

(7) Total Average Value of Foreign Assets – The sum of all average values of Foreign Assets determined at the end of each taxable year, reduced by the amount of any deemed dividend that has been subject to the tax imposed in this Section in previous years.

(c) ...

(d) Duty to Remit, Pay, or Deposit the Tax Imposed by this Section.-

(1) Duty to Submit Information and to Remit, Pay or Deposit the Tax – Any corporation required to remit, pay or deposit the tax imposed under this Section on a Foreign Owner, shall include in the income tax return for the corresponding taxable year, in the form established by the Secretary, the computation of the deemed dividend, the tax on the deemed dividend determined, the amount of said tax remitted to, paid to, or deposited with the Secretary. In addition, the Corporation shall pay the amount of the tax corresponding to the deemed dividend on the date prescribed for the payment of income taxes for said taxable year, in the Puerto Rico Internal Revenue Offices, the Department of the

Treasury, or to deposit the same in any banking institution designated as a depository of public funds authorized by the Secretary to receive such tax.

(2) Tax Liability.- Any Corporation required to remit, pay, or deposit the tax imposed by this Section shall be liable to the Secretary for the payment of said tax but shall not be liable to any other person for the amount of any payment thereof.

(3) ...

(4) Exclusion from Payment of Estimated Tax. - The tax imposed under this Section shall not be used in computing the estimated tax under Section 1061.23.

(e) Credit for Tax Paid on Deemed Dividend.- The tax imposed by this Section that is remitted, paid, or deposited by the corporation shall be credited against the tax to be withheld and paid in accordance with Sections 1062.08(a)(2) and 1062.11(a)(2) of this Code, as appropriate, in any dividend distribution made to any shareholder of the Corporation in the future, whether or not it is a Foreign Owner.

Any tax remitted, paid, or deposited in accordance with this Section that cannot be used as a credit in a taxable year, may be used as credit in future taxable years until it is exhausted or may be refunded to the taxpayer, upon agreement with the Secretary.”

Section 12.- 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 Partners.

(a) General Rule.- In determining his or her tax liability, each partner shall take into account separately (subject to the conditions and limitations provided in this Chapter) his or her distributive share in the partnership for any of its taxable years ending within or simultaneously with the taxable year of the

partner, with respect to:

(1) gains and losses from the sale or exchange of capital assets held by the partnership for not more than six (6) months if the sale or exchange occurred before July 1, 2014, and for one (1) year if the sale or exchange occurred after June 30, 2014;

(2) gains and losses from the sale or exchange of capital assets held by the partnership for more than six (6) months if the sale or exchange occurred before July 1, 2014, and for one (1) year if the sale or exchange occurred after June 30, 2014;

(3) ...

(b) ...”

Section 13.- Subsection (a) of Section 1091.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 1091.01.- Tax on Nonresident Alien Individuals.

(a) Income not related to trade or business in Puerto Rico.-

(1) General Rule.-

(A) Imposition of Tax.- There shall be imposed, collected, and paid for each taxable year, in lieu of the tax imposed by Sections 1021.01 and 1021.02, upon the amount received, or constructively received, by any nonresident alien individual who is not engaged in trade or business in Puerto Rico, the tax provided below:

(i) ...

(ii) dividends, a tax of fifteen percent (15%);

(iii) ...

(B) ...

(2) ...

(b) ...”

Section 14.- Subsection (a) of Section 1114.06 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 1114.06.- Inclusion of Special Partnership Income.

(a) General Rule. - In determining his or her tax liability, each partner shall take into account separately (subject to the conditions and limitations provided in this Subtitle) his or her distributive share in the special partnership for any of its taxable years ending within or simultaneously with the partner’s taxable year, with respect to:

(1) gains and losses from the sale or exchange of capital assets held by the special partnership for not more than six (6) months if the sale or exchange occurred before July 1, 2014, and one (1) year if the sale or exchange occurred after June 30, 2014;

(2) gains and losses from sales or exchanges of capital assets held by the special partnership for more than six (6) months if the sale or exchange occurred before July 1, 2014, and one (1) year if the sale or exchange occurred after June 30, 2014;

(3) ...

(b) ...”

Section 15.- Subsection (b) of Section 1115.04 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 1115.04.- Pass-through of Items to Shareholders of a Corporation of Individuals.

