

INSTRUCTIONS BOOKLET

**INDIVIDUAL
INCOME TAX RETURN
2017**

DUE DATE:
Tuesday, April 17, 2018



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FILING REQUIREMENTS

WHO MUST FILE THE INCOME TAX RETURN?



- Every individual resident of Puerto Rico who is an individual or married taxpayer, whose gross income for the taxable year, net of exemptions, exceeds \$5,000;
- Every individual not resident of Puerto Rico, and citizen of the United States, who is an individual or married taxpayer, whose gross income from Puerto Rico sources for the taxable year, net of exemptions, exceeds \$5,000, unless the tax has been totally paid at source;
- Every married individual living with spouse, who opts to file a separate tax return and whose gross income for the taxable year, net of exemptions, is \$2,500 or more;
- Every nonresident alien who during the taxable year has income from Puerto Rico sources subject to tax, unless the tax has been totally paid at source; or
- Every individual who during the taxable year has net income subject to alternate basic tax of \$150,000 or more.**

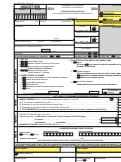


EFFECTIVE FOR TAXABLE YEAR 2015 ALL TAXPAYERS MUST FILE THEIR RETURNS ELECTRONICALLY (With the exceptions included in the "How the Return Must be Filed?" section).



WHEN MUST THE RETURN BE FILED?

If you file on a calendar year basis or do not keep accounting records, you must file your return on or before **Tuesday, April 17, 2018**.



HOW THE RETURN MUST BE FILED?

The return must be filed:

- ↳ electronically using any program or application certified by the Department;
- ↳ personally at the Department of the Treasury, Intendente Alejandro Ramírez Building in Old San Juan, at the Internal Revenue Collections Office of your Municipality or at any Orientation and Return Preparation Center, **only** if any of the following exceptions to the electronic filing requirement apply:



- Individual that is a partner or shareholder in a pass-through entity whose taxable year does not end on December 31, 2017.
- Individual nonresident of Puerto Rico who is only reporting a sale of real property located in Puerto Rico which occurred after December 31, 2017, and for which an authorization has been requested for the refund of the amounts withheld under the provisions of Section 1062.08(g)(3) of the Puerto Rico Internal Revenue Code of 2011, as amended ("Code").
- Taxpayer who claims the deduction for initial investment in a private equity fund or a Puerto Rico private equity fund, pursuant to Act 185-2014, as amended, known as the Private Capital Fund Act ("Act 185-2014").
- Taxpayer whose income from pension is reported on Form 1099-R of the Internal Revenue Service ("IRS"), and is subject to the \$11,000 or \$15,000 exemption, according to Section 1031.02(a)(13) of the Code.
- Taxpayer reporting exempt income under a Special Agreement for the Creation of Young Businesses issued by the Puerto Rico Trade and Export Company under Act 135-2014, as amended.
- Taxpayer who claims the tax credits listed in Parts II and IV of Schedule B Individual.
- Taxpayer who claims the American Opportunity Tax Credit (Schedule B2 Individual).
- Taxpayer to whom a Special Agreement for the Creation of Jobs issued by the Puerto Rico Trade and Export Company under Act 1-2013, as amended, also known as the Jobs Now Act was issued and claims the benefits conferred by such agreement.
- Taxpayer who is an active military and is transferred outside Puerto Rico during a warlike conflict and who, during the taxable year, received compensation for active military service rendered by military personnel in a "combat zone", according to the provisions of Section 1031.02(a)(20) of the Code.
- Taxpayer who claims the deduction for contributions to a Government Pension or Retirement System, in excess of the amount reported on Forms 499R-2/W-2PR or 499R-2c/W-2cPR.
- Taxpayer required to use Form AS 2668.1, Back Pay ("Paga Atrasada"), to determine the corresponding income tax, according to the provisions of Section 1032.09(d) of the Code.
- Taxpayer required to submit with the return Audited Financial Statements issued by a CPA in Puerto Rico, as provided in Section 1061.15 of the Code.
- Foreign taxpayer nonresident of Puerto Rico with income related to a trade or business in Puerto Rico, according to Section 1035.05 of the Code (Schedule U).
- Individual that cannot file the return or automatic extension of time electronically *because of an error with the Social Security number* and is filing a return for the first time or because of a system error (You must submit evidence of such error).
- Taxpayer who claims the credit for taxes paid to foreign countries, the United States, its territories and possessions, according to the provisions of Section 1051.01 of the Code (Schedule C Individual).
- Taxpayer deceased during the taxable year or surviving spouse who files another income tax return for the same taxable year.
- Taxpayer who files the income tax return corresponding to taxable year 2017 after December 31, 2018.
- Any other restriction established by the Secretary through Administrative Determination, Circular Letter or Informative Bulletin.

- ↳ by mail sending it to the DEPARTMENT OF THE TREASURY, PO BOX 9022501, SAN JUAN PR 00902-2501, **only** if any of the above established exceptions to the electronic filing requirement apply.

IMPORTANT NOTICE: If the taxpayer is required to file on paper, it is necessary to complete and submit with the return Form 483.20 - Exception to Electronic Filing Individual Income Tax Return.

TAXPAYER BILL OF RIGHTS

The Taxpayer Bill of Rights grants the following rights under the Puerto Rico Internal Revenue Code of 2011, as amended (Code):

To receive a proper, considerate and impartial treatment.

The information submitted will be confidential.

All interviews must be at a reasonable time and place for the taxpayer, in coordination with the employee of the Department of the Treasury (Department).

The interview or audit will not be used to harass or intimidate in any manner the interviewed person.

To receive a clear and simple explanation of the process to which the taxpayer will be subjected and the rights that assist him.

To be assisted by an attorney, accountant, certified public accountant or any other authorized person, at any moment during the interview.

To be informed prior to the interview of the intention to tape the interview, and to be able to obtain an exact copy of such recording subject to the payment of the cost thereof.

To be informed of the nature of your tax liability.

To be advised of your right against self-incrimination by your own testimony, to remain silent and that your silence should not be taken or commented against you, in case of a possible exposure to a criminal action.

To consult an attorney, accountant, certified public accountant, or agent authorized to represent you within the Department at any moment during the interview, or to be able to conclude the interview even when it has commenced.

To be notified in writing of any adjustment made by the Department as a result of a tax audit when it involves the addition of interests, penalties and surcharges, as provided by the Code, as well as the exact amount of the adjustment and the reasons for such changes.

To claim the benefits of a payment plan if you can't pay the full tax liability when it becomes due.

To waive the rights described in the preceding paragraphs, if such waiver is made knowingly and voluntarily.

To grant a written power of attorney to authorize any person to represent you during a tax interview or process. Such person shall receive, for purposes of the interview, equal treatment as you, unless you are notified that such person is responsible for an unreasonable delay or interference with the audit.

No discrimination on the basis of race, color, sex, birth, origin or social condition, or political, religious ideas or association of any taxpayer or his representative. No records will be maintained of tax information for these purposes.

The Department's employees will explain and protect your rights during all phases of the process. If you believe that your rights have been violated, you should discuss this matter with the supervisor of the employee. If you do not agree with the action taken by the supervisor, you may file a complaint with the Office for the Protection of Taxpayer Rights.

OFFICE FOR THE PROTECTION OF TAXPAYER RIGHTS

The Office for the Protection of Taxpayer Rights (Ombudsman of the Taxpayer) was created to assure compliance with the provisions of the Taxpayer Bill of Rights. Said office is located at the Department of the Treasury in Old San Juan, Office 105. For assistance, please call (787) 977-6622, (787) 977-6638 or (787) 721-2020, extension 2180.

The Ombudsman of the Taxpayer is responsible for attending the problems and claims of the taxpayers and to facilitate the process between the taxpayers and the Department of the Treasury. Also, the Ombudsman of the Taxpayer has authority to prevent or correct any infringement of the rights of the taxpayer made by any employee of the Department.

For additional information, you can request the booklet: "*Carta de Derechos del Contribuyente*".

NEW TAX BENEFITS

- ↵ The deduction for interests paid or accrued on residential property is extended to those individuals that meet certain requirements, even though the individual is not the borrower or joint borrower of the loan guaranteed in its entirety with mortgage.
- ↵ The first \$10,000 distributed to an Eligible Individual during the period between September 20, 2017 and June 30, 2018 that constitutes an Eligible Distribution from a Qualified Retirement Plan, an Individual Retirement Account (IRA) or a Non Deductible IRA to cover Eligible Expenses due to the passing of Hurricane María through Puerto Rico, are exempt from the payment of income tax.
- ↵ A 10% fixed income tax rate and withholding at source is provided on any Eligible Distribution from a Qualified Retirement Plan or an IRA in excess of the first \$10,000 but not exceeding \$100,000, due to Hurricane María.
- ↵ A 4% fixed income tax rate is granted on the eligible income earned by qualified physician who has a decree under the Incentives for the Retention and Return of Medical Professionals Act (Act 14-2017).
- ↵ Dividends issued by a medical services business to a qualified physician for professional medical services rendered, as provided by Act 14-2017, are exempt from the payment of income tax, including the alternate basic tax, up to a maximum of \$250,000.

SIGNIFICANT CHANGES IN THE RETURN

↵ **Return**

One question is added in the Questionnaire related to qualified physicians under Act 14-2017.

Line 2(S) is added in Part I to include the Eligible Distributions from a Qualified Retirement Plan or an Individual Retirement Account (IRA) due to hurricane María.

↵ **Schedule A2 Individual**

Column F is reassigned to reflect the 4% preferential rate applicable in the case of a qualified physician who has a decree under Act 14-2017, or any other special legislation that provides for a 4% income tax rate.

Line 4(i) is provided to reflect the taxable gain at a reduced rate under an Incentives Act and the wages received by a qualified physician under Act 14-2017.

Line 4(k) is added to include the Eligible Distributions from a Qualified Retirement Plan or IRA due to hurricane María.

↵ **Schedule B Individual**

Line 19, Part II, provides for the claim of the credit for charitable contributions to the Patronage of the State Capitol of the Legislative Assembly.

Line 21(c) is added in Part III, to report the 10% income tax withheld at source on Eligible Distributions from a Qualified Retirement Plan or IRA due to Hurricane María.

↵ **Schedule CO Individual**

Line 3(S) is added to include the Eligible Distributions from a Qualified Retirement Plan or IRA due to hurricane María.

↵ **Schedule F Individual**

Column F is added in Part V to inform the Distributable Share on Net Income Subject to Preferential Rates from Pass-Through Entities.

A new Part VI is provided to report the Eligible Distributions for reason of extreme economic emergency due to hurricane María.

↵ **Schedule IE Individual**

Line 26, Part II is renamed to read: Compensation or Indemnification Paid to an Employee Due to Dismissal.

Line 32, Part II is added to inform Qualified Payments and exempt transactions due to hurricane María.

↵ **Schedules K, L, M and N Individual**

It is provided in Part III of these Schedules to identify the amount of wages or professional services which constitutes an exempt qualified payment for the employee or service provider for disaster assistance due to hurricane María.

On the other hand, Part I of Schedules K and M Individual provides to indicate if the income reported is covered by a tax incentive under Act 14-2017.

Schedule M Individual provides to indicate the case or concession number, if applicable.

Also, Schedule N Individual provides to indicate the employer identification number of the business, if applicable.

↵ **Schedules R and R1 Individual**

New lines are provided in Parts I and III of both schedules, to indicate the type of taxable year and the electronic filing confirmation number of Form 480.60 EC.

EVIDENCE OF THE RETURN

You do not have to include with the return the evidence corresponding to the deductions and exemptions for dependents. However, you must keep such evidence for at least 6 years, in case that they may be required as part of an investigation or audit procedure. In such cases, if you do not present the evidence, your return may be adjusted and the corresponding interests and surcharges will be assessed over any balance of tax due.

DEPENDENTS

The term dependent means any of the following persons who for the calendar year in which the taxpayer's taxable year begins **have received from the taxpayer more than half of the support:**

- i. A person who at the end of the calendar year in which the taxpayer's taxable year begins has not reached the age of twenty-one (21);
- ii. The taxpayer's father or mother;
- iii. Is age sixty-five (65) or older;
- iv. Has reached the age of twenty-one (21) or more and is blind or incapable of self-support because of being mentally or physically disabled; or
- v. A person who at the end of the calendar year in which the taxpayer's taxable year begins has not reached the age of twenty-six (26), as long as he/she have attended post secondary level education, as a regular student, in a university or technical-professional institution recognized as such by the educational authorities of Puerto Rico, or of the applicable country, until he/she receives his/her university or technical-professional degree.



SOCIAL SECURITY NUMBER

Enter your social security number in the corresponding space of the return and its schedules. This number is very important because it is necessary to process your return.

PAYMENTS FOR THE PREPARATION OF THE RETURN AND SANCTIONS TO RETURNS SPECIALISTS

Indicate if you paid for the preparation of your return and make sure that the specialist signs the return and includes his/her registration number. **THE CODE PROVIDES CIVIL AND CRIMINAL SANCTIONS TO THOSE SPECIALISTS WHO FAIL TO SUBMIT THIS INFORMATION OR WHO DO NOT MEET OTHER STATUTORY REQUIREMENTS IMPOSED BY THE CODE.**

CHANGE OF ADDRESS

To notify a change of address **at the moment of filing the return, you will NOT have to complete Form SC 2898 (Change of Address)**. You must write the new address clearly and legibly in the space provided for this purpose in the return's heading. Also, you must select the oval () beside "Yes" in the space provided to indicate if there was a change of address.

On the other hand, if you change your address **at any other moment during the taxable year, you must notify it by using Form SC 2898**. The form may be obtained through our website: www.hacienda.pr.gov.

AREA CODE

You must indicate the area code (**787** or **939**) in the space provided in the heading of the return to write the phone number of your residence and work.

RETURNED CHECKS

Every returned check drawn on behalf of the Secretary of the Treasury will be subject to a \$25 minimum charge. This charge is in addition to any other interests, surcharges or penalties provided by the Code or any other fiscal act for omissions in fulfilling your tax responsibility. The Department may make the collection in a traditional or electronic manner.

FILING THE TAX RETURN THROUGH THE INTERNET

Effective for taxable year 2015, you must file your Income Tax Return electronically using any program or application certified by the Department. For additional information, visit our webpage: www.hacienda.pr.gov.

The only returns being accepted on paper will be the ones filed by the following taxpayers:

- Individual that is a partner or shareholder in a pass-through entity whose taxable year does not end on December 31, 2017.
- Individual nonresident of Puerto Rico who is only reporting a sale of real property located in Puerto Rico which occurred after December 31, 2017, and for which an authorization has been requested for the refund of the amounts withheld under the provisions of Section 1062.08(g)(3) of the Code.
- Taxpayer who claims the deduction for initial investment in a private equity fund or a Puerto Rico private equity fund, pursuant to Act 185-2014, as amended.
- Taxpayer whose income from pension is reported on Form 1099-R of the Internal Revenue Service (IRS), and is subject to the \$11,000 or \$15,000 exemption, according to Section 1031.02(a)(13) of the Code.
- Taxpayer reporting exempt income under a Special Agreement for the Creation of Young Businesses issued by the Puerto Rico Trade and Export Company under Act 135-2014, as amended.

- Taxpayer who claims the tax credits listed in Parts II and IV of Schedule B Individual.
- Taxpayer who claims the American Opportunity Tax Credit (Schedule B2 Individual).
- Taxpayer to whom a Special Agreement for the Creation of Jobs issued by the Puerto Rico Trade and Export Company under Act 1-2013, as amended, also known as the Jobs Now Act was granted and claims the benefits conferred by such agreement.
- Taxpayer who is an active military and is transferred outside Puerto Rico during a warlike conflict and who, during the taxable year, received compensation for active military service rendered by military personnel in a "combat zone", according to the provisions of Section 1031.02(a)(20) of the Code.
- Taxpayer who claims the deduction for contributions to a Government Pension or Retirement System, in excess of the amount reported on Forms 499R-2/W-2PR or 499R-2c/W-2cPR.
- Taxpayer required to use Form AS 2668.1, Back Pay ("Paga Atrasada"), to determine the corresponding income tax, according to the provisions of Section 1032.09(d) of the Code.
- Taxpayer required to submit with the return Audited Financial Statements issued by a CPA in Puerto Rico, as provided in Section 1061.15 of the Code.
- Foreign taxpayer nonresident of Puerto Rico with income related to a trade or business in Puerto Rico, according to Section 1035.05 of the Code (Schedule U).
- Individual that cannot file the return or automatic extension of time electronically *because of an error with the Social Security number* and is filing a return for the first time, or because of a system error (You must submit evidence of such error).
- Taxpayer who claims the credit for taxes paid to foreign countries, the United States, its territories and possessions, according to the provisions of Section 1051.01 of the Code (Schedule C Individual).
- Taxpayer deceased during the taxable year or surviving spouse who files another income tax return for the same taxable year.
- Taxpayer who files the income tax return corresponding to taxable year 2017 after December 31, 2018.
- Any other exception established by the Secretary through Administrative Determination, Circular Letter or Informative Bulletin.

If the taxpayer is required to file on paper, it will be necessary to complete and submit with the return Form 483.20 - Exception to Electronic Filing Individual Income Tax Return. In this form the taxpayer shall indicate under oath, the reasons for which he/she cannot file the return electronically.

If you request direct deposit of your refund into your checking or savings account, be sure that the correct information has been entered in the corresponding screen of the certified program or application used to file your return electronically.

DIRECT DEPOSIT OF REFUND

You can receive your refund faster and safely. The Department of the Treasury can deposit your refund directly into your checking or savings account.

To authorize the Department of the Treasury to deposit your refund directly into your account, you must meet the following requirements:

☛ Complete the Authorization for Direct Deposit of Refund

Type of Account - Indicate if the deposit will be made into your checking or savings account, by selecting the oval that identifies the type of account.

Routing/Transit Number - Enter the routing/transit number of your account. This information appears on the check (see Example A). In the case of a savings account, you must contact the financial institution to obtain the routing/transit number. **Do not leave blank spaces. Do not use hyphens or other symbols.**

Account Number - Enter your checking or savings account number (see Example A). **Do not use hyphens or other symbols.** Do not fill out blank spaces with zeros. The account number may have less numbers than the spaces provided for this purpose in this part.

Account in the name of - Enter your name, as it appears on your account. In the case of married taxpayers filing jointly, **the account must be in the name of both spouses.**

☞ **In the case of married taxpayers filing jointly, the return must be signed by both spouses.**

☞ **All the information requested must be completed. Otherwise, the financial institution and the Department of the Treasury may reject the transaction.**

☞ **The account must be in a participating financial institution. You must verify this information directly with the financial institution.**

PAYMENT METHODS

You may make your tax payment:

- by electronic debit if you use a program or application certified by the Department to file your return electronically; or
- if you wish to pay in cash, check or money order payable to the order of the Secretary of the Treasury, debit card or credit card, you must visit any Internal Revenue Collections Office. Make sure you save and photocopy the payment receipt provided by the Collector.

OVERPAYMENT APPLICATION

Any overpayment will be applied against any enforceable tax liability imposed by the Code. If married and one of the spouses owes taxes, the overpayment will be applied to any enforceable debt.

RETENTION OF REFUND FOR THE CONCEPT OF CHILD SUPPORT

If you are a parent who has the obligation to provide child

support payments to your children through the Child Support Administration (ASUME) and you owe said child support, your refund may be withheld. If you understand that such retention does not apply, you will have 10 days from the date of the notification to object the same at the ASUME office nearest to your residence.

FEDERAL EMPLOYEES - Exemption of the Cost of Living Allowance (COLA)

The COLA received by civilian employees of the Federal Government is tax exempt up to the amount exempt under the Federal Internal Revenue Code. Nevertheless, the Department may revoke the privilege granted for the exemption if it is determined that the taxpayer did not comply with his/her tax responsibility at any moment. In that case, the taxpayer must have to pay the amount due with the corresponding interests, surcharges and penalties. The taxpayer must include with the tax return the required information of the W-2 Form.

PROVISIONS APPLICABLE TO CERTAIN MILITARY PERSONNEL

Exemption from Income

Any compensation received from active military service rendered by military personnel in a combat zone designated as such by the President of the United States is exempt from the payment of income tax. This exemption shall not apply to military personnel transferred outside of Puerto Rico to replace military personnel sent to the combat zone.

Extension of Time to File

A 10-month extension to file the income tax return shall be granted to any taxpayer who has been activated and transferred to render military services outside of Puerto Rico during any warlike conflict. Said extension shall be granted from the date in which the taxpayer ceases in the active military service. To enjoy this benefit you should:

1. File the return within ten months from the date in which you ceased in the active military service.
2. Indicate in question G of the Questionnaire of the return's first page, if you were an active military in a combat zone during the taxable year and the date on which you ceased service.

EXAMPLE A

John Doe
Jane Doe
Calle Principal # 19
Ponce PR 00731

0249

PAY TO THE ORDER OF _____ \$ _____

ANY BANK
Any Place, Ponce PR 00731

FOR _____

Routing/Transit Number Account Number

021601244 012 244400 0249

DOLLARS

Do not include the check number

AUTHORIZATION FOR DIRECT DEPOSIT OF REFUND

Deposit

Type of account Routing/Transit Number Account Number

Checking Savings 0 2 1 6 0 1 2 4 4 0 1 2 2 4 4 4 0 0

Account in the name of: John Doe and Jane Doe

(Print complete name as it appears on your account. If married and filing jointly, include your spouse's name)



3. Attach to the return the military orders showing your transfer outside of Puerto Rico, your stay in a warlike conflict, and the date of your return.

If you file the return following the above requirements, the extension shall be considered as granted.

Extension of Time to Pay

A 10-month extension to pay the tax shall be granted to every taxpayer that during any warlike conflict is activated and transferred to render military service outside of Puerto Rico. Such extension shall be granted from the date in which the taxpayer ceases in the active military service.

Also, the tax declared on the return which payment has been extended, shall be exempt from the payment of interests.

For more details, please refer to Section 6080.16 of the Code.

TAXPAYER'S SERVICE CENTERS

In the Taxpayer Service Centers, besides **informing about the status of your refund**, other services are offered such as: Tax Return Filing Certifications, Return Copies, assistance for Cases of Inheritance and Donations, Individuals, Corporations or Partnerships and Professional Services Withholding Waivers.

Following are the telephone number of the "Hacienda Responde" Contact Center and the location of each one of our Service Centers:

- ☞ **"Hacienda Responde" Contact Center**
Telephone: (787) 622-0123

- ☞ **San Juan Services Center**
Intendente Ramírez Building
10 Paseo Covadonga, Office 101

- ☞ **San Juan Services Center- Representative's Center**
Intendente Ramírez Building
10 Paseo Covadonga, Office 209

- ☞ **Aguadilla Services Center**
Punta Borinquen Shopping Center
Belt St., East Parade St. Intersection
Malezas Abajo Ward, Ramey Base

- ☞ **Caguas Services Center**
Goyco Street, Acosta Corner
Governmental Center, Office 507

- ☞ **Mayagüez Services Center**
Governmental Center
50 Nenadich Street, Office 108

- ☞ **Ponce Services Center**
Governmental Center
2440 Luis A. Ferré Blvd., Office 410

TECHNICAL ASSISTANCE

For additional information on the technical contents of this booklet or to clarify any doubts, please call (787) 622-0123, **option number 8 in the directory**.

HACIENDA MAKING CONNECTION

Access the Department of the Treasury's website at: www.hacienda.pr.gov. Here you can find information about the following services, among others:

- ☞ Electronic transfer of the Individual Income Tax Return using programs or applications certified by the Department

- ☞ Program for the Preparation of 2017 Withholding Statements and Informative Returns

- ☞ Program for the Preparation and Filing of the Employer's Quarterly Return of Income Tax Withheld

- ☞ Virtual Internal Revenue Collections Office / Payments Online

- ☞ Puerto Rico Internal Revenue Code of 1994, as amended

- ☞ Puerto Rico Internal Revenue Code of 2011, as amended

- ☞ Forms, Returns and Informative Booklets, such as:

- Income Tax Return of Taxable Corporations
- *Modelo SC 2800 - Planilla de Contribución sobre Caudal Relicto* (Spanish only)
- *Modelo SC 2800 A - Planilla Corta de Contribución sobre Caudal Relicto* (Spanish only)
- *Modelo SC 2800 B - Planilla de Contribución sobre Caudal Relicto (Causantes fallecidos a partir del 1 de enero de 2011 hasta el 31 de diciembre de 2017)* (Spanish only)
- *Modelo SC 2800 C - Planilla Informativa de Contribución sobre Caudal Relicto (Aplica a causantes fallecidos a partir del 1 de enero de 2018)* (Spanish only)
- *Modelo SC 2788 - Planilla de Contribución sobre Donaciones* (Spanish only)
- *Modelo SC 2788 A - Planilla de Contribución sobre Donaciones (Aplica a donaciones efectuadas a partir del 1 de abril de 2011 hasta el 31 de diciembre de 2017)* (Spanish only)
- *Modelo SC 2788 B - Planilla Informativa de Donaciones (Aplica a donaciones efectuadas a partir del 1 de enero de 2018)* (Spanish only)
- Informative Booklet to Provide Guidance on the Income Tax Responsibilities of Federal, Military and Other Employees
- *Folleto Informativo de Contribución sobre Ingresos de Sacerdotes o Ministros* (Spanish only)
- *Folleto Informativo para Aclarar sus Dudas sobre Aspectos Contributivos en la Venta de Ciertas Propiedades Inmuebles* (Spanish only)
- Withholding of Income Tax at Source on Wages - Instructions to Employers (Spanish and English)
- *Folleto Informativo - Responsabilidad personal por violaciones al Código de Rentas Internas de 2011, según enmendado* (Spanish only)
- *Preguntas y Respuestas - Pagos Cualificados por Concepto de Asistencia por Desastre bajo la Determinación Administrativa Núm. 17-21* (Spanish only)
- *Guía para el Beneficio por Retención de Empleados a Patronos Afectados por el Paso de los Huracanes Irma y María* (Spanish only)

SUGGESTIONS TO AVOID MISTAKES WHEN FILING YOUR RETURN

1. Write all the information required and select the applicable ovals.
2. **Make sure to write your social security number on the return and schedules.**
3. Verify that your **social security number** is the one shown on the Withholding Statements and Informative Returns.
4. Make sure to include your date of birth and that of your spouse (if applicable).
5. Notify your change of address by writing the new address in the space provided for this purpose in the heading of the return.
6. In the case of a married couple filing jointly, the return may be filed under the name of any of the spouses.
7. Do not include estimated tax payments or excess tax paid in previous years credited to estimated tax in Part II of Schedule B Individual. Said amounts must be included in Part III of said Schedule.
8. Married couples who choose the optional computation of tax in the case of married individuals living together and filing a joint return (optional computation), must make sure to select the oval provided in the Questionnaire of the return and to include Schedule CO Individual.
9. **Include with your return the information required of all Withholding Statements and/or Informative Returns (Forms 499R-2/W-2PR, W-2, 480.6A, 480.6B or 480.7C, among others).**
10. **Contributions made to Qualified Plans of private company employers** (Box 15, Withholding Statement) are excluded from the salaries (Box 11). Therefore, **do not consider them again as a deduction.**
11. Complete on **Schedule A1 Individual** all the information related to your dependents and beneficiaries of educational contributions accounts.
12. **Do not include your spouse on Schedule A1 Individual. For tax purposes, a married taxpayer** cannot include his/her spouse as a dependent.
13. Sign your return and in the case of a joint return, make sure that the return is signed by **both spouses**.

ADDITIONAL CHILD TAX CREDIT FOR BONA FIDE RESIDENTS OF PUERTO RICO

(Benefit provided by the Federal Government to qualified residents of Puerto Rico)

The U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico) (Form 1040-SS) allows you to claim the Additional Child Tax Credit, if you comply with the following requirements:

- you are a bona fide resident of Puerto Rico;
- you made contributions to Social Security or Medicare from your salaries or paid the U.S. self-employment tax; and
- you have three (3) or more children under the age of 17.

For additional information and free assistance through the Volunteer Income Tax Assistance Program Centers (VITA), contact the Internal Revenue Service at (1) (800) 829-1040.

TAXPAYER MOVED TO PUERTO RICO DURING THE YEAR

If you were a resident of another country and changed your residence to Puerto Rico during the taxable year, you must inform the Government of Puerto Rico the total income received from the date of the residence change until the end of your taxable year and the income from sources within Puerto Rico received while not residing in Puerto Rico.

A taxpayer's residence is determined based upon the facts and circumstances of each case. Generally, an individual is considered a bona fide resident of Puerto Rico if he/she is domiciled in Puerto Rico. It shall be presumed that an individual is a resident of Puerto Rico if he/she has been present in Puerto Rico for a period of 183 days during the calendar year. However, if his/her intention regarding to his/her stay is merely temporary and meets other requirements, even when he/she had been in Puerto Rico 183 days or more, he/she may not be considered a bona fide resident of Puerto Rico.

The income from sources outside of Puerto Rico received by an individual attributable to the period when he/she was not a resident of Puerto Rico is not taxable in Puerto Rico. Therefore, deductions attributable to the amounts so excluded from the gross income will not be allowed.

Nonresident individuals will be taxed in Puerto Rico only on their income from sources within Puerto Rico.

Likewise, if the individual changes his/her residence from Puerto Rico to the United States or a foreign country, he/she will include on the Puerto Rico income tax return all the income earned until the date he/she changed his/her residence to the United States or a foreign country, regardless of the source of said income. Also, he/she will include on his/her Puerto Rico income tax return, the income from sources within Puerto Rico earned after the change of residence.

Be sure to complete questions B and C of the Questionnaire on page 1 of the return.

NAME, ADDRESS AND SOCIAL SECURITY NUMBER

Write the required information in the spaces provided.

It is important that you write your social security number in the corresponding box of the return and schedules. This number is necessary to process your return.

ELECTRONIC ADDRESS (E-MAIL)

Include an electronic mail address in the space provided for this purpose.

AMENDED RETURN

If after filing your original return, you find out that you omitted some income, did not claim a certain deduction or credit, or claimed a deduction or credit for which you do not qualify, you must amend the return. Select the oval corresponding to **Amended Return**. You must include a detail explaining why you are amending the return.

Such return must be filed within 4 years from the date the original return was filed.

CHANGE OF ADDRESS

If there was a change of address at the moment of filing the return, select the corresponding oval and write clearly and legible your new address. This allows us to keep our records up to date and send you any notice to the correct address.

EXTENSION OF TIME REQUESTED

Select the corresponding oval to indicate if an Extension of Time to File the Income Tax Return (Form AS 2644) was filed.

If for any reason you understand that you will not be able to file your return on time, you shall request an automatic extension of time no later than the due date to file the return. The request will be done by filing Form AS 2644. If you file this form on time, the extension will be granted automatically for a period of 3 months. **Filing an extension of time does not extend the time for payment of any tax due with the return.**

In the case of individuals that for being outside of Puerto Rico need additional time to file their income tax return, they may request an additional extension of time no later than the last day granted with the automatic extension of time, using the same form. The taxpayer must indicate that he/she is outside of Puerto Rico and submit evidence to support it.

According to Section 1061.16(a)(2)(B) of the Code, in the case of individuals who are partners of a partnership subject to tax under the Federal Internal Revenue Code, they may request a 6 month automatic extension. They shall use Form AS 2644 and check the corresponding box.

In case of military personnel active in combat zone, refer to **RELEVANT FACTS**.

TAXPAYER DECEASED DURING THE TAXABLE YEAR

If a taxpayer dies during the taxable year, the administrator or representative must file an income tax return including the income derived until the date of death, on or before the 15th day of the fourth month following the date of death. Such return shall be signed by the administrator or representative. If the taxpayer was married and living with his/her spouse, two returns will be filed: one including both spouses' income from January 1st to the date of death, and another with the surviving spouse's income for the remaining months of the year.

The personal exemption on the first return will be married living with spouse. On the second one, the surviving spouse can claim the personal exemption he or she is entitled to at the end of the taxable year.

On the first return, select the oval that indicates **deceased during the year**. Indicate the date of death and keep for your records copy of the Death Certificate. On the second return, select the oval that indicates **surviving spouse files another return for the taxable year** and include the social security number and date of death of the deceased spouse. Both ovals are located at the top right side of the return.

CONTRACTS WITH GOVERNMENTAL ENTITIES

Every person, natural or juridical, contracted by a governmental entity, must comply with Executive Order 91-24, as amended, and the provisions of the Department's Circular Letters in force at the time of processing the contracts. According to said provisions, every contract subscribed by a governmental entity must include a clause to certify that the contracted party filed the income tax returns for the last five years, and that the income, property, unemployment, temporary disability and drivers' social security taxes, whichever applies, have been paid.

In addition, in order to approve a contract or purchase order, the governmental entity must require the tax return filing (Form SC 6088) and debt (Form SC 6096) certifications from the Internal Revenue Area of this Department, the property tax

certification from the CRIM and the corresponding certification from the Department of Labor and Human Resources. These documents must be requested annually.

In order to expedite the process of issuing the certifications, every person who has filed income tax returns for the last 5 years and who does not have tax debts, or if having debts, has formalized a payment plan, will receive automatically by mail the Tax Return Filing and Debt Certification (Form SC 2628). **For this purpose, it is necessary that the corresponding oval in the Questionnaire on page 1 of the return is completed, if you or your spouse are contracted by a governmental organism.**

Since sometimes the tax return for the last filing year cannot be certified because the return has not been processed by the Department, it is recommended that at the moment of filing the return, you print a copy of the electronically filed return with the Department's electronic filing stamp.

QUESTIONNAIRE

In question A, select the corresponding oval to inform if you are a United States citizen. Those taxpayers who are not citizens of the United States, but **exclusively** for tax purposes are treated as such because of a treaty, a court decision, or for having a United States Permanent Resident Card, ISCR Form I-551, also known as "Green Card", must answer "Yes" in this question in order to be entitled to the corresponding deductions and exemptions.

Select the corresponding oval in question B to indicate if you were a resident of Puerto Rico during the entire taxable year. If you were not a resident during the entire taxable year, select the oval that describes your residence status for the taxable year.

In the case that you had moved to or from Puerto Rico, indicate the date on which the moving took place and include in question C the total income generated by the taxpayer and spouse, as applicable, before being considered residents of Puerto Rico.

If you were a nonresident of Puerto Rico during the entire year, select the oval of nonresident during the entire year. Include in question C the total income generated during the year from sources outside of Puerto Rico.

Income included in question C will not be subject to the payment of income tax in Puerto Rico, but will be used to compute the limitation of the deductions applicable to individual taxpayers included on Schedule A Individual or Schedule CO Individual, as applicable. This amount shall be transferred to line 2, Part II of Schedule A Individual or line 25B, Column B or C, as applicable, of Schedule CO Individual.

Also, you must inform in question D if you received excluded or tax exempt income during the year (Example: social security income, prizes from the Lottery of Puerto Rico or from racetrack winnings). **Submit Schedule IE Individual** including such income.

In question E, you must also indicate if you are a resident individual investor. **Submit Schedule F1 Individual.** You must inform in question F if you are a partner of a partnership subject to tax under the Federal Internal Revenue Code. You must include on **Schedule R Individual** your distributable share on such partnership's income, expenses, gains or losses.

Indicate also in question G if during the taxable year you were stationed as an active military in a combat zone. If you answered "Yes", include the date on which you ceased service in the combat zone.

The taxpayer must include with the return the military order showing his/her transfer outside Puerto Rico, his/her stay in a warlike conflict and the date of the return.

You must indicate in question H, if you or your spouse are qualified physicians under Act 14-2017 and include the number of the decree approved by the Secretary of the Puerto Rico Department of Economic Development and Commerce.

HIGHEST SOURCE OF INCOME

Select the corresponding oval in accordance with your highest source of income.

FILING STATUS AT THE END OF THE TAXABLE YEAR

Select the oval that identifies your filing status at the end of the taxable year:

- 1) **Married** - This filing status is for every individual that at the end of the year is legally married and living together with his or her spouse.

However, those individuals that, before their marriage, executed a prenuptial agreement expressly stipulating that the economic regime of the married couple is one of complete separation of property, will not be considered married for income tax purposes. Consequently, each spouse will be taxed separately as an **individual taxpayer** for income tax purposes.

If your spouse died during the year and you did not remarry in said year, you must file a return as married living with spouse up to the date of the death, and another as individual taxpayer, from the date of the death up to the end of the year. **You must submit your spouse's name and social security number.**

If you choose the optional computation of tax in the case of married individuals living together and filing a joint return, select the corresponding oval and go to Schedule CO Individual.

- 2) **Individual Taxpayer** - This filing status is for those individuals who at the end of the taxable year:

- a) are not married, because they have never married, are widowed or divorced; or

- b) are married, but, before their marriage, executed a prenuptial agreement expressly stipulating that the economic regime of the married couple is one of complete separation of property (**you must provide your spouse's name and social security number**); or

- c) are married, but not living with the spouse. An individual will be considered as not living with his/her spouse if at the end of the taxable year, he or she did not live with the spouse, and during an uninterrupted period of 12 months that includes the date of the end of the taxable year, he or she did not live in the same household as the spouse during an uninterrupted period of 183 days. **You must provide your spouse's name and social security number.**

- 3) **Married filing separately** - This filing status is for individuals that at the end of the taxable year are legally married, living together, and choose to file separately. If you file under this status, you should include your own income as provided under Section 1021.03 of the Code.

