



CPA Juan Zaragoza Gomez
Secretary

February 3, 2015

TAX POLICY INFORMATIVE BULLETIN NO. 15-03 ("BI PC 15-03")

ATTENTION: TAXPAYERS BETWEEN THE AGES OF 16 AND 26, EMPLOYERS, WITHHOLDING AGENTS, AND TAX RETURN SPECIALISTS

SUBJECT: EXEMPTION OF \$40,000 ON INCOME EARNED BY YOUNG PEOPLE DERIVED FROM WAGES, SERVICES RENDERED, OR SELF-EMPLOYMENT (ACT 135-2014)

Act 135-2014, better known as the "Act for Incentives and Financing to Young Entrepreneurs" amended Section 1031.02 of the Puerto Rico Internal Revenue Code of 2011, as amended, ("Code") to, among other aspects, establish an income tax exemption for young residents of Puerto Rico between the ages of sixteen (16) and twenty-six (26). Said exemption applies to the first forty thousand dollars (\$40,000) of gross income earned from wages, services rendered, or self-employment ("40,000 Exemption").

The Department of Treasury ("Department") has received several inquiries from taxpayers between the ages of sixteen (16) and twenty-six (26), employers, withholding agents, and tax return specialists regarding the applicability of Act 135-2014. Therefore, the Department issues this Informative Bulletin in order to provide information regarding the rules for the implementation and operation of the \$40,000 Exemption.

A. Young taxpayers residents of Puerto Rico between the ages of sixteen (16) and twenty-six (26) that are salaried employees

Every young person resident of Puerto Rico, who is a salaried employee and is between the ages of sixteen (16) and twenty-six (26) may benefit from the \$40,000 Exemption from wages earned during the taxable year. Said exemption shall be included in box number 16 of Form 499R-2/W-2PR, "Withholding Statement" ("Withholding Statement") of the taxpayer. *The employer shall add the exemption code "E" on box number 16A of the Withholding Statement, in order to acknowledge that the exemption corresponds to the benefits of Act 135-2014.*

It should be noted that the \$40,000 Exemption wages informed by the employer in box number 16 of the Withholding Statement, *shall not* be reported on boxes number 7, 8, 9, or 10 of such statement. Notwithstanding, if the employee earned wages over forty thousand dollars

(\$40,000), the excess of said wages over the \$40,000 Exemption will be considered taxable income, and shall be reported in box 7, 8, 9, or 10 of the Withholding Statement, as applicable.

The taxpayer must confirm that his employer completed the boxes 16 and 16A of the Withholding Statement, to inform the wage amount considered exempt so that the Department acknowledges the \$40,000 Exemption. Therefore, the Department will not recognize the exemption if it is not duly reported in the Taxpayer's Withholding Statement.

In those cases that the Withholding Statement reflects no amount in box 16 and the taxpayer qualifies for the \$40,000 Exemption, the taxpayer shall request his employer the correction of his Withholding Statement prior to completing and submitting their income tax return for the corresponding taxable year.

B. Young taxpayers residents of Puerto Rico, who are between the ages of sixteen (16) and twenty-six (26) and render services as self-employed individuals

The \$40,000 Exemption also applies to income derived from self-employment or services rendered that are included in Schedules K, L, M, or N of the taxpayer's income tax return. Notwithstanding, said exemption will not be reflected in Forms 480.6A "Informative Return - Income not Subject to Withholding" or Form 480.6B "Informative Return - Income Subject to Withholding" which the taxpayer will receive reporting the income earned from such self-employment or services rendered. Therefore, if the taxpayer qualifies for the \$40,000 Exemption, he shall be responsible for claiming it in his income tax return for the corresponding taxable year.

It should be noted that the limit of forty thousand dollar (\$40,000) shall be considered for the total income from self-employment or services included by the taxpayer in all schedules accompanying his income tax return. This means that the forty thousand dollar (\$40,000) limit shall be considered in the aggregate and *will not* be an exemption per schedule or type of professional service that the taxpayer has rendered during the taxable year.

C. Application of the \$40,000 Exemption

The \$40,000 Exemption to be considered shall be limited to forty thousand dollars (\$40,000) per year. If the taxpayer had several employers during the year, he shall make sure that the sum of boxes 16, identified with exemption code "E," of *all* the Withholding Statements received during the taxable year, does not exceed the \$40,000 limit established by the Act. In the case, the sum of boxes 16 exceeds the aforementioned limit, the taxpayer shall request the correction of their Withholding Statement to his employer, so that it reflects the correct amount of exempt wages for the taxable year.

However, if during the taxable year, the taxpayer earned income from wages and also earned income from self-employment or services rendered, the \$40,000 Exemption shall be apply first against the amount of wages, and any remaining balance shall be used against the income



from self-employment or services rendered as reported in Schedules K, L, M, or N included with their income tax return.

The provisions of this Informative Bulletin are effective immediately.

For more information about the provisions of this Informative Bulletin, you can contact the General Consulting Section at (787) 722-0216, option 8.

Cordially,



Juan Zaragoza Gómez