(a) ...

(b) Income, Loss, Deduction, or Credit Items.- Each shareholder shall consider separately (subject to conditions and limitations provided by this Subtitle) its distributive share in the corporation of individuals, with respect to:

(1) gains and losses in the sale or exchange of capital assets held by

the corporation of individuals for not more than six (6) months if the sale or exchange occurred before July 1, 2014, and one (1) year if the sale or exchange or conversion occurred after June 30, 2014;

(2) gains and losses in the sale or exchange of capital assets held by the corporation of individuals for more than six (6) months if the sale or exchange occurred before July 1, 2014, and one (1) year if the sale or exchange occurred after June 30, 2014;

(3) ...

(c) ...”

Section 16.- Subsection (aaa) of Section 4010.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 4010.01.- General Definitions.

(a) ...

(aaa) Entry.– means the arrival in Puerto Rico of tangible personal property by any means, including ports (as this term is defined in Section 3010.01(a)(12) of this Code) airports, or delivery at a commercial establishment or residence, through the Internet or electronic means.

Goods moved into Foreign Trade Zones, as this term is defined in Section 3010.01(a)(16) of this Code, shall be deemed to have entered into or arrived in Puerto Rico when the merchandise loses its Foreign Trade Zone status and/or is deemed to have entered into the United States Customs territory in Puerto Rico in accordance with the Regulations adopted by the Foreign Trade Zone Board and the U.S. Customs and Border Protection Agency, pursuant to the Foreign-Trade Zone Act of 1934, as amended, 19 U.S.C. 81C. Such fact shall be stated in Form 214-Application for Foreign-Trade Zone Admission and/or Status Designation.”

Section 17.- Subsection (a) is hereby amended, subsection (b) and (c) are hereby added, and former subsection (b) is hereby renumbered as subsection (d) of

Section 4020.02 of Act No. 1-2011, as amended, to read as follows:

“Section 4020.02.- Use Tax.

(a) There shall be levied, collected, and paid on the use, storage, or consumption of a taxable item in Puerto Rico, unless the taxable item has been subject to the sales tax under Section 4020.01 of the Code, a tax at the rates established in this Section.

(b) The mere storage, custody, holding, or withdrawal of tangible personal property by the person who manufactures, processes, or assembles said tangible personal property shall not be subject to the use tax provided in subsection (a) of this Section.

(c) A taxable item that was subject to the use tax at the time of import into Puerto Rico shall not be subsequently subject to the use tax on the storage or consumption thereof by the same person who paid the use tax at the time of import of the taxable item into Puerto Rico.

(d) The tax rate applicable to the sales price of the taxable item shall be five-point five percent (5.5%); provided, that effective February 1, 2014, the tax rate applicable to the sales price of the taxable item shall be six percent (6%).”

Section 18.- Subsections (b) and (g) of Section 4020.03 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 4020.03.- Rules for Determining the Source of Revenues Generated by the Sale of Taxable Items.

(a) ...

(b) For the purposes of determining if services are rendered in or outside of Puerto Rico, the source of the sale of taxable services, except for telecommunications, cable, or satellite television services, the leasing of tangible personal property, and bank charges, shall be the place where the services are

rendered. For the purposes of the municipal Sales and Use Tax, the rules provided in subsection (g) of this Section shall apply.

(c) ...

(g) For the purposes of determining the municipality where the sale occurs in the case of services, the address of the location where the services are billed shall be used. As an exception to said rule, in the case of telecommunications and cable, or satellite television services, the address of the customer to whom the services are billed shall be used.

(h) ...”

Section 19.- The designation of the subsections in Section 4030.04 of Act No. 1-2011, as amended, is hereby corrected to read as follows:

“Section 4030.04.- Exemptions for Taxable Items in Transit and for Alcoholic Beverages Stored in Bonded Warehouses.

(a) Any ‘taxable item’ ...

(b) A merchant who imports ...

(c) Alcoholic beverages deposited in a Foreign-Trade Zone.- The exemptions listed in subsection (b) above shall not apply to alcoholic beverages deposited in a Foreign-Trade Zone, as this term is defined in Section 3010.01(a)(16) of this Code.

(d) Any person who claims...”