Also, certain deductions must be allocated 50% to each spouse and others may be claimed fully by the spouse to whom they relate. **You must provide your spouse's name and social security number.**

OPTIONAL COMPUTATION OF TAX

If you choose the **optional computation of tax** in the case of married individuals living together and filing a joint return, **select the corresponding oval** in the married filing status. Do not complete Parts 1 and 2 or lines 14 to 20 of Part 3, page 2 of the return. **Go to Schedule CO Individual** and refer to the instructions of said Schedule.

OCCUPATION

Inform the nature of your and your spouse's occupation. In order to facilitate the description of the activity in which you are engaged, enter the code that better describes it using the Occupational Codes List provided on page 66.

REFUND

Line 1 – Amount Overpaid

An overpayment of tax or refund arises when the total tax withheld, paid and refundable credit, including any amount paid with the automatic extension (if any) exceeds the tax determined. This amount comes from Part 3, page 2 of the return and arises when line 27 is more than the sum of lines 26 and 28.

Any overpayment of income tax will be applied against any enforceable tax liability imposed by the Code.

If you are married and one of the spouses owes tax, the tax overpayment shall be credited against any enforceable tax liability.

In the absence of liability from previous years, you may elect to contribute all or part of the overpayment of tax to the 2018 estimated tax, the San Juan Bay Estuary Special Fund or the Special Fund for the University of Puerto Rico.

If you elect to do so, enter the amount that you want to credit to your estimated tax for the taxable year 2018 on line 1A, or the amount you wish to contribute to any of these Funds on lines 1B and 1C, respectively. Enter any balance to be refunded on line 1D.

You must keep for your records evidence of the estimated tax payments (copy of canceled or substitute checks, money orders, etc.).

PAYMENT

Line 2 – Amount of Tax Due

If the tax determined exceeds the total tax withheld, paid, refundable credit and amount paid with the automatic extension (if any), there is a total tax due. This amount comes from Part 3, page 2 of the return and results when line 27 is less than the sum of lines 26 and 28.

Line 3 - Amount paid

You may pay your tax through electronic debit when you use any of the programs or applications certified by the Department. If an electronic debit is authorized through a certified program or application, you must enter the amount on line 3(a). Remember to enter in the corresponding screen of the certified program the information of the account number and routing/transit number necessary to make the electronic debit. On the

other hand, if you prefer to pay your tax in cash or money order, you must visit any Internal Revenue Collections Office.

If you are not required to make estimated tax payments, you may elect to pay the total tax due (line 2) in two equal installments. The first installment must be paid no later than the date established by the Code to file the return (April 15, when the return is filed on a calendar year basis) and the second installment must be paid on or before the 15th day of the sixth month following that date (October 15, when the return is filed on a calendar year basis). **You will lose the option to pay the tax in two installments if you do not include with your return at least half of the tax balance due.**

If you made a payment with your automatic extension request and it was less than 50% of the balance of the tax due determined after subtracting withholdings and credits (Line 24 less lines 25A to 25C of Part 3), you must pay with the return the amount of tax due (Line 2, page 1). Interests and surcharges will be assessed on this amount from the original due date of the return to the date of payment.

If you made a payment with your automatic extension request on or before the date in which you should have filed the return, and the payment made with said request was 50% or more of the balance of tax due determined after subtracting withholdings and credits (Line 24 less lines 25A to 25C of Part 3), you are entitled to the two installments payment option. This means that no payment is required when filing the return. The second installment is due on or before October 15, if you file your return on a calendar year basis. If you file on a fiscal year basis, the second installment is due on the fifteenth day of the sixth month following the due date to file the return.

If you decide to pay the tax due in two installments, enter the amount you are paying with your return on line 3(a).

If you wish to pay in cash, with debit or credit card, by check or money order payable to the Secretary of the Treasury, you can do so at any of our Internal Revenue Collections Offices. In the case of check or money order, you must indicate your social security number and Form 482.0–2017.

Make sure to keep and photocopy the receipt provided by the Collector.

INTERESTS, SURCHARGES AND PENALTIES

Interests

The Code provides for the payment of interests at a 10% annual rate over any tax balance that is not paid by its due date.

Surcharges

When the payment of interests is applicable, a 5% surcharge of the amount due will be assessed, if the delay in payment exceeds 30 days, but not 60 days; or 10% of the amount due, if the delay exceeds 60 days.

Penalties

The Code imposes a progressive penalty from 5% to 25% of the total tax for late filing unless you can show reasonable cause for the delay.

Also, any person required under the Code to file a return, declaration, certification or report, who voluntarily fails to file such return, declaration, certification or report within the term or terms required by the Code or regulations, in addition to other penalties, shall be guilty of a misdemeanor.

If any person voluntarily fails to file the above mentioned return, declaration, certification or report (within the terms required by the Code or regulations) with the intention to avoid or defeat any tax imposed by the Code, in addition to other penalties, he or she shall be guilty of a third degree felony.

Line 4 - Balance of Tax Due

This is the amount of tax that you owe and that you must pay on or before October 15 or, if you are filing on a fiscal year basis, on or before the 15th day of the sixth month after the due date of the return.

Remember that if you are required to pay estimated tax, you must pay the total amount of tax due (line 2) no later than the date in which the tax return must be filed.

DEPOSIT

Authorization for Direct Deposit of Refund

You can receive your refund faster and safely. The Department of the Treasury can deposit your refund directly into your checking or savings account. To authorize the Department of the Treasury to deposit your refund directly into your account, you must fill out this part.

Type of Account - Indicate if the deposit will be made into your checking or savings account, by selecting the oval corresponding to the type of account.

Routing/Transit Number - Enter the routing/transit number of your account. This information appears on the check. In the case of a savings account, you must contact the financial institution to obtain the routing/transit number. **Do not leave blank spaces. Do not use hyphens or other symbols.**

Account Number - Enter the checking or savings account number. **Do not use hyphens or other symbols.** Do not fill out blank spaces with zeros. The account number may have less numbers than the spaces provided for this purpose in this part.

Account in the Name of - Enter your name, as it appears on your account. In the case of married taxpayers filing jointly, **the account must be in the name of both spouses.**

For additional information, please refer to **RELEVANT FACTS - DIRECT DEPOSIT OF YOUR REFUND.**

SIGNATURE OF THE RETURN

The return will not be considered filed and will not be processed unless it is electronically signed and all necessary documents and information are submitted. In the case of married individuals filing jointly, both spouses must sign the return electronically.

PAYMENT FOR THE PREPARATION OF THE RETURN

Indicate if payments were made for the preparation of the tax return and make sure that the specialist signs the return electronically and includes his/her specialist registration number. **THE CODE PROVIDES CIVIL AND CRIMINAL SANCTIONS TO THOSE INCOME TAX RETURN SPECIALISTS WHO FAIL TO SUBMIT THIS INFORMATION OR WHO DO NOT MEET ANY OTHER STATUTORY REQUIREMENTS IMPOSED BY THE CODE.**

The specialist must declare under penalty of perjury that he/she examined the return, and to the best of his/her knowledge and belief the return is correct and complete.

If the return is prepared by a Certified Public Accountant (CPA) or by a CPA firm duly registered as a specialist, it must include the registration number and be electronically signed by the authorized person.

PART 1 - ADJUSTED GROSS INCOME

CHILD INCOME (Section 1032.05)

All income received by a child for a service rendered must be included as part of his/her gross income and not in the gross income of the parents. The child will have the obligation to file a return if his/her gross income exceeds \$5,000 and will have the right to claim all the deductions provided by law that are applicable. On the other hand, passive income such as interests, dividends, donations, prizes and contests, among others, will not be included as part of the gross income of the child. Therefore, that income will be included on the parent's return.

If the child receives income from services rendered, and said gross income does not exceed \$2,500, the parents can claim him/her as a dependent. In case that the child is a regular student, said gross income should not exceed \$7,500.

Line 1 - Wages, Commissions, Allowances and Tips

Enter on line 1, Column B, all the wages, commissions, allowances and tips subject to withholding in Puerto Rico received by you or your spouse during the taxable year. This information is found in Box 11 of the Withholding Statement (Form 499R-2/W-2PR). Enter on line 1, Column A, the Puerto Rico income tax withheld by each one of your employers shown in Box 13 of the Withholding Statement. If there is no tax withheld, enter zero.

Enter in the space provided in Part 1, line 1, the number of withholding statements included with your return.

Add the amounts of Column A and enter the total income tax withheld at the bottom of the column. Add the amounts in Column B and enter the total of wages, commissions, allowances and tips at the bottom of that column.

Make sure to include with your return the information required of all the Withholding Statements (Form 499R-2/W-2PR).

Line 1C - Federal Government Wages

Enter the total of Federal Government income from salaries and wages received, excluding the Cost of Living Allowance (COLA). To determine if you qualify for this exclusion, refer to RELEVANT FACTS - FEDERAL EMPLOYEES. Also, you can refer to the "Informative Booklet to Provide Guidance on the Income Tax Responsibilities of Federal, Military and Other Employees".

Remember to enter the Cost of Living Allowance (COLA) received on line 12, Part II of Schedule IE Individual.

Enter in the box identified as Exempt Wages under Section 1031.02(a)(36) of the Code the amount received from Federal Government salaries, up to a maximum of \$40,000, if you are a young individual whose age fluctuates between 16 and 26 years at the end of the taxable year. Transfer this amount to line 31, Part II of Schedule IE Individual.

Enter in the box indicated on this line, the amount of withholding statements (W-2 Forms) which information is included in this return.

Make sure to include with your return the required information of all the W-2 Forms. You must keep for your records copy of the form in case it will be eventually requested by the Department.

Line 2 - Other Income (or Losses)

Enter on lines 2A through 2S the total of each type of other income or deductible losses, and provide detailed information for each one of them on the applicable Schedules.

If you received a total distribution from a qualified pension plan due to separation from service, use Schedule D Individual to inform it and transfer to Part 1, line 2A of the return. If you generated a net gain or loss on the sale or exchange of capital assets or a lump-sum distribution of a variable annuity contract, use Schedule D Individual to determine it and transfer to Part 1, line 2B of the return. (See instructions of Schedule D Individual).

Use Schedule F Individual to inform income from distributions of Individual Retirement Accounts and Educational Contribution Accounts; distributions and transfers from government plans; distributions from deferred compensation plans; distributions from qualified retirement plans (partial or lump-sum not due to separation from service or plan termination); income from discharge of debts, income from the use of intangibles, income from judicial or extrajudicial indemnification, income from sports teams of international associations or federations and the distributable share on net income subject to preferential rates from pass-through entities; and eligible distributions for reason of extreme economic emergency due to hurricane Maria. Transfer the amounts from Schedule F Individual to Part 1, lines 2E to 2G, 2P and 2S of page 2 of your return. (See instructions of Schedule F Individual).

Use Schedule FF Individual to inform income from interests, corporate dividends, income from prizes and contests and miscellaneous income. Transfer the amounts from Schedule FF Individual to Part 1, lines 2C, 2D and 2G of page 2 of your return. (See instructions of Schedule FF Individual).

If you received dividends from an investment in a Capital Investment Fund or Tourism Fund, use Schedule Q1 to determine this income. This Schedule with its instructions is available in our webpage: www.hacienda.pr.gov and at the Forms and Publications Division of the Department of Treasury.

If you received income from trade or business or an activity for the production of income, use the applicable Schedule: (1) Schedule K Individual - to inform the industry or business income; (2) Schedule L Individual - to report the farming income; (3) Schedule M Individual - to inform professions and commissions income; (4) Schedule N Individual - to inform rental income.

If such activities are not your main source of income, transfer only the profits determined on the Schedules to Part 1, lines 2I to 2L of page 2 of your return. **If you had losses, enter zero** on lines 2I to 2L.

If you had a long-term capital gain in Capital Investment Funds, use Schedule Q1 to determine it and transfer to Part 1, line 2N of your return.

If you received a distributable share of benefits in partnerships, special partnerships and corporations of individuals, use Schedule R Individual and Schedule R1 Individual, if necessary, to determine this income. (See instructions of Schedule R Individual).

In the case of nonresidents, include on line 2Q the total income from salaries, wages and compensations included on line 1 of the Informative Return - Income Subject to Withholding – Nonresidents (Form 480.6C). Also include the amount informed as public shows in box 12 of Form 480.6C.

Enter on line 2R the alimony income received due to divorce or separation that does not constitutes child support for the spouse that made the payment. You must provide the social security number of the person making the payment.

LOSSES

Losses incurred in activities that are not the taxpayer's or his/her spouse's principal business or industry may be used to offset only future income from the same activity that produced the loss.

However, if during the taxable year you dispose all the assets used in an activity that is not your or your spouse's principal business or industry, you may use the excess of expenses (losses) not claimed in previous years, as a deduction against any income derived in said disposition. Any excess will be considered as a capital loss subject to the limitation of 80% of the net capital gains for the current year or \$1,000, whichever is less. (See instructions for Schedule D Individual).

Losses incurred in an industry or business that is the taxpayer's or the spouse's principal business or industry, may be used to offset your income from other sources, except salaries, wages and pension benefits.

To classify an economic activity as a principal industry or business, the following facts shall be considered:

- Time devoted to the activity.
- If the taxpayer is dedicated to the activity in a regular, continuous and substantial basis.
- Taxpayer's knowledge and experience with respect to the activity's operation.
- If such activity essentially constitutes the taxpayer's way of living.

However, the determination as to what constitutes the taxpayer's principal industry or business shall depend on the facts and circumstances present in each case. The taxpayer must show that a particular activity constitutes his/her principal industry or business. The fact that he/she does so with respect to a particular year, does not automatically qualify such activity as his/her principal industry or business for subsequent years. Thus, the taxpayer must be able to show that such activity constitutes his/her principal industry or business with respect to each taxable year.

If you were a salaried employee and also engaged in any trade or business as your principal activity, and had a loss in that year, you may deduct said loss from your or your spouse's salaries and wages only in the first year in which you began the business and in the following two years. This is a once in a lifetime benefit. Therefore, if you have benefited from the above, you cannot benefit again from the same allowance.

Line 4 - Alimony Paid

Generally, you may claim as a deduction any periodic payment made for alimony under a divorce or separation decree, as long as you comply with the following requirements:

- 1) Payment is made in the name and for the benefit of the former spouse under a divorce or separation document.
- 2) Payment is not designated in such document as excludible from the recipient's gross income and not allowable as a deduction to the payer.
- 3) The payer and the former spouse are not members of the same household on the date of payment.
- 4) There is no obligation to continue making any payments after the death of the former spouse.
- 5) If the payment exceeds \$20,000 during any calendar year,

it shall be payable during each one of at least 6 years following the divorce or separation.

You must provide the social security number of the person who receives the payment and the judgment number. You must keep for your records copy of canceled or substitute checks and the divorce decree.

Lump-sum payments for assets division, voluntary payments not included in a court decree or agreement for separation support, or child support payments, are not deductible.

PART 2 – DEDUCTIONS, EXEMPTIONS AND NET TAXABLE INCOME

Line 6 – Total Deductions

Enter the total deductions corresponding to individual taxpayers, as determined on Schedule A Individual, Part I, line 11. In the case of nonresidents or part-year residents, enter the total deductions applicable to individual taxpayers, as determined on line 6, Part II of Schedule A Individual. **Remember not to submit evidence of the deductions with the return. However, you must keep the evidence for these deductions for your records for at least 6 years**, in case they may be eventually requested by the Department.

For additional information, you can refer to the instructions of Schedule A Individual.

Line 7 – Personal Exemption

Enter the amount of your personal exemption corresponding to your filing status. If you are married living with spouse filing jointly, enter \$7,000; if individual taxpayer, enter \$3,500; if married filing separately, enter \$3,500.

Line 8 – Exemption for Dependents

Enter in the spaces provided on lines 8A and 8B, the number of dependents claimed according to their category. Indicate on line 8A the dependents with respect to whom the exemption may be claimed completely (\$2,500 per dependent), and on line 8B those whose exemption is only claimed in half under the special rule of parents with joint custody or married filing separate returns (\$1,250 per dependent).

Multiply the amount of dependents claimed in each category (line 8A by \$2,500 and line 8B by \$1,250) and enter the result in the space provided for the total exemption for dependents.

The Code requires you to indicate on your return the social security number of any dependent claimed who is age one or older at the end of the taxable year. When filing your return, you must include on **Schedule A1 Individual**, the name, date of birth, relationship, and social security number of each dependent claimed. If you do not complete such schedule, nor meet these requirements, the exemption may be disallowed. If the dependent does not have a social security number, you must request one at your nearest Social Security Office.

For the **definition of dependent**, refer to the instructions for **Schedule A1 Individual**.

Line 9 – Additional Personal Exemption for Veterans

Enter the amount of **\$1,500** if you are veteran of the United States Armed Forces. If married filing jointly and both spouses are veterans, the additional personal exemption is \$3,000.

Keep for your records copy of Form DD-214 (Discharge from U.S. Armed Forces).

Line 12 – Allowable deduction under Act 185-2014

In the case of individuals that, pursuant to Act 185-2014, as amended (Act 185-2014), are considered as accredited investors, they may claim a deduction for their initial investment in a private equity fund (PEF) or in a Puerto Rico private equity fund (PEF-PR). For these purposes, an individual will be considered as an accredited investor if at the moment of the initial investment in a PEF or PEF-PR:

- Is an individual resident of Puerto Rico or a United States citizen nonresident of Puerto Rico;
- Is a natural person who has individual net worth or net worth jointly with his/her spouse in excess of \$1,000,000 without including the value of the principal residence; and
- Is a natural person with income over \$200,000 in each one of the two years preceding the date of the investment (\$300,000 in case of married person) and an expectation of the same level of income during the year in which the investment is made.

Also, in the case of natural persons that are partners in a partnership subject to the provisions of Chapter 7 of Subtitle A of the Code, that qualify as Resident Investors, such partners may also be considered as Resident Investors for purposes of this deduction.

The amount allowable as deduction will be the following:

- If the initial investment was made in a PEF, the maximum deduction amount will be 30% of the initial investment provided that such amount will not exceed 15% of the net income before the deduction.
- If the initial investment was made in a PEF-PR, the maximum deduction amount will be 60% of the initial investment provided that such amount will not exceed 30% of the net income before the deduction.

The amount of the deduction not claimed in the first year may be carried forward for a maximum period of 10 years if the investment was made in a PEF and 15 years if the investment was made in a PEF-PR.

For additional details, refer to Act 185-2014.

In the case of individuals who qualify to claim this deduction, they must complete the following worksheet to determine the maximum amount allowable as deduction for initial investment in a PEF or PEF-PR.

You must include with your return the following documents:

- (1) An official certification issued by the PEF or PEF-PR, printed with the fund's letterhead and signed by a managing partner or principal officer, with the following information:
 - Name and employer identification number of the PEF or PEF-PR;
 - If the fund is a PEF or PEF-PR;
 - Name and social security number of the resident investor for which the certification is issued; and
 - The amount of the capital committed as initial investment that was contributed during the taxable year by the resident investor for which the certification is issued, including any amount that has been contributed after the end of the taxable year but before the resident investor files the income tax return for such taxable year. This amount will be included on line 1 of the worksheet to be completed.

- (2) A schedule that includes the completed worksheet showing how this deduction was determined.
- (3) Copy of the Sworn Statement under which the Fund made the election under Act 185-2014.
- (4) In those cases where the taxpayer is claiming a deduction from previous years, a detail indicating the taxable year in which the deduction was generated, the amount of deduction generated by the investor, the amount of such deduction that was claimed in previous years, the amount of deduction available for the taxable year and the expiration date of any available unclaimed balance to be used in subsequent years.

Determination of the Deduction:

- 1. Amount of capital committed as initial investment that qualifies as contributed during the taxable year (From the certification issued by the PEF or PEF-PR) \$ _____
- 2. Applicable percentage:
 - If the investment was in a PEF, enter 30%
 - If the investment was in a PEF-PR, enter 60% %
- 3. Amount of deduction for initial investment contributed during the year (Multiply line 1 by the applicable percentage on line 2) \$ _____
- 4. Amount of the deduction not claimed in previous years \$ _____
- 5. Total deduction for investment in a PEF or PEF-PR (Add lines 3 and 4) \$ _____

Deduction Limitation:

- 6. Net income (Subtract line 10 of Part 2 from line 5 of Part 1 of the return. If line 10 is more than line 5, enter zero) \$ _____
- 7. Applicable percentage:
 - If the investment was in a PEF, enter 15%
 - If the investment was in an PEF-PR, enter 30% %
- 8. Maximum amount allowable as deduction (Multiply line 6 by the applicable percentage on line 7) \$ _____
- 9. Allowable deduction on this return (Enter the smaller between lines 5 and 8. Transfer this amount to line 12 of Part 2 of the return) \$ _____

PART 3 - COMPUTATION OF TAX, CREDITS AND TAX WITHHELD OR PAID

Line 14 – Tax

Once the net taxable income is determined, you shall compute the tax and select the oval corresponding to the method used to determine the same:

- Oval 1 - Tax according to tables
- Oval 2 - Tax at preferential rates

Oval 3 - Tax for nonresident aliens

Oval 4 - Tax determined using Form AS 2668.1, Back Pay ("Paga Atrasada")

If you are a resident of Puerto Rico, you must determine your tax using the following table.

Enter the total tax determined on this line and select Oval 1.

TAX COMPUTATION TABLE

If your net taxable income (line 13, Part 2 of the return or line 15 of Schedule CO Individual) is:	Your tax will be:
Not over \$9,000	0%
Over \$9,000, but not over \$25,000	7% of the excess over \$9,000
Over \$25,000, but not over \$41,500	\$1,120 plus 14% of the excess over \$25,000
Over \$41,500, but not over \$61,500	\$3,430 plus 25% of the excess over \$41,500
In excess of \$61,500	\$8,430 plus 33% of the excess over \$61,500

Preferential rates

If you are a resident of Puerto Rico and derived income subject to preferential rates such as interests, dividends or long-term capital gains, among others, you must complete Schedule A2 Individual. On this Schedule you shall determine the tax on income that is subject to a preferential rate and the regular tax on any other income, and you can compare this amount with the regular tax on total income so that you can choose the most beneficial alternative.

Also, if your income subject to preferential rates is \$20,000 or more, it is required that you allocate the total allowable deductions as computed on Schedule A Individual according to the different types of income.

Complete Schedule A2 Individual and transfer the amount of tax from line 16 of this Schedule to Part 3, line 14 of the return and select Oval 2. **Submit Schedule A2 Individual with your return.**

Nonresident alien

If you are a nonresident alien not engaged in trade or business in Puerto Rico, the income from sources within Puerto Rico will be taxed at a fixed rate of 29% except in the case of dividends, that will be taxed at 15%, and the income attributable to the distributable share of a stockholder in a corporation of individuals which will be taxed at 33%. Enter the tax determined on line 14 of the return and select Oval 3.

If you are a nonresident alien engaged in trade or business in Puerto Rico, all income from sources within Puerto Rico, as well as those related to the operation of the trade or business in Puerto Rico, will be taxed at the normal tax rates.

Back Pay

You must select Oval 4 and use Form AS 2668.1 if you received



a back pay during the current taxable year and the amount of such back payment exceeds 15% of the gross income for the current taxable year.

The Code defines back pay as remuneration, wages, salaries, pension or retirement payment received or accrued during the taxable year, by an employee for services rendered for his/her employer and which would have been paid prior to the taxable year except for the occurrence of any of the following events:

- a) employer's bankruptcy or receivership;
- b) dispute as to the employer's obligation to pay such remuneration, determined after the beginning of a court proceeding;
- c) lack of funds assigned to pay such remuneration if the employer is the Government of Puerto Rico, the United States, a state, a territory or any political subdivision thereof, or the District of Columbia or any agency or instrumentality of any of the foregoing; or
- d) any other event of similar nature.

Back pay also includes retroactive wages or salary increases, received or accrued for services rendered by an employee to his/her employer in a previous taxable year which have been ordered, recommended or approved by any federal agency or from the Government of Puerto Rico, and made retroactive to any period prior to the taxable year. In addition, payments made as a result of an alleged violation by an employer of any Federal Law or from the Government of Puerto Rico, related to labor standards or practices, and which are determined to be attributable to a prior taxable year.

The taxpayer must include with the return Form AS 2668.1 duly completed and the Employer Certification indicating that the payment consists of back pay, the amount of such pay, the years to which it corresponds, the date of payment and the event which originated the back pay.

Line 15 - Gradual Adjustment Amount

If the net taxable income is more than \$500,000, you must complete Schedule P Individual. Determine the gradual adjustment amount on said Schedule (See Instructions to Complete the Schedules). Enter the amount determined on Schedule P Individual, line 7. **Submit this Schedule with the return.**

Line 17 - Credit for taxes paid to foreign countries, the United States, its territories and possessions

Enter the amount of credit for taxes paid to foreign countries, the United States, its territories and possessions, as determined on Schedule C Individual. For specifications of how to determine this amount, refer to the instructions of Schedule C Individual.

Line 19 - Excess of Net Alternate Basic Tax over Net Regular Tax

You must complete Schedule O Individual if your net income subject to alternate basic tax is \$150,000 or more.

To determine whether you are subject to the Alternate Basic Tax or not, complete and submit said Schedule (See Instructions to Complete the Schedules). Enter the amount determined on Schedule O Individual, Part II, line 7.

Line 20 – Credit for alternate basic tax

You must complete Parts III and IV of Schedule O Individual. Enter the amount determined on line 4, Part III of Schedule O Individual.

Line 25C – American Opportunity Tax Credit

Enter the amount previously determined on Schedule B2 Individual, Part II, line 7.

Line 25D - Amount paid with automatic extension of time

Enter on this line the amount of tax paid with automatic extension of time. This is the amount reflected on line 1a, Part II of Form AS 2644 filed on time at the Department.

If for any reason you understand that you will not be able to file your return on time, you may request an automatic extension of time on or before the due date to file the return. The request will be done by filing Form AS 2644. If you file this form on time, the extension will be granted automatically for a period of 3 month. Filing an extension of time does not extend the time for payment of any tax due with the return.

In case of military personnel active at any combat zone, refer to RELEVANT FACTS.

A taxpayer that has the obligation to pay estimated tax, must pay the total tax with the request of extension of time. If you do not have the obligation to pay estimated tax and qualify to pay the tax due with the return in two installments, as described in the instructions of line 3 on page 1 of the return, you must submit your request for extension of time with at least 50% of the balance of tax due. See instructions on the obligation to pay estimated tax on page 64 of this instructions booklet.

Line 26 - Amount of Tax Due

Compare the amount on lines 24 and 25E. If line 24 is more than line 25E, there is a balance of tax due. Enter the difference on this line. If the amount on line 25E is more than the amount on line 24, you have a tax overpayment. Enter this difference on line 27.

Line 28 - Addition to the Tax for Failure to Pay Estimated Tax

Enter the addition to the tax for failure to pay estimated tax previously determined on Schedule T Individual. (See instructions to complete Schedule T Individual).

INSTRUCTIONS TO COMPLETE THE SCHEDULES

SCHEDULE A INDIVIDUAL – DEDUCTIONS APPLICABLE TO INDIVIDUAL TAXPAYERS

Use this Schedule to determine the total deductions applicable to taxpayers that are individuals. **Remember not to submit evidence of the deductions with the return. However, you must keep the evidence of these deductions for your records for at least 6 years**, in case that they may be eventually requested by the Department.

PART I – DEDUCTIONS APPLICABLE TO INDIVIDUAL TAXPAYERS

Line 1 - Enter the amount of home mortgage interest paid or accrued to acquire, refinance, improve or build a property that constitutes a qualified residence. There shall be allowed as a deduction the total amount of interest paid up to a maximum of \$35,000, as long as this amount does not exceed the greater of:

- (i) 30% of the adjusted gross income (Part 1, line 5 of the return) plus any other income excluded or exempt from the adjusted gross income, including child support payments (Schedule IE Individual, Part III, line 1) received during the taxable year for which the deduction is claimed; or
- (ii) 30% of the taxpayer's adjusted gross income plus any other income excluded or exempt from the adjusted gross income, including child support payments, for any of the preceding three (3) taxable years before the year for which the deduction is claimed.

These limitations will not apply when the taxpayer or his/her spouse is age 65 or older at the end of the taxable year. If you qualify for this exception, make sure to indicate the date of birth for you and your spouse (if applicable) on page 1 of the return.

If you qualify for exception (ii), please complete question D of the Questionnaire, page 1 of the return and select the oval provided on line 1(c), Part I of this Schedule.

You must keep for your records the Informative Return - Mortgage Interest (Form 480.7A) provided by the financial institution.

Enter in the spaces provided on line 1, the name and employer identification number of the banking or financial institution to which the payments were made, the loan number and the total amount of home mortgage interest paid, as reported on Form 480.7A.

In the case of nonresidents of Puerto Rico taxpayers who are citizens of the United States, there shall be allowed as a deduction the total home mortgage interest paid or accrued to acquire, refinance, improve or build a property that constitutes the principal residence of the taxpayer. This first residence may be located outside of Puerto Rico and in most cases the interest paid will be reported on Form 1098 - Mortgage Interest Statement.

Deduction shall not be allowed for interest on home mortgages in other residences, which are not the principal residence of the taxpayer, if such interests are not informed on Form 480.7A.

To claim this deduction, the taxpayer must include with the return the required information of Form 1098 - Mortgage Interest Statement.

Qualified residence means:

- 1) the principal residence of the taxpayer;
- 2) a second residence located in Puerto Rico and used by the taxpayer, or by any other person that has an interest in that property or by any member of his/her family, as a residence for a number of days that exceeds the greater of:
 - a) 14 days, or
 - b) 10% of the number of days during the taxable year in which the property has been rented at the prevailing rental market value.

Interest payments attributable to any portion of the mortgage debt in excess of the residence fair market value are not deductible.

A participant partner of a housing cooperative association may deduct payments representing home mortgage interest.

If you use a personal loan to acquire, build or improve a qualified residence, which is not accepted by a mortgage institution as a mortgage guarantee, you must keep for your records a copy of the property tax exemption application or of the appraised revision of the property.

Also, loan origination fees (Points) paid directly by the borrower and loan discounts (Points) paid directly by the borrower, will be admitted as home mortgage interest deduction for the year in which they were incurred, as long as the following requirements are met:

- 1) they are reported on the Informative Return – Mortgage Interest (Form 480.7A or equivalent form (i.e. Form 1098)),
- 2) they are paid to acquire the principal residence,
- 3) they are paid by the taxpayer; if they are financed through the mortgage loan, they will be deductible throughout the term of the loan, and
- 4) you keep for your records a copy of the canceled or substitute check.

The loan origination fees and loan discounts financed through a home mortgage loan will be deductible throughout the term of the loan. The deduction that you may claim will be the apportioned amount paid during the term of the loan.

In case of married taxpayers filing separately who only own one residence, one of the spouses has the sole right to claim such deduction. If the married couple has two residences, one spouse may claim the interest of the principal residence and the other spouse may claim the interest of the second residence. However, one of the spouses may claim all the home mortgage interest for both residences, if both spouses agree to that in writing.

The taxpayer must keep for his/her records the written evidence of the cession of such deduction by the spouse.

It is important to point out that for taxable years beginning after December 31, 2016, the taxpayer may claim this deduction, even if he/she is not the borrower or joint borrower of the loan fully guaranteed with mortgage, when he/she can demonstrate that:

- (i) is the legal owner of the property that guarantees the debt or the person who will suffer the real effect of an execution of the same;
- (ii) made all of the debt payments during the taxable year directly to the person required to file the informative return described in Section 1063.04 of the Code (Form 480.7A); and
- (iii) the borrower or joint borrower of the loan fully guaranteed with the mortgage did not claim this deduction.

In the case of taxpayers who comply with the aforementioned requirements and those established in Internal Revenue Circular Letter No. 18-01(CC RI 18-01), may claim the deduction of the mortgage interest paid on the line of *Home mortgage interest of the principal residence not reported on Form 480.7A*.

For more details on how to claim this deduction, refer to CC RI 18-01.

Line 2 - Enter losses on real property used as your principal residence incurred during the taxable year, not compensated by insurance or in any other form. Such losses must be **caused by hurricane, earthquake, storm, tropical depression, floods, fire or other casualties**.

You must keep for your records a certification stating the amount of the loss and the type of damage. **Also, you must keep for your records a certification from the Civil Defense or Fire Department if the loss was from fire, and any other documents, public deeds or appraisals which reflect the value of the property subject to the loss.**

If after claiming the deduction, you receive any compensation from an insurance company or from a state or federal agency, you must include on the return the total amount received as part of your gross income.

In the case of married persons filing separate returns, or that choose the optional computation of tax, each spouse may claim 50% of this deduction.

Line 3 - Enter the total medical expenses paid not compensated by insurance or in any other form, which exceeds 6% of your adjusted gross income. Transfer to this line the amount of Part III, line 3 of this Schedule.

Medical expenses are:

- 1) professional services rendered by physicians, dentists, radiologists, clinical pathologists, surgeons, nurses or hospitals, within or outside Puerto Rico;
- 2) health or accident insurance premiums;
- 3) medicines for human consumption, destined to be used in the diagnosis, cure, mitigation, treatment or prevention of illnesses, that were acquired solely and exclusively by medical prescription, if they have been prescribed by a physician authorized to practice the medical profession in Puerto Rico and were dispatched by a pharmacist licensed in Puerto Rico; and
- 4) expenses incurred in the acquisition of any technological assistance equipment for persons with disabilities, specialized treatments or chronic illnesses.

For purposes of this deduction, the term **technological assistance equipment** means: any object, equipment or system part, purchased by the consumer, or provided by any agency or governmental dependency, that is original, modified

or adapted, and that is used to maintain, increase or improve the capability of persons with disabilities. This includes but is not limited to: wheelchairs, motorized wheelchairs, motorized equipment used for mobility, adapted computers, electronic communication equipment, adapted computer programs, mechanic equipment used to read, hearing aids, among others.

The parent, tutor or person responsible for the individual with the disability, specialized treatment or chronic illness, may claim this deduction or the individual in his/her own capacity.

You must keep for your records the invoice or receipt that indicates the cost of the equipment and a medical certificate that indicates that the equipment is necessary for the condition or illness of the patient, in addition to the copy of cancelled or substitute checks, or receipts evidencing the payments made for medical assistance.

In the case of persons who qualify to deduct the cost incurred in a medical insurance for himself/herself or his/her family as part of the industry or business expenses, he/she cannot claim simultaneously such expense as part of the deduction for medical expenses.

Line 4 - You may claim a deduction for the contributions or donations to nonprofit organizations made during the taxable year, subject to certain limitations, only if the entities are authorized under the rules and regulations promulgated by the Secretary. **No part of the net earnings of any organization or entity to which you contribute may benefit any private shareholder or individual.**

Among the nonprofit organizations and other entities approved by the Code and regulations as entities for which a deduction for contributions can be claimed, are the following:

- the Government of Puerto Rico, the United States, any of its states, territories, or any political subdivision thereof, or the District of Columbia, or any possession of the United States, exclusively for public purposes;
- churches and religious organizations;
- university level accredited educational institutions established in Puerto Rico; or
- nonprofit organizations created or organized in Puerto Rico, the United States or any of its possessions, **qualified by the Secretary of the Treasury**, such as those providing community service, charitable, scientific, literary, art, educational or museological, organizations engaged in the prevention of cruelty or child abuse, elderly or disabled people, prevention of cruelty and abuse of animals, the prevention of domestic violence or hate crimes, or to religious organizations and of economic, social, and community development.

The allowable deduction for charitable entities must be included on page 2 of Schedule A Individual, Part III (Medical Expenses and Charitable Contributions), Column B.

The name of the entity and the employer identification number must be included in the space provided and the amount of the contribution will be included in Column B. In the next Column, you must include a code letter (as listed below) corresponding to the category of the nature of the organization to which a donation was made.

The categories are the following:

- A. Social Services** – this includes entities for the prevention of abuse or violence, such as Casa Protegida Julia de

Burgos, Puerto Rico Youth at Risk, Inc. (Jóvenes de Puerto Rico en Riesgo), Taller Salud, Niños de Nueva Esperanza, Casa La Providencia, Centro de Renovación y Desarrollo Humano Espiritual Buen Pastor, La Casa de Todos, La Fondita de Jesus, and Proyecto Aurora.

- B. Art and Culture** – Examples: Andanza, Coro de Niños de San Juan, Pro Arte Musical, and Casa Pueblo.
- C. Housing Services**
- D. Educational and Research Services** – Examples: Centro Esperanza, Asesores Financieros Comunitarios, Politécnico Amigo, CreArte, Nuestra Escuela, Scuba Dogs Society, Asociación Educativa Pro Desarrollo Humano de Culebra, and Centro de Periodismo Investigativo
- E. Recreation and Sports Services** – Examples: YMCA de San Juan, and Boys and Girls Club of Puerto Rico.
- F. Economic, Social and Community Development** – Examples: Coalición Pro Corredor Ecológico del Noreste, Proyecto Matría, Centro de Adiestramiento y Servicios Comunitarios E.P.I., Inc., Producir, and Comerciantes Unidos para el Desarrollo Comunitario de Camuy.
- G. International Activities** – Example: Comité Olimpico de Puerto Rico, Inc.
- H. Health Services** – Examples: MDA – Asociación Distrofia Muscular, SER de Puerto Rico, Centro Margarita, Centro de Ayuda y Terapia al Niño con Impedimento (AYANI), Iniciativa Comunitaria de Investigación, and The Leukemia and Lymphoma Society.
- I. Religious Services** – Example: All churches.
- J. Environmental Services** – Example: Sierra Club, and Para la Naturaleza.
- K. Organizations for the Exclusive Benefit of its Members**
- L. Other Services** – Examples: Alianza para un Puerto Rico sin Drogas (drug prevention services in high risk schools and communities), Puerto Rico Industries for the Blind (employ and train visually impaired persons), and employees' voluntary and beneficent associations.

