GOVERNMENT OF PUERTO RICO
DEPARTMENT OF THE TREASURY
PO BOX 9022501 SAN JUAN PR 00902-2501

INDIVIDUAL
INCOME TAX RETURN
1998

MESSAGE FROM THE SECRETARY OF THE TREASURY

Dear taxpayer:

1998 has been a year of great challenges and accomplishments for our Island.

In September, nature unleashed upon us the fury of Hurricane Georges, which disrupted all basic services in Puerto Rico and left homeless many of our brethren. But our people rose to the occasion and worked hand-in-hand to achieve a quick and effective recovery, one which evidences our capacity and will to overcome obstacles. We at the Department of the Treasury joined forces with other governmental agencies to achieve this goal, and today we are proud of our contribution.

But we still have much to do, many goals to achieve.

We continue to work each day, devotedly and earnestly, to improve and renew the Island's infrastructure and quality of life in Puerto Rico. Change can be felt already, with the development of social justice programs such as the Education Reform, the Health Insurance Card and the New Safe Home Program, as well as major public works such as the Urban Train, the Superaqueduct, and improvements to our road system.

Our commitment in the Department of the Treasury is and has always been to work hard to achieve such goals, to promote the social and economic development of Puerto Rico through a fair and equitable tax structure, so that we can build the Puerto Rico that we want for future generations. We count on your cooperation in this endeavor.

Fulfill your obligation to our people; it is your responsibility. File your return by April 15. Together we can build a new Puerto Rico for a new millenium.

Remember, in Hacienda we are at your service.

Cordially,

LONG FORM

If you file on a calendar year basis or if you do not keep accounting records, you must file your return on or before April 15, 1999.

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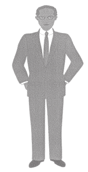
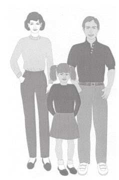
FILING REQUIREMENTS

WHO MUST FILE THE INCOME TAX RETURN?



1. Every individual resident of Puerto Rico who is:

   a) Single (or married not living with spouse) and who has a gross income over $3,300 during the taxable year; or

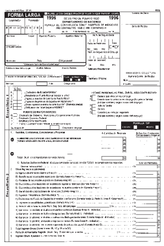


   b) Married living with spouse and who has, individually or jointly, a gross income over $6,000 during the taxable year.

2. Generally, non-residents who have gross income from Puerto Rico sources, unless the taxes on such income have been totally paid at source.

WHO MUST FILE THE LONG FORM?

Every individual who meets one or more of the following requirements must file the **Long Form**:



* Your gross income is over $75,000.
* You received income from alimony, interest, dividends, sole proprietorship business or from any other source.
* You claim a foreign tax credit, or credit for investment in a Capital Investment or Tourism Fund, for direct investments, or for an investment in an agricultural business.
* You elected to itemize deductions instead of claiming the standard deduction (Note: If you are married living with your spouse and elected to file separate returns, and your spouse itemized deductions, you must file the **Long Form** and itemize deductions too).
* You have the obligation to file an Estimated Tax Declaration.
* You are a nonresident alien who must file a return.
* You elected to file under the status of married filing separate returns.

If you do not meet these requirements, you must file the **Short Form**.

APRIL

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
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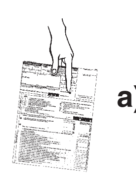
WHEN THE RETURN MUST BE FILED?

If you file on a calendar year basis or do not keep accounting records, you must file your return on or before **April 15, 1999**.

WHERE THE RETURN MUST BE FILED?

The return can be mailed to the following address:



1998 RETURN

a) Returns with Refund:
DEPARTMENT OF THE TREASURY
PO BOX 50072
SAN JUAN PR 00902-6272

b) Returns with Payment and Others:
DEPARTMENT OF THE TREASURY
PO BOX 9022501
SAN JUAN PR 00902-2501

For your convenience, **we are enclosing two envelopes with different addresses and colors**, whichever applies. Make sure to use the correct one.