Section 20.- The title and subsections (a) and (b) of Section 4041.02 of Act No. 1-2011, as amended, are hereby amended to read as follows:

“Section 4041.02.- Declaration of Imports, Monthly Tax Return on Imports, and Monthly Sales and Use Tax Return.

(a) Declaration of Imports.- Any person that imports into Puerto Rico tangible personal property shall file a detailed use tax declaration for any imported tangible personal property in the time, form, and manner, and with the information

prescribed by the Secretary, as a prerequisite to obtain the release of the imported tangible personal property. Provided, that this provision shall not apply for purposes of the Municipal Sales and Use Tax.

(b) Monthly Tax Return on Imports. - Any person that imports tangible personal property by any medium, including a postal service system or air carrier, subject to use tax shall file a Tax Return on Imports not later than the tenth (10th) day of the month following the month of the transaction subject to the tax, either electronically or in the forms prepared and provided by the Secretary, as the latter may determine, including such information as prescribed by the Secretary. The filing of a Monthly Tax Return on Imports shall not be a prerequisite for the release of imported tangible personal property. Provided, that this provision shall not apply for purposes of the Municipal Sales and Use Tax.

(c) ...”

Section 21.- Paragraph (2) of subsection (a) of Section 4050.04 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 4050.04.- Credit for Taxes Paid by a Merchant-Reseller.-

(a) Credit Claim and Limitation:

(1) ...

(2) Credit Amount and Adjustment

(A) ...

(B) Adjustments to Reseller Credit Control Account.- The balance of a Reseller Credit Control Account shall increase and decrease as follows:

(i) Increases.- A Reseller Credit Control Account shall increase by:

(I) the amount of the sales tax paid by a merchant-reseller on tangible personal property for resale before the

implementation of the Reseller Credit Control Account System, in the form and manner prescribed by the Secretary through Regulations;

(II) the amount of the sales tax paid by a merchant-reseller on tangible personal property acquired for resale on or after the implementation of the Reseller Credit Control Account System; and

(III) ...

(ii) Decreases.- A Reseller Credit Control Account shall decrease by:

(I) the amount claimed as credit on the Monthly Sales and Use Tax Return corresponding to the use tax paid on imported tangible personal property for resale;

(II) the amount claimed as credit in the Monthly Sales and Use Tax Return corresponding to the amounts paid on account of the sales tax on purchases of tangible personal property acquired locally for resale, once the Reseller Credit Control Account System has been implemented to reflect the amount thereof;

(III) the amount of sales tax corresponding to property returned to merchant-seller, as provided in paragraph (3) of subsection (a) of this Section; and

(IV) the amount of sales tax corresponding to property in relation to which a merchant-seller claimed the credit provided in Section 4050.03 of this Code.

(C) Reseller Credit Control Account - A Reseller Credit Control Account is an account that the Secretary shall create for each registered merchant holding a Reseller Certificate, for the purpose of showing the amount available to said merchant at any time to be used as credit to offset the amount the merchant is required to remit on account of the Sales Tax collected by such

merchant. A Reseller Credit Control Account shall be created by the Secretary for each registered merchant holding a Reseller Certificate. The Secretary shall prescribe by regulations or other communication the rules to determine the applicability of this requirement to the various types of merchants.

(i) Person Responsible for Making Adjustments to Reseller Account -

(I) The Secretary.— the adjustments to the Reseller Account stated in subclauses (I) and (III) of clause (i) and in subclauses (I), (II), and (IV) of clause (ii) of the preceding subsection shall be made automatically by the Secretary.

(II) Other Persons.-

(aa) the adjustment corresponding to the amount of the sales tax paid by merchant-reseller on the purchase of tangible personal property acquired for resale, stated in subclause (II) of clause (i) of the preceding subsection, shall be made by the seller of said property once the Reseller Credit Control Account System has been implemented, in the time, form, method, and manner prescribed by the Secretary through an official document;

(bb) notwithstanding the foregoing, said adjustment shall be made by the Secretary or the merchant-buyer, once the Reseller Credit Control Account System has been implemented, when the seller fails to meet his obligation under item (aa), above, in the time, form, method, and manner prescribed by the Secretary through an official document; and

(cc) the adjustment corresponding to the amount of sales tax paid by a merchant-reseller attributable to property returned to the merchant-seller, as provided in clause (i) of subparagraph (B) of paragraph (3) of subsection (a) of this Section, shall be made by the seller of said property once the Reseller Credit Control Account System has been implemented, in the time,

form, method, and manner prescribed by the Secretary through an official document.