The allowable deduction for charitable contributions is the total amount of the donations paid, not to exceed 50% of your adjusted gross income.

Charitable Contributions to Conservation Easements and Museological Institutions

The allowable deduction for contributions to conservation easements and museological institutions must be included in Column C. Also, you must include in the space provided the name and employer identification number of the entity to which the contribution was made. The allowable deduction for contributions of conservation easements to agencies of the Government of Puerto Rico or non profit organizations (**only if you do not claim a tax credit for this concept**) may not exceed 30% of your adjusted gross income and is subject to the requirements provided by the Puerto Rico Conservation Easement Act, as well as for contributions to museological institutions, private or public, that consist of art work properly appraised or of any other objects of recognized museological value.

If the fair market value of the contributed property exceeds the adjusted basis in the hands of the donor (determined under Section 1034.02 of the Code) by more than 25%, you will be allowed a deduction for the fair market value of the property donated, up to 30% of your adjusted gross income for the taxable year.

It is important to point out that in order to claim the deduction for charitable contributions made to private museological institutions, they have to be conditioned in terms that any type of future negotiation with the work or contributed object is forbidden, and that in case of dissolution of the private museological institution, the title of the art work or museological value objects contributed will be transferred to the Government of Puerto Rico and will become part of the National Collection of the Institute of Puerto Rican Culture. If the charitable contributions is made to a museum located in Puerto Rico that is dully accredited by the American Association of Museums, the deduction will be the fair market value up to 50% of the adjusted gross income of the taxpayer and will not be subject to the previous limitations. The charitable contributions in excess of the limit allowed may be carried over to the 5 subsequent taxable years.

You may claim an unlimited deduction for charitable contributions, if the amount of qualified charitable contributions plus the total amount of income taxes paid during the taxable year and in each of the 10 preceding taxable years, exceed 90% of your net income for each one of those years, computed without the benefit of the charitable contributions. Net income is the adjusted gross income less the applicable deductions to taxpayers that are individuals and the exemptions (additional for veterans, personal and for dependents), as applicable.

Charitable Contributions to Municipalities and the Puerto Rico Public Broadcasting Corporation

Donations to municipalities must be included in Column D and you must include in the corresponding area the name and employer identification number of the municipality that received the donation.

The contributions of historic or cultural value made to a municipality, as certified by the Institute of Puerto Rican Culture or the Cultural Center of each municipality, or that makes possible the realization of any cultural or historic work, may be claimed as charitable contribution when the amount is \$50,000 or more, and is made in connection with the celebration of the centennial establishment of the municipality. The total of said contributions is not subject to the limitations provided by the Code. Itemize these contributions in Part III, Column D of this Schedule.

Likewise, any contribution made to the Puerto Rico Public Broadcasting Corporation, as provided by Article 4 of Act 216-1996, as amended, will not be subject to the limitations established by the Code. To claim the total amount of charitable contribution, you must indicate in the corresponding spaces of Part III, Column D of this Schedule, the name of such Corporation, the employer identification number and the amount contributed.

To claim these charitable contributions, complete Part III of this Schedule and transfer to this line the total amount determined on line 8. You must keep for your records copy of the cancelled or substitute checks, receipts or certifications evidencing the payments made.

Line 5 - Enter losses of automobiles, furniture, fixtures and other household goods (excluding the value of jewelry and cash), not compensated by insurance or in any other form, occurred during the taxable year due to earthquakes, hurricanes, storms, tropical depressions and floods. The

deduction is limited to \$5,000 (\$2,500 if married filing separately or if you choose the optional computation of the tax) for the year in which the loss was incurred.

The amount of said \$5,000 not claimed in the year in which the loss occurred may be carried over to the next two consecutive taxable years as a loss of personal property due to casualties. **In order to be entitled to this deduction, the affected area must be declared as a disaster area by the Governor of Puerto Rico, and you must have claimed at the appropriate place within the time limit to do so, the benefits from the assistance programs approved for disaster events.**

You must keep for your records copy of the approved claim filed stating the damages suffered.

Line 6 - Enter all cash contributions made during the year to a pension or retirement system, other than Social Security, established by the Congress of the United States, the Legislative Assembly of Puerto Rico, the municipalities, agencies, instrumentalities and public corporations of Puerto Rico.

This contribution must be informed in Box 14 of the Withholding Statement (Form 499R-2/W-2PR), in Box 4 of the Informative Return - Retirement Plans and Annuities (Form 480.7C) or on Form W-2, if you are a federal employee.

In the case of taxpayers claiming a deduction for contributions to a Governmental Pension or Retirement System, in excess to the amount reported on Forms 499R-2/W-2PR or 499R-2c/W-2cPR, the taxpayer must include with the return the certification issued by the governmental employer showing the amount paid during the year and that was not reported on Form 499R-2/W-2PR or 499R-2c/W-2cPR.

Line 7 - Enter on this line the contributions made to a qualified Individual Retirement Account (IRA). **The maximum deduction for an individual is \$5,000** or the adjusted gross income from salaries or the earnings attributable to professions or business, whichever is less.

In order to claim this deduction, the IRA must be in a trust created or organized under the laws of the Government of Puerto Rico, among other requirements.

In case of married taxpayers filing a joint return, including those who choose the optional computation of tax (Schedule CO Individual), each one may establish, individually, his/her own IRA, or one of the spouses may establish an IRA for himself/herself and another IRA in the name of the other spouse, without considering if he/she receives income. The contribution cannot exceed \$10,000 or the aggregated adjusted gross income from salaries and the earnings attributable to professions or business, whichever is less. However, the deduction for each spouse cannot exceed \$5,000.

No deduction is allowed for the taxable year in which the individual has reached 75 years of age or more at the end of the taxable year. **Also, no deduction will be allowed if the income received during the year is from pensions or annuities.**

The taxpayer will have until the due date established by the Code to file the return, or until the due date of any extension of time granted by the Secretary to file the return, to make a contribution to his/her IRA.

In the spaces provided on this line, enter the name and employer identification number of the financial

institution, the account number, the total contributions made and inform if the contributions correspond to the taxpayer or the spouse.

If the taxpayer participates in a pension plan qualified by the Department of the Treasury and the IRS (dual qualified plan) or is a federal employee, the sum of the contribution to the pension plan plus the contribution to the IRA cannot exceed \$20,000. In other words, the sum of his/her contribution to the pension plan (Box 15 of Form 499R-2/W-2PR or the corresponding box of Federal W-2 Form) plus the contribution to the IRA cannot exceed \$20,000.

You must keep for your records the Informative Return - Individual Retirement Account (Form 480.7) provided by the bank or institution in which you opened the account.

Line 8 - In the case of an eligible individual, enter the contributions made during the taxable year by him/her or by someone who made the contributions for his/her benefit, to a Health Savings Account with a High Annual Deductible Medical Plan (Health Savings Account).

The limit of the contributions will depend on the type of coverage, whether individual or family, and the number of months during the year for which you were eligible. If you were eligible during the whole year and have an individual coverage, the contribution cannot exceed \$3,100. On the other hand, if you have a family coverage, the contribution cannot exceed \$6,200. Individuals, who reach the age of 55 before the close of the taxable year, can make an additional contribution of up to \$1,000.

If you were not eligible during the whole year, divide the previously established limits between 12 and multiply this amount by the number of months for which you were eligible.

In the case of married persons, if any of the spouses has coverage under a family insurance plan, both will be treated as if they only have the family coverage.

The taxpayer can make the contribution to his/her Health Savings Account until the last day established by the Code to file the return, or until the due date of any extension of time granted by the Secretary to file the same.

Do not include on this line amounts paid for medical assistance expenses, including health or accident insurance premiums. Such amounts are claimed as part of the medical expenses on line 3 of this Part I, subject to certain requirements and limitations.

In the spaces indicated on this line enter the name and employer identification number of the institution, the account number, the total contributions made, the annual deductible, the effective date and the type of coverage.

You must keep for your records the certification issued by the institution in which you established the account.

Line 9 - Enter the cash contributions to an educational contribution account for the exclusive benefit of a child or relative up to the third degree of blood relationship or second degree by affinity. The maximum contribution amount that can be claimed **cannot exceed \$500 for each beneficiary.**

The account must be established by the individual who has the custody and parental rights over the beneficiary for whom the account was established. There is no limitation in the number of educational contribution accounts to which each individual can contribute, as long as such beneficiary is eligible. Under no circumstances the total contributions for each beneficiary account can exceed \$500.

This deduction will not be allowed for a taxable year in which the beneficiary has reached the age of 26 by the end of such taxable year.

The taxpayer can make the contribution to the account until the last day established by the Code to file the return, or until the due date of any extension of time granted by the Secretary to file the same.

Transfer to this line the total of Part II, line 21 of Schedule A1 Individual.

You must keep for your records the certification issued by the institution that receives the contributions.

Line 10 - Enter the amount of interest paid or accrued during the taxable year over debts incurred for student loans **to cover expenses of the taxpayer, the spouse or dependent** for registration, tuition and textbooks at university level, as well as expenses for transportation, meals and lodging in those cases in which the student had to live outside his/her home in order to pursue such studies.

In the spaces provided on this line, enter the name and employer identification number of the financial institution, the loan number and the total interests paid.

You must keep for your records a certification from the bank or financial institution as evidence of the deduction claimed.

PART II – COMPUTATION OF ALLOWABLE AMOUNTS OF DEDUCTIONS TO NONRESIDENT OR PART-YEAR RESIDENT

If in the questionnaire it was indicated that the taxpayer was a nonresident or a part-year resident, use this part to determine the total deductions attributable to the period of residence in Puerto Rico. Follow the guides provided on each line.

PART III – MEDICAL EXPENSES AND CHARITABLE CONTRIBUTIONS

Use this Part to determine the deduction for medical expenses and charitable contributions that you will claim on your return. You must provide a detail of each medical expense or contribution that you made during the year.

See full details for these deductions in the instructions to complete Part I, lines 3 and 4 of this Schedule.

It is very important that you enter the name of the organization to whom the payment was made and the amount paid. **Evidence to support your payment must be kept for your records.** In the case of charitable contributions, you must also indicate the employer identification number of the entity to which the payment is made.

Transfer the amount of the allowable deduction for medical expenses from line 3 to Part I, line 3 of this Schedule or line 7C of Schedule CO Individual if you choose the optional computation of tax. Transfer the total amount of the allowable deduction for charitable contributions from line 8 to Part I, line 4 of this Schedule or line 7D of Schedule CO Individual, if you choose the optional computation of tax.

SCHEDULE A1 INDIVIDUAL - DEPENDENTS AND BENEFICIARIES OF EDUCATIONAL CONTRIBUTION ACCOUNTS

In order to process the information of your dependents and claim the exemption, you must complete this Schedule and submit it with your return.

REMINDER: To claim the deduction for dependents the taxpayer must provide more than half of the support for the dependent, as provided on the Code and the corresponding Regulations.

PART I - DEPENDENT'S INFORMATION

The term **dependent** means:

- 1) a person who at the end of the calendar year in which the taxpayer's taxable year begins **has not reached the age of twenty-one (21)**;
- 2) the taxpayer's father or mother;
- 3) a person who is **age sixty-five (65) or older**;
- 4) a person who has reached the age of 21 or more and is blind or incapable of self-support because of being mentally or physically disabled; or
- 5) a university student who at the end of the calendar year in which the taxpayer's taxable year begins **has not reached the age of twenty-six (26)**, as long as he/she has completed as a regular student, at least one semester in a **university or technical - professional institution recognized as such by the educational authorities of Puerto Rico, or of the applicable country, until he/she receives his/her degree.**

Notwithstanding the above, to be entitled to claim a dependent, you must comply with the following requirements:

- 1) the person claiming the dependent must provide more than half of the support for the dependent during the calendar year in which the taxpayer's taxable year began;
- 2) the dependent's **gross income** for the calendar year in which the taxpayer's taxable year began is less than the amount allowed as an exemption for this concept (\$2,500). Nevertheless, if the dependent is your child and also a regular student, he/she may earn gross income of up to **\$7,500**, and still you have the right to claim him/her as a dependent.

In the case of children from divorced or separated parents, the exemption for dependent will be claimed by the parent who has the legal custody of the child. However, the parent who has the legal custody may release his/her right to claim the exemption in favor of the parent who does not have that custody. The release should be made using **Schedule CH Individual - Transfer of Claim for Exemption for Child (Children) of Divorced or Separated Parents**. The parent to whom the right to claim the exemption was released must kept for his/her records Schedule CH Individual duly completed and signed (See Instructions of Schedule CH Individual).

However, in the case of parents that are separated, divorced or do not have a right to file as married, and that have **joint custody** of their child, the dependent exemption will be divided in half between both parents. The joint custody must have been declared by a competent court or must comply with the definition established under Act 223-2011. In order for each parent to be able to claim half of the exemption, **select the oval in the column of Joint Custody**. However, one of the parents may claim the total exemption if the other parent releases in writing half of the exemption by using Schedule CH Individual, which should be included with the return.

In the case of parents who are married, living together and elect to file a separate return, each spouse is entitled to claim half of the total exemption for dependents, as in the case of those who choose the optional computation of tax.

An individual required to file a joint return with his or her spouse does not qualify as a dependent.

Nonresident aliens of Puerto Rico do not qualify as dependents.

If the dependent is totally or partially blind, keep for your records a certificate from an ophthalmologist or optometrist indicating the visual condition of the dependent.

If you claimed the exemption for dependents who are university students, or who are disabled, blind or age 65 or older, you must keep for your records the evidence that entitles you to claim the exemption for those dependents.

In the space provided, **select the oval that indicates “joint custody” (if applicable), and write the complete name, date of birth, relationship and social security number of all dependents for whom you claim an exemption on your return. Also, classify the dependents in one of the following categories:**

Category	Class
(N)	Non university
(U)	University students
(I)	Disabled, blind or age 65 or older

If you do not comply with these requirements, the exemption may be disallowed. Remember that you must include the **social security number** of all dependents who are age one (1) or older at the end of the taxable year.

PART II - BENEFICIARIES OF EDUCATIONAL CONTRIBUTION ACCOUNTS

In the space provided, **write the complete name, relationship, date of birth, and social security number of the beneficiaries for whom you made contributions to an Educational Contribution Account. Indicate also the name and employer identification number of the financial institution, and the account number where the contributions are made. You must also enter the amount of said contributions.**

For information regarding who qualifies for this deduction and its limitations, refer to the instructions of Part I, line 9 of Schedule A Individual.

SCHEDULE A2 INDIVIDUAL - TAX ON INCOME SUBJECT TO PREFERENTIAL RATES

Complete this Schedule if during the taxable year you received income subject to preferential rates such as: net long-term capital gain, interests paid or credited on deposits held on certain financial institutions or dividend distributions of certain corporations. Also, if your income subject to preferential rates is equal to or more than \$20,000, this Schedule provides for the calculation of the limitation of Deductions Applicable to Individuals Taxpayers required by Section 1033.20 of the Code.

If you are a married taxpayer which elected the optional computation of tax and received income subject to preferential rates required to be attributable to each spouse based on 50% of the total (e.g. interests and dividends), you must complete a Schedule A2 for each spouse. Identify on the superior part if the Schedule belongs to the taxpayer, spouse or both, as applicable.

Line 1 - Transfer the Adjusted Gross Income determined in Part 1, line 5 of the return. The Adjusted Gross Income must

consider all income subject to preferential rates, as informed on the other corresponding schedules of the return.

Line 4 – Transfer to Column A and to the corresponding Columns from B to H the different types of income subject to preferential rates as identified on lines 4(a) through 4(k). In Column B, include the income subject to a 20% rate; in Column C, those subject to a 17% rate; in Column D, those subject to a 15% rate; in Column E, those subject to a 10% rate; and in Column F, those subject to a 4% rate.

If you received income subject to a rate other than 4%, 10%, 15%, 17% or 20% under any special act, specify the applicable preferential rate in the blank space provided for it in Columns G and H and include such income in the corresponding Column.

Line 4(a) - Transfer to Column A of this line the amount shown on line 7 of Part VII of Schedule D Individual (Schedule D).

As a general rule, the applicable rate on a realized capital gain is 15%. In such case, include in Column D of this line the amount shown on line 6(a), Column B of Part VII of Schedule D Individual, if any.

However, all or part of the long-term capital gain can be taxed at a different rate, if it was realized under a special legislation. In such case, enter as it corresponds in Columns G and H of this line, the amount shown on line 6(b), Columns C through E of Part VII of Schedule D Individual, if any.

It is important to note that if a net capital loss not used in previous years is claimed, Part VI of Schedule D Individual must be completed to determine the amounts that shall be transferred to this line.

Line 4(d) - Transfer to Column A of this line the amount shown on line 4, Column E of Part I of Schedule FF Individual. Interest on IRA distributions to Government pensioners are taxed at a preferential rate of 10%. Therefore, include the same in Column E of this schedule.

Line 4(h) - Transfer to Column A of this line the amount shown on Schedule D Individual, Part IV, line 24. As a general rule, the applicable rate on total distributions from pension plans is 20%. Therefore, include distributions subject to the 20% rate in Column B and distributions subject to a preferential rate of 10% (if they meet certain requirements set forth in Section 1081.01 (b) of the Code) in Column E. For additional information, see instructions of Part IV of Schedule D Individual.

Line 4(i) - Transfer to Column A of this line the gain determined on Schedules K, L, M or N Individual, as applicable, taxable at a reduced rate under an Incentives Act and/or wages received by a qualified physician who has a decree under Act 14-2017. Include this amount in Columns B through H, as it corresponds, according to the applicable preferential rate.

Line 4(j) - Include on this line any other income subject to a preferential rates not specified on lines 4(a) through 4(i) and 4(k), and distribute it in the corresponding Column, under the applicable preferential rate.

Among others, also include on this line the distributions and transfers of Governmental Plans reported on Schedule F Individual, Part II, line 2, Columns E or F. The lump-sum distributions of Savings Account Plans of \$10,000 or more and the transfers from such plans to Non Deductible Individual Retirement Accounts are subject to a preferential rate of 10%. Include these amounts in Column E. Also include the income from other interests subject to withholding under the provisions



of special legislation reported on Schedule FF Individual, Part I, line 4, Column F.

Line 4(k) - Transfer to Column A of this line the amount reflected on Schedule F Individual, Part VI, line 5, corresponding to Eligible Distributions from Retirement Plans or IRAs that were received for reason of extreme economic emergency due to hurricane María. These distributions are taxed at a preferential rate of 10%. Therefore, include them in Column E of this schedule.

Line 5 - Add line 4(l) of Columns B through H (you can also add lines 4(a) through 4(k) of Column A). This is your total income subject to preferential rates. If this amount is **less than \$20,000**, the Deductions Applicable to Individual Taxpayers **are not subject to limitation**. Therefore, enter on line 7, 100% in Column A and 0% in Columns B through H. Also, enter the total amount shown on line 8(a) on line 8(b), Column A.

Line 6 - The Adjusted Gross Income specified on line 3 less the total income subject to preferential rates specified on line 5, constitutes the income that is subject to regular tax according to the tables.

Line 7 - If your total income subject to preferential rates on line 5 is **\$20,000 or more**, calculate on this line the proportion of each income subject to preferential rates and the remaining income subject to regular tax in relation to the total Adjusted Gross Income. Divide line 6 by line 3 and line 4(l) of each Column from B through H by line 3. Enter the applicable percentage **rounded to the nearest whole number** in the corresponding column of this line.

Line 8(a) - Transfer to this line the Applicable Deductions to Individual Taxpayers as determined on Schedule A Individual, Part I, line 11 (or Part II, line 6 in the case of nonresidents or part-year residents) or Schedule CO Individual, line 8G (or line 8H in the case of nonresidents or part-year residents). These are the only deductions that are subject to the limitation proportional to the income subject to the preferential rates.

Line 8(b) - Multiply line 8(a) by the applicable percentage determined on line 7 for each Column. This amount reflects the portion of Deductions Applicable to Individuals Taxpayers that are attributed to each type of income subject to regular rates and preferential rates.

Lines 8(c) through 8(e) - Transfer the corresponding amounts from Part 2 of the return or the corresponding lines of Schedule CO Individual, as specified. These deductions and exemptions are **not** subject to the limitation or the proportional distribution. Therefore, all of them will be reduced from the income subject to regular rates.

Line 8(f) - Add the total deductions and exemptions. For Columns B through H, this total will be equal to the amount determined on line 8(b), which is the proportion of Deductions Applicable to Individual Taxpayers that are applicable to each type of income subject to preferential rates.

Line 9 - Distribute among Columns A through H, as it is more beneficial to you, the amount of alimony paid indicated in Part 1, line 4 of page 2 of the return or line 5, Column B or C of Schedule CO Individual.

Line 10 - Distribute among Columns A through H, as it is more beneficial to you, the amount of the allowable deduction under Act 185-2014 indicated in Part 2, line 12 of page 2 of the return or line 14, Column B or C of Schedule CO Individual.

Line 11 - For Column A, subtract lines 8(f), 9 and 10 from line 6. For Columns B through H, subtract lines 8(f), 9 and 10 from line

4(l) of each individual column.

Line 12 - Determine the tax applicable to the income on line 11 according to the corresponding rate. For Column A, use the regular tax table available on page 17. For Column B, multiply the income on line 11 by 20%. For Column C, multiply the income on line 11 by 17%. For Column D, multiply the income on line 11 by 15%. For Column E, multiply the income on line 11 by 10%. For Column F, multiply the income on line 11 by 4%. For Columns G and H, multiply the income on line 11 by the rate specified in each column, which cannot be 4%, 10%, 15%, 17% or 20%.

Line 15 - Determine the tax applicable to the income on line 14 (line 13 of Part 2 of the return) according to the regular tax table available on page 17. This is your tax amount without considering preferential rates applicable to certain income.

Line 16 - Compare the tax determined on line 13 with the one determined on line 15 and choose the smaller amount. Transfer this amount to page 2, Part 3, line 14 of the return or line 16, Column B or C of Schedule CO Individual, if you elected for the optional computation of tax in the case of married taxpayers. Choose the oval corresponding to the selected line as indicated on the Schedule.

SCHEDULE B INDIVIDUAL - RECAPTURE OF CREDITS CLAIMED IN EXCESS, TAX CREDITS AND OTHER PAYMENTS AND WITHHOLDINGS

Use this schedule to determine the recapture of credits claimed in excess, tax credits, and other payments and withholdings.

PART I - RECAPTURE OF CREDITS CLAIMED IN EXCESS

You must indicate in Columns A, B and C the name and employer identification number of the entity to which the investment credit claimed in excess belongs to. Also, you must select the oval that identifies the act under which the investment or donation was made.

Enter the credit claimed in excess in previous years as a result of the intervention of the Secretary or Director of the Agency or Department, or the Board that regulates each of the following acts: Puerto Rico Tourism Development Act (Act 78-1993, as amended), Solid Waste Authority Act (Act No. 70 of June 23, 1978, as amended), Agricultural Incentives Act (Act 225-1995, as amended), Capital Investment Funds Act (Act No. 3 of October 6, 1987, as amended), Act for the Creation of the Theatrical District of Santurce (Act 178-2000, as amended), Act for the Development of the Film Industry (Act 362-1999, as amended), Puerto Rico Film Industry Economic Incentives Act (Act 27-2011, as amended), Act for Tax Credits for Investment in Housing Infrastructure (Act 98-2001, as amended), Act for Tax Credits for Investment in the Construction or Rehabilitation of Rental Housing Projects for Low or Moderate Income Families (Act 140-2001, as amended), Act for Credit to Investors in an exempt business that is in the process of closing its operations in Puerto Rico (Act 109-2001) and Conservation Easement Act (Act 183-2001, as amended).

The total investment carried out by the exempt business in the project is subject to the revision of the Secretary or Director of each Agency or Department, or the Special Work Board (Board) in case of the Theatrical District of Santurce. If the investment credit claimed by the investors exceeds the investment credit computed by the Secretary, the Director or the Board, this excess shall be due as income tax. In some cases this debt must be paid by the investors in one installment, and in other cases in two installments beginning with the first taxable year

following the date in which the unfulfillment or revocation of the credits is determined or any other date provided by law. The Director, the Secretaries or the Board will notify the Secretary of the Treasury the excess of credit claimed by the investors.

The provisions of the recapture of credit mentioned before will not apply to the participants or investors that are not developers in a project under the Puerto Rico Tourism Development Act and the Puerto Rico Solid Waste Authority Act.

On the other hand, the provisions of the recapture of the credit under the Agricultural Tax Incentives Act will apply to the investors or participants in agricultural businesses.

In the case of condo hotels, the operator of the integrated rental program should send an annual report to the Director and the Secretary identifying the units participating in the integrated rental program. Such report must indicate the aforementioned program beginning dates with respect to the participating units, as well as the date or dates in which one or more units were withdrawn from the program.

In case of Act 178-2000 (theatrical business), Act 140-2001 (rental housing), and Act 109-2001 (business closing operations), if any unit or business is withdrawn from the program, ceases its operations or does not comply with any of the requirements provided by the corresponding law before the expiration of the 10 year period or other period provided by law, the investor will owe as income tax an amount to be computed as provided by law or as follows, as applicable:

$$\text{Income Tax Owed} = \frac{\text{Total investment credit claimed per unit or business}}{10} \times \text{Balance of the 10 year period}$$

In case of owners of a levied property or donors of a conservation easement, in case of an eligible land, they shall be subject to the recapture of the tax credits granted, in the event that the obligations included in the constitution deed of the conservation easement or donation of an eligible land are not fulfilled, as applicable, but only in those cases in which it is impossible to return the land to its original condition. These dispositions will also apply when the perpetuity requirement is not fulfilled by the owners and the titular of the easement.

The income tax amount owed must be paid in one or two installments, whichever applies, beginning with the first taxable year following the date of the withdrawal of the unit, the first taxable year following the cease of operations or any other date provided by law.

Line 1 - Enter the total excess of credit notified by the Director, the Secretary or the Board, or in case of condohotels, theatrical business, business closing operations or rental housing projects for low income families, the total of income tax debt according to the formula previously mentioned or as established by law.

Line 3 - Multiply line 1 by 50% and enter the result here. Transfer the result to Part 3, line 22 of the return. In case that you had paid part of the recapture of excess of credit in the previous year, enter the difference owed.

Line 4 - If this is the first year in which you make the recapture, subtract line 3 from line 1 and enter the difference. This will be the tax debt to be paid for next year. If this is your second year of recapture, subtract lines 2 and 3 from line 1.

PART II - TAX CREDITS

On March 7, 2017, the Financial Advisory Authority and Fiscal

Agency of Puerto Rico ("AAFAF", for its Spanish acronym) issued Administrative Order No. OA-2017-01 by which it ordered the Secretary of Treasury ("Secretary") to carry out an inventory of the tax credits granted and to require the holders of tax credits to report the amount granted of said credits, in the manner that the Secretary establishes for said purposes. The administrative order also establishes that, any credit holder that does not show evidence issued by the Secretary of compliance with the information requirement, will not be able to claim said tax credits. Subsequently, AAFAF has issued several resolutions regarding the use and availability of tax credits.

On April 20, 2017, the Department of the Treasury ("Department") issued the Internal Revenue Informative Bulletin No. 17-08 to notify that the requirement to carry out the inventory of tax credits would be met by electronically filing Form 480.71.1 (Informative Return for Tax Credits Holders). For these purposes, the Department established that the requirement imposed by AAFAF to submit evidence of compliance with the information requirement in order to claim the tax credits, would be met by electronically filing Form 480.71.1. Therefore, in order to claim a tax credit, it must be included in Form 480.71.1 that the credit holder submitted to the Department.

You must submit with your return copy of Form 480.71.1 duly filed with the Department.

Credits claimed but not used in previous years should be reported on lines 8 and 24 of this Part II. Lines 1 through 7 and 12 through 23 of this Part II should **only** be used to claim credits generated during the current taxable year.

A. Credits Subject to Moratorium:

Line 1 - Enter the amount determined on Schedule Q. You must submit Schedules Q and Q1 to claim this credit, as well as other forms that indicate the credit earned for the investment in several capital investment funds or direct investments.

In order to claim such credit, you must submit with your return copy of the certification issued by the pertinent agencies and copy of a sworn statement issued by the agency indicating the distribution or allocation of the credit.

Line 2 - Enter the amount of credit for construction investment in urban centers. Every person who carries out a construction or improvement project in a urban center, as provided by law, may qualify to claim a credit against the tax.

The concession of the credit is subject to the taxpayer's request and the approval by the Secretary of an administrative determination. You must include with the return copy of the Administrative Determination issued by the Department.

The taxpayer must include with the return for every year in which the credit is claimed, a schedule detailing the year in which the credit is available to be used, the taxable years in which it has been claimed, the expiration date of the credit, total amount of the credit, and the amounts claimed in previous years.

For additional details, refer to Act 212-2002, as amended (Act 212-2002), and the corresponding regulations.

Line 3 - Enter the amount of Tax Credit for Merchants Affected by the Urban Center Revitalization. Every commercial entity established in the area affected by the construction of the revitalization projects in urban centers, will be entitled to claim an 8% tax credit of the 50% gross sales generated during the construction period.



The amount of this credit cannot exceed the tax responsibility reported on the previous year return. **To claim this credit, the taxpayer must include with the return a certification issued by the Puerto Rico Trade and Export Company in which the taxpayer is identified as a merchant affected by the construction work.**

For other requirements and additional details, refer to Act 212-2002, as amended, and the corresponding regulations.

Line 4 - Enter the amount determined on Schedule B1 Individual. For details about percentages and limitations regarding these credits, refer to instructions of Schedule B1 Individual. You can obtain it by accessing our webpage: www.hacienda.pr.gov.

Line 5 - Enter the amount of credit for the establishment and donation of a conservation easement. The concession of the credit is subject to the taxpayer's request and the approval by the Secretary of an administrative determination. You must include with the return copy of the Administrative Determination issued by the Department.

The taxpayer must also include with the return for every year in which the credit is claimed, a schedule detailing the year in which the credit is available to be used, the taxable years in which the tax credit has been claimed, the expiration date of the credit, the total amount of the credit, and the amounts claimed in previous years.

For additional details, refer to Act 183-2001, as amended, and to Internal Revenue Circular Letter No. 05-04 of March 23, 2005.

Line 6 - Enter here the tax credit acquired by the investor during the year through the purchase, exchange or transfer that is included in the list of credits subject to moratorium under Sections 1051.11 and 1051.12 of the Code, including the amount of this type of credit acquired by a pass-through entity through the purchase, exchange or transfer and has been attributed, transferred or distributed to the partners, members or stockholders.

See instructions of Schedule Q in order to know the percentages and limitations to claim on the return.

To claim this credit, the conveyor and the cessionary will submit with the income tax return in the year of the cession, a sworn statement notifying the same to the Secretary. Such sworn statement will be also submitted by the cessionary with the return for every year in which the credit is claimed, together with supporting documents for the credit, for example, the Administrative Determination issued by the Department granting the credit and the schedule detailing the year in which the credit is available to be used, the taxable years in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

Complete Part IV of Schedule B Individual.

Line 7 – Enter the amount of other tax credits subject to moratorium not included on the preceding lines.

Submit with your return a schedule detailing the credits included on this line. Also, you must submit evidence of the credits that you are claiming, for example, the Administrative Determination issued by the Department granting the credit and the schedule detailing the year in which the credit is available to be used, the taxable years in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

Line 8 - The taxpayer must include on this line the total amount of carry forward credits determined on line 29, Part II of Schedule B Individual of the income tax return filed for the previous year that are subject to moratorium under Sections 1051.11 and 1051.12 of the Code. The taxpayer must include with the return a breakdown including the taxable year in which the credit is available to be used, the amount of credit generated per taxable year, the amount of carry forward credit per taxable year used in previous taxable years, the taxable year in which any balance of such credit was claimed, and the balance of credit available for the current taxable year.

You must submit all evidence of the credit that is being claimed, including but not limited to the Administrative Determination issued by the Department and sworn statements, if applicable.

B. Credits Not Subject to Moratorium

Line 12 - Enter the amount of credit for tourism investment. Every investor may claim a credit for tourism investment equal to 50% of its eligible investment. The credit may be claimed in two installments: the first half in the year in which the financing for the total construction of the tourism project was obtained and the balance of the credit, in the following years.

To claim this credit you must include with your return Schedules Q and Q1 duly completed.

You must submit with the return copy of the notification by sworn statement issued by said agency, where the distribution of the credit is informed. You must also include copy of the Certification issued by the pertinent agencies.

Line 13 - Enter the tax withheld on dividends from Industrial Development income under Act No. 8 of January 24, 1987 (Act 8 of 1987) and/or 30% of your proportional share in the fixed tax rate on Industrial Development income paid by the exempt business under Act 135-1997.

You must select the oval that identifies the act or acts under which your investment was made, and with respect to dividends under Act 8 of 1987, provide the required information of Box 9, Form 480.6B with the return.

Line 14 - Enter the amount of the credit to be claimed for the investment in a Film Entity engaged in a Film Project and/or Infrastructure Project under Act 27-2011.

The concession of this credit is subject to the taxpayer's request and the approval by the Secretary of the Treasury of an administrative determination under Act 27-2011 and its regulations. You must include with the return copy of the certification issued by the Puerto Rico Film Corporation, which is adscribed to the Department of Economic Development of Puerto Rico.

For additional details, refer to Act 27-2011.

Line 15 - Enter the amount of credit to claim for the purchase or transmission of television programming made in Puerto Rico. Every investor may claim up to 15% of the expenses paid by the television channel in the taxable year in which the credit is claimed.

The taxpayer must manage the annual compliance certification that will be issued by the Department of Economic Development through the Interagency Validation Portal for the Granting of Incentives for the Economic Development of Puerto Rico.

For additional details, refer to Section 1051.14 of the Code.

Line 16 - Enter the amount of credit to be claimed for contributions to former governors foundations equivalent to 100% of the amount contributed during the taxable year to former governors foundations for operating expenses and those expenses related to the purposes for which they were created and/or those charitable contributions to a Depository of Files and Relics of Former Governors and Former First Ladies of Puerto Rico constituted according to the provisions of Act 290-2000 by itself or as a whole with public or private Higher Education entities, to pay the construction, operation and all necessary expenses for the true fulfillment of the purposes of Act 290-2000 and Act 302-2012. The tax credits to be granted cannot exceed \$1,000,000 in aggregate, for any tax year.

This credit will be instead of the deduction for charitable contributions provided on Schedule A Individual.

To claim this tax credit you must submit the certification issued by the recipient entity as evidence that the contribution was made and accepted. The amount of the credit not used in the taxable year in which the contribution was made, may be carried over to subsequent taxable years, until totally used.

Line 17 - Any person to whom a certificate of membership is issued as ordinary or extraordinary member of an Employees-Owned Special Corporation, is entitled to **a credit of 25% of the total amount paid for said certificate up to a maximum of \$1,000.** The credit should be claimed against the income tax determined for the year in which the payments to acquire the certificate are made, whether totally paid or paid in installments in one or more taxable years, as applicable. **The credit granted shall not be applicable against the alternate basic tax for individuals.**

If the amount of credit allowed exceeds the determined income tax for the taxable year, the excess may be carried forward during the next two taxable years.

Refer to Section 1113.14 of the Code for qualifications and requirements to benefit from this credit.

Line 18 - Enter the amount of credit for investment in an exempt business that is in the process of closing its operations in Puerto Rico. Every investor can claim a credit for industrial investment equal to 50% of its eligible investment.

The credit may be claimed in two installments: the first half in the year that the eligible investment was made, and the balance of such credit in subsequent years.

Every investor must request an Administrative Determination to the Secretary before claiming the industrial investment credit.

Every industrial investment credit not used in the taxable year may be carried over to subsequent years, until totally used.

The taxpayer must include with the return copy of the Administrative Determination issued by the Department granting the referred credit.

The taxpayer must also include with the return for every year in which the credit is claimed, a schedule detailing the year in which the credit is available to be used, the taxable years in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

Line 19 - Enter 100% of contributions made to the Santa Catalina's Palace Patronage or to the Patronage of the State Capitol of the Legislative Assembly (Patronages). The tax credits

to be granted cannot exceed \$2,500,000 for any taxable year.

To claim this tax credit you must accompany the certification issued by the Patronages as evidence that the contribution was made and accepted. Such part of the credit not used in the taxable year in which the contribution was made, may be carried over to subsequent taxable years, until totally used.

Remember that contributions to the Patronages generate a tax credit. Therefore, such contributions cannot be claimed as part of the deductions for charitable contributions on Schedule A Individual.

Line 20 - Enter the amount of credit to be claimed for industrial investment under Section 6 of Act 73-2008. This amount must be equal to 50% of the eligible investment to be claimed in two or more installments: the first half in the year in which the eligible investment is completed and the balance in the subsequent years.

To claim this credit the taxpayer must include with the return copy of the Administrative Determination issued by the Department granting the credit.

The taxpayer must also include with the return for every year in which the credit is claimed, a schedule detailing the year in which the credit is available to be used, the taxable years in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

The credit not used in a taxable year may be carried over to subsequent years, until totally used.

For additional details, refer to Act 73-2008 and the corresponding regulations.

Line 21 - Enter the amount of credit to be claimed for investment in research and development of green energy sources under Act 83-2010, better known as the Puerto Rico Green Energy Incentives Act. This amount must equal 50% of the special eligible investment and will be claimed in two or more installments: the first half in the year in which the eligible investment is made and the balance in the subsequent years.

To claim this credit the taxpayer must submit with the return copy of the certification issued by the Puerto Rico Industrial Development Company and the Administrative Determination issued by the Department granting the credit.