You can also deliver your return to the Department of the Treasury at Intendente Alejandro Ramírez Building in Old San Juan, at the District Offices, at the Internal Revenue Collections Office of your Municipality, or at the Tax Orientation Centers.

RELEVANT FACTS

AMENDMENTS TO THE PUERTO RICO INTERNAL REVENUE CODE OF 1994, AS AMENDED, APPLICABLE TO THE 1998 TAXABLE YEAR

1) Act 36 of July 19, 1997

Increase in the contributions made to an individual Retirement Account (IRA) from $2,000 to $3,000 (from $5,000 to $6,000 in case of married individuals filing a joint return.

2) Act 89 of August 18, 1997

- Increase in the amount paid for child care from $400 to $600 for one dependent, up to a maximum of $1,200 for two or more dependents.

- Deduction of $1,000 from the gross income for young people between the age of 16 and 25 who work while studyng.

For additional information and requirements to claim these deductions, refer to the INSTRUCTIONS TO FILE THE RETURN.

CONTRACTS WITH GOVERNMENTAL ENTITIES

Every person, natural or juridical, contracted by a governmental entity, must comply with the Executive Order 91-24, as amended, and the provisions of the Circular Letters in force at the time of processing the contracts. According to said provisions, every contract subscribed by a governmental entity must include a clause to certify that the contracted party filed the income tax returns for the last five years, and that the income, property, unemployment, temporary disability and drivers social security taxes have been paid.

In addition, in order to approve a contract or purchase order, the governmental entity must require the tax return filing and debt certifications from the Internal Revenue Area of this Department, the property tax certification from the CRIM and the corresponding certification from the Department of Labor and Human Resources. These documents must be requested annually.

In order to expedite the process of issuing the certifications from this Department, the Computerized Debt Certification issued by the Internal Revenue Collections Offices will be accepted instead of the Debt Certification (*Modelo SC 6096*). In the case of the Tax Return Filing Certification (*Modelo SC 2888*), the Computerized Tax Return Filing Certification issued by the Tax Assistance Division and the District Offices of the Fiscal Audit Bureau will be accepted. The same must have the Department's stamp, the collector's signature or his/her duly authorized agent's signature on the Debt Certification, and the Tax Assistance Division Chief's signature or his/her duly authorized agent's signature, or the District Office Chief's signature or his/her duly authorized agent's signature on the Tax Return Filing Certification.

Beginning in 1998, every person who has filed income tax returns for the last 5 years and who do not have tax debts, or if having debts, has formalized a payment plan, will receive automatically by mail the Tax Return Filing and Debt Certification (*Modelo SC 2628*). **For this purpose is necessary that if you or your spouse are contracted by a governmental organism, indicate so in Part I, page 1 of the return**.

Since sometimes the tax return for the last filing year can not be certified because the return is not already processed, it is recomended to hand in the original return with a copy personally, in order to receive said copy sealed with the Department's receipt stamp. This service will be offered at the Department of the Treasury, Intendente Ramírez Building, in Old San Juan, at the District Offices at the Internal Revenue Collections Offices at the Tax Orientation Centers and at the Taxpayers Services Offices located in San Juan, Ponce and Mayagüez.

ENVELOPE TO SEND THE RETURN

In order to facilitate processing the return, we have enclosed 2 envelopes with different addresses and colors: a yellow one for returns with refund and a white one for returns with payment and others, and for returns with payments through electronic transference. In the white one, you must check the corresponding box. Make sure to use the correct one.

ORGANIZING THE RETURN

In order to facilitate processing the return, we recommend to organize the same in the following order:

First	:	Long Form
Second	:	Attach the check, if any, to the upper part of the return's first page.
Third	:	Withholding statements (i.e. W-2).
Fourth	:	Any evidence of deductions and credits claimed.
Fifth	:	Schedules in alphabetical order.

FEDERAL EMPLOYEES - Exclusion of Cost of Living Allowance (COLA):

The COLA received by civil employees of the Federal Government is excluded from the gross income up to the amount exempt under the Federal Internal Revenue Code, if the taxpayer meets the following requirements:

1) The taxpayer submits evidence showing the amount received.

