

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

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## April 30, 2015: New Deadline for Puerto Rico Reduced Taxation on Retirement Funds

Puerto Rico Law 44 of 2015 extends the end of the window for taking advantage of special tax rates on retirement plan distributions and prepayments from January 31, 2015 to April 30, 2015.

### Background

Puerto Rico's Tax System Adjustment Act allowed participants and beneficiaries of retirement plans to pay tax at special rates on their plan benefits during a limited time from July 1, 2014 to October 31, 2014. To take advantage of this opportunity, participants and beneficiaries had to either receive a distribution from the plan or prepay tax on their plan benefit during that window. The special tax rates were 15% for nonqualified plans and 8% for Puerto Rico qualified plans and Individual Retirement Accounts (IRAs).

On December 22, 2014, Puerto Rico enacted [Law 238](#), extending the end of the window for taking advantage of the special tax rates until January 31, 2015. To take advantage of the special 15% tax rate for nonqualified plan distributions and prepayments, Law 238 required that the nonqualified plan must have been established by written agreement before November 1, 2014.

For further details, please see our previous [July 24, 2014](#), [September 23, 2014](#), and [January 20, 2015](#) *For Your Information* publications.

### Window for Special Tax Rates now April 30, 2015

On March 30, 2015, Puerto Rico enacted [Law 44 of 2015](#), ("Incentive to Pay Tax in Advance of the Tax Transformation") extending the end of the window for taking advantage of the special tax rates until April 30, 2015. Hence, the modified election period runs from July 1, 2014 until April 30, 2015.

### Major "Tax Transformation" Proposed

This latest extension is offered in anticipation of a [proposed tax reform package](#) introduced in February that would establish a value



added tax (in place of the current sales and use tax) and a [large cut in income taxes](#). Though the likelihood of passage is far from certain, if enacted, it would radically change the tax structure for individual taxpayers.

For example, under the tax transformation proposal, many taxpayers would pay no tax on income below \$40,000 (or \$80,000 for married taxpayers filing jointly). This would reduce or eliminate much of the tax incentive to defer compensation for a significant portion of the population. We will provide more information on the tax transformation proposal if it advances further through the legislative process.

## In Closing

April 30, 2015, the deadline to elect to take advantage of these special tax rates, will soon come and go. If they have not already done so, retirement plan participants and beneficiaries who reside in Puerto Rico may wish to consult with a tax advisor to find out whether a prepayment would be beneficial given their personal financial situation. Plan administrators should be prepared to field any last minute inquiries.

Even plan administrators who will not handle the Puerto Rico income tax prepayment for participants and beneficiaries should be prepared to provide supporting documentation to Puerto Rico residents about their accrued benefits (e.g., participant statements, benefit calculations, or other administrative documents) to allow them to file their prepayment directly with the Puerto Rico Treasury. To ensure that no more Puerto Rico income tax is withheld from future distributions than necessary, they must also be prepared to credit a participant with Puerto Rico income tax basis if the participant provides them with a stamped prepayment receipt from the Puerto Rico Treasury.

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