The credit not used in a taxable year may be carried over to subsequent years, until totally used. This credit does not generate a refund.

For additional details, refer to Act 83-2010

Line 22 - Enter here the tax credit acquired by the investor during the year through the purchase, exchange or transfer that is not included in the list of credits subject to moratorium under the provisions of Sections 1051.11 and 1051.12 of the Code, including the amount of this type of credit acquired by a pass-through entity through the purchase, exchange or transfer and has been attributed, transferred or distributed to the partners, members or stockholders.

See instructions of Schedule Q in order to know the percentages and limitations to claim on the return.

To claim this credit, the conveyor and the cessionary will submit with the income tax return in the year of the cession, a sworn statement notifying the same to the Secretary. Such sworn

statement will be also submitted by the cessionary with the return for every year in which the credit is claimed, together with supporting documents for the credit, for example, the Administrative Determination issued by the Department granting the credit and the schedule detailing the year in which the credit is available to be used, the taxable years in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

Complete Part IV of Schedule B Individual.

Line 23 - Enter the amount of other tax credits not subject to moratorium not included on the preceding lines.

Submit with your return a schedule detailing the credits included on this line. Also, you must submit evidence of the credits that you are claiming, for example, the Administrative Determination issued by the Department granting the credit and the schedule detailing the year in which the credit is available to be used, the taxable years in which the tax credit has been claimed, its expiration date, the total amount of the credit, and the amounts claimed in previous years.

Line 24 - The taxpayer must include on this line the total amount of carry forward credits determined on line 29, Part II of Schedule B Individual of the income tax return filed for the previous year that are not subject to moratorium under Sections 1051.11 and 1051.12 of the Code. The taxpayer must include with the return a breakdown including the taxable year in which the credit is available to be used, the amount of credit generated per taxable year, the amount of carry forward credit per taxable year used in previous taxable years, the taxable year in which any balance of such credit was claimed, and the balance of credit available for the current taxable year.

You must submit evidence of the credit that is being claimed, for example, the Administrative Determination issued by the Department granting the credit.

PART III - OTHER PAYMENTS AND WITHHOLDINGS

Line 1 - Enter the estimated tax paid for the taxable year. These payments must be broken down on Schedule T Individual, Part II, line 9. **For more information about estimated tax, refer to the INSTRUCTIONS (OBLIGATION TO PAY ESTIMATED TAX).**

Line 2 - Enter the amount of tax overpaid according to the return of the previous year that you requested to credit to the estimated tax for the current year. Amounts already included on line 1 should not be included on this line.

Line 3 - In the case that you are filing an amended return, enter on this line the amount paid to cover the tax determined in the original return, that has been included with the return at the time of its filing or that was made later.

Line 4 - Enter on lines 4(a), 4(b) and 4(c) the tax withheld, as reported in Boxes 6, 7 and 9, respectively, of the Informative Return - Income Subject to Withholding - Nonresidents (Form 480.6C). Provide the required information of Form 480.6C. Enter on line 4(d) any other withholding reported on Form 480.6C for which a specific line is not provided on this line 4.

Line 5 - Enter the tax withheld reported in Box 11 of the Informative Return - Individual Retirement Account (Form 480.7). Provide the required information of Form 480.7.

Line 6 - Enter on lines 6(a), 6(b) and 6(c) the amount reported on the Informative Return - Income Subject to Withholding (Form

480.6B), Boxes 7 and 8, Column of Amount Withheld; Form 480.7, Box 7 and/or Informative Return - Educational Contribution Account (Form 480.7B), Box 6. Provide the required information of Form 480.6B, Form 480.7 and/or Form 480.7B, as applicable.

Line 7 - Enter the amount reported on Form 480.6B, Boxes 4 and 10, Column of Amount Withheld. Provide the required information of Form 480.6B.

Line 8 - Enter the amount reported on Form 480.6B, Box 5, Column of Amount Withheld. Provide the required information of Form 480.6B.

Line 9 - Enter the tax withheld reported in Box 1 of Form 480.6B. Provide the required information of this form with the return. Enter in the space provided, the amount of informative returns included with the return for this concept.

Line 10 - Enter the tax withheld reported in Box 3 of Form 480.6B. Provide the required information of this form with the return.

Line 11 - Enter the tax withheld at source on your distributable share in pass-through entities (corporations of individuals, partnerships and special partnerships), as reported in Part III of the Informative Return - Pass-Through Entity (Form 480.60 EC).

Enter on line 11(a) the amount reported on lines 10, 12 and 13, Part III of Form 480.60 EC; on line 11(b) the amount reported on lines 8 and 9, Part III of Form 480.60 EC; on line 11(c) the amount reported on line 5, Part III of Form 480.60 EC; on line 11(d) the amount reported on line 6, Part III of Form 480.60 EC; on line 11(e) the amount reported on line 7, Part III of Form 480.60 EC; and on line 11(f) the amount reported in any other line, Part III of Form 480.60 EC for which a specific line is not provided on this line 11. Provide the required information of this form with the return.

Line 12 - Enter the tax withheld reported in Part III of the Informative Return - Revocable Trusts or Grantor Trusts (Form 480.60 F).

Enter on line 12(a) the amount reported on lines 1(E), 1(F) and 1(G), Part III of Form 480.60 F; on line 12(b) the amount reported on lines 1(I) and 1(J), Part III of Form 480.60 F; on line 12(c) the amount reported on line 1(A), Part III of Form 480.60 F; and on line 12(d) the amount reported in any other line, Part III of Form 480.60 F for which a specific line is not provided on this line 12. Provide the required information of this form with the return.

Line 13 - Enter the tax withheld reported in Part V of the Informative Return - Employees-Owned Special Corporation (Form 480.6 CPT). Provide the required information of this form with the return.

Line 14 - Enter the 17% tax withheld on distributions from IRA or Educational Contribution Accounts of income from sources within Puerto Rico, as reported in Box 8 of Form 480.7 and Box 7 of Form 480.7B.

Line 15 - Enter the 10% tax withheld on IRA distributions to Government pensioners, as reported in Box 9 of Form 480.7.

Line 16 - Enter the withholding reported on the Informative Return - Retirement Plans and Annuities (Form 480.7C) or on the Withholding Statement (Form 499R-2/W-2PR) on total or partial distributions from deferred compensation plans (non-qualified). For additional details, refer to the instructions of Schedule F Individual, Part III.

Line 17 – Enter the 20% or 10% withholding, as applicable, on the total distributions from qualified retirement plans received within a single taxable year due to separation from service or termination of the plan which are reported in Boxes 6 and 7 of Form 480.7C. For more details, refer to the instructions of Schedule D Individual, Part IV.

Also, enter the 10% withholding on other distributions that are not total or loans to the participant, such as withdrawals made before the separation from service or partial distributions made after separation from service reported in Box 9 of Form 480.7C. For details, refer to the instructions of Schedule F Individual, Part IV.

Include the required information of Form 480.7C.

Line 18 – Enter the tax withheld under Section 1081.01(b)(3)(B) of the Code on distributions from pension plans in the form of an annuity or periodic payments, informed in Box 5 of Form 480.7C. You must provide the required information of this form with the return.

Line 19 – Enter the 10% tax withheld on lump-sum distributions, in excess of your contributions, from Governmental Plans or from the transfer of such funds to a non deductible IRA, as included in Box 13 of Form 480.7C. You must provide the required information of Form 480.7C.

For additional details, refer to the instructions of Schedule F Individual, Part II.

Line 20 – Enter on this line the 20% tax withheld on income from international associations or federations of sport's teams, as reported in Box 6 of Form 480.6B. You must provide the required information of Form 480.6B.

Line 21 – Enter the total of other payments and withholdings not included on the preceding lines. Group, as is corresponds, those reported in an Informative Return and those that are not reported in an Informative Return and the income tax withheld on Eligible Distributions of Qualified Plans and IRAs for reason of extreme economic emergency due to hurricane María.

Provide on line 21(a) the required information of the corresponding Informative Return (Ex. Form 480.6B, 480.7 or 480.7B). On the other hand, if line 21(b) includes payments and withholdings for different concepts, you must submit with your return a schedule showing the nature of each payment that was subject to withholding and the withholding included on this line. Enter on line 21(c) the 10% tax withheld, as included on Schedule F Individual, Part VI, line 6(c) (Forms 480.7 and 480.7C).

Keep for your records any informative return that supports the withholding claimed on this line.

PART IV – BREAKDOWN OF THE PURCHASE OF TAX CREDITS

Select the oval corresponding to the act (or acts) under which you acquired the tax credit. Enter in the space provided the amount of the tax credit available for the taxable year.

The limitation related to the credits subject to moratorium will be applicable to the total credits subject to moratorium included on line 9 of Part II of this Schedule, and not to each credit included in this part.

In order to claim any of the credits included in this part, the

taxpayer must include with his/her return a sworn statement notifying to the Secretary the purchase or transfer of the credit.

In addition, you must submit evidence of the credits that you are claiming, for example, the Administrative Determination issued by the Department to the investor granting the credit and the schedule detailing the year in which the credit is available to be used, taxable years in which the credit has been claimed, its expiration date, the total amount of the credit and the amounts claimed in previous years.

SCHEDULE B2 INDIVIDUAL – AMERICAN OPPORTUNITY TAX CREDIT

This Schedule must be completed by those taxpayers who qualify to claim the American Opportunity Tax Credit (Credit) granted by the United States of America Treasury (Treasury). The intention of this credit is to provide tax relief by granting a refund for a part of the expenses incurred and paid for postsecondary education of the taxpayer, his/her spouse or dependents.

The credit is allowed for the first \$2,000 of qualified educational expenses paid during the taxable year plus 25% of the next \$2,000 paid of such expenses limited to 40%. **The maximum amount of the credit per eligible student cannot exceed \$1,000.** This credit is refundable.

This credit is only available for Puerto Rico residents.

Eligible individuals to claim the credit

To be entitled for the credit, the individual must comply with **all** of the following requirements:

1. at the beginning of the taxable year for which the credit is claimed, the individual has not completed the first 4 years of postsecondary education;
2. the individual was enrolled and studied for at least an academic period starting in the taxable year for which the credit is claimed, and had at least half of the full-time academic load in courses leading to the degree;
3. the individual was enrolled in a program leading to a degree or a university certification, vocational school or other institution of higher education, public or private, duly accredited by the Counsel of Education of Puerto Rico, or by the Middle States Commission on Higher Education of the Middle States Association of Colleges and Schools, or any other similar organism of Puerto Rico or United States, that is eligible to participate in student aid programs administered by the Puerto Rico or the United States Department of Education;
4. the individual must not have been convicted of a felony for the possession or distribution of controlled substances at the end of the taxable year for which the credit is claimed; and
5. the name and social security of the individual is reported on the Individual Income Tax Return (Form 482.0).

Those U.S. citizens eligible for this credit and who have not been residents of Puerto Rico during the **entire** taxable year, may apply for the credit by filing the U.S. Income Tax Return (Form 1040).

Individuals not eligible to claim the credit

An individual **cannot** claim the credit under any of the following situations:

1. if his/her filing status is married filing separately;
2. is claimed as a dependent, or is eligible to be claimed as a dependent in the return of another taxpayer, regardless of whether the other taxpayer claims the individual in his/her return or not;
3. the adjusted gross income reported on the return of the taxpayer claiming the credit is greater than \$90,000 in the case individual taxpayers, or \$180,000 in the case of married taxpayers;
4. the taxpayer or his/her spouse were, at some time during the taxable year, nonresidents of Puerto Rico;
5. the taxpayer has claimed the credit on a federal tax return; or
6. at the beginning of the taxable year for which the credit is being claimed, the individual has attended more than 4 years of postsecondary studies or has claimed the credit for 4 consecutive years in the Puerto Rico return and/or federal return.

Eligible educational expenses for the credit:

Eligible educational expenses refer to tuition and fees required by the college or educational institution, and the payments for materials and computer materials, as long as they are required for the course. For these purposes, "computer materials" means an item commonly used by a student in a study course in which a computer and other materials, such as storage devices, memories, portable electronic agendas also known as "tablets" (excluding cell phones), printers, software, among others are used, **as long as they are required for the course.**

Those expenses incurred by the individual for lodging, food, gasoline, insurance, medical expenses, transportation and materials not required by the educational institution, such as personal hygiene products, sports equipment and clothing, among others, are **not** considered eligible education expenses.

The educational expense will be eligible for purposes of claiming the credit, if it is paid by the taxpayer for himself/herself, his/her spouse or a dependent for which the exemption is claimed on the return. The eligible educational expenses will be those admissible expenses that has been incurred and paid during the taxable year for academic periods started during the same taxable year or that academic period started within the first three months of the taxable year following the year for which the credit is claimed.

To determine the total amount of eligible educational expenses, the individual must reduce the total expenses paid by any educational assistance and exempt reimbursements received by the individual, including scholarships, subsidies or grants.

As general rule, the term **eligible educational institution** means any college, university, vocational school or other certified postsecondary educational institution, public or private, eligible to participate in student aid programs administered by the Department of Education of the Government of Puerto Rico or the United States.

PART I – DETERMINATION OF CREDIT

Complete the name and social security number of the eligible students. In Column (C) enter, for each eligible student, the total qualified educational expenses **without exceeding \$4,000** for each one. Remember to include only expenses that were not covered by educational scholarships, subsidies or grants.

In Column (E) enter the difference between Columns (C) and (D) but not less than zero ("0"). Complete the subsequent columns as indicated on the Schedule.

In the case of taxpayers who claim dependents under joint custody, the determination of the credit will be based in 50% for each one, unless one of them can show that he/she paid 100% of the qualified education expenses. The total of these expenses cannot exceed \$4,000 per student. Therefore, if both parents claim the credit for an eligible student that is a dependent under joint custody, the limit amount in Column (C) will be \$2,000 and \$1,000 in Column (D).

PART II – CREDIT LIMITATION

Calculate the proportional credit limitation based on your adjusted gross income. If your personal status is individual taxpayer and your adjusted gross income is \$90,000 or more, you are not entitled to claim this credit. If your personal status is married and your adjusted gross income is \$180,000 or more, you are not entitled to claim this credit.

Evidence required to claim the credit:

To claim this credit, **it is required** that you submit with your return evidence of the expenses paid for tuition, fees and materials for the courses, such as books, supplies or equipment.

The following evidence must be submitted:

1. Certificate issued by the eligible educational institution, in the student's name, indicating the program leading to a degree or certification and whether the student was completing at least half of the full-time requirements for the degree or certification pursued;
2. Copy of the Criminal Record Certificate issued by the Puerto Rico Police certifying that the student has not been convicted of a felony for the possession or distribution of controlled substances;
3. Copy of the invoice for the tuition payment made during the taxable year duly sealed by the eligible educational institution (Collection's Office). This copy of the invoice must indicate the name and identification number of the student in a legible manner;
4. Copy of the cancelled check, banking statement, credit card evidence or other receipt showing the source of the funds used for the payment of tuition, fees, etc., paid to the educational institution;
5. Financial Aid Certification indicating whether the student has received or not financial aid (scholarships) during the taxable year. The certificate must be issued and dated **on or after** February 28 of the taxable year following the year for which the credit is claimed. Furthermore, the certificate shall indicate the type of aid and amount received, the cost of education, how much of the tuition payment the scholarship covered or reimbursed, and the name and identification number of the student in a legible manner; and
6. If claiming expenses for the purchase of books and materials, a schedule must be included showing the breakdown of the eligible educational expenses for materials, including the date of purchase, the name of the business, description of the articles purchased, and the price paid. This schedule shall be accompanied with the purchase receipts of the acquired materials and copy of the syllabus or document of

the eligible educational institution indicating that the educational texts and materials acquired are required to attend the course in which the student was enrolled.

In the case of universities or educational institutions located in the United States, the taxpayer may submit the “**Tuition Statement, Form 1098-T**” issued by the U.S. Internal Revenue Service in substitution of evidences 1, 3 and 5 listed above.

The credit cannot be claimed by filing an original or amended return received after December 31 of the taxable year following the taxable year for which the credit is claimed. For example, for taxable year 2017, the taxpayer will have until December 31, 2018 to file the return and claim the credit. This provision does not apply in the case of returns filed by military personnel who is on active service in combat zone during the taxable year.

For additional information, see Section 1004 of the American Recovery and Reinvestment Act of 2009 and Administrative Determination No. 14-08 of March 28, 2014.

SCHEDULE C INDIVIDUAL - CREDIT FOR TAXES PAID TO FOREIGN COUNTRIES, THE UNITED STATES, ITS TERRITORIES AND POSSESSIONS

Use this Schedule to determine the portion of the taxes paid to the foreign countries, the United States, its territories and possessions that is allowable as a credit.

To claim a credit for taxes paid to foreign countries, the United States, its territories and possessions, it is necessary that you:

- 1) Paid or accrued income tax in one or more of such jurisdictions.
- 2) Included in your Puerto Rico income tax return the taxable income from one or more of such jurisdictions.
- 3) Include with your return evidence of the tax paid (copy of cancelled or substitute checks and copy of the return filed to the IRS or any eligible jurisdiction). If the payment receipt or tax return is in a foreign language, you must submit with your return a certified translation of it.

If you received income from sources in, or paid taxes to more than one foreign country, territory or possession of the United States, you shall provide the information separately for each foreign country, territory or possession in Parts I, II and III of Schedule C Individual, indicating the name of each country, territory or possession in Columns A, B and C. If you received income from sources in, or paid taxes to more than 3 jurisdictions as well as the United States, submit additional Schedules C Individual.

An individual resident of Puerto Rico that is required to file a return and pay income taxes to the United States for income other than from sources within Puerto Rico or the United States will include in the column labeled “United States” such income from sources outside of Puerto Rico and the United States, as income from sources of that jurisdiction, as well as the losses, expenses and deductions associated with it.

Include in the column labeled “Total” the total amount of items of income, and expenses, losses and deductions from sources outside of Puerto Rico. For individuals residing in Puerto Rico who are U.S. citizens or permanent resident aliens in the United States (United States Permanent Resident Card, USCIS Form I-551, also known as “green card”), the amount informed in the United States column will be the same as that reported in the Total column.

PART I - DETERMINATION OF NET INCOME FROM SOURCES OUTSIDE OF PUERTO RICO

Line 1 - Enter the taxable gross income derived from sources in each of the applicable jurisdictions, itemized by the type of income listed on lines (a) through (h), and totalize them on line 1(i).

Taxable Gross Income

For purposes of Part I of Schedule C Individual, the term “taxable gross income” means gross income of the taxpayer that is subject to income tax in Puerto Rico, so it will not include any exempt items under Section 1031.02 of the Code. Include in the appropriate column all items of taxable gross income earned from sources within the pertinent jurisdiction, even if such item of income was not subject to tax in that jurisdiction. Remember that on property sales, the gross income is determined by subtracting the cost or adjusted basis of the property sold from the sales price.

Sources of Income

As a general rule, the source of income is determined as follows:

- (1) Interests and dividends - It is determined by the payer’s residence or place of incorporation.
- (2) Payments for personal services - It is determined by the place where the services are rendered.
- (3) Rents and royalties - It is determined by the place where the property is located or by the place of use, or of the privilege of using patents, copyrights, trademarks, goodwill and other similar property.
- (4) Profit on the sale of inventory - If the property sold was acquired by purchase from unrelated individuals, it is determined based on where you transfer the title of the goods; to determine the source of income from the sale of inventory produced by the seller, or acquired by purchase from related persons, see Sections 1035.04 and 1035.05 of the Code.
- (5) Profit on the sale of personal property that is not inventory - It is determined based on the residence of the seller; certain exceptions apply in the case of depreciable and intangible property, as well as sales through offices or other places of business outside of Puerto Rico.
- (6) Profit on the sale of real property - It is determined by the place where such property is located.

For additional information on how to determine the source of income, see Sections 1035.01 to 1035.07 of the Code.

Line 2 - Reduce the taxable gross income reflected on line 1(i) of each column by:

- (1) Expenses directly related to the production of such income,
- (2) The losses from sources of the relevant jurisdiction, and
- (3) A proportion of other expenses or deductions not related to a category of income.

The expenses or deductions to be included on line 2(c)(i) include the personal exemptions and those for dependents, but **DO NOT** include losses accrued from sources in Puerto Rico, nor expenses or deductions directly related to income from sources in Puerto Rico or items excluded from income or exempt from income tax under the Code or special laws.

Include on line 2(c)(ii) the taxpayer's taxable gross income from all sources, including sources in Puerto Rico.

PART II - TAXES PAID TO THE UNITED STATES, ITS POSSESSIONS AND FOREIGN COUNTRIES

Indicate the date of payment and the total tax paid or accrued in each jurisdiction. If the tax was paid or accrued in a foreign currency, you must convert such amount to U.S. dollars at the date of the payment. You must keep for your records a schedule indicating the currency exchange to U.S. dollars.

In the case of the taxes paid or accrued to the United States, it shall be calculated **after** claiming the Foreign Tax Credit for taxes paid to foreign countries and possessions or territories of the United States, **including Puerto Rico**, on income from sources outside the United States included in the federal return.

PART III - DETERMINATION OF CREDIT

Line 2 - Include on line 2 the taxpayer's net income from all sources, increased by the income subject to preferential rates, net of expenses attributable to such income in accordance with Section 1033.20 of the Code.

Line 4 - Include on this line the sum of lines 14 and 15 of Part 3, page 2 of the return or lines 16 and 17, Column B or C of Schedule CO, accordingly.

Determine the credit to be claimed and enter the amount that you are entitled.

The credit cannot exceed the amount of taxes paid or accrued to foreign countries, the United States, its territories and possessions.

Transfer the total credit determined on line 6(b) to Part 3, line 17 of the return or line 19, Column B or C of Schedule CO Individual, as applicable.

Alternate Basic Tax

If you are subject to the alternate basic tax, you need to calculate the amount determined on this Schedule using such tax and the net income subject to alternate basic tax. In Part I, include the income from sources outside of Puerto Rico that were considered to determine the net income subject to alternate basic tax. Also, you need to make the following adjustments:

- Part I, lines 1(a) through 1(i) of Schedule C Individual - replace by the corresponding items of the taxpayer's gross income that is subject to alternate basic tax; include in the corresponding column all items of gross income subject to alternate basic tax from sources in the relevant jurisdiction, even if such income item was not subject to tax in that jurisdiction.
- Part I, line 2(c)(ii) of Schedule C Individual - replace by the taxpayer's total gross income that is subject to alternate basic tax.
- Part III, line 2 of Schedule C Individual - replace by line 14 of Part I of Schedule O Individual.
- Part III, line 4 of Schedule C Individual - replace by line 4 of Part II of Schedule O Individual.

Determine the amount of the credit in Part III of Schedule C Individual recalculated with the previous adjustments, enter the same on line 5, Part II of Schedule O Individual and select the oval at the top identifying that Schedule C Individual was recomputed for purposes of the alternate basic tax. Include with

your return both Schedules C Individual, calculated for the regular tax and recalculated for the alternate basic tax.

Taxpayers that choose the Optional Computation of Tax

Married taxpayers who choose the Optional Computation of Tax (Schedule CO Individual) in which either or both have paid or accrued income tax in one or more jurisdictions outside of Puerto Rico and has been included on the Puerto Rico return as taxable income from that jurisdiction, will determine the Credit for Taxes Paid to Foreign Countries, the United States, its Territories and Possessions individually. Each spouse will complete a Schedule C Individual identifying it at the top, as applicable. Enter the amount determined on Schedule CO Individual, line 19, Column B or C, as applicable. Include with your return both Schedules C Individual, for the taxpayer and spouse.

Also, if either or both spouses are subject to the alternate basic tax, it will be necessary to recalculate the credit for taxes paid to Foreign Countries, the United States, its Territories and Possessions individually as indicated above in the instructions related to the alternate basic tax. Identify each Schedule C Individual for the taxpayer and spouse, as applicable, and select the oval at the top that identifies that the Schedule was recalculated for purposes of the alternate basic tax. Include with your return both Schedules C Individual, the one calculated for regular tax and the one recalculated for alternate basic tax for each one of the spouses, as applicable.

SCHEDULE CH INDIVIDUAL - TRANSFER OF CLAIM FOR EXEMPTION FOR CHILD (CHILDREN) OF DIVORCED OR SEPARATED PARENTS

In the case of minor children from divorced or separated parents, the exemption for dependents will be claimed by the parent with the right to the custody or will be divided in half between the parents that have joint custody. In the case of joint custody, you should select the oval provided for this purpose.

However, a minor child will be considered to have received more than half of his/her support during a calendar year from the parent who does not have the right to custody or shared custody if:

- 1) the parent with the right to custody or with joint custody signs a Schedule CH Individual establishing that he/she will not claim said child as a dependent for any taxable year commencing within said calendar year; and
- 2) the parent who does not have the right to custody or has joint custody, keeps said Schedule for his/her records for the taxable year commencing within said calendar year.

You may agree to release your claim to the child's exemption, including those with joint custody, for the current taxable year if you complete and sign this Schedule and provide it to the parent that will claim the exemption for such dependents. **The parent that does not have the right to custody or that only has joint custody must keep this Schedule for his/her records for the taxable year in which the exemption was released, so that he/she may claim the total exemption.**

SCHEDULE CO INDIVIDUAL - OPTIONAL COMPUTATION OF TAX

You must complete this Schedule and include it with your return if you choose the optional computation of tax in the case of married individuals living together and filing a joint return. This computation allows each spouse to determine the tax individually.

If you choose this computation, **do not complete Part 1 and 2, or lines 14 through 20 of Part 3 located on page 2 of the return.** The following instructions detail how the income, deductions, personal exemption, exemption for dependents and additional personal exemption for veterans will be attributed to each spouse.

Line 1 - Wages, Commissions, Allowances and Tips

This type of income will be attributed as it was earned by each spouse individually. Enter in Column B the salaries attributed to the taxpayer and in Column C the salaries attributed to the spouse. Enter in Column A, the income tax withheld by each one of your employers, for both the taxpayer and the spouse. If there is no tax withheld, enter zero. Enter in the space provided on line 1, the number of withholding statements included with your return.

Add the amounts of Columns A, B and C and enter the total amount of income tax withheld, wages, commissions, allowances and tips at the bottom of each column.

For additional information, see instructions of Part 1, line 1 of the return.

Make sure to include with your return the information required of all the Withholding Statements (Form 499R-2/W-2PR).

Line 2 - Federal Government Wages

This type of income will be attributed as earned by each spouse individually. Enter in Columns B and C, as it corresponds to the taxpayer and his/her spouse, the total Federal Government income from salaries and wages received, excluding the Cost of Living Allowance (COLA). To determine if you qualify for this exclusion, refer to RELEVANT FACTS – FEDERAL EMPLOYEES.

You can also refer to the Informative Booklet to Provide Guidance on the Income Tax Responsibilities of Federal, Military and Other Employees.

Enter in the box identified as Exempt Wages under Sec. 1031.02(a)(36) of the Code the amount received from Federal Government salaries, up to a maximum of \$40,000, if you are a young individual whose age fluctuates between 16 and 26 years at the end of the taxable year.

In the case that the taxpayer and the spouse qualify for this exemption, each one may exclude up to a maximum of \$40,000 from salaries paid by the Federal Government. The exempt income determined for each one of the spouses under Section 1031.02(a)(36) of the Code, must be added and included in the provided box. Transfer the exempt amount to line 31, Part II of Schedule IE Individual of each spouse.

Enter in the box indicated on this line, the amount of withholding statements (W-2 Forms) which information is included with the return.

Make sure to include with your return the required information of all the W-2 Forms. You must keep for your records copy of the form in case it will be eventually requested by the Department.

Line 3 - Other Income (or Losses)

Enter on lines 3A through 3S the total of each type of other income or deductible losses, distributing in Columns B and C the amounts as they correspond to the taxpayer and his/her spouse. These amounts will be attributed individually or on a 50% basis to each spouse, as indicated as follows.

The following income will be attributed to each spouse as they were earned individually: distributable share on profits from partnerships, special partnerships and corporations of individuals (pass-through entities), distributions from governmental plans, distributions from Individual Retirement Accounts and Educational Contribution Accounts, income from annuities and pensions, alimony received, gain or loss from industry or business, farming, professions and commissions, lump-sum distributions from qualified plans and income from salaries, wages, compensation or public shows received by a nonresident individual.

The following concepts of miscellaneous income will be attributed also as they correspond to each spouse **individually:** income from discharge of debts and for the use of intangibles, judicial or extrajudicial indemnification, income from sport teams of international associations or federations, distributions from deferred compensation plans, distributions from qualified retirement plans (partial or lump-sum not due to separation from service), and Eligible Distributions for reason of extreme economic emergency due to hurricane María.

On the other hand, the income from interests, dividends from corporations, income from prizes and contests, miscellaneous income (except those indicated in the preceding paragraph), dividends from Capital Investment or Tourism Fund, gain or loss from rental business, gain or loss from sale or exchange of capital assets, and net long-term capital gain on Investment Funds, **will be attributed to each spouse on a 50% basis of the total amount.**

It is very important that you provide the detailed information for each concept of other income or losses on the corresponding Schedules.

For additional information, including the tax treatment of losses, see instructions of Part 1 of the return.

Line 5 - Alimony Paid

Generally, you may claim as a deduction any periodic payment made for alimony under a divorce or separation decree, as long as you comply with certain requirements. **You must provide the social security number of the person who receives the payment and the judgment number. You must keep for your records copy of cancelled or substitute checks and the divorce decree. Lump-sum payments or assets division, voluntary payments not included in a court decree or agreement for separation support, or child support payments, are not deductible.**

For information regarding the requirements that the alimony payment must comply with, refer to instructions of Part 1, line 4 of the return.

Line 7 – Deductions Allocated in Half (50%) of the Total

For taxpayers that choose the optional computation of tax, the following deductions will be attributed 50% to each spouse: mortgage interests, casualty loss on your principal residence, medical expenses, charitable contributions, and loss of personal property due to certain fortuitous causes. Therefore, once the amount of total deductions is determined on line 7F, enter 50% of said amount in Columns B and C of line 7G.

For detailed information of the deductions to be claimed on lines 7A through 7E, you can refer to the instructions of Schedule A Individual, Part I, lines 1 through 5. **It is not necessary to complete Schedule A Individual, except Part III, if you claim deductions for medical expenses or charitable contributions.**

Remember not to submit evidence of the deductions with the return. However, you must keep the evidence of these deductions for your records for at least 6 years, in case that they may be eventually requested by the Department.

Nevertheless, if you claim deduction for mortgage interests on the principal residence informed on Form 1098, you must include the required information of said form with your return.

Line 8 – Deductions Individually Allocated

For taxpayers that choose the optional computation of tax, the following deductions will be claimed individually by the spouse to whom they correspond: contributions to governmental pension or retirement plans, to individual retirement accounts, to health savings accounts with a high annual deductible medical plan, and to educational contribution accounts, as well as interest paid on student loans at university level, up to the limits and subject to the provisions of the Code. Therefore, enter in Columns B and C the amount of each deduction, as applicable to the taxpayer and to the spouse.

For detailed information of the deductions to be claimed on lines 8A through 8E, you can refer to the instructions of Schedule A Individual, Part I, lines 6 through 10. **Deductions on this line do not require to complete Schedule A Individual. The information of the beneficiaries of educational contribution accounts will be detailed in Part II of Schedule A1 Individual.**

Remember not to submit evidence of the deductions with the return. However, you must keep the evidence of these deductions for your records for at least 6 years, in case that they may be eventually requested by the Department.

However, in the case of claiming a deduction for contributions to a Governmental Pension or Retirement System, in excess to the amount reported on Forms 499R-2/W-2PR or 499R-2c/W-2cPR, the taxpayer must include with the return the certification issued by the governmental employer showing the amount paid during the year and that was not reported on Form 499R-2/W-2PR or 499R-2c/W-2cPR.

Line 9 – Personal Exemption

The amount of \$3,500 pre-printed in Columns B and C corresponds to the personal exemption that each spouse may claim under the optional computation of tax.

Line 10 - Exemption for Dependents

Enter in the spaces provided on lines 10A and 10B, the number of dependents claimed according to their category. Enter on line 10A the dependents for whom exemption is claimed completely (\$2,500 per dependent), and on line 10B those for whom only half of the exemption is claimed under the special rule of parents with joint custody (\$1,250 per dependent).

Multiply the amount of dependents claimed on each line by \$2,500 or \$1,250, as applicable. Add lines 10A and 10B and indicate the total on line 10C. Enter in each of Columns B and C of line 10D 50% of line 10C. It is necessary that you detail the information of the dependents that you claim on Schedule A1 Individual. For additional information, see instructions of **Schedule A1 Individual.**

Line 11 – Additional Personal Exemption for Veterans

Enter in Columns B and C, as applicable to the taxpayer or the spouse, the amount of **\$1,500**, if you are a veteran of the United States Armed Forces.

If both spouses are veterans, each may claim \$1,500.

Keep for your records copy of Form DD-214 (Discharge from U.S. Armed Forces).

Line 14 – Allowable deduction under Act 185-2014

In the case of individuals that, pursuant to Act 185-2014, as amended, are considered as accredited investors, they may claim a deduction for their initial investment in a private equity fund (PEF) or in a Puerto Rico private equity fund (PEF-PR). For detailed information regarding this deduction, refer to the instructions of Part 2, line 12 of the return. Complete the following worksheet and submit it with your return:

Determination of the Deduction:	
1. Amount of capital committed as initial investment that qualifies as contributed during the taxable year (From the Certification issued by the PEF or PEF-PR)	\$ _____
2. Applicable percentage:	
• If the investment was in a PEF, enter 30%	
• If the investment was in a PEF-PR, enter 60%	_____ %
3. Amount of deduction for initial investment contributed during the year (Multiply line 1 by the applicable percentage on line 2)	\$ _____
4. Amount of the deduction not claimed in previous years	\$ _____
5. Total deduction for investment in a PEF or PEF-PR (Add lines 3 and 4)	\$ _____
Deduction Limitation:	
6. Net income (Subtract line 12 from line 6 of Schedule CO Individual, Column B or C, as it corresponds. If line 12 is more than line 6, enter zero)	\$ _____
7. Applicable percentage:	
• If the investment was in a PEF, enter 15%	
• If the investment was in an PEF-PR, enter 30%	_____ %
8. Maximum amount allowable as deduction (Multiply line 6 by the applicable percentage on line 7)	\$ _____
9. Allowable deduction on this return (Enter the smaller between lines 5 and 8. Transfer this amount to line 14 of Schedule CO Individual, Column B or C, as it corresponds)	\$ _____

Line 16 – Tax

Both spouses should determine their tax using the **same method** and selecting the corresponding oval.

Tax Tables

Use the Table for the Tax Computation provided on page 17 of the instructions. Determine your tax individually considering your Net Taxable Income, as determined on line 15, Columns



B and C, respectively. Enter the tax determined for each column on this line and select Oval 1.

Preferential Rates

If you are a resident of Puerto Rico and derived income subject to preferential rates such as interests, dividends or long-term capital gains, among others, you must complete Schedule A2 Individual. On this Schedule you will determine the tax on income that is subject to a preferential rate and the regular tax on any other income and you can compare them with the regular tax on total income so you can choose the most beneficial alternative.

Also, if your income subject to preferential rates is \$20,000 or more, it is required that you pro-rate the total allowable deductions as computed on line 8G (or line 8H in the case of nonresidents or part-year residents) according to the different types of income.

If you used Schedule A2 Individual, transfer the tax amount from line 16 of this schedule to Columns B and C, as applicable, of this line and select Oval 2. **Complete a Schedule A2 Individual for each spouse, properly identified on the top part, and include both Schedules with your return.**

Nonresident alien

If you are a nonresident alien not engaged in trade or business in Puerto Rico, all of your income from sources within Puerto Rico are subject to a fixed tax rate of 29%, except in the case of dividends, which are taxed at 15%, and the income attributable to the distributable share of a shareholder in a corporation of individuals which is taxed at 33%. Enter the tax determined in Columns B and C, as it corresponds, of this line and select Oval 3.

If you are a nonresident alien engaged in trade or business in Puerto Rico, all of your income from sources within Puerto Rico as well as the income which is effectively connected with the operation of a trade or business in Puerto Rico, is subject to normal tax rates.

Form AS 2668.1 (Back Pay)

If you determined your tax using Form AS 2668.1 (Back Pay), according to the provisions of Section 1032.09(d) of the Code, enter the tax determined in Columns B and C, as it corresponds, of this line and select the Oval 4. You must complete and submit with the return a Form AS 2668.1 for each spouse, as applicable.

For detailed information regarding this computation, refer to instructions of line 14, Part 3 of the return.

Line 17 - Gradual Adjustment Amount

If the net taxable income of either or both spouses is more than \$500,000, determined on an individual basis, you must complete Schedule P Individual. Individually determine the gradual adjustment amount on said Schedule (See Instructions Schedule P Individual). Enter in Columns B and C, as applicable, the amount determined on Schedule P Individual, line 7. **Submit with the return the Schedules used.**

Line 19 - Credit for taxes paid to foreign countries, the United States, its territories and possessions

When either spouse or both have paid or accrued income tax in one or more jurisdictions outside of Puerto Rico and taxable income from that jurisdiction has been included in the Puerto Rico return, you will determine the Credit for Taxes Paid to Foreign Countries, the United States, its Territories and Possessions individually. Each spouse will complete a Schedule C Individual with the income, deductions and taxes that apply

individually. Make sure to properly identify each Schedule on the top, according to the spouse to whom it belongs. If both taxpayers determined credit, submit both Schedules.

If either spouse is subject to the alternate basic tax (line 21), you must recalculate the Credit for Taxes Paid to Foreign Countries, the United States, its Territories and Possessions and also submit the recomputed Schedule C Individual, as applicable.