(ii) Duties and Obligations of Sellers.- Sellers required to adjust Reseller Credit Control Accounts, as stated above, shall comply with the following duties and obligations:

(I) ...

(IV) to make the appropriate adjustment on or before the date prescribed through an official document once the Reseller Credit Control Account System has been implemented.

(3) ...”

Section 22.- Subsection (a) of Section 5001.01 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 5001.01.- Definitions.

(a) ...

(1) ...

(54) *Wine*.- The product of the regular alcoholic fermentation of the juice of fresh grapes or raisins, or of the juices and byproducts of other fruits (with the exception of tropical fruits), and agricultural products, including champagne and sparkling, carbonated, or fortified wines, excluding any wine denominated as Tropical Fruit Wine, Concentrated Must Vine, and Substandard Wine, as defined in this Section.

(55) *Tropical Fruit Wine*.- The product of the regular alcoholic fermentation of citrus fruit, pineapple, acerola, tomato, gooseberry, and passion fruit, and the maceration of guava, mango, banana, papaya, soursop, and other fruits commonly produced in tropical zones and whose alcoholic content does not exceed twenty-four percent (24%) of alcohol by volume, produced by the manufacturer and its Related Persons whose total production of any type of wine

and distilled spirits (inside and outside of Puerto Rico) for the previous calendar year is less than four hundred thousand (400,000) wine gallons. The term Related Persons shall have the meaning provided in Section 1010.05(b) of Subtitle A of this Code; provided that, for such purposes the term Corporation, as used in Section 1010.05(b), shall include any juridical entity defined in Section 1010.02 of Subtitle A of this Code.

(56) ...

(57) *Substandard Wine*.- Any wine manufactured in its country of origin using sugar, water, sugarcane alcohol, and any other substance in excess of what is needed to correct the natural deficiencies of the fruit, and whose alcohol 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. 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. Converting wines manufactured under other categories into substandard wines by merely adding sugar, water, or sugarcane alcohol shall not be permitted. In addition, to qualify under this category, the manufacturer and Related Persons' total production of wine and distilled spirits (inside and outside of Puerto Rico) for the previous calendar year, shall be less than four hundred thousand (400,000) wine gallons. The term Related Persons shall have the meaning provided in Section 1010.05(b) of Subtitle A of this Code; provided that, for such purposes the term Corporation, as used in Section 1010.05(b), shall include any juridical entity defined in Section 1010.02 of Subtitle A of this Code.”

Section 23.- A new paragraph (3) is hereby added and subsequent paragraphs (3), (4), (5), and (6) are hereby renumbered as (4), (5), (6), and (7) of subsection (a) of Section 5021.01 of Act No. 1-2011, as amended, to read as follows:

“Section 5021.01.- Tax Provision.

(a) Distilled Spirits.

(1) ...

(2) ...

(3) Any distilled spirit stored in a bonded warehouse authorized by the Secretary, inside or outside of Puerto Rico, which shall be used, in whole or in part, in the production of cocktails shall continue paying the tax on distilled spirits prior to producing the Cocktail. The tax rate payable shall be established pursuant to paragraphs (1) and (2) of this Section on each wine gallon and a proportional tax at equal rate shall be paid on each fraction of wine gallon insofar as the taxpayer has made an election to pay the tax on distilled spirits before withdrawing it from the bonded warehouse.

(4) ...

(5) ...

(6) ...

(7) ...

(b) ...

(c) ...

(d) ...”

Section 24.- Subsection (b) of Section 5021.04 of Act No. 1-2011, as amended, is hereby amended to read as follows:

“Section 5021.04.- Time for Producers and Importer-dealers to Pay Taxes.-

(a) ...

(b) Rectifiers.- Rectifiers who obtain distilled spirits from a distillery without previously paying the appropriate taxes shall be required to pay such taxes before last withdrawal of the products rectified or bottled by them withdrawn from the bonded warehouse where they were deposited.

