



TAX REPORTING CHANGES TO EXEMPT DIVIDENDS OF PR MUTUAL FUNDS

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The Puerto Rico (“PR”) Treasury Department issued Informative Bulletin 16-09, dated April 1st 2016 (“IB 16-09”), in response to inquiries concerning income payments not subject to the alternate basic tax (“ABT”) that were reported on line 16 (titled “Other Payments”) of Form 480.6D. These inquiries are apparently related to the fact that the new mandatory electronic tax filing system of the PR Treasury for individual income tax returns considers income items reported on line 16 of Form 480.6D as subject to ABT, even if they were reported only on Column A of line 16, as not subject to ABT.

The principal items of income that have generally been reported by payors on line 16 (Column A only) of Form 480.6D for 2015 are “exempt dividends” distributed by PR-organized registered investment companies (commonly known as “PR Mutual Funds”). The term “exempt dividends” is defined in section 1112.01(c)(1) of the PR Internal Revenue Code (“PR-IRC”) as those dividends designated as exempt by a PR Mutual Fund. Pursuant to PR-IRC Section 1021.02(a)(2)(A)(ii) of the PR-IRC, these exempt dividends are not subject to the ABT.

IB 16-09 provides that “interest and dividends resulting from obligations” of the US and PR Governments (including their agencies and instrumentalities) should not be reported on line 16 of Form 480.6D, but should be reported instead on line 7 (titled “Interest paid on Obligations issued by the Government of the United States) or line 8 (titled “Interest Paid on Obligations of the Government of the Puerto Rico”) of Form 480.6D. It appears that IB 16-09 is making reference to “exempt dividends” from PR Mutual Funds when it refers to “interest and dividends resulting from obligations” of the US and PR Governments (including their agencies and instrumentalities). Thus, the PR Treasury has instructed payors of “exempt dividends” from PR Mutual Funds to report such dividends, which are exempt from PR income tax and the ABT, on line 7 or line 8 of Form 480.6D.



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Since it will take time for payors of “exempt dividends” to submit thousands of amended Forms 480.6D to the PR Treasury to comply with IB 16-09, obtain PR Treasury’s control numbers, and then mail the forms to the taxpayers/shareholders of PR Mutual Funds, it is unlikely that the amended Forms 480.6D will be received by taxpayers/shareholders prior to April 15, 2016.

Therefore, individual taxpayers who earned “exempt dividends” from PR Mutual Funds during 2015, and received a 480.6D Form that has to be amended as described above, should consult with their tax preparers the need to possibly request an automatic three-month extension to file their 2015 PR income tax return, by filing PR Treasury Form Model SC 2644 on or before April 15, 2016.

Finally, shareholders of PR Mutual Funds that received “exempt dividends” in 2015, and their tax preparers, need to be aware that the PR income tax electronic filing systems may be erroneously characterizing such dividends as income subject to the ABT when included on lines 33 or 34 of Schedule IE of the PR individuals income tax return.



The above summary is intended for information purposes only. It cannot be considered a legal opinion, and it does not intend to consider all the tax and legal considerations that could be relevant to any particular person or entity

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