For more information on calculating the credit, see instructions of Schedule C Individual.

Line 21 - Excess of Net Alternate Basic Tax over Net Regular Tax

You should complete Schedule O Individual – Alternate Basic Tax if either or both spouses have net income subject to alternate basic tax of \$150,000 or more.

Enter in Columns B and C, as it corresponds, the amount determined on Schedule O Individual, Part II, line 7 for each spouse, as applicable.

Line 22 – Credit for alternate basic tax

You must complete Parts III and IV of Schedule O Individual. Enter in Columns B and C, as it corresponds, the amount determined on line 4, Part III of Schedule O Individual.

For additional information to determine this credit, see instructions of Schedule O Individual.

Line 24 – Total Tax Determined

Enter the sum of Columns B and C of line 23. Transfer this amount to Part 3, line 21 of the return.

Line 25 – Computation of Allowable Amounts of Deductions to Nonresidents or Part-year Residents

On this line it will be determined the allowable amount of deductions that those individuals who have indicated in question B of the Questionnaire on page 1 of the return, that for the taxable year they are considered nonresidents or a part-year residents of Puerto Rico.

Follow the guides provided on each line.

SCHEDULE D INDIVIDUAL - CAPITAL ASSETS GAINS AND LOSSES, TOTAL DISTRIBUTIONS FROM QUALIFIED PENSION PLANS AND VARIABLE ANNUITY CONTRACTS

Use this Schedule to determine capital gains or losses on the sale or exchange of capital assets and to report total distributions from qualified pension plans and variable annuity contracts. Capital assets could be defined as a property acquired for investment.

Capital gains or losses are classified in two classes, based on the period of time you held the property:

- 1) **short-term** - property held for **not more than one year**.
- 2) **long-term** - property held for **more than one year**.

In order to determine short or long-term capital gains or losses, you must provide the description and location of the property sold, indicate if the adjusted basis was increased by the repayment of the tax and complete the information of Columns (A) through (F) of Parts I and III, and Columns (A) through (G) of Part II.

Once you determine a gain in the sale or exchange of capital assets, you must identify the date of purchase and sale of the property. In the case of sale or exchange of long-term capital assets, the property must be presented, as applicable, in Parts II and III, according to the applicable preferential tax rate.

In case that the eligible person to claim the preferential rate of 15% or any other rate, has derived capital gains from both categories and at the same time has capital losses, to determine the net capital gain under each category, said losses will be applied against the gains in the proportion that each one of these gains bears with the total amount of said gains.

As a general rule, **the adjusted basis of the property is its original cost plus the cost of the permanent improvements, less depreciation, if the property was leased during its possession.**

Provisions applicable to the adjusted basis of certain capital assets:

The adjusted basis must include the increase in accumulated value of capital assets on which prepayment was made for the special tax of:

- 5% during the period between **July 1 and December 31, 2006**, as provided in Section 1014A of the Puerto Rico Internal Revenue Code of 1994, as amended (1994 Code), and of
- 8% during the period between **July 1, 2014 and April 30, 2015**, as provided in Section 1023.21 of the Code.

You must also include in the adjusted basis the accumulated gain upon which you paid the 5% special tax during the period of July 1 to December 31, 2006 in the case of corporate stocks or partnership interests acquired upon the exercise of an option, as provided in Section 1046(e) of the 1994 Code.

Those taxpayers who benefited from the 5% or 8% special tax rate, must indicate it by selecting the oval in Parts II through IV of this Schedule. **You must keep for your records Form SC 2731 with the corresponding Schedule.**

Any amount or increase in value of the included capital assets generated after the election provided in Section 1014A of the 1994 Code, or Section 1023.21 of the Code, must be taxed according to the law provisions in force at the moment in which the sale, exchange or other disposal of such capital assets finally takes place.

Sale expenses include sales commissions, advertisements, legal fees, appraisal and other similar expenses. They do not include lodging expenses (i.e. hotels) nor travel expenses (i.e. airplane tickets).

Recognition of loss:

Losses generated in the sale of capital assets for which the 5% or 8% special tax was prepaid, shall be adjusted according to the effective income tax rate applicable to this kind of transaction at the moment of the sale of such assets, before the use or carryover of said loss by the individual. According to the above, such loss will be adjusted by a formula or fraction, where the numerator will be the 5% or 8% rate, as applicable, and the denominator will be the effective income tax rate at the date on which the sale of the asset took place.

For additional details, refer to Regulation No. 7188 of August 4, 2006 and Section 1023.21(e) of the Code. Also, you can obtain

more information in Administrative Determination No. 14-16 and Form SC 2731.

Provisions applicable under Act 132-2010, as amended (Act 132-2010), better known as the Real Property Market Stimulus Act and Act 216-2011, as amended (Act 216-2011), better known as the Housing Promotion Program Transition Act:

Sale of Qualified Property

Act 216-2011 provides, among others, a tax benefit for the use of the generated loss on the sale of qualified property.

The limit of capital losses allowed against ordinary income for a particular taxable year, if they were realized between **September 1, 2010 and June 30, 2013**, will be \$1,000. Such loss may be carried over up to a maximum of **15 years**. If you realized a loss on the sale of qualified property, breakdown in Part VI of this schedule the detail of the origination date of such losses, the amounts and the years in which they were claimed, and the balance to be claimed in future years.

For purposes of Act 132-2010 and Act 216-2011, “**qualified property**” means:

- a) every existing residential real property located in Puerto Rico suitable for family living, not occupied or occupied for residential purposes, that is not a New Construction Property, or
- b) every existing nonresidential real property located in Puerto Rico that is sold between January 1 and June 30, 2013 and which sale price does not exceed \$3,000,000.

The benefits provided by Act 132-2010 and Act 216-2011 will only be available to the first seller and corresponding first buyer of each new construction property or qualified property, and will not apply to any acquirer in a subsequent transfer, even if it took place before June 30, 2013. Also, the benefits will not apply if the transferor of the property is considered a related person of the transferee of such property.

Sale of New Construction Property or Qualified Property acquired between September 1, 2010 and June 30, 2013

- (a) Exemption of net long-term capital gain

The net long-term capital gain generated from the sale of **new construction property that has been acquired between September 1, 2010 and June 30, 2013**, will be fully exempt from income tax.

For purposes of Act 132-2010 and Act 216-2011, “**new construction property**” means:

1. every residential real property of new construction located in Puerto Rico, suitable for family living that has not been subject to occupation and that is acquired from a Developer.

For real property to be considered as New Construction Property, the seller of the real property shall certify in writing to the purchaser, by affidavit, on or before the date of acquisition, that the real property is of new construction and has not been previously occupied, or

2. every house model consisting of a ground level, of two levels or an elevated level that is pre-designed or pre-fabricated in reinforced concrete purchased from a bona

fide pre-design or pre-fabrication company and which plans have been approved by the Regulations and Permits Administration (ARPE) on or before December 30, 2009, except by means of a waiver from Secretary of the Department of Consumer Affairs.

For the pre-designed or pre-fabricated home to be considered of New Construction Property, the acquirer must submit a copy of the sales contract executed between the purchaser and the pre-design or pre-fabrication company and that it starts building with the appropriate Construction Permit issued by the Office of Permits Management (OGPE) between September 1, 2010 and June 30, 2013 and which construction is completed on or before March 31, 2013 with proper filing of the Application of Use Permit at the OGPE.

The net long-term capital gain generated from the sale of **qualified property acquired between September 1, 2010 and June 30, 2013**, will be 50% exempt from the payment of income tax.

To be entitled to these benefits, you must include with the return corresponding to the year of the sale, copy of the Certification issued by the Department for such purposes.

Sale of Eligible Housing

(a) Net long-term capital gain exemption

The net long-term capital gain generated on the sale of an **eligible housing** that is acquired by the seller or by a Qualified Institutional Investor between July 1, 2013 and December 31, 2017, will be totally exempt from the payment of alternate basic tax. This exemption will also apply to a purchaser who acquires an eligible housing from a qualified institutional investor, as long as it is the first sale the investor makes after the initial acquisition.

For purposes of Act 132-2010 and Act 216-2011, the following terms are defined as follows:

- a) **Eligible Housing** - a new construction property, as defined previously.
- b) **Qualified Institutional Investor** – every individual or juridical person resident of Puerto Rico, or every individual or juridical person not resident of Puerto Rico, that is engaged in the construction business, that invests in one act or various separate acts, exclusively in units of Eligible Housing, a minimum of \$1,000,000 or acquires no less than 5 units of eligible housing.
- c) **Developer** - every natural or legal person, with the proper developer license, issued by the Department of Consumer Affairs, which is engaged in the construction business as an employer or principal responsible for the promotion, design, sales, construction of infrastructure works and housing projects, either single or multi-story type. For purposes of this Act, the term “Developer” shall also include those financial institutions or any natural or legal persons that by virtue of a judicial or extrajudicial proceeding, or by agreement of payment or similar transaction, becomes the successor in interest of a Developer.

For the provisions related to the **principal residence**, refer to the instructions of Schedule D1 Individual.

For additional information, refer to Act 132-2010, Act 216-2011, Regulation No. 7923 of September 7, 2010,

Regulation No. 8127 of December 23, 2011 and Executive Order 2012-27 of June 8, 2012.

PART I - SHORT-TERM CAPITAL ASSETS GAINS AND LOSSES (HELD ONE YEAR OR LESS)

You must inform in this part **every** short-term capital gains and losses.

Line 1 - Add Column (F) and enter the result on this line.

Line 2 – Enter the net short-term capital gain on the sale of your principal residence and/or sole proprietorship business.

Line 3 – Enter the distributable share on the net short-term capital gain from a revocable trust or grantor trust, determined on Form 480.60 F. You must keep for your records such form.

Line 4 – If you elected to pay tax using the bracket method for the distributable share on net short-term capital gain (or loss) from a partnership, special partnership or corporation of individuals (pass-through entities), enter the amount determined on Form 480.60 EC. Provide the required information of such form with your return.

Line 5 – Enter the net gain (or loss) in investment funds or attributable to direct investment and not through a Capital Investment Fund. Also enter the amount determined on the Informative Return - Employess-Owned Special Corporation (Form 480.6 CPT). You must provide the information **required** of such form with your return.

Line 6 – Use this line only if during the taxable year you disposed all the interest or assets used in an activity that **is not** your principal industry or business and a capital gain was derived in such disposal.

If you comply with the preceding requirement, enter the excess of deductions (losses) determined, as applicable, in whichever of the following schedules: Schedule K Individual, Part II, line 12; Schedule L Individual, Part II, line 14; Schedule M Individual, Part II, line 8; or Schedule N Individual, Part II, line 9.

For additional information about losses incurred in activities that **does not** constitute your principal industry or business, refer to the instructions for LOSSES in Part 1 of the return.

PART II – LONG-TERM CAPITAL ASSETS GAINS AND LOSSES (HELD MORE THAN ONE YEAR)

You must inform in this part the long-term capital gains and losses generated on the sale or exchange of capital assets held for more than 1 year. In these cases the taxpayer can elect to pay taxes on the capital gain at a preferential rate of **15%**.

In order to benefit from the provisions of Act 132-2010 and Act 216-2011, the taxpayer must inform in Column (F) the long-term capital gains and losses of qualified property or new construction property that has been acquired between September 1, 2010 and June 30, 2013. The totally exempt gains will be used for information purposes only, therefore, do not include them in Column (G).

In the case of gains that are 50% exempt, the taxpayer must include in Column (G) the 50% of Column (F). On the other hand, the losses determined in Column (F) will also have to be included in Column (G). This way, they can be applied against other gains, if any, deducted against other income or carried over to future years.

Line 8 – Add the amounts shown in Column (G) and enter the results on this line.

Line 11 – Refer to the instructions for line 4 of Part I.

Line 12 – Enter the lump-sum distributions (amounts payable during the same taxable year) under a variable annuity contract that were received by the **taxpayer**. You can elect on Schedule A2 Individual, to treat this distribution as a long-term capital gain subject to the preferential rate of 15%, pursuant to Section 1023.08 of the Code. The taxpayer must include with the return a detail with a breakdown of the total distribution received, cost of the annuity and taxable amount. Total distributions from a variable annuity will be reported on Form 480.7C. Such distributions will be identified in Box 22 with Distribution Code M (Annuity).

Line 13 – Enter the lump-sum distributions under a variable annuity contract received by your **spouse**. You can elect on Schedule A2 Individual, to treat this distribution as a long-term capital gain subject to the preferential rate of 15%, pursuant to Section 1023.08 of the Code. The taxpayer must include with the return a detail with a breakdown of the total distribution received, cost of the annuity and taxable amount. Total distributions from a variable annuity will be reported on Form 480.7C. Such distributions will be identified in Box 22 with Distribution Code M (Annuity).

Line 14 – Refer to the instructions for line 5, Part I.

Line 15 – Refer to the instructions for line 6, Part I.

PART III – LONG-TERM CAPITAL ASSETS GAINS AND LOSSES REALIZED UNDER SPECIAL LEGISLATION

You must inform in this part **only** long-term capital gains and losses derived from the sale of shares or other property from a business that operates with a decree granted under any special act, or that operates and benefits from any special act in which a special tax rate is provided in lieu of the tax imposed by the Code.

Lines 17, 18 and 19 – Enter the result of Column (F) on each one of these lines. Identify the act under which you received the benefit and include the number of the decree that grants you the special treatment, if applicable.

PART IV – TOTAL DISTRIBUTIONS FROM QUALIFIED PENSION PLANS

Enter the lump-sum distribution from pension plans qualified by the Department received during the same taxable year of the participant (one payment or various payments during the same year) due to separation from service or termination of plan. Indicate the distribution date, the total lump-sum payment received, basis and taxable amount. Also, indicate if you prepaid any tax.

Total distributions from qualified pension plans subject to the rates of 20% or 10% will be reported and identified as lump-sum distributions from governmental or private plans on Form 480.7C. They will be identified in Box 22 of Form 480.7C with a Distribution Code: A- Retirement, B- Separation from Service, C- Death or E- Plan Termination.

The **basis** of the distribution includes amounts for which the tax was prepaid under Act 87-2006, as amended, Section 1023.21 of the Code and after-tax contributions. If the basis includes any prepaid amount, select the corresponding oval. The difference between Column (A) and Column (B) cannot be less than zero (“0”).

Line 20 – Enter the distributions received by the **taxpayer** if the employee’s trust that is part of the plan **does not** meet the requirements established on line 22. These distributions are taxable at the 20% preferential tax rate.

If tax withheld is reported in Box 6 of Form 480.7C, enter in Column A of this line the amount reported in Box 16 of Form 480.7C and in Column C the amount reported in Box 17 of Form 480.7C.

To determine the basis to be included in Column B, amounts reported in Boxes 18 and 19 of Form 480.7C will be used.

Line 21 – Enter the distributions received by the **spouse** if the employee’s trust that is part of the plan **does not** meet the requirements established on line 22. These distributions are taxable at the 20% preferential tax rate.

If tax withheld is reported in Box 6 of Form 480.7C, enter in Column A of this line the amount reported in Box 16 of Form 480.7C and in Column C the amount reported in Box 17 of Form 480.7C.

To determine the basis to be included in Column B, amounts reported in Boxes 18 and 19 of Form 480.7C will be used.

Line 22 – Enter the distributions received by the **taxpayer** if the following requirements are met:

- the trust that is part of the plan is organized under the laws of the Government of Puerto Rico, or
- the trust has a Puerto Rico resident fiduciary acting as paying agent, and
- 10% of the trust’s assets attributable to participants residents of Puerto Rico, determined at the close of the plan’s year during which the distribution is made and during each one of the plan’s two years preceding the date of the distribution have been invested in registered investment companies organized under the laws of Puerto Rico and subject to tax under Section 1112.01 of the Code, or in property located in Puerto Rico as defined in Administrative Determination No. 08-15 of December 29, 2008.

These distributions are taxable at the **10%** preferential tax rate.

If tax withheld is reported in Box 7 of Form 480.7C, enter in Column A of this line the amount reported in Box 16 of Form 480.7C and in Column C the amount reported in Box 17 of Form 480.7C.

To determine the basis to be included in Column B, amounts reported in Boxes 18 and 19 of Form 480.7C will be used.

Line 23 – Enter the distributions received by your **spouse** and that at the same time meet the requirements established on line 22. These distributions are taxable at the **10%** special tax rate.

PART V - NET CAPITAL GAINS OR LOSSES FOR DETERMINATION OF THE ADJUSTED GROSS INCOME

Line 25 - Enter here **only** the net capital gains determined on lines 7, 16 and 17 through 19.

Column A - Enter the net short-term capital gain, if any, determined in Part I, line 7, Column (F).

Column B - Enter the net long-term capital gain, if any, determined in Part II, line 16, Column (G).

Columns C

through E - Enter the net long-term capital gain realized from the sale of shares or other property under the provisions of special legislation, if any, determined in Part III, lines 17, 18 and 19, Column (F).

Line 26 - Enter here **only** the net capital losses determined on lines 7, 16 and 17 through 19.

Column A - Enter the net short-term capital loss, if any, determined in Part I, line 7, Column (F).

Column B - Enter the net long-term capital loss, if any, determined in Part II, line 16, Column (G).

Columns C

through E - Enter the net long-term capital loss realized from the sale of shares or other property under the provisions of special legislation, if any, determined in Part III, lines 17, 18 and 19, Column (F).

Line 27 - This line must be used **when one or more** of Columns B through E reflect a loss on line 26. Such loss will be applied proportionally to the gain, if any, reflected in the others Columns of line 25, except Column A. If the others Columns do not reflect a gain on line 25, enter zero in the box.

Line 29 - If line 26, Column A reflects a loss, apply the same proportionally to the gains, if any, reflected on line 25. If no Column reflected gains on line 25, enter zero.

On this line, the net short-term capital loss reflected on line 26, Column A, is applied proportionally to the long-term capital gains reflected on line 25, Columns B through E, after having applied proportionally the net long-term capital losses of the other categories.

Line 33 - The amount of the deduction for net capital loss not used in previous years will be the smaller of the amount determined on line 37 of Part VI or 80% of the net capital gain determined on line 32.

In order to claim the deduction for the net capital loss not used in previous years, the taxpayer must complete Part VI of this Schedule in its entirety. Any balance not claimed can be claimed in future years subject to the carryover period established in Section 1034.01 of the Code.

Line 34 - If you derived a net capital gain, the excess of the net long-term capital gain over the net short-term capital losses, must be transferred to Part VII of this Schedule to determine the net long-term capital gain for each tax rate. Once you complete Part VII, go to Schedule A2 Individual for the tax computation.

If the amount on line 32 is a net capital loss, then continue with line 35.

Line 35 - If the amount on line 32 of this Schedule is a loss, enter on this line and in Part 1, line 2B of the return or on line 3B of Schedule CO Individual, as applicable, the smaller of the following: (a) the loss reflected on line 32, or (b) (\$1,000). If you have a net capital loss derived from the sale or exchange of assets, you may deduct up to \$1,000 on your return.

Any capital losses not used during the taxable year may be used against any capital gain derived in the future, as indicated below.

In cases where the amount of the loss presented on this line is composed by more than one concept, complete Part VI where you will provide a detail of each loss, date of origin, amount to be claimed and the carryover loss for future years.

Capital losses may be claimed only up to 80% of the net capital gain generated for the taxable year in which such losses are carried, or \$1,000 whichever is less.

PART VI – DETERMINATION OF THE NET CAPITAL LOSS CARRYOVER

Enter the detail of the capital losses generated in previous years and that have not been used. For each one of the losses to be considered include the year in which it was generated, the amount of the loss, the amount previously used, the carry forward amount and its respective expiration date.

Carryover of Capital Losses

The carryover period for the capital losses will depend on the date in which the losses were generated, as indicated below:

- For taxable years beginning after June 30, 1995 and before January 1, 2006, any loss not used can be carried over for a period of **5 years**.
- In case of net capital losses realized during taxable years beginning after December 31, 2005 and before January 1, 2013, the carryover period is **10 years**.
- Losses realized on taxable years beginning after December 31, 2012 will be considered short-term capital losses in each one of the subsequent **7 taxable years**, up to the limit in which such amount exceeds the total of any net capital gain of any taxable year mediating between the year in which the loss was generated and the subsequent taxable year.
- Nevertheless, if a loss was realized under the provisions of Act 132-2010 or Act 216-2011, the same may be used against any capital gain derived in the future, and if there is any remaining loss, you may claim it as a deduction in each one of the subsequent **15 years**.

Total capital loss carryover determined on line 37 must be transferred to line 33, Part V of this Schedule.

PART VII - DETERMINATION OF THE NET LONG-TERM CAPITAL GAIN - FOR EACH TAX RATE

This Part will be used to determine the amount of net long-term capital gain that will be transferred to the corresponding columns on line 4(a) of Schedule A2 Individual. Follow the instructions provided on each line.

Transfer the total net capital gain determined on line 8, Column G of this schedule, to line 4(a), Column A of Schedule A2 Individual. You must transfer the long-term capital gain determined on line 6(a), Column B of this Schedule, to line 4(a), Column D of Schedule A2 Individual. In the case of a capital gain determined under special legislation, the amount determined on line 6(b), Columns C through E of this schedule, must be transferred to line 4(a), Column G or H of Schedule A2 Individual, as applicable.

On the other hand, if the net capital gain includes a net short-term capital gain, it will be part of the calculation of the regular tax to be determined in Column A of Schedule A2 Individual. This is due to the fact that short-term capital gains are taxable at the regular tax rates. For additional details on the taxation of short-term capital gains, see instructions for line 4(a) of Schedule A2 Individual.

SCHEDULE D1 INDIVIDUAL - SALE OR EXCHANGE OF PRINCIPAL RESIDENCE

If you sold or exchanged your principal residence during the year, you must complete this Schedule.

Under Act 216-2011, if you sold your principal residence on or after November 1, 2011, the total net long-term capital gain is exempt from income tax, including the alternate basic tax.

For these purposes, it is considered “principal residence” a housing unit that has been occupied continuously by the seller and/or his/her family for the last 2 years preceding the sale.

It is a requirement that you complete this Schedule even if the gain is exempt.

PART I - COMPUTATION OF GAIN

Line 1 - Enter the date of sale of the residence. This date appears on the Sale and Purchase Deed.

Line 2 - If you answered “Yes”, complete the rest of the Schedule to determine the total net gain that is exempt from the payment of taxes. If you answered “No”, go to Schedule D Individual, Part I or II, as applicable.

Line 3 - If you used funds from your Individual Retirement Account (IRA) to purchase your principal residence, these funds are taxable when the residence is sold. Select the corresponding oval to indicate whether these funds belong to the taxpayer or spouse and enter the amount withdrawn from the IRA to purchase the residence. Transfer to Schedule F Individual, Part I.

Line 4 - Enter the selling price of the residence, without including personal property items. Generally, the sale price includes the cash received from the sale plus the mortgages assumed by the purchaser.

Line 5 - Enter the expenses incurred in order to sell the residence. These expenses include sales commissions, advertising, legal, appraisal and other expenses. Lodging expenses (i.e. hotels) nor travel expenses (i.e. airplane tickets) are not considered selling expenses. Include on this line fixing-up expenses that you paid in order to sell the residence.

Fixing-up expenses include repair, maintenance, painting and cleaning expenses paid in order to facilitate the sale of the property. However, to qualify, the expenses must be:

- for work performed during the 90 day period ended on the date in which the sales contract of the old residence took place;
- paid no later than 30 days after the date of sale of the residence.

The fixing-up expenses do not include amounts paid for permanent improvements. To claim said expenses, see instructions for line 7.

Line 7 - Enter the adjusted basis of the residence sold. The adjusted basis is the original cost of the residence and its permanent improvements, less the accumulated depreciation, if the property was used to produce income during its possession.

Also, the adjusted basis of the property will include the increase in accumulated value of such property for which the 5% special tax rate was prepaid during the period of July 1, 2006 to December 31, 2006, as provided in Section 1014A of the 1994 Code, and of 8% during the period from July 1, 2014 to April 30, 2015 in accordance with Section 1023.21 of the Code. If you made a prepayment during the indicated periods, select

the corresponding oval. **You must keep copy of Form SC 2731 with the corresponding Schedule for a period not shorter than 6 years.**

Line 8 - Enter the gain realized on the sale. If the gain was realized on the sale of a principal residence under the provisions of Act 216-2011, the same is exempt from the payment of income tax. Transfer this amount to Schedule IE Individual, Part II, line 10.

It is important to point out that if your principal residence does not comply with the definition provided by Act 216-2011 but you are interested to benefit from the provisions of Sections 1034.04(m) and 1031.02(a)(16) of the Code related to the gain deferral and the once in a life exemption for taxpayers age 60 or older, respectively, refer to Schedule D3 Individual available in our webpage under the “Schedules” topic.

SCHEDULE E - DEPRECIATION

This Schedule must be completed by those taxpayers who are engaged in an industry or business, or who derived income from professions, commissions, farming and rent.

The same will be used to inform each of the properties for which you claim depreciation. There are spaces for current, flexible and accelerated depreciation; amortization, automobiles and vehicles under financial leases.

On this schedule you must provide the following information:

- classification of the property;
- date acquired;
- allowable cost or basis;
- depreciation claimed in previous years;
- estimated useful life to determine the depreciation; and
- depreciation claimed in the current year.

For properties acquired from January 1, 2010, it is allowed to use the provisions of the Federal Internal Revenue Code and its Regulation in those cases in which Section 1033.07 or 1040.12 of the Code does not establish depreciation periods for certain tangible property.

Line (b) - Flexible Depreciation

In order to be entitled to claim flexible depreciation in lieu of current depreciation, the Code requires you to make an option through a sworn statement to be filed no later than 30 days after the end of the taxable year. Said option may be exercised only for property acquired by the taxpayer prior to June 30, 1995.

Line (c) - Accelerated Depreciation

The Code grants a deduction for accelerated depreciation in lieu of current depreciation. In order to be entitled to this deduction, the taxpayer is required to make an election with his/her return to use the accelerated depreciation method. Said election may be exercised only for property acquired by the taxpayer during taxable years commenced after June 30, 1995. The aforesaid election, once made, is irrevocable.

Refer to the Code and its regulations for other requirements and provisions in connection with the deduction under the flexible and accelerated depreciation methods.

Line (e) - Automobiles

For property that is an automobile it is allowed a deduction for depreciation up to \$6,000 annually per automobile, up to a maximum of \$30,000 for the automobile's useful life.

If the taxpayer is a seller, the amount of the depreciation deduction can not exceed \$10,000 annually per automobile, up to a maximum of \$30,000 for the automobile's useful life.

If the automobile is used by the taxpayer in his/her trade or business or for the production of income and is also used for personal purposes, the amount of this deduction will be reduced by the amount of its personal use.

In the case of cars under operating leases, the amount of rent paid during the taxable year shall be allowed as a deduction for **depreciation** up to a maximum of \$6,000 annually per automobile or \$10,000, if the taxpayer is a seller. Include on this line, the lease rental payments for automobiles under operating leases up to the limits indicated above. **Do not include them as a deduction for rent, interests, costs of motor vehicles or any other item other than depreciation on Schedules K, L, M or N Individual.**

Line (f) - Vehicles under financial leases

In the case of leased automobiles **that are essentially equivalent to a purchase**, instead of current depreciation, it is allowed a deduction for the use of the automobile for the amount paid during the taxable year up to \$6,000 annually per automobile, up to a maximum of \$30,000 for the automobile's useful life. See Section 1033.07(a)(3)(D) of the Code for the definition of a lease that is essentially equivalent to a purchase.

If the taxpayer is a seller, it will be allowed as a deduction the amount paid for the lease of the automobile during the taxable year for an amount not exceeding \$10,000 annually per automobile, up to a maximum of \$30,000 for the automobile's useful life.

Enter on this line the amount of lease payments that are substantially equivalent to a purchase, subject to the limitations previously indicated. Do not include as part of the payments the interest portion. Indicate also, the amount of vehicles for which you made lease payments.

You must provide with your return the information required of Form 480.7D.

Do not include on this line regular lease payments for leased automobiles ("operating leases"). These are reported on line (e).

Include this Schedule with your return.

SCHEDULE F INDIVIDUAL - OTHER INCOME

The following types of income will be reported on this Schedule: distributions from Individual Retirement Accounts and Educational Contribution Accounts, distributions and transfers from governmental plans, distributions from deferred compensation plans and distributions from qualified retirement plans (partial or lump-sum not due to separation from service or plan termination), income from discharge of debts, income from the use of intangibles, income from judicial or extrajudicial indemnifications, income from sports teams of international associations or federations, distributable share on net income subject to preferential rates from pass-through entities and any other miscellaneous income for which a specific line on the return is not provided. It will also be included, Eligible Distributions for reason of extreme economic emergency due to hurricane Maria.

Even when these income can be attributed to the spouse who received or generated them, in the case of taxpayers who file the income tax return under the "Married" personal status, they

may choose to complete only one Schedule F Individual. In this case, select the oval in the heading of this Schedule to identify that the income belongs to both spouses.

However, if the marriage chooses the optional computation of tax, you must complete and submit with your return a Schedule F Individual for each one of the spouses who receives or generates this type of income. In this case, select the oval that identifies the taxpayer or his/her spouse, as applicable.

PART I - DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS AND EDUCATIONAL CONTRIBUTION ACCOUNTS

Enter in the indicated spaces, the payer's name, the employer identification number of such person, the account number and the total distribution from an Individual Retirement Account or Educational Contribution Account. Indicate, also, if the distribution includes a portion for which you prepaid the tax under Sections 1169A or 1169C of the 1994 Code or under Section 1023.23 of the Code. **If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.**

The **basis** of the distribution includes any amount for which you prepaid the tax, exempt income and voluntary contributions.

The **taxable amount**, difference between the total distribution (Column A) and the basis (Column B), must be distributed between Columns C through H, as applicable. The difference between Column A and Column B cannot be less than zero ("0").

Column C - Enter that part of the distribution received from an Individual Retirement Account (IRA) or Educational Contribution Account that constitutes interests earned on funds from the same on which you did not elect the option to pay taxes at the rate of 17%. This information comes from Box 12D of Form 480.7 (Informative Return - Individual Retirement Account) and from Box 8B(1) of Form 480.7B (Informative Return - Educational Contribution Account). You must provide the required information from these forms with the return.

These interests will be transferred to Part I, line 1(b), Column D of Schedule FF Individual.

Column D - Enter that part of the distribution received from an Individual Retirement Account (IRA) or an Educational Contribution Account that constitutes interests earned on funds from the same on which you elected the option to pay tax at the tax rate of 17%. This information comes from line 12D of Form 480.7 and from Box 8B(1) of Form 480.7B, as long as Boxes 7 and 6 of Forms 480.7 and 480.7B, respectively, reflect a withheld amount. You must provide the information required from these forms with the return.

The tax withheld on such interests, reported in Box 7 of Form 480.7 and in Box 6 of Form 480.7B, must be informed on lines 6(b) and 6(c), Part III of Schedule B Individual, as applicable.

These interests will be transferred to Part I, line 1(b), Column B, of Schedule FF Individual.

Column E - Enter that part of the distribution received from an Individual Retirement Account (IRA) that constitutes interests earned on funds from the same and taxable at 10%. This information comes from Box 12G(2) of Form 480.7 if you elect the option to pay the rate of 10%. You must provide the required information from these forms with the return.

The tax withheld on such interests, reported in Box 9 of Form 480.7, must be informed on line 15, Part III of Schedule B Individual.

These interests will be transferred to Part I, line 1(b), Column E of Schedule FF Individual.

Column F – If the owner or beneficiary of the IRA receives a total or partial distribution and is a pensioner of the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities, the Judicature Retirement System or the Teachers Retirement System, enter in this column the amount distributed, **that does not constitute a distribution of your contributions**, if you elected the option to pay the preferential tax rate of 10%. That part of the distribution which constitutes your contribution to the IRA, must be reported in Column H. This information comes from Box 12G(3) of Form 480.7 if you elect the option to pay the rate of 10%. You must provide the information required from this forms with the return.

The tax withheld on such interest, reported in Box 9 of Form 480.7, must be informed on line 15, Part III of Schedule B Individual.

Do not include the interests received in this part. The same must be reported in Column E.

Column G - If the owner or beneficiary of the IRA or Educational Contribution Account receives a total or partial distribution **that is not an interest distribution received from financial institutions engaged in trade or business in Puerto Rico** (as provided in Section 1023.04 of the Code), **neither a distribution of the contributions to your IRA** and which consists of income from sources within Puerto Rico received by said IRA, enter the amount distributed in this column if you elected the option to pay the preferential tax rate of 17%.

This information comes from Box 12E of Form 480.7 and from Box 8B(3) of Form 480.7B, if you elect the option to pay the rate of 17%. You must provide the information required from these forms with the return.

The tax withheld on such amount, reported in Box 8 of Form 480.7 and in Box 7 of Form 480.7B, must be informed on lines 14(a) and 14(b), Part III of Schedule B Individual, as applicable.

Column H - Enter the remainder of the distribution received from an Individual Retirement Account (IRA) or an Educational Contribution Account which does not correspond to the previous columns.

Line 1 - Totalize the amounts included in Columns A through H, respectively. **Transfer the total of Columns F and G to line 4(j) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**

Line 2 - Add the total distributions from Individual Retirement Accounts (IRA) or Educational Contribution Accounts of Columns F through H, **including distributions or portion thereof subject to preferential rates**, and transfer it to Part 1, line 2F of the return or line 3F, Columns B and C of Schedule CO Individual.

The 10% tax withheld (IRA distributions to Government pensioners) or 17% (IRA or Educational Contribution Account distributions consisting of income from sources within Puerto Rico) will be credited against your tax liability.

Transfer the amounts withheld to Schedule B Individual, Part III, lines 14 or 15, as applicable.

Submit with your return the information required of the Informative Return – Individual Retirement Account (Form 480.7) or the Informative Return - Educational Contribution Account (Form 480.7B), as applicable.

PART II – DISTRIBUTIONS AND TRANSFERS FROM GOVERNMENTAL PLANS

You must inform the total lump-sum distributions from governmental plans received during the same taxable year due to the participant's separation from service and rollovers of the balance in the savings account of the participants in the Retirement Savings Accounts Program to a Non Deductible Individual Retirement Account when they terminate the public service.

Governmental plans include retirement plans under the Employees Retirement System of the Government of Puerto Rico, the Teachers Retirement System, the Retirement System of the University of Puerto Rico, and the Employees Retirement System of the Electric Power Authority.

Indicate the date and total amount of the distribution. The **basis** of the distribution includes amounts for which you prepaid the tax during the period of November 15, 2006 to December 31, 2006 under Section 1012D of the 1994 Code, and exempt contributions according to Article 1 of Act No. 415 of May 13, 1950. Select the corresponding oval if you made a prepayment. **If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.**

Line 1C - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions from governmental plans (except the Retirement Savings Accounts Program).

Line 1D - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions under \$10,000 from the Retirement Savings Accounts Program.

Line 2E - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions of \$10,000 or more from the Retirement Savings Accounts Program on which the 10% preferential tax had been withheld at source. **Transfer this amount to line 4(j) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**

Line 2F - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the amounts transferred from the Retirement Savings Accounts Program to a Non Deductible Individual Retirement Account subject to the 10% preferential tax rate. **Transfer this amount to line 4(j) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.**

Line 3 - Add the total distributions and transfers from government plans of Columns C through F, **including distributions and transfers subject to preferential rates**, and transfer it to Part 1, line 2E of the return or line 3E, Columns B and C of Schedule CO Individual.

PART III – DISTRIBUTIONS FROM DEFERRED COMPENSATION PLANS (NON QUALIFIED)

Enter in the indicated space the date and total amount of the distribution from a Deferred Compensation Plan. Indicate, also, if the distribution includes a portion for which the tax was prepaid under Section 1012D of the 1994 Code or under Section 1023.21 of the Code. **If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.**

Line 1B - The **basis** of the distribution includes any amount for which you prepaid the tax under Section 1012D of the 1994 Code and Section 1023.21 of the Code, and after-tax contributions.

Line 1C - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions from deferred compensation plans received during the year. Transfer this amount to Part 1, line 2P of the return or line 3P of Schedule CO Individual, as applicable.

PART IV - DISTRIBUTIONS FROM QUALIFIED RETIREMENT PLANS (PARTIAL OR LUMP-SUM NOT DUE TO SEPARATION FROM SERVICE OR PLAN TERMINATION)

Enter in the indicated space the date and total amount of the partial or total distribution not due to separation from service or plan termination from a qualified retirement plan. Indicate, also, if the distribution includes a portion for which the tax was prepaid under Section 1165(b)(9) of the 1994 Code or under Section 1023.21 of the Code. **If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.**

The amount of total or partial distribution from qualified retirement plans (not due to separation from service) will be reported on a Form 480.7C. They will be identified in Box 22 of Form 480.7C with a Distribution Code other than: A- Retirement, B- Separation from Service, C- Death or E- Plan Termination.

Line 1B - The **basis** of the distribution includes any amount for which you prepaid the tax under Section 1165(b)(9) of the 1994 Code and Section 1023.21 of the Code, and after-tax contributions.

Line 1C - Enter the difference between Column (A) and Column (B), but not less than zero ("0"), of the distributions received during the year. Transfer this amount to Part 1, line 2P of the return or line 3P of Schedule CO Individual, as applicable.

PART V – OTHER INCOME

Column A – Enter the amount of income from discharge of debts reported in Box 9 of Form 480.6A. Refer to the instructions of line 5, Part I of Schedule IE Individual where the requirements to consider this payments exempt of tax are discussed.