In the case of rectifiers, manufacturers, and distillers with bonded warehouses authorized by the Secretary, inside or outside of Puerto Rico and used, in whole or in part, for the production of cocktails, the tax rate and basis to be paid on such cocktails shall include only the content of the distilled spirits used in the production of cocktails, excluding other content such as fruit juices, sodas, spices, and other flavors used in the mixture; provided, that when the rectifier, producer, or distiller has elected to pay the tax on the distilled spirit withdrawn from the bonded warehouse before producing the Cocktail.

(c) ...

(d) ...

(e) ...”

Section 25.- 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, 1062.13, 1081.01(b)(3), 1081.02, 1081.03, and 1081.06, which should have been withheld and deposited within the period prescribed 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 amount of the deficiency if the failure is for thirty (30) days or less, and an additional two percent (2%) for each additional thirty (30) day period or fraction thereof during which such failure continues, not to exceed twenty-four percent (24%) in total.

(b) ...”

Section 26.- Incentive for Early Payment of Traffic Tickets.

Under this initiative, any citizen whose driver's license or motor vehicle registration record shows one or more outstanding traffic tickets, or any other person acting on his behalf who settles such outstanding traffic tickets at a Driver Services Center, the Internal Revenue Collections offices of the Department of the Treasury of the Commonwealth of Puerto Rico, or Banks, Cooperatives, and Municipalities of Puerto Rico authorized to sell stamps and digital vouchers under Act No. 331-1999, shall be entitled to a reduction equal to thirty-five percent (35%) of the amount owed within the first ninety (90) days of the incentive period. For the purposes of this reduction, the total amount owed includes the tickets, plus any interest, surcharges, and penalties imposed before the effective date of this incentive, shown in the record of the driver's license or vehicle registration for which the incentive for early payment of traffic tickets is claimed.

(a) The Secretary of the Department of Transportation and Public Works of the Commonwealth of Puerto Rico is hereby authorized to adopt regulations as are necessary to achieve the purposes of this Section and implement this incentive within a period not to exceed sixty (60) days from the effective date of this Act, as well as perform a system interface to ensure compliance therewith.

(b) The thirty-five percent (35%) traffic ticket reduction incentive period shall run for ninety (90) days from the effective date of the Regulation to be adopted by the Department of Transportation and Public Works of the Commonwealth of Puerto Rico.

(c) The Department of the Treasury in conjunction with the Department of Transportation and Public Works shall submit to the Legislative Assembly a detailed report on the revenues collected and the effectiveness of the incentive authorized under this Act, which shall be filed with the Secretary of the Senate and

the Clerk of the House within thirty (30) days from the expiration of the incentive period for settling traffic tickets.

(d) Once the ninety-day incentive period for settling traffic tickets expires, the Department of Transportation and Public Works of the Commonwealth of Puerto Rico shall be authorized to continue using the centers listed in this Section to settle the traffic tickets provided in Act No. 22-2000. In addition, agents, new points of sale, Banks, Cooperatives, and Municipalities of Puerto Rico that will be receiving the payments authorized under this Act, are hereby authorized to retain the service charge authorized under the digital stamps and vouchers agreements entered into under Act No. 331-1999.

Section 27.- Severability.

If any section, subsection, paragraph, subparagraph, clause and subclause, or part of this Act were held to be void or unconstitutional, the holding to such effect shall not affect, impair, or invalidate the remainder of this Act.

Section 28.- Effectiveness.

This Act shall take effect upon approval.

CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 238-2014 (S. B. 1189) (Conference)** of the **4th Regular Session** of the **17th Legislative Assembly of Puerto Rico:**

AN ACT to amend Section 1021.02; Section 1023.06; Section 1023.10A; Section 1023.21; Section 1023.22; Section 1023.23; Section 1032.09; Section 1034.01; Section 1052.02; Section 1062.08; Section 1062.13; Section 1071.02; Section 1091.01; Section 1114.06; Section 1115.04; Section 4010.01; Section 4020.02; Section 4020.03; Section 4030.04; Section 4041.02; Section 4050.04; Section 5001.01; Section 5021.01; Section 5021.04; and Section 6041.01 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” in order to incorporate technical amendments to clarify its scope and content; establish an incentive for early payment of traffic tickets; and for other related purposes.

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on this 31st day of January, 2024.

Mónica Freire-Florit, Esq.
Director