

## **IMPORTANT NOTICE**

### **Sales and Use Tax (SUT)**

The new Act 80 of July 29, 2007 amends some of the sections of the Internal Revenue Code related to the SUT. The law establishes that starting on August 1, 2007 all the municipalities are compelled to impose a uniform SUT of 1.5% regardless of whether or not they have enacted a municipal ordinance imposing the SUT. Before the enactment of this law the municipalities were only authorized to impose the SUT. Based on the old provisions, some municipalities did not impose the tax and in others the rate was lower than 1.5%.

According to the new law, starting August 1, 2007 the merchants must collect, without considering the municipality, a 7% tax (5.5% for the Central Government and 1.5% for the municipalities).

In addition the new law provides that 1% of the 1.5% shall be collected by the municipality and the remaining .5% by the Department of the Treasury. Considering the 5.5% for the Central Government, the Department of the Treasury shall collect 6% of the SUT.

Other provisions in the law are:

- The merchants may reflect in one line of the sale invoices the total tax of 7% or reflect in two separate lines the 6% to be remitted to the Department of the Treasury and the 1% to the corresponding municipality.
- The municipalities are authorized to impose the 1% tax on non-processed food provided they enact a municipal ordinance to that effect.
- The .5% collected by the Department of the Treasury shall be used exclusively for the Development of the Municipality, for the Redemption of the Municipality through loans in favor of the municipalities and for Municipal Improvements.
- The 1% collected by the municipalities shall be used in programs for collection of solid waste and recycle, construction work and permanent improvements, health and security.
- The new regulation of the Treasury Department provides for the creation of one Merchant Registration Certificate and Exemption Certificate. Therefore, beginning on August 1, 2007 all merchant will be evidence its registry and exemption with the documents issued by the Treasury Department; it is not necessary registry in all the municipalities.
- Effective for transactions realized since August 1, 2007 the nexus and source of income rules were simplified. For the purpose of the tax collection exist only one jurisdiction in the Commonwealth of PR. This means that the merchant only has to collect the IVU where it has nexus and where its income can be sourced. In other words, the SUT will be collected and remitted by location to the Treasury Department and to the municipalities, using in both returns the merchant's registration number provided by the Treasury Department. We recommend these new changes should be verified with your municipality before filing the monthly return of August.

- The new rounding rules for transactions after July 31, 2007 are the following:

NO PARTICIPANT MUNICIPALITIES	
Total Sale Price	Sales Tax
\$0.00 to \$0.07	\$0.00
\$0.08 to \$0.24	\$0.01
\$0.25 to \$0.41	\$0.02
\$0.42 to \$0.58	\$0.03
\$0.59 to \$0.74	\$0.04
\$0.75 to \$0.91	\$0.05

PARTICIPANT MUNICIPALITIES	
Total Sale Price	Sales Tax
\$0.00 to \$0.06	\$0.00
\$0.07 to \$0.21	\$0.01
\$0.22 to \$0.35	\$0.02
\$0.36 to \$0.49	\$0.03
\$0.50 to \$0.64	\$0.04
\$0.65 to \$0.78	\$0.05
\$0.79 to \$0.92	\$0.06

Based on the new law and on Informative Bulletin # 07-15 issued by the Department of the Treasury we have:

- Effective August 1, 2007 all merchants shall collect a SUT of 7% no matter the municipality involved.
- With the monthly return for August 2007, which is due on or before September 20, 2007, the merchants shall remit 6% to the Department of the Treasury and 1% to the municipality in which is located the business.
- In the case that the business is located in a "Participant Municipality" in which the Department of the Treasury acts as administrator, the 7% shall be remitted to the Department of the Treasury. The "Participant Municipalities" are Comerío, Dorado, Fajardo, Rincón and Trujillo Alto.
- Starting August 1, 2007 the following municipalities have expressed intention to grant cooperation agreements with the Department of the Treasury: Naranjito, Bayamón, Aguadilla, Peñuelas, Lajas, Hatillo, Maunabo, Juncos Arroyo, Culebra, Aibonito, and Naguabo.
- For the August 2007 monthly declaration due on or before September 20, 2007, the merchants must verify if the municipality is in the list of Participant Municipality in order to remit the SUT.



**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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