Column B – Enter here the amount of income from royalties reported in Boxes 8 and 9 of Form 480.6C. Also enter here any other income received for the use of other intangibles (patents, copyrights, etc.).

Column C – Enter the amounts received from judicial or extrajudicial indemnification, paid under a judgment issued by the Court or under an extrajudicial claim, that constitute taxable income. **If you choose the optional computation of tax, this income is attributed individually to the spouse to whom it corresponds.**

The term **taxable income** includes, among others:

1. any part of the compensation that represents or substitutes losses from income or salaries, including ceased profits; and
2. the indemnification from lost or ceased salaries in cases of job suspension or termination, and from illegal dismissals.

The amounts received from judicial or extrajudicial indemnification are subject to a 7% withholding of tax at source. Provide the information required from Box 3 of Form 480.6B. Enter the tax withheld on Schedule B Individual, Part III, line 10.

Column D - You must inform income received from sports teams of international associations or federations, subject to the 20% withholding at source. **If you choose the optional computation of tax, this income is attributed individually to the spouse to whom it corresponds.** Provide the information required from Box 6 of Form 480.6B. Enter the tax withheld on Schedule B Individual, Part III, line 20.

Column E – You must inform any other income received during the year attributed individually to the taxpayer or spouse and that is not included in Columns A through D and F of this Part. For example, this Column will be used to report net income from Puerto Rico sources under Section 1123(f) of the Code or the income effectively connected with the conduct of a trade or business in Puerto Rico for those taxpayers subject to the provisions of Article 1123(f)-4(g) of Regulation No. 6257 under the Internal Revenue Code of 1994, as amended.

If you choose the optional computation of tax, remember to complete a Schedule F Individual for the spouse who had received this type of income.

Column F - You must inform your distributable share on net income subject to preferential rates from pass-through entities. **If you choose the optional computation of tax, this income is attributed individually to the spouse to whom it corresponds.** Provide the information required from Part III, line 7 of the Informative Return Pass-Through Entity (Form 480.60 EC). Enter the tax withheld on Schedule B Individual, Part III, line 11 (e).

Line 2 - Include on this line according to each income category of Columns A through C and E, the ordinary and necessary expenses paid or incurred to generate them such as bank charges, brokerage commissions, fees, etc. These expenses cannot exceed the total income generated included on line 1 for each income category.

Line 3 - Determine the amount of taxable income for each category by subtracting the expenses (line 2) from the total (line 1). **The income from sports team of international associations or federations will be transferred to line 4(g) of Schedule A2 Individual to determine the tax at the corresponding preferential rate. Likewise, the distributable share on net income subject to preferential rates from pass-through entities will be transferred to line 4(j) of Schedule A2 Individual.**

Line 4 - Add the subtotal of Columns A through F of line 3. Transfer this amount to Part 1, line 2G of the return or line 3G of Schedule CO Individual, Columns B and C, as applicable.

PART VI - ELIGIBLE DISTRIBUTIONS FOR REASON OF EXTREME ECONOMIC EMERGENCY DUE TO HURRICANE MARÍA

Eligible Distributions made for Reason of Extreme Economic Emergency Due to Hurricane María, as provided by Administrative Determination No. 17-29 ("AD 17-29") and Administrative Determination No. 18-02 ("AD 18-02"), shall be included in this Part. For purposes of this Part, the following definitions shall be considered:

Eligible Distributions: Cash distributions made due to the passing of hurricane María through Puerto Rico, either from employees trusts established by private business employers qualified under Section 1081.01 of the Code ("Retirement Plans") as well as from Individual Retirement Accounts established under Section 1081.02 of the Code ("IRA") or from Non Deductible Individual Retirement Accounts established under Section 1081.03 of the Code ("Non Deductible IRA"). These distributions must be requested by an Eligible Individual during the Eligible Period to cover Eligible Expenses, as defined in AD 17-29.

Eligible Period: Eligible Distributions must be made during the period between September 20, 2017 and June 30, 2018.

Eligible Individual: Individual who during taxable years 2017 and 2018 is an individual resident of Puerto Rico, as provided by Section 1010.01(a)(30) of the Code. In the case of taxpayers who file a joint return, the taxpayer and the spouse are independent Eligible Individuals.

Eligible Expenses: All expenses that an Eligible Individual incurred to compensate for losses or damages suffered due to the passing of hurricane María through Puerto Rico and extraordinary and unforeseen expenses to cover basic needs due to the disaster caused by said atmospheric phenomenon.

Limitation: The total Eligible Distributions shall not exceed one hundred thousand dollars (\$100,000) and the total amount exempt of taxes shall not exceed ten thousand dollars (\$10,000) during the Eligible Period for each Eligible Individual.

To report Eligible Distributions in this Part, it will be necessary that the Eligible Individual has submitted to the financial institution the sworn statement required in AD 17-29 and AD 18-02. In case that said sworn statement has not been received, or that it does not comply with the provisions established in AD 17-29 and AD 18-02, or if the distribution is not made within the Eligible Period established (September 20, 2017 to December 31, 2017), the total distribution will not be considered as an Eligible Distribution, and therefore, it will not be reported in this Part.

You must report Eligible Distributions received in cash from a Qualified Retirement Plan, from an IRA or from a Non Deductible IRA during the period of September 20 to December 31, 2017. These distributions have to be requested in order to cover Eligible Expenses incidental to the passing of Hurricane María through Puerto Rico, as provided in AD 17-29 and AD 18-02. All Eligible Distributions must be reported in Forms 480.7 and 480.7C.

Every Eligible Individual who has received an Eligible Distribution within the Eligible Period, must complete and include with his/her return a Schedule F Individual. In the case of married taxpayers who file a joint return (whether or not under the Optional Computation), must complete and include with their return a Schedule F Individual for each spouse. In these the cases, select the oval that identifies the taxpayer or spouse, as applicable.

Enter in the indicated spaces the name and employer identification number of the person who made the payment, account number and distribution date. Also, indicate the form on which the Eligible Distribution was reported by selecting the corresponding oval (Form 480.7 or Form 480.7C).

In the case of Retirement Plans, Eligible Distributions are those made as total distributions or in the form of partial payments. The distributions in the form of annuity or periodic payments are not considered Eligible Distributions for these purposes, as established in AD 17-29.

In the case of Eligible Distributions of IRA or Non Deductible IRA, the penalty provided in Section 1081.02 (g) of the Code will not be applicable. However, the individual may be subject to the penalties imposed by the financial institution or insurer according to the contract or document of the IRA or Non Deductible IRA as established in AD 17-29 and AD 18-02.

Column A - Enter the amount of the Eligible Distribution that is exempt of income tax, including the alternate basic tax. The exempt amount cannot exceed \$10,000. If the distribution comes

from an IRA or a Non Deductible IRA, enter the amount reported in Box 12K(2) of Form 480.7. If it comes from a Retirement Plan, enter the amount in Box 20A of Form 480.7C.

Column B - Enter the amount of Eligible Distribution that is subject to income tax and withholding at source at a fixed rate of 10%. That is, distributions in excess of \$10,000 but not more than \$100,000. If the distribution comes from an IRA or a Non Deductible IRA, enter the amount reported in Box 12K(1) of Form 480.7. If it comes from a Retirement Plan, enter the amount from Box 20B of Form 480.7C.

Column C - Enter the amount of the Eligible Distribution for which you prepaid the tax and the after-tax contributions made. If the distribution comes from a IRA or a Non Deductible IRA, enter the amount reported in Box 12K(3) of Form 480.7. If it comes from a Retirement Plan, enter the amount of Boxes 20C and 20D of Form 480.7C.

Line 3 - Enter the difference between line 1, Column D and line 2, but not less than zero ("0").

Line 4 - Determine the exempt amount among the **lesser** of the amount reflected on line 1, Column D or \$10,000, provided that **all** the following requirements are met:

- Total Distribution determined on line 1, Column D does not exceed \$100,000.
- Total Exempt Amount determined on line 1, Column A does not exceed \$10,000.
- Total Tax withheld at source included on lines 6(a) and 6(b) must be at least 10% of the amount determined on line 1, Column B.

In those cases in which **all** the requirements mentioned here are not met, enter zero on this line and continue on line 5.

Transfer the amount determined as exempt to line 32, Part II of Schedule IE Individual.

Line 5 - Determine the amount that is taxable at 10% by subtracting the exempt amount (line 4) from the total Eligible Distribution (line 3). Transfer the result to Part 1, line 2S, page 2 of the return or to line 3S, Column B or C of Schedule CO Individual, as applicable.

Also, this amount will be transferred to line 4(k) of Schedule A2 Individual, as long as **all** the following requirements are met:

- Total Distribution determined on line 1, Column D does not exceed \$100,000.
- Total Exempt Amount determined on line 1, Column A does not exceed \$10,000.
- Total Tax withheld at source included on lines 6(a) and 6(b) must be at least 10% of the amount determined on line 1, Column B.

In the event that any of the aforementioned requirements is not met, the total distribution will be subject to the regular income tax rates and withholding at source established by the Code.

Line 6 - Enter on line 6(a) the total tax withheld at source reported in Box 10 of all Forms 480.7 that you have received. Likewise, enter on line 6(b) the total tax withheld at source reported in Box 21 of all Forms 480.7C received. You must also indicate the total Informative Returns (Forms 480.7 and 480.7C) that have been prepared to you and which information has been reported in this Part VI.

For additional information, refer to Administrative Determination No. 17-29 of November 15, 2017 and to Administrative Determination No. 18-02 of January 17, 2018, available on our website: www.hacienda.pr.gov.

SCHEDULE FF INDIVIDUAL – INTERESTS, DIVIDENDS AND MISCELLANEOUS INCOME

The following types of income will be reported on this Schedule: interests, dividends from corporations, income from prizes and contests and any other miscellaneous income for which a specific line on the return is not provided.

If you choose the optional computation of tax in the case of married individuals living together and filing a joint return, the income reported on this Schedule is attributed on a 50% basis to each spouse, therefore, they must complete only one schedule. It is important to note that in the case of income from **interests**, even though the total is attributed equally to both spouses, each spouse may claim the exemption of up to \$2,000 provided by the Code in the case of interests received from financial institutions engaged in the trade or business in Puerto Rico. Therefore, in these cases the exemption may be up to \$4,000.

PART I – INTERESTS

Enter in the indicated spaces, the payer's name and employer identification number, and the account number.

Column A - Enter the eligible interests earned from obligations of corporations and partnerships, engaged in industry or business in Puerto Rico, or upon new mortgages on residential property located in Puerto Rico, if you elected to pay the preferential tax rate of 10%.

The term **eligible interests** means any interest on bonds, notes or other obligations issued by a domestic or foreign corporation or partnership engaged in trade or business in Puerto Rico, including shares in trusts representing an interest in such bonds, notes or other obligations, provided that the proceeds from these obligations are used only in the industry or business in Puerto Rico of such corporation or partnership within a period no longer than 24 months from the issuance date of such obligations.

Also, any interest on mortgage loans on residential property located in Puerto Rico issued after July 31, 1997, secured or guaranteed under the provisions of the National Housing Act of June 27, 1934, as amended, or under the provisions of the Servicemen's Readjustment Act of 1944, will qualify for the aforementioned preferential rate of 10%.

You must also include any interest in mortgage loans on residential property located in Puerto Rico which interests are not exempt under Section 1031.02 of the Code, and shares in trusts representing an interest over such loans (or any other instrument representing an interest in such loans), provided that the interest recipient is not a financial institution as such term is defined in Section 1033.17(f) of the Code.

This information is obtained from Box 8 of Form 480.6B (Informative Return – Income Subject to Withholding). Provide the required information with your return.

Column B – You must show the taxable interests from an Individual Retirement Account or an Educational Contribution Account from eligible financial institutions subject to withholding, if you exercised the option to pay a preferential tax rate of 17% over the excess of \$2,000. This amount comes from Schedule F Individual, Part I, line 1, Column D. Provide with the return the information from Form 480.7 (Informative Return - Individual Retirement Account) or Form 480.7B (Informative Return - Educational Contribution Account), as applicable.

Column C – You must show the interests subject to withholding from financial institutions if you exercised the option to pay a

preferential tax rate of 10% over the excess of \$2,000, **without including** taxable interests from an Individual Retirement Account or an Educational Contribution Account. This information is obtained from Box 7 of Form 480.6B. Provide the required information of the form with your return.

Column D – Enter the interests received from eligible financial institutions, including interests generated from an Individual Retirement Account or an Educational Contribution Account, for which the option to pay a preferential rate was not exercised. Provide the required information from Box 5 of Form 480.6A (Informative Return - Income Not Subject to Withholding).

Column E – Enter the interests earned from Individual Retirement Accounts (IRA) received from distributions to certain Government pensioners, if you exercised the option to pay a preferential tax rate of 10% over the excess of \$2,000. This amount comes from Schedule F Individual, Part I, line 1 Column E.

For additional information refer to instructions of Part I of Schedule F Individual. Provide the required information of Box 12(G)(2) of Form 480.7.

Column F – Enter in this column other interests subject to withholding received or credited under the provisions of special legislation that provides for a preferential rate other than the ones related to the interests included in Columns A through E.

Column G – Enter the interests received or credited from deposits, certificates of deposit, current accounts in savings cooperatives and associations held in any commercial bank or financial institution located outside of Puerto Rico, or any other interest income not included in Columns A through F. Provide the required information from Box 6 of Form 480.6A, among others.

Line 1(a) - Enter the sum of the total interests included in Columns A, C, D, F and G of Part I.

Line 1(b) – Enter the total of interests received during the year from the concept of IRA (included on Schedule F Individual, Part I, Columns C and D) and interests for the concept of distributions to Government pensioners (included on Schedule F Individual, Part I, Column E).

Line 2 – Include on this line according to each category of interest, the ordinary and necessary expenses paid or incurred to generate them such as bank charges, brokerage commissions, etc. These expenses cannot exceed the total income generated included on line 1 for each category of interest.

Line 3 – Interests received from financial institutions engaged in trade or business in Puerto Rico are exempt up to \$2,000 or \$4,000 for married taxpayers. This exemption will be claimed in Column B, C, D or E of this line. The total amount of the sum of all columns on this line should not exceed \$2,000 or \$4,000 for married taxpayers. In the case of married taxpayers filing separately or if the optional computation of tax is chosen, the exemption cannot exceed \$2,000 for each one.

Line 4 – Determine the amount of taxable interests for each category by subtracting the total expenses (line 2) and the exemption (line 3) if applicable. Net interest income in Columns A through C, E and F will be transferred to lines 4(b) through 4(e) and 4(j), as applicable, of Schedule A2 Individual to determine the tax at the corresponding preferential rate.

Line 5 - Add the total net interest of each Column, including interests subject to preferential rates, and transfer it to Part 1, line 2C of the return or line 3C, Columns B and C of Schedule CO Individual.

PART II - CORPORATE DIVIDENDS

Enter in the indicated spaces, the payer's name and employer identification number, and the account number.

Column A – It must be reflected in this column dividends subject to a 15% withholding. Every eligible distribution made by a domestic or foreign corporation, which income from sources within Puerto Rico is at least 80% of its gross income derived during the last 3 taxable years prior to the date in which the dividend is declared, is subject to a 15% preferential rate. If you have an investment in stocks in a domestic corporation, a 15% withholding will be made automatically on any distribution made, unless you elect that such withholding be inapplicable.

This information comes from Box 4 of Form 480.6B (Informative Return – Income Subject to Withholding). Provide with the return the required information of this form.

If you elected that no withholding be made, you must inform such income as ordinary income and pay taxes at the regular rates. This income must be informed in Column D and provide with the return the required information from Box 7 of Form 480.6A (Informative Return - Income Not Subject to Withholding).

Columns B and C – Enter in these Columns any dividend distribution realized under the provisions of special legislation that provides a preferential rate different to 15%. Enter in the provided space the applicable preferential rate. Provide the required information from Box 5 of Form 480.6B.

Column D – Enter any dividend distribution received from a foreign corporation not engaged in trade or business in Puerto Rico, or which income is substantially from sources outside Puerto Rico. Provide the required information from Box 7 of Form 480.6A.

Line 2 – Include on this line according to each category of dividends, the ordinary and necessary expenses paid or incurred to generate them such as bank charges, brokerage commissions, etc. These expenses cannot exceed the total income included on line 1 for each category of dividends.

Line 3 – Determine the amount of taxable dividends for each category by subtracting the expenses (line 2) from the total (line 1). The net dividend income from Columns A, B and C will be transferred to line 4(f) of Schedule A2 Individual to determine the tax at the corresponding preferential rate.

Line 4 – Add the total net dividend for each Column, including dividends subject to preferential rates, and transfer the same to Part 1, line 2D of the return or line 3D, Columns B and C of Schedule CO Individual, as applicable.

PART III - MISCELLANEOUS INCOME

Column A - Enter those miscellaneous income not itemized in any part of the return or schedules. **If you choose the optional computation of tax, these income not itemized will be attributed on a 50% basis to each spouse.**

Column B - You must inform the income received from prizes or contests. If the prize consists of a property, equipment or other value, you must inform its fair market value. **If you choose the optional computation of tax, this income must be attributed on a 50% basis to each spouse.**

Line 2 - Include on this line according to each income category of Columns A and B, the ordinary and necessary expenses paid or incurred to generate them such as bank charges, brokerage commissions, fees, etc. These expenses cannot exceed the total income included on line 1 for each income category.

Line 3 - Determine the amount of taxable income for each category by subtracting the expenses (line 2) from the total (line 1).

Line 4 – Add the subtotal of Columns A and B of line 3. Transfer this amount to Part 1, line 2G of the return or line 3G of Schedule CO Individual, Columns B and C, as applicable.

SCHEDULE F1 INDIVIDUAL – DETAIL OF INCOME UNDER ACT 22-2012, AS AMENDED

Use this Schedule to inform passive income from interests, dividends and long-term capital gains earned by a resident individual investor with respect to his/her investments. Such exemption will be in effect until December 31, 2035.

For purposes of Act 22-2012, as amended, “**resident individual investor**” means a resident individual, as defined in Section 1010.01(a)(30) of the Code, who was not a resident of Puerto Rico during the last six years before January 17, 2012 and who becomes resident of Puerto Rico no later than the taxable year ending on December 31, 2035.

You should indicate the number of the tax exemption decree issued by the Department of Economic Development and Commerce and the date on which you established your residence in Puerto Rico.

PARTS I AND II – INTERESTS AND DIVIDENDS

Describe the name of the person who made the payment, employer identification number of said person, the account number and the amount received.

It will be totally exempt from the payment of income tax for Puerto Rico, including the alternate basic tax, the income from all sources earned by a resident individual investor, after becoming resident of Puerto Rico but before January 1, 2036, consisting of:

- interests and dividends, including but not limited to, interests and dividends from a registered investment company described in Section 1112.01 of the Code, and
- interests, financing charges, dividends or share in partnerships benefits received from international banking entities duly authorized according to the Banking Center Regulatory Act.

Transfer the total of line 1, Parts I and II to Schedule IE Individual, Part II, line 36.

PART III – CAPITAL ASSETS GAINS AND LOSSES

You must inform in this part the long-term capital gains and losses derived from:

Accretion before becoming resident of Puerto Rico

The part of the net long-term capital gain derived by a resident individual investor related to any accretion in securities owned before he/she became resident of Puerto Rico, that is recognized after 10 years of becoming resident of Puerto Rico and before January 1, 2036, will be subject to the payment of a 5% tax, in lieu of any other tax provided by the Code, including alternate basic tax. If such accretion is recognized at any other moment, the net long-term capital gain related to such securities, shall be subject to the payment on income tax according to the tax treatment provided by the Code. The amount of this net long-term capital gain shall be limited to the share of the gain related to the accretion of the securities while the resident individual investor was living outside

of Puerto Rico. Provided that, for taxable years beginning after December 31, 2016, said capital gain will be considered income from sources outside of Puerto Rico for purposes of the income tax provided in the Code.

Accretion after becoming resident of Puerto Rico

The total net capital gain derived by a resident individual investor related to any accretion of the securities owned after he/she became resident of Puerto Rico, that is recognized before January 1, 2036, will be totally exempt from the payment of income tax for Puerto Rico, including the alternate basic tax provided by the Code. If such accretion is recognized after December 31, 2035, the net long-term capital gain related to such securities, will be subject to the payment of income tax according to the tax treatment provided by the Code. The amount of this net long-term capital gain is in relation to the share of the gain related to the accretion of the securities, including the securities owned by the resident individual investor at the moment of becoming resident of Puerto Rico as well as the ones that he/she acquires after becoming resident of Puerto Rico.

You must indicate the sale price and the adjusted basis of the capital asset sales transactions included in this Part III, in Columns A and C, respectively. In addition, in those cases in which the sale of capital assets included in this part correspond to securities that the resident investor owned at the moment of becoming resident of Puerto Rico, shall indicate in Column B the market value of said securities at the date of establishing residence in Puerto Rico.

Transfer the total of line 1, Column (E) to Schedule D Individual, Part II. Transfer the total of line 1, Column (F) to Schedule IE Individual, Part II, line 36. For additional information refer to Act 22-2012, as amended.

SCHEDULE G INDIVIDUAL - SALE OR EXCHANGE OF ALL TRADE OR BUSINESS ASSETS OF A SOLE PROPRIETORSHIP BUSINESS

Every individual who sells, exchanges or disposes all the assets used in his/her sole proprietorship business, may defer the gain if:

- 1) Reinvests the product of the sale or exchange in another sole proprietorship business in Puerto Rico.
- 2) Makes the reinvestment within 12 months from the date of the sale or exchange of the first business.

This gain deferment will not apply to businesses conducted by corporations or partnerships, or other type of organizations.

Definitions:

Sole proprietorship business - Any business engaged in manufacture, agriculture, construction, sale and purchase of consumer's goods or to render services, which are totally owned by a natural person.

Assets used in your sole proprietorship business – It includes land, real and personal property subject to the concession of depreciation, property included on the taxpayer's inventory in existence at the end of the taxable year, property owned for the sale during the ordinary course of industry or business, sales or payable promissory notes and other intangible property. The term does not include property for personal use, property owned as investment and property that is not used in your sole proprietorship business.

PART I - QUESTIONNAIRE

You must indicate on line 1 if in previous years you have

claimed the benefit of postponing the gain of a sole proprietorship business, by selecting of the corresponding oval. In case you have answered "Yes", you must inform in the spaces indicated the taxable year in which you commenced to postpone the gain and the amount claimed.

The adjusted basis to be informed on line 2 will be equal to the amount determined on Schedule G Individual, Part III, line 21 for the taxable year in which you elected to benefit from the gain postponement.

This Schedule must include the aforesaid information and will be submitted with your return for all subsequent years in which you elected to benefit from the postponement of the gain from a sole proprietorship business.

PART II - COMPUTATION OF GAIN

Line 7 - You must inform those expenses incurred that made possible the sale of your first sole proprietorship business. The following examples are considered these type of expenses: advertisements, legal fees, commissions, etc.

Line 9 - The adjusted basis of your first sole proprietorship business will be its cost, increased by the permanent improvements made to the business and reduced by the depreciation expense claimed over the business assets used.

However, the adjusted basis of the property must be increased by those taxpayers that during the periods comprised between July 1 and December 31, 2006 and/or between July 1, 2014 and April 30, 2015 prepaid the 5% and/or 8% special tax, respectively, on the increase in accumulated value of capital assets. In this case, the adjusted basis of the property will include the increase in accumulated value upon which the special tax was paid. To indicate this adjustment to the basis, select the corresponding oval.

Line 10 – Enter the gain realized on the sale. If the gain was realized on the sale of a qualified property under the provisions of Act 132-2010 or Act 216-2011, the same is 50% exempt from the payment of income tax. For the definition of qualified property refer to the instructions of Schedule D Individual.

Line 12 - If you sold your first sole proprietorship business and have the intention of purchasing another new sole proprietorship business, the Code provides you the benefit to postpone the realized gain as long as you comply with the requirements previously mentioned. Do not complete the rest of the Schedule and submit it with your return. **You must fill out another Schedule G Individual for next year to inform the postponed gain and the adjusted basis of the new sole proprietorship business.**

PART III - ADJUSTED SALES PRICE, TAXABLE GAIN AND ADJUSTED BASIS OF NEW SOLE PROPRIETORSHIP BUSINESS

Line 13 - Enter on this line the total amount realized on the sale of your first sole proprietorship business as determined on line 10. Indicate if it is a short-term or long-term gain, by selecting the corresponding oval.

If this line is zero, then there is no gain to be recognized for this taxable year. In this case, do not complete the rest of the form and include the same with the return.

If this line is more than zero and you acquired a new sole proprietorship business, continue with the rest of the form in order to determine if any part of this realized gain will be taxed in this taxable year. This occurs when the assets sales price of

your first sole proprietorship business exceeds the purchase cost of the new sole proprietorship business.

On the other hand, if this line is more than zero and you do not have the intention of buying another business during the replacement period provided by the Code, all realized gain, as determined on line 10 of this schedule, will be recognized and taxed in this taxable year. However, if you select the oval on line 10 indicating "Qualified property: 1 Yes", transfer to Schedule D Individual, as applicable, the 50% of the amount shown on this line.

Line 14 - To determine which part of the realized gain is taxable, the sale price of the first sole proprietorship business will include only the amount of any mortgage, fiduciary cession for the benefit of creditors (trust deed), or any other debt to which is subject such property owned by the purchaser. In this case, the commissions and other selling expenses paid or incurred on the sale of the first sole proprietorship business will not be deducted nor taken into consideration while determining the sale price.

Line 15(b) - The cost of the new sole proprietorship business will be its cost plus those debts to which the property is subject (including mortgages) as of the date of the purchase, and the nominal value of the taxpayer's debts that are part of the consideration for the purchase.

Line 19 - Enter the smaller of line 13 or 18. If the result is zero or less, there will be no taxable gain for this taxable year.

If the amount is more than zero, this will be the taxable gain for this taxable year. This occurs when the total amount reinvested in the new sole proprietorship business is less than the sale price of the first sole proprietorship business. If you selected the oval on line 10 indicating "Qualified property: 1 Yes", transfer to Schedule D Individual, as applicable, the 50% of the amount shown on this line.

Line 21 - This will be the adjusted basis of the new sole proprietorship business, **which you must inform in all the subsequent taxable years since you elected the benefit of postponing the gain. The same will be informed on Schedule G Individual, Part I, line 2 of the following year of said election.**

This provision has the effect of postponing the gain not recognized on the sale of the first sole proprietorship business until a sale is made of all the assets of the new sole proprietorship business.

SCHEDULE H INDIVIDUAL - INCOME FROM ANNUITIES OR PENSIONS FROM QUALIFIED OR GOVERNMENTAL PLANS

This Schedule must be completed if you received income from annuities or pensions from qualified pension plans under Section 1081.01 of the Code or granted by the Government of Puerto Rico, the United States and instrumentalities or political subdivisions of both governments. Schedule H Individual provides space to report the income from only one annuity or pension. Therefore, in the case of individuals receiving more than one annuity or pension, a separate schedule should be completed for each one.

If you receive benefits from the Social Security Administration, do not complete this Schedule because such benefits are not taxable in Puerto Rico. On the other hand, if you received income in periodic payments from the purchase of a fixed or variable annuity through a financial or insurance institution,

report it on this schedule. However, any other income that is not received as periodic payments from such annuity must be informed on Schedule F Individual or Schedule D Individual, as applicable. Refer to the instructions of said schedules.

Pensions from governmental plans must be included on this Schedule.

In the case of a pension, the name of the payer and employer identification number must be included.

In the case of qualified or governmental plans which income is reported in an Internal Revenue Service (IRS) Form 1099-R ("Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc."), the taxpayer must include with the return the Form 1099-R that corresponds to the income from annuities included on this schedule.

PART I - DETERMINATION OF COST TO BE RECOVERED

Complete this part only if you have not recovered the cost of the pension. If you already have recovered the cost of your pension, do not fill out this Part and continue with Part II of the Schedule.

Line 1 - Enter the cost of the annuity or pension. As general rule, the cost of the annuity or pension is the amount that the taxpayer paid in order to be entitled to receive the annuity or pension. In the case of contributions to a qualified pension plan under Section 1081.01 of the Code, the cost of the pension includes after-tax contributions. Also, include those amounts over which you prepaid the 5% special tax under Sections 1081.01(b)(9) of the Code or Section 1012D of the 1994 Code and the 8% under Section 1023.21 of the Code.

As general rule, this information comes from Box 3 of Form 480.7C (Informative Return – Retirement Plans and Annuities). You must provide the required information of the form with your return.

Line 2 - Breakdown the amount of pension received in each of the previous years and totalize the amounts in the boxed area.

Line 3(a) - Breakdown the amount of taxable pension received in each of the previous years and totalize the amounts in the boxed area.

Line 3(b) - Breakdown the amount of tax exempt pension received in each of the previous years and totalize the amounts in the boxed area.

PART II - TAXABLE INCOME

Line 7 - Enter the total amount received from annuities or pensions during the year. This information appears on Form 480.7C, Box 17.

Line 8 - Enter \$11,000 if you are under age 60, or enter \$15,000 if you are age 60 or older.

This deduction only applies if the pension received is derived from a qualified pension plan under Section 1081.01 of the Code or from the retirement systems subsidized by the Government of Puerto Rico, the United States and instrumentalities or political subdivisions of both governments.

For these purposes, Form 480.7C must indicate the following information:

- that the distribution is made in periodic payments,
- that it is a governmental or private qualified plan,
- that no amount must be reflected in Boxes 6 through 15, and

- that the distribution code in Box 22 must be one of the following: A, C or D.

If the taxpayer receives more than one pension, the exemption will apply for each pension separately.

If the total amount received during the year exceeds \$11,000 or \$15,000, as applicable, the excess over such amount will be subject to tax. While you are recovering the cost of the annuity or pension, you will be taxed up to 3% of such cost.

If you claim the exempt amount of \$15,000, you must keep for your records a copy of your birth or baptism certificate as evidence to support your right to claim the exemption. Make sure to write your date of birth on page 1 of the tax return.

Line 12 - Enter the amount of line 11 or 3% of the annuity's cost, whichever is greater, until you have recovered the total cost of your annuity or pension tax free. This amount cannot be greater than the amount on line 9.

If the payments received covered less than 12 months, multiply 1/12th from the 3% of the pension cost (line 1) by the number of months during which the pension was received. Enter on line 12 of this Schedule and in Part 1, line 2H of the return, the amount determined from the above computation, or the amount entered on line 11 of this Schedule, whichever is greater, but not greater than the amount of line 9. If you choose the optional computation of tax, transfer this amount to Schedule CO Individual, line 3H, Column B or C, as applicable, corresponding to the taxpayer or his/her spouse.

Line 13 - Enter the income tax withheld, if any, and transfer this amount to Schedule B Individual, Part III, line 18.

Provide the required information of the Informative Return 480.7C and this Schedule.

SCHEDULE IE INDIVIDUAL – EXCLUDED AND EXEMPT INCOME

Complete this Schedule to inform the excluded and exempt income received during the taxable year. The total amount of exclusions and exemptions of gross income will be considered in the calculation of the limitation of 30% of income for mortgage interests deduction. Also, this schedule will be used to determine the excluded and exempt income subject to alternate basic tax.

In the case of married taxpayers filing jointly, they shall complete and submit with the return a **Schedule IE Individual for each spouse**. Select the oval that identifies the taxpayer or the spouse, respectively.

PART I – EXCLUSIONS FROM GROSS INCOME

Line 1 – Enter the income received under a life insurance contract whether in lump-sum or in installments, by reason of death or terminal illness of the policy holder. In the case of payments for terminal illness, previous authorization from the Secretary is required to claim the exemption and the policy holder should have less than a year of life expectancy. For more information, see Section 1031.01(b)(1) of the Code.

Line 2 – Enter the value of property acquired through donation, legacy or inheritance. The income derived from such property is not considered excluded and therefore, should be included as gross income. If the donation, legacy or inheritance is paid in installments, include as income the portion that is considered to be derived from the property. (Section 1031.01(b)(2) of the Code).

Line 3 – Enter the amounts received through medical or accident insurance, under labor compensation acts, judicial or extra judicial indemnifications and amounts received through pensions, annuities or analog concessions for **personal physical injury or physical illnesses** or by reason of occupational or non occupational disability.

Line 5 – Enter the income derived from the discharge of debts, in whole or in part, if the discharge is done under one of the following circumstances:

- bankruptcy under Title 11 of the Code of the United States of America approved by a court with competent jurisdiction;
- taxpayer insolvency (liabilities exceed the fair market value of the assets); or
- the debt is from a student loan which terms allow for discharge in exchange for work for a period of time in certain professions or with specific employers.

If the debt discharge is not due to one of the preceding circumstances, the income derived from the same is considered taxable income and shall be included on Schedule F Individual.

The excluded amount of income for debt discharge will reduce the net operating loss incurred or available in the year of the discharge, the net capital loss incurred or available in the year of the discharge, the tax basis of any asset that constitutes the collateral of the debt subject to discharge, or the tax basis of any other asset in the hands of the taxpayer, in that order.

Provide the information of Box 18 of the Informative Return - Exempt and Excluded Income and Exempt Income Subject to Alternate Basic Tax (Form 480.6D).

Line 6 – Enter the income received for **child support**. Do not include on this line payments received from alimony due to divorce or separation provided under Section 1033.13 of the Code. If you received payment from alimony due to divorce or separation, enter it on line 2(R), Part 1 of the return.

Line 7 – Enter the amount paid by an employer to an employee as a reimbursement for expenses related to trips, meals, lodging, entertainment (not sumptuous or extravagant) and other expenses related to the employment, provided the reimbursement was done pursuant to a reimbursement plan established by the employer that complies with the requirements established by the Secretary.

Line 8 – Enter the total amount of other exclusions from gross income for which a specific line is not provided on this Schedule, such as study scholarships, literary, scientific, artistic or other awards. Also, enter amounts excluded from gross income under special laws.

An example of the special laws is the income derived from meal or trip allowances paid for voluntary services under the Voluntary Act of Puerto Rico (Act 261-2004). This amount shall not exceed \$1,500. Any excess over such amount is included as taxable income.

Enter the amount in the column of items considered for the mortgage interests limitation as well as in the column of items subject to alternate basic tax.

The taxpayer must include with the return a schedule detailing the type of exclusion from net income and the amount of said income received during the taxable year.

If you choose the optional computation of tax, indicate on lines 1 through 4, 6 and 7 the total amount received by each spouse

in his/her individual capacity. Enter on line 5 the amount of income received on a 50% basis for each spouse. On the other hand, indicate on line 8 the total amount received by each spouse in his/her individual capacity or on a 50% basis, as applicable.

PART II - EXEMPTIONS FROM GROSS INCOME

Line 2(C) – Enter the interest income received from any of the following mortgages:

- secured by the National Housing Act of 1934, as amended, that have been issued no later than February 15, 1973 and owned by residents of Puerto Rico on May 5, 1973 and issued within the 180 days following February 15, 1973 to be acquired by a resident of Puerto Rico;
- on residential property located in Puerto Rico issued after June 30, 1983 and before August 1, 1997, secured by the National Housing Act of 1934 or the Servicemen's Readjustment Act of 1944;
- on new construction residential property located in Puerto Rico issued after July 31, 1997 and secured by the National Housing Act of 1934 or the Servicemen's Readjustment Act of 1944;
- originated to provide permanent financing for the construction or acquisition of social interest housing; and
- secured under the Bankhead-Jones Farm Tenant Act of 1937, as amended.

Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax. Provide the required information from Box 9 of Form 480.6D.

Line 2(D) – Enter the amount claimed as an exclusion up to \$2,000 for interests received from deposit in accounts in Puerto Rico. Transfer to this line the amount entered on Schedule FF Individual, Part I, line 3. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 2(E) – Enter the total amount of other interests subject to alternate basic tax reported in Box 10 of Form 480.6D.

Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax. Provide the required information of Form 480.6D.

Line 2(F) – Enter the total amount of other interests **not** subject to alternate basic tax reported in Box 11 of Form 480.6D. Provide the required information of Form 480.6D.

Line 2(G) – Enter the total amount of other interests subject to alternate basic tax **not** reported on Form 480.6D.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number, account number (if applicable) and the amount of interests received during the year that are subject to the payment of alternate basic tax and were **not** reported on a Form 480.6D.

Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 2(H) – Enter the total amount of other interests **not** subject to alternate basic tax and **not** reported on a Form 480.6D.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number, account

number (if applicable) and the amount of interests received during the year that are **not** subject to the payment of alternate basic tax and were **not** reported on a Form 480.6D.

Line 3(A) - Enter the distributions of dividends reported in Boxes 12 and 16 of Form 480.6D which are subject to alternate basic tax. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax. Provide the required information of Form 480.6D.

Line 3(B) - Enter the dividend distributions reported in Boxes 13, 14, 15 and 17 of Form 480.6D. Enter the amount only in the column of items considered for the mortgage interest limitation. Provide the required information of Form 480.6D.

Line 3(C) – Enter dividends that were **not** reported on Form 480.6D and that are subject to the payment of alternate basic tax.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number, account number (if applicable) and the amount of dividends received during the year that are subject to the payment of alternate basic tax and were **not** reported on a Form 480.6D.

Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 3(D) - Enter dividend distributions **not** reported on Form 480.6D and **not** subject to the payment of alternate basic tax.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number, account number (if applicable) and the amount of dividends received during the year that are **not** subject to the payment of alternate basic tax and were **not** reported on a Form 480.6D.

