

IMPORTANT NOTICE

Amendments to the Sales and Use Tax

House of Representatives Bill 3190, containing amendments to establish a uniform tax with a fixed rate for all Municipalities, was approved by both legislative chambers and sent for the approval of the Governor on June 29, 2007.

Based on communication media, it is expected that the Governor will sign before July 29, 2007 and the amendments will become effective on August 1, 2007.

The bill establishes a 1.5% fixed rate for all the Municipalities, which are required to collect 1% of the tax and the Treasury Department will collect .5%, excluding food and foodstuff, as defined in the Internal Revenue Code. The Municipalities have discretion to establish by ordinance the collection of the tax on the food.

The .5% to be collected by the Treasury Department shall be used to create the following funds: .20% for Municipal Loans for the exclusive use of the Municipalities; .20% for development of the Municipalities to be distributed based on a formula; and .1% for Municipal betterments. The Senate and the House of Representatives, through legislation, must distribute the funds for Municipal betterments. For each fund the Bill establishes the purpose, the form of distribution and administration.

Although the Bill focus on the uniformity in the imposition of the tax and requires that the Municipalities utilize the same basis and exemptions provided in the law, it is not clear the nexus and source of income rules. Thus, the rules established in the law, as well as their application must be followed, depending on the particular situation of the business.

After the bill becomes law, starting on August 1, 2007 the purchases of taxable property are subject to a uniform 7% tax, independently of the municipality involved. The merchants must be alert to informative bulletins and communications issued by the Treasury Department dealing with this .5% tax. According to the Bill, the .5% tax collected by the Treasury Department shall be deposited together with the 5.5% using the forms established for these purposes.

Based on all of the above, the necessary adjustments must be made in the system to collect and deposit on a monthly basis the 1% Municipal tax and 6% to be paid to the Treasury Department. We recommend to read the Bill and to be alert when the Bill is converted into law in order to make the necessary adjustments in your businesses and comply with the provisions of the law.

**This document is an informative summary and does not constitute an opinion or legal advice.
It is important to seek advice from your tax advisor to clarify any doubts.**

If you need any additional information or assistance, please contact us at:

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