



JUAN CARLOS PUIG
SECRETARY OF THE TREASURY

November 30, 2010

INFORMATIVE BULLETIN FROM INTERNAL REVENUE NO. 10-13

ATTENTION: ALL TAXPAYERS COVERED BY LAW 154 OF OCTOBER 25, 2010

SUBJECT: ISSUANCE OF REGULATIONS

Law 154 of October 25, 2010, as amended by Law 157 of October 28, 2010, amended Section 1123 of Subtitle A and added a new Chapter 7 to Subtitle B of the Puerto Rico Internal Revenue Code of 1994. The income source rule in Section 1123 was revised to include additional rules to determine when a nonresident individual or a foreign corporation or partnership is engaged in trade or business in Puerto Rico and deriving income from Puerto Rico sources (the "Income Source Rule"). The new Chapter 7 of Subtitle B includes a new excise tax on the acquisition of certain personal property and services (hereinafter the "Excise Tax"). These amendments to the Puerto Rico Internal Revenue Code of 1994 apply to income realized and acquisitions made after December 31, 2010.

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The Treasury Department intends to promulgate certain regulations to implement and interpret the Income Source Rule and the Excise Tax. The Department of Treasury will adopt the regulations with respect to the Excise Tax (hereinafter the "Excise Tax Regulations") on or before December 31, 2010, and will request that the Governor certify said regulations for immediate effect pursuant to Section 2.13 of Act No. 170 of August 12, 1988, as amended, known as the Puerto Rico Uniform Administrative Procedures Act. The objective is for the Excise Tax Regulations to be in effect on January 1, 2011. The regulations with respect to the Income Source Rule will be developed and adopted after the Excise Tax Regulations are in effect.

A draft of certain principal provisions of the Excise Tax Regulations will be issued for public comment no later than December 10, 2010. Comments received in English by 5 pm on December 20, 2010, in accordance with the delivery instructions provided below, will be considered in the regulations that will have effect from January 1, 2011. This comment period will be the only comment period afforded prior to the initial adoption of the regulations and their certification by the Governor for immediate effect.

Pursuant to Section 2.2 of the Puerto Rico Uniform Administrative Procedures Act, after the Excise Tax Regulations become effective on January 1, 2011, the Department of Treasury will grant a 30-day notice and comment period for all interested parties to submit additional comments. Once these 30 days expire, the Department may reissue the regulations if appropriate to include additional amendments.

The topics to be addressed in the regulations will include, but not be limited to, the following. No inference should be drawn about the manner in which any topic will be treated in the regulations from its inclusion on this list.

1. Definition of "tangible property" for purposes of section 2101(b)(1)
 - a. Property not physically manufactured in Puerto Rico
 - b. Packaging or minor assembly
2. Definition of "acquisition" for purposes of section 2101(b)(1)
 - a. Time at which acquisition occurs
 - b. The acquisition of property or services by one branch from another branch of the same legal entity
 - c. Treatment of multiple acquisitions of the same property
3. Definition of "value of personal property and services" for purposes of section 2101(b)(2)
 - a. Value in the case of services
 - b. Value in the case of facilitation
 - c. Components that are separately priced by reference to independent third party exchange or publication
4. Potential credits based on *de minimis* and other threshold measures
5. Definition of "controlled group" for purposes of section 2101(b)(4)
6. Definition of "period" for purposes of section 2101(b)(4), in particular as applied to fiscal year taxpayers
7. Definition of "gross receipts" for purposes of section 2101(b)(6)
8. Application of 10-percent tests in section 2101(c)
9. Application of anti-abuse rule in section 2101(c)(2)

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10. Application of credit mechanism in section 2104


- a. Definition of "taxes" for purposes of section 2104
- b. Clarify application of limitation in section 2104(c) including "lesser of" standard
- c. Limitation on cascading taxes

Delivery of Comments

The text of the Excise Tax Regulations will be available during working days and hours at the Puerto Rico Treasury Department, Sixth Floor Office 802, Intendente Ramírez Building, 10 Paseo Covadonga, San Juan, Puerto Rico. The text of the Excise Tax Regulations will also be available at the Puerto Rico Treasury Department web page: www.hacienda.gobierno.pr.

Comments to the Excise Tax Regulations must be submitted: (i) in writing, (ii) by 5 pm on December 20, 2010, (iii) in the English language and (iv) (a) by delivery to the Legal Affairs Office, Puerto Rico Department of the Treasury, Sixth Floor Office 802, Intendente Ramírez Building, 10 Paseo Covadonga, San Juan, Puerto Rico 00902, or (b) by mail to Legal Affairs Office, Puerto Rico Department of the Treasury, P.O. Box 9024140, San Juan, Puerto Rico 00902-4140 or (c) by electronic means to the following email address at the Puerto Rico Department of Treasury: swert@hacienda.gobierno.pr.

Cordially,


Juan Carlos Puig