Line 4 – Enter the fair rental value of housing and its belongings, and the amount of any payments for water, electricity, gas and telephone provided to a priest or minister of any religion properly ordained, as part of their compensation. The expenses may not be sumptuous or extravagant, as determined by the Secretary. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 5 - Enter the amount received for the recapture of bad debts, prior taxes, surcharges and other amounts. For more information, see Section 1031.02(a)(8) of the Code. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 6 – Enter the amount of remuneration received as a physician during the internship period under a contract with the Department of Health of Puerto Rico or with any municipality or political subdivision of the same for medical training through practice at a hospital. The exemption applies to remuneration in the form of a monthly allowance and the additional allowance for the cost of housing and meals for a maximum period of 72 months. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax. Provide the required information of the Withholding Statement (Form 499R-2/W-2PR).

Line 8 – Enter the exemption of \$11,000 or \$15,000 on the income received from pensions and annuities, up to the limit established in Section 1031.02(a)(13) of the Code according to age. Transfer to this line the amount entered on Schedule H Individual, Part II, line 8. If you received more than one pension

or annuity, add all the exemptions claimed on that line of each Schedule H Individual and enter the total amount on this line. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 9 - Enter amount received by as pensioner of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities, the Retirement Systems of the Judiciary and the University of Puerto Rico, and the pensioners of the Teachers' Pension and Annuity System with respect to the Christmas Bonus, the Summer Bonus granted by Act 37-2001 and Act 38-2001, and the Medicine Bonus granted by Act 155-2003 and Act 162-2003. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 10 - Enter the amount of the gain on the sale or exchange of the principal residence by certain individuals, from qualified property and from eligible housing. For more information, refer to Act 216-2011, Regulation No. 8127 of December 23, 2011 and Act 303-2012. Transfer to this line the amount entered on Schedule D1 Individual, line 8 or the amount entered on Schedule D3 Individual, line 14, as applicable.

Line 11 - Enter the amount received from certain exempt income related to the operation of an employees-owned special corporation, such as 90% of the rental payments for real and personal property used by the corporation in its development, organization, construction, establishment or operation. For more information refer to Section 1031.02(a)(17) of the Code. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 12 - Enter the amount of Cost of Living Allowance (COLA) received by employees of the Government of the United States of America who work in Puerto Rico up to the amount that is exempt from the income tax imposed by the Federal Internal Revenue Code (Section 1031.02(a)(18) of the Code). This exemption may be denied if the taxpayer has not complied with his/her tax obligations for the 4 years prior to the year in which the exemption is claimed. Transfer to this line the amount indicated in the "Wage and Tax Statement - Form W-2" (Federal Form W-2) provided by the Federal Government.

Line 13 - Enter the amount received for unemployment compensation under an act of the United States, a state of the Union or the Government of Puerto Rico. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 14 - Enter the amount received of compensation for active military service rendered by military personnel in a combat zone. This exemption does not apply to military personnel transferred outside Puerto Rico to relieve other personnel that was sent to the combat zone. For more information, see Section 1031.02(a)(20) of the Code. Include Federal Form W-2.

Line 15 - Enter the amount received by an eligible researcher or scientist for services rendered to a superior level educational institution to perform eligible scientific research as provided in Section 1031.02(a)(26) of the Code and the regulations issued thereunder. Enter also the compensation received by an eligible researcher or scientist for services rendered in the District established under Article 7 of Act 214-2004, as amended. For more information, refer to Section 1031.02(a)(27) of the Code.

The taxpayer must keep for his/her records the Certification issued by the Department granting the exemption.

Line 16 - Enter the amount of rents received from the rental of buildings in historic zones, as established by the Institute of Puerto Rican Culture or the Planning Board. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column of items subject to alternate basic tax.

Line 17 - Enter the compensation received that was paid by a foreign natural or juridical person to citizens and nonresident aliens in Puerto Rico for technical services rendered during the realization of cinematographic productions for distribution to movie or television studios.

Line 18 - Enter the amount of income received by a Puerto Rico Police member for the overtime worked, as provided in Act 58-2013. This officer is defined in Article 2 of Act 53-1996, as amended (Puerto Rico Police Act of 1996). Provide the required information of Form 499R-2/W-2PR.

Line 19 - Enter the income from sources outside of Puerto Rico received by a United States citizen nonresident of Puerto Rico during the entire taxable year or the amounts attributed to the period of non residency of an individual that changes his or her residence to Puerto Rico during the taxable year. Deductions attributable to exempt income will not be allowed.

Transfer to this line the amount included in question C of the Questionnaire on page 1 of the return.

Line 20 - Enter the amount of remuneration received by employees of foreign governments or international organizations. For more information, refer to Section 1031.02(a)(35)(E) of the Code.

Line 21 - Enter the income received from buildings rented to the Government of Puerto Rico for public hospitals, health or convalescent homes, and public schools, solely and exclusively if they had a valid rental contract in force on or before November 22, 2010. Include Schedule N Individual and select in Part I of this schedule the oval that identifies the tax benefit under Section 1031.02(a)(35)(F) of the Code.

Enter also the net income from residential property rented under the Real Property Market Stimulus Act (Act 132-2010). You must include Schedule N Individual with the detail of income and expenses and select the oval of Act 132-2010.

Line 22 - Enter the income derived by the taxpayer from the resale of personal property or services which acquisition by the taxpayer was subject to tax under Section 3070.01 of the Code or Section 2101 of the 1994 Code.

Line 23 - Enter the amount of accumulated gain from non qualified options to acquire stocks over which the taxpayer has prepaid the tax. (See Section 1040.08(e)(1)(A) and 1023.21(c)(i) of the Code). Provide the required information of Form 480.6D.

Line 24 - Enter the distributions of amounts previously notified as deemed eligible distributions under Sections 1023.06(j) and 1023.25(b) of the Code. Provide the required information of Form 480.6D.

Line 25 - Enter the amount of distributions from Non Deductible Individual Retirement Accounts. (See Section 1081.03 of the Code). Provide the required information of Form 480.6D.

Line 26 - Enter the amount of compensation or indemnification paid for dismissal, pursuant to Section 1031.01(b)(11) of the Code (that is, compensations or indemnities paid to an employee

due to dismissal, without the need to determine their just cause, up to a maximum amount equivalent to the compensation that the employee could receive under Act No. 80 of May 30, 1976, as amended). This amount includes any equivalent voluntary payment that was paid by the employer to the employee because of the dismissal, regardless of whether the payment is made at the time of the dismissal or subsequently, or is made by reason of a transaction agreement or by virtue of a court ruling or administrative order. Provide the required information of Form 480.6D. Enter the amount only in the column of items considered for the limitation of mortgage interest.

Line 27 – Enter the amount of wages received by public employees for overtime work in emergency situations under Act 324-2004. Enter the amount in the column of items considered for the mortgage interest limitation as well as in the column for items subject to alternate basic tax. Provide the required information of Form 499R-2/W-2PR.

Line 28 – Enter the income from copyrights up to \$10,000 under the Puerto Rico Integral Development of the Book Industry Incentives Act (Act 516-2004).

Line 29 - Enter the income received by designers and translators for their work in the preparation of books up to \$6,000, under Act 516-2004.

Line 30 – Enter the amount received for the distributable share on exempt income from pass-through entities, and revocable trusts or grantor trusts. Transfer to this line, in the column of items considered for the mortgage interest limitation, the amount indicated on Form 480.60 EC, Part III, line 17 and on Form 480.60 F, Part III, line 1T, as applicable. Transfer to the column of items subject to alternate basic tax, the amount indicated on Form 480.60 EC, Part III, line 18 and on Form 480.60 F, Part III, line 1U, as applicable.

Line 31 – Enter the amount received from salaries, services rendered and/or self-employment up to a maximum of \$40,000 if you are a young individual whose age fluctuates between 16 and 26 years at the end of the taxable year. On the other hand, if you are a young entrepreneur whose age fluctuates between 16 and 35 years and you are in the first three years of operation of a new business under a special agreement for the creation of young businesses, enter the amount of gross income generated by the new business, up to \$500,000. For more details, refer to the provisions of Act 135-2014 (Act for the Incentives and Financing of Young Entrepreneurs).

In order to claim the deduction of \$500,000, you must include with the return the Certification or copy of the Special Agreement for the Creation of Young Businesses (Agreement) with the Puerto Rico Trade and Export Company. The exemption will be during the first 3 years following the signature of the Agreement.

Line 32 - Enter the amount received for Qualified Disaster Assistance Payments (Qualified Payments) and transactions made due to hurricane María. In order for the amount received by the employee or independent contractor to be considered as a Qualified Payment, it has to be made by the employer or withholding agent to provide assistance and support in the process of repair, mitigate or compensate any damage or loss suffered as a result of the passing of hurricane María and has to be received between September 21 and December 31, 2017.

In the case of employees, transfer to this line the amount reported in Box 16 or 16A of Form 499R-2/W-2PR, which is identified with Code "G", designated to disaster assistance qualified payments under Administrative Determination No. 17-21 of

October 4, 2017 (AD 17- 21). In the case of independent contractors transfer to this line the corresponding amount of Qualified Payments reported in Box 20 of Form 480.6D.

Also include the amount reported on Schedule F Individual, Part VI, line 4.

For additional information, refer to AD 17-21, AD 17-29 and to the informative booklet "Preguntas y Respuestas: Pagos Cualificados por Concepto de Desastre bajo la Determinación Administrativa Núm. 17-21" (Spanish only), available in our website: www.hacienda.pr.gov.

Line 33 – Enter the amount included in Box 19 (Other Payments Subject to Alternate Basic Tax) of Form 480.6D, for which there is not a specific line provided on this Schedule.

Line 34 - Enter the amount included in Box 20 (Other Payments Not Subject to Alternate Basic Tax) of Form 480.6D, for which there is not a specific line provided on this Schedule.

Line 35 – Enter the amount of other exempt income subject to alternate basic tax for which there is not a specific line provided on this Schedule and were **not** reported on a Form 480.6D.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number and the amount of income received during the year subject to the payment of alternate basic tax that was **not** reported on a Form 480.6D.

Line 36 – Enter the total amount of other exempt income **not** subject to alternate basic tax for which there is not a specific line provided on this Schedule and were **not** reported on a Form 480.6D. Racetrack winnings or income generated from participants of the Caribbean Series are examples of the type of exempt income that may be included on this line.

Also, enter on this line distributions of dividends or benefits from industrial development income of exempt business or from exempt income of exempt hospital operations, or distributions in liquidation under Industrial Incentive Acts. For the treatment of such current or liquidation distributions, see Internal Revenue Circular Letters No. 09-06 of July 22, 2009 and No. 12-07 of October 10, 2012.

The taxpayer must include with the return a schedule detailing the payer's name and employer identification number and the amount of income received during the year **not** subject to the payment of alternate basic tax that was **not** reported on a Form 480.6D.

In the case of married taxpayers filing jointly, enter on lines 1, 4, 6, 8, 9, 12 through 15, 17, 18, 20, 23 and 25 through 32 the total amount received by each spouse in his or her individual capacity. Enter on lines 2, 3, 5, 7, 10, 11, 16, 21, 22 and 24 the amount of income received per each category on a 50% basis to each spouse. On the other hand, enter on lines 19 and 33 through 36 the total amount received by each spouse in his or her individual capacity or on a 50% basis to each one, as applicable.

PART III – TOTAL

Line 1 – Add line 9 of Part I and line 37 of Part II of the first column. This is the amount of excluded and exempt income that you will consider for the 30% income limitation when you claim the deduction for mortgage interests. **You should complete and submit with your return this Schedule to have the right to consider this income for purposes of such deduction on Schedule A Individual, Part I, line 1(b) or Schedule CO Individual,**

line 7(A)(2) if you choose the optional computation of tax.

Line 2 – Add line 9 of Part I and line 37 of Part II of the second column. This is the total of excluded and exempt income subject to alternate basic tax. Transfer this amount to Schedule O Individual, Part I, line 10.

SCHEDULES K INDIVIDUAL, L INDIVIDUAL, M INDIVIDUAL AND N INDIVIDUAL

Use these Schedules if you had income from:

- | | |
|--------------------------------|-----------------------|
| 1) Industry or Business | Schedule K Individual |
| 2) Farming | Schedule L Individual |
| 3) Professions and Commissions | Schedule M Individual |
| 4) Rent | Schedule N Individual |

Said Schedules provide spaces to inform only one source of income. Therefore, if you have more than one source of income, you must complete a separate schedule for each one. You must also indicate in the provided space, if the reported income on such schedules constitutes your principal industry or business.

Also, you must consolidate the gain or benefit determined in Part II of the applicable schedules corresponding to the same source of income and transfer the total amount to the applicable line on page 2, Part 1 of the return or to lines 3I through 3L of Schedule CO Individual, if you choose the optional computation of tax. For example, in case of a taxpayer who files a joint return with his spouse, and he is a lawyer and she is a physician, they will use two Schedules M Individual to determine the income and expenses for each one of the professions and then will transfer the sum of line 8 of said schedules to page 2, Part 1, line 2K of the return or line 3K, Columns B and C of Schedule CO Individual, if you choose the optional computation of tax.

In case of earning income from professions and commissions, you must use a separate Schedule M Individual for each one of these concepts and select the corresponding oval. Also, you must use a Schedule M Individual for each source of income.

If the taxpayer has a supermarket and a gas station, he or she will use two Schedules K Individual to detail the income and expenses and then will transfer the sum of line 12 of said schedules to page 2, Part 1, line 2I of the return or to line 3I, Column B or C of Schedule CO Individual, if you choose the optional computation of tax.

If you have two properties for rent, one for commercial use and other for residential purposes, you shall use two Schedules N Individual to detail the income and expenses of each property and transfer the sum of Part II, line 9 of such Schedule to page 2, Part 1, line 2L of the return or to line 3L, Columns B and C of Schedule CO Individual, if you choose the optional computation of tax.

Submit the Schedules you use with the return.Requirement of Audited Financial Statements

Those taxpayers whose business volume exceeds \$3,000,000 shall submit with the return a financial statement audited by a certified public accountant with license in force to practice in Puerto Rico, as provided in Section 1061.15(a)(2) of the Code.

The term “business volume” means gross income as defined in Section 1031.01 of the Code, except that in the case of gains or

income described in Section 1031.01(a)(2)(A) of the Code, the total derived from the sale of goods or products shall be taken into consideration without reducing the cost of such goods or products sold. The term business volume includes the amount of income reported on line 1, Part II of Schedules K, L, M and N Individual.

For additional information on the requirements of filing audited financial statements, see Administrative Determination No. 11-13 of November 16, 2011.

If you received income from of a sole proprietorship derived from an industry or business, agriculture, professions, rents or commissions, and your income from the sole proprietorship was \$400 or more during the year, you must file with the Internal Revenue Service (IRS) the U.S. Self-Employment Tax Return - Form 1040-SS.

Form 1040-SS is used to inform the sole proprietorship income and to pay any tax due. Also, the Social Security Administration use the information included on Form 1040-SS to compute the social security benefits of the persons who work as a sole proprietorship. For additional information you can call the IRS at (1) (800) 829-1040.

PART I - QUESTIONNAIRE

Every taxpayer engaged in a trade or business must submit the information requested in the questionnaire of Part I. You must include your employer identification number, assigned by the **FEDERAL INTERNAL REVENUE SERVICE (IRS) and the Merchant’s Registration Number assigned by the Department.**

If you are engaged in a trade or business, and your operations are covered by a tax exemption decree under Act No. 26 of June 2, 1978 (Puerto Rico Industrial Incentives Act), Act No. 8 of January 24, 1987 (Puerto Rico Tax Incentives Act), or by a resolution issued under Act No. 148 of August 4, 1988 (Special Act for the Rehabilitation of Santurce), Act 78-1993 (Puerto Rico Tourism Development Act), Act 75-1995 (Special Act for the Rehabilitation of Río Piedras), Act 14-1996 (Special Act for the Development of Castañer), Act 135-1997 (Tax Incentives Act of 1998), a Film Entity operating under Act 362-1999 (Act for the Film Industry Development), a Theatrical Business operating under Act 178-2000 (Act for the Creation of the Theatrical District of Santurce), Act 73-2008 (Economic Incentives for the Development of Puerto Rico Act), Act 83-2010 (Puerto Rico Green Energy Incentives Act), Act 27-2011 (Economic Incentives Act for the Puerto Rico Film Industry), Act 1-2013 (Jobs Now Act), Act 135-2014 (Act for the Incentives and Financing to Young Entrepreneurs), or Act 14-2017 (Incentives Act for the Retention and Return of Medical Professionals), select the corresponding oval and indicate the case or concession number, if applicable. In the cases of Act 1-2013, you must include copy of the Special Agreement for the Creation of Jobs. On the other hand, in the cases of Act 135-2014, you must include a copy of the Special Agreement for the Creation of Young Businesses (Agreement) with the Puerto Rico Trade and Export Company, in order to enjoy the exemption for the first 3 years following the signature of the Agreement. If you are not covered by a decree or resolution, you must select the oval that indicates “Fully Taxable”.

Income from a Film Entity derived directly from a Film Project or Infrastructure Project will be subject to a fixed income tax rate of 7%, in lieu of any other tax imposed by Law, if any. **For more details, refer to Act 27-2011, as amended.**

Qualified Physicians who have a Decree under Act 14-2017 will be subject, instead of any other tax provided by the Code or any other act, to a fixed income tax rate of 4% on the eligible income generated from professional medical services

rendered during the entire period of the Decree approved by the Secretary of Economic Development and Commerce of Puerto Rico.

If you are engaged in a farming business, the Code establishes a special deduction of 90% of the net income from an agricultural business of a bona fide farmer who has a current certification issued by the Secretary of Agriculture.

To be eligible for this deduction, you must derive at least 50% of your gross income from farming activities as an operator, owner or lessee, and submit with the return copy of the current certification issued by the Secretary of Agriculture. That deduction will be entered in Part II, line 13 of Schedule L Individual. If you are eligible, you must select the corresponding oval.

If you elected to receive the tax benefits granted by the Puerto Rico Agricultural Tax Incentives Act (Act 225-1995), as amended, you will have a 90% tax exemption on the agricultural net income as long as you have derived at least 50% of the gross income from agricultural activities, and submit with the return a copy of the current bona fide farmer certificate issued by the Secretary of Agriculture. In order for this exemption to be granted, you must select the applicable oval. **It is important to indicate that you cannot claim both benefits at the same time.**

Expenses Related to Certain Concepts

Indicate in this part if you claimed expenses related to the ownership, use, maintenance or depreciation of automobiles, vessels, airships or residential property outside of Puerto Rico. If you answered "Yes" to any of the above, indicate whether 80% or more of the income was derived from:

- fishing, passengers or cargo transportation, or rental of vessels;
- passengers or cargo transportation, or rental of airships or automobiles, or
- property rental to unrelated persons of residential property outside Puerto Rico.

As a general rule, costs related to vessels, airships or residential property outside of Puerto Rico are not deductible under Section 1033.17 of the Code. Automobile expenses are limited, as indicated below in Part III of Operating Expenses and Other Costs.

PART II - DETERMINATION OF GAIN OR LOSS

If you received income from industry or business, agriculture, professions and commissions or rents, use Parts II and III to provide the information related to those activities.

Net Operating Losses from Previous Years

On Schedule K Individual, Part II, line 9, Schedule L Individual, Part II, line 11, Schedule M Individual, Part II, line 7, and Schedule N Individual, Part II, line 6, you must include the carryover of net operating losses from previous years. On this line you may include the net loss from previous years operations carryover of the principal activity from which the income was derived.

The carryover period for the losses shall be 7, 12 or 10 years, according to the period when the loss was incurred. To determine the carryover period, refer to the instructions of Schedule V Individual.

If there is a balance of loss from any activity and **it is your principal source of income**, said balance will be transferred to Part 1, lines 21 through 2L of the return, as applicable, or to lines 31 through 3L, Column B or C of Schedule CO Individual, if you

choose the optional computation of tax. You may carry this loss against the income from other sources, **except from salaries or pensions**. The balance from business losses which are not your principal source of income will be carried over to future years and may be deducted only against the income derived from the same activity that produced the loss. See full details for the **treatment of losses** of the industry or business in the **INSTRUCTIONS TO COMPLETE THE RETURN: Part 1, line 2 - Other Income (or Losses) and Schedule V Individual**.

Schedule K Individual

If during the taxable year you were engaged in the **operation of an activity that qualifies as a theatrical business**, as provided by Act 178-2000, and you derived income from the sale of admission tickets for artistic or cultural shows, as well as from other sources, you must file two Schedules K Individual. That is because half (50%) of the income derived from the sale of admission tickets is exempt from the payment of income tax. On one Schedule K Individual you must inform the partially exempt income, and on the other the fully taxable income.

It is important to point out that **expenses related with the theatrical business operation** must be assigned in the proportion that such expenses bear with each source of income. Make sure to indicate in Part I of this Schedule, Act 178- 2000.

Line 2(d) – The taxpayer must include with the return a schedule detailing the type of expense and the amount of such expense paid or incurred during the taxable year.

Line 4 - Enter on this line, as applicable:

- a) The first \$40,000 of gross income from services rendered or self-employment generated by a young individual whose age fluctuates between 16 and 26 years at the end of the taxable year. If you qualified for this exemption, enter an amount not exceeding \$40,000 and select the corresponding oval.
- b) The first \$500,000 of gross income generated by a new business created by a young entrepreneur whose age fluctuates between 16 and 35 years. Said new business must have granted a Special Agreement for the Creation of Young Businesses (Agreement) with the Puerto Rico Trade and Export Company, in order to enjoy the exemption for the first 3 years following the signing of the Agreement. To claim the exemption, you must include copy of the Agreement with the return. This benefit is limited to one new business for every young entrepreneur and he/she cannot enjoy simultaneously the benefits provided by any law granting economic or fiscal incentives to promote a commercial, industrial or tourism operation in Puerto Rico. If you qualify for this exemption, enter an amount not exceeding \$500,000 and select the corresponding oval.

For additional details, refer to Section 1031.02(a)(36) of the Code and Act 135-2014.

Line 6 - Enter on this line the amount reported on line 5(a) of Part III of the Informative Return - Pass-Through Entity (Form 480.60 EC) by a partnership, special partnership or corporation of individuals (pass-through entity) engaged in trade or business. This constitutes the portion of the entity's net income attributable to the services provided by the partner or shareholder and not paid as wages or compensation for services. Only this amount can be used to determine the amount of contribution to a qualified plan for the benefit of an individual ("Keogh"). Therefore, do not consider the total net income generated by the partnership, special partnership or

corporation of individuals when making such calculation.

Line 9 – Indicate on this line the total net operating losses from previous years, as determined in Column D of Schedule V Individual. Include this Schedule with your return.

Line 11 - If you derived income from an industry or business covered by a tax exemption decree granted under any tax incentives act, indicate the tax exemption percent (%) granted in you decree. Multiply the amount on line 10 by the corresponding exemption percent granted, and enter the result on this line.

Line 12 - If you derived a profit in the conduct of the trade or business, transfer this amount to page 2, Part 1, line 2 I of the return or line 3 I, Column B or C of Schedule CO Individual, as applicable. If operations resulted in a loss, see details on the **treatment of losses** of a trade or business in the **INSTRUCTIONS TO COMPLETE THE RETURN: Part 1, line 2 - Other Income (or Losses), under the previously discussed topic regarding the net operating losses from previous years and Schedule V Individual.**

If the income is from the conduct of Film Projects or Infrastructure Projects that meet the requirements of Act 362-1999 or Act 27-2011 (rate of 7%), derived from a business that has been granted a tax exemption decree under the provisions of Act 135-1997 (rate of 10%, 7%, 4%, 2% or other), derived by a Qualified Physician who have a decree under Act 14-2017 (rate of 4%) or any other incentives act which gain is subject to a preferential rate, also transfer the total gain to the corresponding Column of line 4(i) of Schedule A2 Individual, in accordance to the applicable tax rate.

Make sure that you indicated in Part I of this Schedule the applicable incentives act and the case or decree number that entitles you to the preferential rate.

Schedule L Individual

Line 4(d) – The taxpayer must include with the return a detailed schedule with the type of expense and the amount of such expense paid or incurred during the taxable year.

Line 6 - Refer to the instructions of line 4, Part II of Schedule K Individual.

Line 8 - Enter on this line the amount reported on line 5(a) of Part III of the Informative Return - Pass-Through Entity (Form 480.60 EC) by a partnership, special partnership or corporation of individuals (pass-through entity) engaged in the business of agriculture. This constitutes the portion of the entity's net income attributable to the services provided by the partner or shareholder and not paid as wages or compensation for services. Only this amount can be used to determine the amount of contribution to a qualified plan for the benefit of an individual ("Keogh"). Therefore, do not consider the total net income generated by the partnership, special partnership or corporation of individuals when making such calculation.

Line 11 – Indicate on this line the total net operating losses from previous years, as determined in Column D of Schedule V Individual. Include this schedule with your return.

Schedule M Individual

Line 2 - Refer to the instructions of line 4, Part II of Schedule K Individual.

Line 4 - Enter on this line the amount reported on line 5(a) of Part III of the Informative Return - Pass-Through Entity (Form

480.60 EC) by a partnership, special partnership or corporation of individuals (pass-through entity) dedicated to the rendering of professional services or commission income. This constitutes the portion of the entity's net income attributable to the services provided by the partner or shareholder and not paid as wages or compensation for services. Only this amount can be used to determine the amount of contribution to a qualified plan for the benefit of an individual ("Keogh"). Therefore, do not consider the total net income generated by the partnership, special partnership or corporation of individuals when making such calculation.

Line 7 – Indicate on this line the total net operating losses from previous years, as determined in Column D of Schedule V Individual. Include this schedule with your return.

Schedule N Individual

If the rental income is derived from the lease of a residential New Construction Property or Qualified Property, said income is totally exempt under the provisions of Act 132-2010. This exemption applies from January 1, 2011 onwards until December 31, 2020, regardless of the date the contract is signed. You must include the income in the return, select the oval corresponding to Act 132-2010 on the top part of the Schedule and provide a detail of the physical location of the property. This exempt net income must be transferred to Schedule IE Individual, Part II, line 21.

For more details, see Act 132-2010 and the corresponding regulations.

Line 2 - Refer to the instructions of line 4, Part II of Schedule K Individual.

Line 6 – Indicate on this line the total net operating losses from previous years, as determined in Column D of Schedule V Individual (for purposes of a loss from rental business, the total in Column D must be equal to Column A less Column B). Include Schedule V Individual with your return.

Line 8 - If you derived income from an industry or business covered by a tax exemption decree granted under any tax incentives act, indicate the tax exemption percent (%) granted in you decree. Multiply the amount on line 7 by the corresponding exemption percent granted, and enter the result on this line.

Line 9 - If you derived a taxable profit on the operation of the rental business, transfer this amount to page 2, Part 1, line 2L of the return or line 3L, Column B or C of Schedule CO Individual, as applicable. If operations resulted in a loss, see the additional details on the **treatment of losses** of a trade or business in the **INSTRUCTIONS TO COMPLETE THE RETURN: Part 1, line 2 - Other Income (or Losses), under the previously discussed topic regarding the net operating losses from previous years and Schedule V Individual.**

If the income is derived from a business that has been granted a tax exemption decree under the provisions of Act 135-1997 (rate of 10%, 7%, 4%, 2% or other), or any other incentives act which profit is subject to a preferential rate, also transfer the total gain to the corresponding Column of line 4(i) of Schedule A2 Individual, according to the applicable tax rate.

Make sure that you indicated in Part I of this Schedule, the applicable incentives act and the case or decree number which entitles you to the preferential rate.

PART III - OPERATING EXPENSES AND OTHER COSTS

It is allowed a reasonable deduction for those ordinary and necessary expenses incurred for the production of income

related to your business. **On the other hand, it will not be allowed to claim expenses attributable to exempt income or otherwise so excluded from the gross income.**

Salaries, Commissions and Allowances to Employees

The **salaries deduction** will be verified by an electronic system in order to determine if the amounts claimed agree with the Withholding Statements and the forms that must be filed by the employers.

This deduction includes the amount of Qualified Payments made to employees, in order to provide assistance and support in the process of repairing, mitigating or compensating any damage and loss suffered as a result of hurricane María. In order to deduct them, the payments must be reported to your employees in a Form 499R-2/W-2PR and meet the requirements and limitations established in AD 17-21, among which is having submitted a Sworn Statement at the Department with the required information of said qualified payments.

Enter on line 1 of Part III the total payments of salaries, commissions and employee bonuses and indicate in the parenthesis provided the portion of said total that corresponds to Qualified Payments under AD 17-21.

For additional information, refer to AD 17-21, Internal Revenue Informative Bulletin No. 18-03 (IB 18-03) and informative booklet "Preguntas y Respuestas: Pagos Cualificados por Concepto de Desastre bajo la Determinación Administrativa Núm. 17-21" (Spanish only).

Payroll Expenses

Expenses paid to employees of the industry or business as fringe benefits, such as payments made to cover health insurance premiums, employer contributions to retirement plans and qualified benefits plans for employees (cafeteria plans), are considered as admissible deductions for the determination of the net income subject to alternate basic tax, for being part of the compensation for such employees.

Medical or Hospitalization Insurance

Every individual engaged in a trade or business as self employed, whose gross income does not exceed \$500,000, can deduct as an industry or business expense, the cost of health insurance paid for himself/herself and his/her family, provided that such health insurance is extended to all employees, if any. In the case of individuals who choose this benefit, they cannot include the cost paid for health insurance as a deduction for medical expenses.

Contributions to Qualified Pension Plans

The Code allows a **deduction for contributions to qualified pension plans under Section 1081.01 of the Code. To claim the deduction for contributions made to any of said plans, it will be necessary to keep for your records the information required by the Regulations under the Code. Also, you must complete and submit with the return Form AS 6042.1 (Deduction for Contributions to Qualified Retirement Plans and Tax on Certain Contributions).**

Contributions made to a qualified plan or plans for the benefit of an individual, commonly known as "Keogh Plans", cannot exceed 25% (15% if a profit sharing plan) of your earned income without considering said deduction or \$53,000, whichever is smaller, as provided in Tax Policy Circular Letter No. 14-05 of December 12, 2014. Since this deduction and the

amount of net profits from sole proprietorship income depend on each other, it is required to adjust the amount of said net profits. This adjustment can be determined indirectly through the reduction in the percentage of contributions made, attributable to said individual. The contribution's adjusted percentage and the deduction for contributions can be determined as follows:

(A) Percentage of contributions according to the plan	%
(B) Percentage in (A), reflected in decimal, plus 1	1. _
(C) Adjusted percentage (divide (A) by (B))	%
(D) Net gains (without adjustment)	\$
(E) Maximum deduction (multiply (D) by (C))	\$

Professional Services

This expense shall be allowed as a deduction for purposes of determining the net income subject to alternate basic tax, as long as it is duly reported in the corresponding Informative Returns and the applicable withholding required by the Code has been made.

This deduction includes the amount of Qualified Payments made to independent contractors who are individuals, in order to provide assistance and support in the process of repairing, mitigating or compensating any damage and loss suffered as a result of hurricane María. In order to deduct them, the payments must be reported to your independent contractors in a Form 480.6D and meet the requirements and limitations established in AD 17-21, among which is having submitted a Sworn Statement at the Department with the required information of said qualified payments.

Enter on line 5 of Part III the total payments of professional services and indicate in the parenthesis provided the portion of said total that corresponds to Qualified Payments under AD 17-21.

For additional information, refer to AD 17-21, IB 18-03 and informative booklet "Preguntas y Respuestas: Pagos Cualificados por Concepto de Desastre bajo la Determinación Administrativa Núm. 17-21" (Spanish only).

Lease, Rent and Royalties Paid

Among the deductions allowed there are those related to rent and other payments required as a condition to continue using or owning property that the taxpayer has not acquired, is not acquiring the title or in which does not have share. Payments of rents and royalties include, in addition to the ones made for the use of tangible real or personal property, payments made for intangible property, such as royalties, patents, franchises or licenses, when they are made as a condition to continue using the intangible property in the industry or business. To deduct such expenses for purposes of determining the net income subject to alternate basic tax, they have to be duly reported in the corresponding Informative Return and the corresponding withholding required by the Code has been made.

Insurances

Premiums paid when the insurance is an essential element for the service rendered or the industry, such as mal practice insurance and insurance for inventory or other real or personal property used in the industry or business, will be allowed as a deduction to determine the net income subject to alternate basic tax.



Automobile and Other Motor Vehicle Expenses

Taxpayers engaged in trade or business in Puerto Rico and who are subject to the provisions of Section 1033.07(a)(3)(g) of the Code, may elect to claim on line 12 of Schedules K, L and M Individual, or line 11 of Schedule N Individual, as applicable, the deduction for the expenses incurred or paid for the use and maintenance of an automobile based in one of the following alternatives:

- 1) the expense based on a standard mileage rate of sixty cents (\$0.60) per each mile used by the taxpayer to carry out the industry or business or for the production of income; or
- 2) the actual expenses for the use and maintenance of an automobile incurred by the taxpayer in his/her industry or business or for the production of income, including those duly documented by the employees under a reimbursement plan established by their employer.

However, once you choose one of the alternatives, the taxpayer will be required to use the same during the entire taxable period.

Administrative Determination No. 15-01 of January 9, 2015 (AD 15-01), repealed several articles of Regulation No. 8297 of December 18, 2012, related to the requirements to claim the deduction for expenses incurred or paid for the use and maintenance of automobile. For additional details, see AD 15-01.

The cost of automobile use and maintenance includes repairs, insurance, gasoline, oil and filter changes, cleaning, tires, annual license fees and other costs of a similar nature.

This expense does not include depreciation, rental payments on ordinary leases or financial leases which are claimed on line 11 of Schedules K, L and M Individual or on line 10 of Schedule N Individual, by including Schedule E. Also, do not include expenses related to the use of tolls or parking.

For these purposes, the term "automobile" include any motor vehicle manufactured to transit in public roads and designed for transporting people, but does **not** include the following:

- ☞ those used directly in the business of transporting passengers or property for which compensation or payment is made, such as limousines, taxis and public vehicles;
- ☞ funeral cars, flower carriages, buses, ambulances, motorcycles, trucks, vans and any other similar vehicle used primarily to transport cargo; and
- ☞ cars rented or held for rental by persons regularly engaged in the business of car leasing.

If you incurred expenses for vehicles which are not considered automobiles according to the above definition, you should claim them on line 13 of Schedules K, L and M Individual or on line 12 of Schedule N Individual.

Federal Self-Employment Tax

Every individual engaged in a trade or business, is entitled to deduct from the gross income 50% of the federal self employment tax paid to the Internal Revenue Service on the income reported for the same taxable year. This deduction will be claimed on line 14, Part III of Schedules K, L and M Individual and on line 13, Part III of Schedule N Individual.

Direct Essential Costs

There shall be allowed as a deduction to determine the net income subject to alternate basic tax, any direct essential cost that constitutes an expense for the service rendered or the industry or business only if it is an essential cost of such service or industry. Among these expense items are:

1. Publishing and promotional expenses incurred by business engaged in the sale of consumption goods or services, including wholesale or retail stores or storages, restaurants and other similar businesses;
2. Interests on debts incurred for the acquisition of inventory or other real or personal property used in the industry or business;
3. In the case of taxpayers under the accrual method, bad debts write-off from the sale of goods or services by the industry or business;
4. Expenses for radio, newspaper or television advertising made by a publishing agency, which are part of the cost for the service rendered; and
5. Payments made by travel agencies to airlines, hotels, cruises and other providers of the industry as part of the services provided by such agency.

It is important to point out that Administrative Determination No. 12-08 of March 30, 2012 and Regulation No. 8329 of January 9, 2013, provides that the following expenses are not considered direct essential costs under any circumstance:

1. travel, meal and entertainment expenses;
2. representation or public relations expenses; and
3. lobbying expenses.

The deduction for direct essential costs shall be claimed on line 15, Part III of Schedules K, L, and M Individual or on line 14, Part III of Schedule N Individual. The taxpayer must include with the return Schedule W Individual detailing the nature and amount of the items claimed as a deduction for direct essential costs.

Meal and Entertainment Expenses

It may be deducted up to 50% of the total amount for **meal and entertainment expenses** incurred or paid during the year. **However, said deduction cannot exceed 25% of the gross income.**

Other Expenses

Those expense items for which there are no specific spaces provided in Part III, will be totalized and entered as **Other Expenses. It is important that you keep for your records a schedule detailing such expenses.**

The Code provides a **\$400 deduction for employers from private industries for each severely disabled person** that is employed for at least 20 hours per week for nine months during the taxable year. This deduction will be allowed for up to five severely disabled persons employed. The regulations in force applicable from the Vocational Rehabilitation Program of the Department of the Family, will be used for the definition of the term "severely disabled person". You must keep for your records:

- 1) a certification indicating that the person for which the deduction is claimed, has been an employee for at least nine months of the taxable year in which the deduction is claimed, and

- 2) a certification issued by the Secretary of the Department of the Family, indicating that the individual for which the deduction is claimed is a severely disabled person, in accordance to the regulations and procedures of said Department.

The contributions made by an employer to an Educational Contribution Account, for a beneficiary designated by an employee, are deductible as part of the operating expenses of the industry or business, as long as the requirements established by law are met.

Every employer may claim annually as an operating expense of the industry or business, an amount equal to a month of salary for each employee to whom you have granted the right to nurse their babies or express their breast milk during one hour within each full time working day that can be divided in two periods of 30 minutes or three periods of 20 minutes. In the case of companies considered as small businesses by the Federal Small Business Administration, the period will be one half hour of each full time working day, that can be divided in two periods of 15 minutes.

Every industry or business that meets the requirements established in Act 212-2002, that creates new employments as part of a urban center rehabilitation process, will be entitled to a special additional deduction equivalent to 5% of the minimum salary applicable to each new employment created. Also, the transfer of your business with a minimum of 5 employees to a urban center will entitle you to an additional deduction equivalent to 15% of the payroll expenses related to the employees transferred during the year in which the business was transferred. The limit for this deduction will be 50% of the net income according to the Code, adjusted by the special deductions provided by Act 212-2002, without considering this deduction.

These deductions will be available for a term of 5 years from the taxable year in which the taxpayer applies for these benefits. You must keep for your records a certification issued by the Territorial Ordinance Office or from the City Planning Director indicating the name, social security number and minimum salary for each new employment created; or name and account number of the transferred business, its previous location, name and social security number of the transferred employees, and the amount of payroll related to said employees. For both deductions you must also specify the taxable year in which you applied for these benefits and their due dates. Also, the accelerated depreciation of the construction cost is allowed.

For details of these special deductions you must refer to Act 212-2002 and the corresponding regulation.

The deduction for other expenses may be claimed on line 25, Part III of Schedules K, L and M Individual or on line 21, Part III of Schedule N Individual. The taxpayer must include with the return Schedule W Individual detailing the nature and amount of the items claimed as a deduction for other expenses.

SCHEDULE O INDIVIDUAL - ALTERNATE BASIC TAX

Complete this Schedule if the net income subject to alternate basic tax is \$150,000 or more.

An alternate basic tax will be assessed, determined in accordance to the following table and reduced by the alternate basic credit for taxes paid to foreign countries, when the same is more than the regular tax:

Net Income Subject to Alternate Basic Tax:	Tax rate:
From \$150,000 to \$200,000	10%

Over \$200,000, but not over \$300,000	15%
Over \$300,000	24%

In the case of married persons filing separate returns or that choose the optional computation of tax, levels of net income subject to alternate basic tax shall be determined separately as an individual taxpayer.

For more details, refer to Regulation No. 8329 of January 9, 2013.

PART I – DETERMINATION OF NET INCOME SUBJECT TO ALTERNATE BASIC TAX

Lines 2 through 5 - To determine the net income subject to alternate basic tax there are only certain deductions allowed related to the industry or business which are claimed on Schedules K, L, M and N Individual. These deductions are previously identified in those Schedules. Therefore, in these lines it is necessary to add the non-allowable deductions to determine the net income subject to alternate basic tax. Transfer from the applicable Schedules the line identified. See Section 1021.02(a)(2)(A)(iii) of the Code and the corresponding regulation.

Line 6 - Enter on this line the total amount of deductions allowed by special acts that have not been considered in the adjustment of lines 2 through 5.

Line 7 - For purposes of the alternate basic tax for taxable years 2009 and 2010, it was required that a partner's share in the profit or loss from a special partnership engaged in the edification, installation and construction of structures that cover a period in excess of one year, will be determined by the accounting method known as "percentage of completion method". Therefore, if for those taxable years any other accounting method was used, the partner's share in the profit or loss from the special partnership had to be recalculated under the percentage of completion method and the difference to determine the net income subject to alternate basic tax had to be included on this line.

This adjustment is no longer required under the Code. Nevertheless, for those taxpayers who have made this adjustment in 2009 and/or 2010, this line is provided to avoid the duplication of the income that was already recognized in those taxable years for purposes of the alternate basic tax, at the moment in which the income is recognized by the special partnership according to the accounting method that was not the percentage of completion.

Lines 8 and 9 – Transfer to these lines the distributable share in the adjustments for purposes of the alternate basic tax of pass-through entities, according to the identified line of Forms 480.60 EC and 480.60 F.

Line 10 – Enter the total amount of exclusions and exemptions that are not derived from Subtitle A of the Code, even if they are granted by special laws, except those provided by:

- ☞ Act 225-1995, as amended, known as the Puerto Rico Agricultural Incentives Act;
- ☞ Act 73-2008, as amended, known as the Economic Incentives for the Development of Puerto Rico Act or any other previous or successor act of a similar nature;
- ☞ Act 83-2010, known as the Puerto Rico Green Energy Incentives Act or any other previous or successor act of a similar nature; or
- ☞ Act 78-1993, as amended, known as the Puerto Rico Tourism Development Act of 1993, or any successor act, including the Puerto Rico Tourism Development Act of 2010.



To determine the exclusions and exemptions to the alternate basic tax (Column 2) on Schedule IE Individual, do not consider the exempt or excluded income provided by the above acts.

Transfer to this line the amount from line 2 of Part III of Schedule IE Individual.

Line 11- Enter on this line those items considered to determine the adjusted gross income in the return that for the provisions of a special act are not considered to determine the alternate basic tax.

Provide a breakdown with the amount, concept of the adjustment and the legislation that provides for such item not to be subject to the payment of alternate basic tax.

Line 13 - The same deductions admitted under Sections 1033.15 and 1033.16 of the Code and the allowances for personal exemption and exemption for dependents provided by Section 1033.18 of the Code are allowed as reductions to determine the net income subject to alternate basic tax. Transfer from Part 2, line 10 of the return or from line 12 of Schedule CO Individual, according to the corresponding column, the total applicable deductions to individuals, personal exemption and exemption for dependents.

PART II - ALTERNATE BASIC TAX COMPUTATION

Line 5 - To determine the alternate basic tax, you may claim the credit for taxes paid to the United States, its possessions and foreign countries with certain adjustments. Therefore, to determine the credit to be claimed on this line it is necessary to recalculate the credit determined on Schedule C Individual for the regular tax (line 3 of Part II of this Schedule) substituting the tax determined by the alternate basic tax and the net income by the net income subject to alternate basic tax.

For details, see the instructions for Schedule C Individual. It is necessary to identify Schedule C Individual as “computed for the alternate basic tax” on the upper part and that you submit both Schedules C Individual with your return.

PART III - COMPUTATION OF THE CREDIT FOR ALTERNATE BASIC TAX

Use this part to determine the amount of the credit for alternate basic tax paid in excess over the regular tax, not used in previous taxable years. In order to claim this credit, the sum of the regular tax and the gradual adjustment of the current taxable year must be more than the alternate basic tax for the same year. Follow the instructions that are provided on each line.

The amount of credit for alternate basic tax of previous taxable years is equivalent to the sum of the excess of alternate basic tax over the regular tax determined annually for each of the taxable years beginning on December 31, 2008 and ending before January 1, 2014, as determined in Part IV of this Schedule, reduced by the amount of alternate basic tax credits previously claimed.

If you paid taxes to the United States, its possessions or any foreign country, the regular tax and the alternate basic tax shall be reduced by the amount applicable of the credit for tax paid to those places.

The alternate basic tax credit cannot be more than 25% of the excess of the net regular tax over the net alternate basic tax determined for the current year. Any balance of the credit not claimed may be carried over to subsequent years until totally used.

PART IV – DETERMINATION OF THE ALTERNATE BASIC TAX PAID IN PREVIOUS YEARS NOT CLAIMED AS CREDIT

Complete this Part and determine the amount of carryover of alternate basic tax paid in previous years and not claimed as

credit that is available for the taxable year. You must include the alternate basic tax paid in excess of the regular tax, the amount previously used as credit and the amount available. This amount will be used for the computation of the alternate basic tax.

For additional details, refer to Section 1021.02(a)(6) of the Code and Regulation No. 7887 of July 7, 2010.

SCHEDULE P INDIVIDUAL - GRADUAL ADJUSTMENT

In the case of taxpayers whose net taxable income is over \$500,000, the Code provides for a gradual adjustment to the tax rates lower than 33% and the personal exemption and exemption for dependents. If married filing separately or if you choose the optional computation of tax in the case of married persons living together and filing a joint return, this limit is determined separately as if it were an individual taxpayer.

If the net taxable income in Part 2, line 13 of the return, line 15, Column B or C of Schedule CO Individual or line 11, Column A of Schedule A2 Individual is over \$500,000, you will be subject to this adjustment.

SCHEDULE R INDIVIDUAL - PARTNERSHIPS, SPECIAL PARTNERSHIPS AND CORPORATIONS OF INDIVIDUALS

Complete Schedule R Individual, if you are a partner of one or more partnerships or special partnerships or a shareholder of one or more corporations of individuals. If you have share in more than three partnerships and special partnerships or in more than three corporations of individuals, you must also complete and submit with the return the amount of Schedules R1 Individual that are necessary.

If you choose the optional computation of tax in the case of married persons living together and filing a joint return, you must complete and include with your return a **Schedule R Individual for each spouse that has share in any of these entities**. Select the oval that identifies the taxpayer or his/her spouse, respectively.

Part I of Schedule R Individual is used every year to determine the taxpayer’s adjusted basis in each partnership or special partnership. Also, you must indicate the type of form from which the information to be included in this schedule comes (Form 480.60 EC or K-1), type of taxable year (calendar or fiscal), name and employer identification number of the entity, and the control and electronic filing confirmation number of Form 480.60 EC received, as applicable.

Part II of this Schedule is used to determine the taxpayer distributable share on the net profit or loss of one or more partnerships or special partnerships, including those losses carried over from previous years.

Part III of this Schedule is used every year to determine the taxpayer’s adjusted basis in each corporation of individuals. Also, you must indicate the type of taxable year (calendar or fiscal), the name and employer identification number of the entity, and the control and electronic filing confirmation number of Form 480.60 EC received.

Part IV of this Schedule is used to determine the taxpayer distributable share on the net profit or loss of one or more corporations of individuals, including those losses carried over from previous years.

Part V provides to determine the aggregated net loss from partnerships, special partnerships and corporations of

individuals that can be applied to the aggregated net income of these pass-through entities. For taxable years beginning after December 31, 2014, said losses cannot exceed 80% of the distributable share in the aggregated net income of other partnerships, special partnerships or corporations of individuals.

You must complete this Schedule annually, irrespective of the fact that the partnership, special partnership or corporation of individuals have derived gains or losses.

PART I - ADJUSTED BASIS DETERMINATION OF A PARTNER IN ONE OR MORE SPECIAL PARTNERSHIPS OR PARTNERSHIPS

Line 1 - Enter the amount from Part I, line 4 of previous year Schedule R Individual.

The basis of a partner's share from a partnership or special partnership will be the amount of cash or the adjusted basis of any property that is not considered cash, contributed to said partnership.

This basis will be adjusted by the following entries or transactions made during the taxable year of the determination and others included on previous year income tax return.

Line 2 - Basis increase

- (a) Enter the partner's distributable share in the pass-through entity's income and profits for the current year. This amount must be the same as the one shown on line 7, Part II of this schedule.
- (b) Enter the capital contributions made by the partner to the pass-through entity during the current year, as shown in column (a), Part II of Form 480.60 EC.
- (c) Enter the partner's distributable share in the pass-through entity's gains from the sale or exchange of capital assets for the current year.
- (d) Enter the partner's distributable share in the pass-through entity's exempt income for the current year.
- (e) Enter the proportion of income or profit attributable to your share in the income from agriculture earned by the partnership or special partnership, which is tax exempt under Section 1033.12 of the Code.
- (f) Enter other income or profits like for example, the distributable share in the dividends and interests received by the partnership or special partnership.

Line 3 - Basis decrease

- (a) Enter the distributable share in the loss attributable to the partner on the previous year. This amount shall be the same as line 4, Part V of Schedule R Individual of taxable year 2016. If a partner has share in losses from more than one special partnership or partnership, the total allowable loss balance, as determined in the previous taxable year, will be attributed proportionally to the loss of each one of the partnerships. The allocation will be made using as a factor the adjusted basis of the partner's share in each one of the partnerships at the close of the previous taxable year.
- (b) Enter the distributable share in the partnership or special partnership's capital losses.
- (c) Enter the distributions made to the partner by the partnership or special partnership, whether in cash or in property, including tax exempt income.

- (d) Enter the amount claimed as credit against the income tax on the previous taxable year for investments made in partnerships or special partnerships engaged in the production of feature films or under the Puerto Rico Tourism Development Act of 1993, the Puerto Rico Capital Investment Fund Act, the Puerto Rico Agricultural Tax Incentives Act, as amended, or any other credit admitted by law to the partners related to the partnership or special partnership's activities.
- (e) Enter the amount claimed as credit against income tax for withholding of tax at source from the distributable share made to a resident partner (30%) or to a nonresident alien partner (29%).
- (f) Enter any expense from the partnership or special partnership not allowed as a deduction while determining your net income and that is not capitalized.
- (g) Enter the distributable share in net losses from tax exempt operations under the Tourism Incentives Act of 1983 and the Tourism Development Act of 1993.
- (h) **Only in the case of partnerships**, enter the charitable contributions to eligible entities.
- (i) Enter the partner's debts assumed and guaranteed by the partnership.

Line 4 - The amount of this line cannot be less than zero. If the amount on this line is less than zero, enter zero and recognize a gain for the amount of the adjusted basis that is less than zero.

PART II - DETERMINATION OF NET INCOME OR LOSS IN ONE OR MORE SPECIAL PARTNERSHIPS OR PARTNERSHIPS

For taxable years beginning after December 31, 2010, if the special partnership or partnership derived losses, you may not claim them as a deduction against other income other than income derived from other special partnerships, partnerships or corporation of individuals. Said loss will be limited to the adjusted basis of the partner's share in the partnership at the end of the taxable year in which the loss is claimed.

The adjusted basis limitation will be determined for each one of the special partnerships or partnerships in which the partner invests.

Line 5(a) - Enter the distributable share in the loss of the special partnership or partnership attributable to the partner in accordance to the share percentage. This amount is informed to the partner on Form 480.60 EC.

Line 5(b) - Enter the carryover losses which were not claimed in previous years due to the limitation. This amount must be the same as the one shown on line 6, Part V of Schedule R Individual included on the income tax return of taxable year 2016. If a partner owns shares in losses from more than one special partnership or partnership, the balance subject to the loss carryover, as determined on the previous taxable year, will be proportionally attributed to the loss of each one of the partnerships. Said attribution will be done by using as factor the adjusted basis of the partner's share in each one of the partnerships at the end of the previous taxable year.

Line 6 - Enter on this line the amount determined in Part I, line 4. If the special partnership or partnership has an exemption decree under the Puerto Rico Tourism Incentives Act or the Puerto Rico Tourism Development Act, you may use the debts of the special partnership or partnership in proportion to your share, to increase your adjusted basis, only to claim losses of the special partnership or partnership from this activity. Also you may use the partnership's current debts assumed and guaranteed by the partner.

Line 7 - Enter the partner's distributable share in the income and profits derived from the special partnership or partnership during the year. This amount is reflected in Part III, line 5 of Form 480.60 EC.

Line 8 - Enter the smaller of the amounts on lines 5(c) and 6(d). This will be the maximum admissible amount of losses derived from partnerships and special partnerships to determine the amount of aggregated net loss from partnerships, special partnerships and corporations of individuals to be used against the aggregated net income of said pass-through entities.

Line 9 - Enter the sum of the income reported on line 7, Columns A through C.

PART III - ADJUSTED BASIS DETERMINATION OF A STOCKHOLDER IN ONE OR MORE CORPORATIONS OF INDIVIDUALS

Line 1 - Enter the adjusted basis of the corporation of individuals at the close of the previous taxable year.

The basis of a stockholder's share from a corporation of individuals will be the amount of cash, or the adjusted basis of any property that is not considered cash, contributed to said corporation.

This basis will be adjusted by the following entries or transactions made during the taxable year of the determination and others included on previous year income tax return.

Line 2 - Basis increase

- (a) Enter the stockholder's distributable share in the pass-through entity's income and profits for the current year. This amount must be the same as the one shown on line 7, Part IV of this schedule.
- (b) Enter the capital contributions made by the stockholder to the pass-through entity during the current year, as shown in column (a), Part II of Form 480.60 EC.
- (c) Enter the stockholder's distributable share in the pass-through entity's gains from the sale or exchange of capital assets for the current year.
- (d) Enter the stockholder's distributable share in the pass-through entity's exempt income for the current year.
- (e) Enter the proportion of income or profit attributable to your share in the income from agriculture earned by the corporation of individuals, which is tax exempt under Section 1033.12 of the Code.
- (f) Enter other income or profits like for example, the distributable share in the dividends and interests received by the corporation of individuals.

Line 3 - Basis decrease

- (a) Enter the distributable share in the loss attributable to the stockholder on the previous year. This amount shall be the same as line 4, Part V of Schedule R Individual of taxable year 2016. If a stockholder has share in losses from more than one corporation of individuals, the total allowable loss balance, as determined in the previous taxable year, will be attributed proportionally to the loss of each one of the corporation of individuals. The allocation will be made using as a factor the adjusted basis of the stockholder's share in each one of the corporations of individuals at the close of the previous taxable year.

- (b) Enter the distributable share in the corporation of individual's capital losses.
- (c) Enter the distributions made to the stockholder by the corporation of individuals, whether in cash or in property, including tax exempt income.
- (d) Enter the amount claimed as credit against the income tax on the previous taxable year for investments made in corporation of individuals engaged in the production of feature films or under the Puerto Rico Tourism Development Act of 1993, the Puerto Rico Capital Investment Fund Act, the Puerto Rico Agricultural Tax Incentives Act, as amended, or any other credit admitted by law to the stockholders related to the corporation of individual's activities.
- (e) Enter the amount claimed as credit against income tax for withholding of tax at source from the distributable share made to a resident stockholder (30%) or to a nonresident alien stockholder (33%).
- (f) Enter any expense from the corporation of individuals not allowed as a deduction while determining your net income and that is not capitalized.
- (g) Enter the distributable share in net losses from tax exempt operations under the Tourism Incentives Act of 1983 and the Tourism Development Act of 1993.
- (h) Enter the stockholder's debts assumed and guaranteed by the corporation of individuals.

Line 4 - The amount of this line cannot be less than zero. If the amount on this line is less than zero, enter zero and recognize a gain for the amount of the adjusted basis that is less than zero.

PART IV - DETERMINATION OF NET INCOME OR LOSS IN ONE OR MORE CORPORATIONS OF INDIVIDUALS

The adjusted basis limitation will be determined for each one of the corporations of individuals in which the stockholder invests.

Line 5(a) - Enter the distributable share in the loss of the corporation of individuals attributable to the stockholders in accordance to the share percentage. This amount is informed to the stockholder on Form 480.60 EC.

Line 5(b) - Enter the carryover losses which were not claimed in previous years.

Line 6 - Enter on this line the amount determined in Part III, line 4. If the corporation of individuals has an exemption decree under the Puerto Rico Tourism Incentives Act or the Puerto Rico Tourism Development Act, you may use the debts of the corporation of individuals in proportion to your share, to increase your adjusted basis, only to claim losses of the corporation of individuals from this activity. Also you may use the current debts of the corporation of individuals assumed and guaranteed by the stockholder.

Line 7 - Enter the stockholder's distributable share in the income and profits derived from the corporation of individuals during the year. This amount is reflected on Form 480.60 EC .

Line 8 - Enter the smaller of the amounts on lines 5(c) and 6(d). This will be the maximum admissible amount of losses derived from corporations of individuals to determine the amount of aggregated net loss from partnerships, special partnerships and corporations of individuals to be used against the aggregated net income of said pass-through entities.

Line 9 - Enter the sum of the income reported on line 7, Columns A through C.

PART V - DISTRIBUTABLE SHARE OF BENEFITS FROM PARTNERSHIPS, SPECIAL PARTNERSHIPS AND CORPORATIONS OF INDIVIDUALS

Line 4 - The amount allowed as loss cannot exceed 80% of the aggregated net income derived from partnerships, special partnerships and corporations of individuals generated during the current taxable year.

Line 6 - If the result is a **net loss**, it is not deductible but you may carry it to future years. The balance of the carry forward loss is attributed proportionally to the loss in each one of the entities. The allocation will be done by using as a factor the adjusted basis of the partner or stockholder share in each of the entities at the close of the taxable year.

SCHEDULE R1 INDIVIDUAL - PARTNERSHIPS, SPECIAL PARTNERSHIPS AND CORPORATIONS OF INDIVIDUALS (COMPLEMENTARY)

Complete Schedule R1 Individual, if you are partner of more than three partnerships or special partnerships or stockholder of more than three corporations of individuals. As Schedule R Individual, Schedule R1 Individual is used each year to determine the adjusted basis and the net profit or loss on the taxpayer's share in each partnership, special partnership or corporation of individuals, including the loss carryover from previous years.

Use the amount of Schedules R1 Individual as needed. For additional information, see instructions of Schedule R Individual.

SCHEDULE T INDIVIDUAL – ADDITION TO THE TAX FOR FAILURE TO PAY ESTIMATED TAX IN CASE OF INDIVIDUALS

Use this schedule only if you have the obligation to pay estimated tax to determine the addition to the tax for failure to pay estimated tax.

PART I – DETERMINATION OF THE MINIMUM AMOUNT OF ESTIMATED TAX TO PAY

Line 2 – Include the total amount of withholdings and credits provided by the Code or special acts for the taxable year, including the non refunded tax paid in excess corresponding to the previous taxable year.

Line 3 – If the amount of estimated tax to be paid is \$1,000 or less, you were not required to pay estimated tax, thus, do not complete this Schedule.

Line 4 – If you are a farmer and elected the provisions under Section 1061.22 of the Code, then multiply line 1 by 66 2/3%.

Line 5 – Enter the greater of the amount shown on lines 19 and 20, Part 3 of the preceding taxable year's return, or an amount equal to the tax determined at the rates and under the law applicable to the taxable year using the data in the preceding taxable year return. For additional information, refer to the part of Penalties under the topic of OBLIGATION TO PAY ESTIMATED TAX.

PART II – ADDITION TO THE TAX FOR FAILURE TO PAY

Section A – Failure to Pay

Select the oval for calendar year if your taxable year ends on December 31, otherwise, select the oval which indicates fiscal year. If you selected the oval for fiscal year, enter in Columns

(a), (b), (c) and (d), the date corresponding to the 15th day of the fourth month, sixth month, ninth month of the taxable year, and the first month following the close of the taxable year, respectively.

Line 8 – If the obligation to pay the estimated tax was met **for the first time** before the first day of the fourth month of the taxable year, enter in each of the Columns 25% of line 7. If the obligation was met **for the first time** after the last day of the third month and before the first day of the sixth month of the taxable year, enter in Columns (b), (c) and (d) 33% of line 7. If the obligation was met **for the first time** after the last day of the fifth month and before the first day of the ninth month of the taxable year, enter in Columns (c) and (d) 50% of line 7. If the obligation was met **for the first time** after the last day of the eighth month, enter in Column (d) 100% of line 7. If there is any change in the computation of the estimated tax, enter the amount of the installment according with the corresponding change.

Line 9 – Enter in Column (a) the amount of estimated tax paid no later than April 15 of the taxable year (the 15th day of the fourth month of the taxable year if you have a fiscal year); in Column (b), the estimated tax paid after April 15 of the taxable year (the 15th day of the fourth month of the taxable year if you have a fiscal year) and no later than June 15 of the taxable year (the 15th day of the sixth month of the taxable year if you have a fiscal year); in Column (c), the estimated tax paid after June 15 of the taxable year (the 15th day of the sixth month of the taxable year if you have a fiscal year) and no later than September 15 of the taxable year (the 15th day of the ninth month of the taxable year if you have a fiscal year); and in Column (d), the estimated tax paid after September 15 of the taxable year (the 15th day of the ninth month of the taxable year if you have a fiscal year) and no later than January 15 following the taxable year (the 15th day of the first month following the taxable year if you have a fiscal year). Transfer the total of this line to Schedule B Individual, Part III, line 1.

Line 10 – If various payments were made in the periods described in the instructions for line 9, indicate the amount and date of the payments.

Line 11 – To determine the amounts to be entered in Columns (b), (c) and (d), you must complete lines 11 through 17 of previous column.

Any overpayment, after covering the estimated tax payment of the corresponding installment, will be attributed first to the amount of estimated tax of previous installments due and not paid and then to the subsequent installments.

Section B – Penalty

Line 18 – 10% of the estimated tax of each installment due but not paid will be added to the tax.

Line 19 – The amount determined on this line reflects the proportion of the penalty attributable to the installments of estimated tax paid after the due date, if applicable.

SCHEDULE V INDIVIDUAL – DETAIL OF NET OPERATING LOSSES FROM PREVIOUS YEARS

Include with your return one Schedule V Individual for each industry or business for which you are requesting a deduction for net operating losses from previous years. In the case of married persons filing jointly or who file under the optional computation of tax, each spouse will include with the return one Schedule V Individual in which each one reports his/her available net operating losses and which are claimed on the schedule corresponding to the industry or business. Select the oval that

identifies the schedule to which it belongs and to which the total available loss for the taxable year will be transferred.

Select the oval located in the heading of this Schedule to indicate whether it belongs to the taxpayer or to the spouse.

Losses incurred in an industry or business that is the taxpayer's or the spouse's principal business or industry, may be claimed against the income from other sources, except from salaries and pensions. Those losses incurred in activities that are not the taxpayer's or his/her spouse's principal business or industry, may be deducted only against future income from the specific activity that produced the loss.

On this Schedule you must indicate the year in which the loss was incurred, the loss incurred, the amount used in previous years, the adjustment required under Section 1033.14(b)(1)(E) of the Code, the amount available and the expiration date, if any.

Any excess in the losses incurred by the principal business or industry during one year may be claimed in future years, as applicable, according to the period when the loss has been generated:

- For taxable years beginning before January 1, 2005, the losses incurred have a carryover period to each one of the following seven (7) taxable years.
- For taxable years beginning after December 31, 2004 and before January 1, 2013, the carryover period for the incurred losses will be twelve (12) years.
- For losses incurred in taxable years beginning after December 31, 2012, according to the limits provided by Section 1033.14(b)(1)(D) of the Code, the carryover period will be ten (10) years.
- In the case of a new business that operates under a Special Agreement for the Creation of Jobs, as provided by Act 1-2013, they may deduct the net operating losses incurred in the first two (2) years of the Agreement, for a ten (10) year period.

However, Section 1033.14(b)(1)(E) of the Code provides an additional limitation applicable in the case of individuals that reflect a net operating loss in their industry or business for three consecutive taxable years. In these cases, the amount of loss to be carried over in the third taxable year that begins after December 31, 2014 and any subsequent taxable year, will be 50% of the loss incurred in that year. For these purposes, each type of industry or business will be considered separately and a rental business of real property will not be considered as an industry or business. This limitation will be reflected in Column (C) as an adjustment to taxpayers that have generated losses, as indicated, on their activity from Industry or Business (Schedule K Individual), Farming (Schedule L Individual) or Professions and Commissions (Schedule M Individual). Since a real estate rental business will not be considered as an industry or business, this adjustment will not be taken into account in determining the net operating loss from a Schedule N Individual.

This restriction is illustrated with the following example: Taxable year 2015 is the third taxable year commenced after December 31, 2014 for which taxpayer "X" has derived a loss in his/her industry or business. The amount of such losses are (\$50) for 2013, (\$100) for 2014, and (\$200) for 2015. In the tax return for taxable year 2016, "X" may claim as carryover the total losses from years 2013 and 2014, but only 50% of the loss of 2015 for a total of \$250 (\$50 + \$100 + (\$200 x 50%)).

On the other hand, any excess in the losses incurred in an activity that is not the principal industry or business, shall be treated as an allowable deduction against the gross income from such activity in subsequent taxable years.

SCHEDULE W INDIVIDUAL – DETAIL OF DIRECT ESSENTIAL COSTS AND OTHER COSTS

Include with your return one Schedule W Individual for each industry or business for which you are claiming a deduction for direct essential costs and other costs on Schedules K, L, M and N Individual in the individual return. In the case of married persons filing jointly or who file under the optional computation of tax, each spouse will include with the return one Schedule W Individual detailing the direct essential costs or other costs which are claimed in the corresponding industry or business schedule. Select the oval that identifies the schedule to which it belongs and to which the total deductions will be transferred.

Select the oval located in the heading of this Schedule to indicate whether it belongs to the taxpayer or to the spouse.

OBLIGATION TO PAY ESTIMATED TAX

WHO HAS THE OBLIGATION TO PAY ESTIMATED TAX?

Any individual whose estimated tax for any taxable year is more than \$1,000, except the following:

- those whose gross income was derived exclusively from wages or pensions subject to withholding of tax at source;
- those whose gross income comes exclusively from remuneration received for services rendered to the Government of the United States subject to withholding of tax at source for purposes of the United States Government;
- those whose gross income comes exclusively from remuneration for services performed in agricultural labor not subject to withholding of tax at source under Section 1062.01 of the Code; or
- individuals who in addition to the income listed above receive less than \$5,000 in income from other sources.

The estimated tax will be the excess of:

- 1) the amount of tax estimated by the individual for the taxable year, including the alternate basic tax and the gradual adjustment, among other taxes, over
- 2) the amount of withholdings and credits provided by the Code or special laws estimated by the individual for the taxable year, including the non refunded tax paid in excess corresponding to the previous taxable year.

However, if the total amount of tax is \$1,000 or less, you are not required to pay estimated tax.

PAYMENT OF TAX

The estimated tax for the taxable year must be paid in four equal installments:

1st installment:	15th day of the fourth month
2nd installment:	15th day of the sixth month
3rd installment:	15th day of the ninth month
4th installment:	15th day of the first month of the following taxable year.

If the obligation to pay estimated tax arises for the first time after the last day of the third month and prior to the first day of the sixth month of the taxable year, the installments will be:

1st installment:	15th day of the sixth month
2nd installment:	15th day of the ninth month
3rd installment:	15th day of the first month of the following taxable year.

If the obligation to pay estimated tax arises for the first time after the last day of the fifth month and prior to the first day of the ninth month of the taxable year, the installments will be:

1st installment:	15th day of the ninth month
2nd installment:	15th day of the first month of the following taxable year.

If the obligation to pay estimated tax arises for the first time after the last day of the eighth month of the taxable year, the estimated tax will be paid in its entirety on the 15th day of the first month of the following taxable year.

The estimated tax installments will be paid together with a payment coupon (Forms 480.E-1). **Make sure to use the latest revised version of Form 480.E-1 available for each installment. Payments made with coupons reviewed in previous dates may confront problems in their application.**

You can also make your payments without the need of a coupon by using the Payments Online Services ("Colecturía Virtual"). For additional information, please call (787) 622-0123.

The estimated tax payments shall be made online by using the Payments Online Services, at the Internal Revenue Collections Offices or you can mail them to the Returns Processing Bureau to the following address:

DEPARTMENT OF THE TREASURY
RETURNS PROCESSING BUREAU
PO BOX 9022501
SAN JUAN PR 00902-2501

Payments with managers checks, checks or money orders at the Internal Revenue Collections Offices will be made payable to the Secretary of the Treasury.

CHANGES IN THE ESTIMATED TAX COMPUTATION

If there is any change in the estimated tax computation as a result of a change in income, personal exemption, exemption for dependents or for any other reason, the remaining installments must be proportionally increased or reduced to reflect the increase or reduction in the estimated tax. On the other hand, if on or before January 15 of the following taxable year the final income tax return had been filed and the income tax balance is paid, then

- 1) if you are not required to make estimated tax payments during the taxable year but you are required to pay it on or before said January 15, such return will be considered as such payment; and
- 2) if the tax determined in the return, reduced by the deductions and credits provided in the Code or special laws for the taxable year is more than the tax estimated by the taxpayer, such return will be considered as a change in the computation of the estimated tax.

FARMERS

If 2/3 or more of an individual estimated gross income was derived from agricultural activities, the payment of estimated tax will be due on January 15 of the following year, if the income tax return is filed on a calendar year basis, or no later than the 15th day of the month in which the following taxable year begins, if the income tax return is filed on a fiscal year basis.

Farmers who file the income tax return no later than January 31 of the following year (if they file on a calendar year basis) or no later than the last day of the month in which the following taxable year begins (if they file on a fiscal year basis) and pay in its entirety the total amount determined on the income tax return no later than on said date, it will be considered as if the estimated tax payment would have been made no later than January 15.

PENALTIES

The Code establishes a 10% penalty of the amount of any estimated tax installment not paid. For these purposes, the estimated tax will be the smaller of:

- 1) 90% of the tax for the taxable year, or
- 2) the greater of:
 - a) the total income tax determined as it results from the preceding year's income tax return, or
 - b) an amount equal to the tax determined at the rates and under the law applicable to the taxable year using the data in the return of the individual for the preceding year.

The above subsection 2 should not apply if the preceding taxable year was not a 12 months taxable year, or if the taxpayer filed a return for the preceding taxable year in which a tax was not reflected, without considering any tax credit to which he/she was entitled, including credits for taxes withheld or paid. On the other hand, you may consider any credit for taxes paid or accrued during the taxable year to the United States, its territories and possessions, or any foreign country to which you are entitled.

Occupational Codes

OCCUPATION	CODE	OCCUPATION	CODE
Accounts Adjuster	5243	Language Pathologist	6240
Accountant or Auditor	5412	Lawyer	5411
Advertising Agent	5417	Legislator and Mayor	9300
Architect	5415	Locksmith	5616
Artist, Actor, Dancer, Singer	7115	Mason	2381
Automotive Body and Related Repairer	4800	Mechanic and Automotive Technician	3321
Aviculturist	1123	Medical Assistant	6209
Butcher	4452	Medical Propagandist	6211
Cabinetmaker	3323	Medical Technologist	6216
Carpenter	3322	Military Man (Soldier)	8101
Carrier Worker	8102	Nurse	6212
Cashier	4213	Pharmaceutical Equipment Operator	6215
Computer Programmer	5110	Pharmacist or Pharmacy Assistant	6213
Construction Painter	2383	Pilot	8102
Construction Worker	2382	Planner	5421
Contractor	2360	Plumber	2384
Cook (Food Preparation Worker)	4212	Police Officer – State and Municipal	9315
Correction Officer and Jailer	9315	Postman and Messenger	3333
Customer Service Representative	4302	Private Guard	4300
Data Entry Operator	5108	Professional Athlete	7112
Drafter	5416	Professional Therapist	6217
Driver (Other)	4856	Professor – University	6112
Economist	5420	Psychologist	5422
Electric Equipment Operator	5111	Radio and Television Announcer	5131
Electrician	3324	Radiologist	6214
Embalmer and Gravedigger	8123	Real Estate Agent and Broker	5312
Engineer	5414	Refrigeration Technician	8106
Farmer	1110	Retail Sales Representative	4610
Financial Institution Clerk	5223	Retired – Pensioner	8130
Financial Manager and Supervisor	5222	Sales Manager and Supervisor	4214
Fireman	9314	Salesperson – Retail	4611
Flight Attendant	6115	Salesperson – Wholesale	4311
Forensic Pathologist	8124	School Administrator	6111
Garbage Man	8112	Scientist	5419
Gardener	8103	Secretary	8104
General Manager and Supervisor	4216	Securities Agent and Broker	5231
General Office Clerk	8111	Social Worker	6245
Generalist Physician	6208	Solderer	3119
Hairstylist, Barber and Cosmetologist	8121	Specialist Physician	6210
Heavy Equipment Operator	4857	Tapestry Maker	3120
Household and Domestic Services	8105	Teacher	6110
Industrial Equipment Operator	3101	Telephonic Equipment Operator	5112
Industrial Mechanic	3110	Teller	5221
Industry Manager and Supervisor	3100	Travel Agent	5615
Information Systems Manager	5109	Truck Driver	4855
Insurance Agent and Broker	5242	Veterinarian	5418
Janitor	5617	Waiter	4215
Judge	9301	Wholesale Representative	4310
Land Surveyor	5413	Other Work or Profession	8110

CHECK LIST



TAXPAYER, REVIEW YOUR DATA AND AVOID THE MOST COMMON MISTAKES THAT MAY DELAY THE PROCESSING OF YOUR RETURN

- Verify that your Social Security number is the one shown on the Withholding Statement (Form 499R-2/W-2PR) or Informative Returns (Forms 480.6A, 480.6B, 480.6C, 480.6D or 480.7C, among others).
- Make sure to write correctly your Social Security number in your 2017 Return.
- In the case of married taxpayers, make sure that the name and Social Security number of each spouse are correct.
- If you claim dependents, make sure to complete Schedule A1 Individual in your return. Confirm that the complete name (with both last names), relationship, and Social Security number of each dependent claimed, are correct.
- Before filing the return electronically, make sure that all required schedules were completed.
- Inform all your income, whether or not they are included in a Withholding Statement or Informative Return. The Department of the Treasury matches the information provided by the taxpayers in their returns with the information provided by the employers and withholding agents.
- Make sure that the Withholding Statements and Informative Returns reported on the return include the electronic filing confirmation number.
- Make sure that your postal address is complete.
- Remember to complete the authorization for direct deposit on page 1 to receive your refund faster. Make sure to enter the correct information of your bank account. If you file the return with the incorrect information of your bank account or if you want to change the refund payment method by direct deposit, you must complete Form SC 2718 and deliver it personally at any of our Taxpayer's Service Centers.
- If you have to make a payment with check, make sure to fill it out on behalf of the Secretary of the Treasury, that the amounts match, that it is signed, that it has enough funds to make the payment, and include the Social Security number. A check with mistakes is subject to interests and surcharges.
- If you are making the payment by Automated Clearing House (ACH), make sure to provide the correct information of the bank account before completing the electronic filing. If the payment is rejected by the financial institution, the Department of the Treasury may impose a penalty on the amount of the payment.



GOVERNMENT OF PUERTO RICO
DEPARTMENT OF THE TREASURY
PO BOX 9022501
SAN JUAN PR 00902-2501

IMPORTANT NOTICE:

DO NOT FORGET TO WRITE YOUR SOCIAL SECURITY NUMBER IN THE CORRESPONDING BOX ON THE RETURN AND SCHEDULES. THIS NUMBER IS NECESSARY TO PROCESS YOUR RETURN.