2) The taxpayer filed income tax returns during the last four taxable years, if required to.

3) The taxpayer paid the tax determined therein or, in case of having debts in arrears, has an approved and up to date payment plan.

WITHHOLDING STATEMENT

Every employer must provide the Withholding Statement (Form 499R-2/W-2PR) to the employees not later than January 31 of every calendar year.

If you have not received your Withholding Statement or if it is incorrect, you must contact your employer. Only your employer can provide or correct the form. If you have not received such form, you may contact the Employer's Investigation Section of the Department of the Treasury in San Juan at 721-2020, extensions 2641 and 2642.

ELIMINATE COLUMN OF CENTS

While completing the tax return, the column of cents will not be used. **It is important to remind you that is not about rounding off, but eliminating the cents. See the following examples:**

$480.90 = $480

$480.25 = $480

PAYMENTS FOR THE PREPARATION OF THE RETURN

If you pay for the preparation of your return, the signature and registration number of the specialist are required in your return. The Code establishes administrative and penal sanctions to those income tax return specialists that do not provide this information.

RETURN WITH CHECK

Every taxpayer who sends a check with the return, must attach the same to the upper part of the return's first page. This will allow us to apply the payment promptly and minimize mistakes in processing the return. It is important that you use the white envelope with the address for Returns with Payment and Others.

PAYMENT OF TAX THROUGH ELECTRONIC TRANSFERENCE

You may pay the total or the first installment of income tax declared in the 1998 income tax return through electronic transference using the telephone. You may also make the second installment of income tax using this method. This service is exclusive for clients of the participating banking institutions. You must have your social security number and bank account number at the moment of making the call.

Procedure:

1. Call your banking institution and ask for this service.

2. In the space provided for this purpose on line 29(b) of the return, write the transaction number provided by your banking institution.

3. In the upper left part of the return's envelope (below the words **return with payment and others**), check the box corresponding to payment through electronic transfer.

4. Mail your return on or before April 15.

For additional information, please call the Taxpayer Service Office at **724-6666** or **1-800-981-7666**.

OVERPAYMENT APPLICATION

Any overpayment will be applied against any tax liability imposed by the Code. If married, and one of the spouses owes taxes, the overpayment may be applied to the spouse's debt.

RETENTION OF REFUND FOR THE CONCEPT OF CHILD SUPPORT

If you are a parent who has the obligation to provide child support to your children through the Child Support Administration (ASUME) and you owe said pension, your refund may be retained.

The Act No. 86 of August 17, 1994 authorizes ASUME to notify the parent owing child support about the intention of submitting his or her name to the Secretary of the Treasury in order to retain the income tax refund to pay the child support debt.

The taxpayer will have a 10 day period from the date of notification to object the same. If he or she does not object during said period, the name will be submitted to the Secretary of the Treasury, in order to send the tax refund, if any, to ASUME.

If you understand that the retention does not proceed, you should file a claim at the nearest ASUME Office.

SCHEDULE OF RELEASE OF CLAIM TO EXEMPTION FOR CHILD (CHILDREN) OF DIVORCED OR SEPARATED PARENTS

The parent with the right to custody of minor children can use Schedule CH to release the exemption for dependents to the parent not having the right to custody. The release will be effective for the current year and future years. For more information on how to complete this schedule, refer to INSTRUCTIONS TO COMPLETE THE SCHEDULES.

SCHEDULE OF COST OF LIVING ANALYSIS

We have included the Schedule of Cost of Living Analysis (Schedule CV), which should be completed before preparing your return. To complete the same, refer to INSTRUCTIONS TO COMPLETE THE SCHEDULES.

AMENDED RETURN

If after filing your original return, you find out that you omitted some income, did not claim certain deduction or credit, or claimed a deduction or credit for which you do not qualify, you must amend the return. **For this purpose you must complete an Amended Return (Form 483X).**

Such return must be filed within 4 years from the date the original return was filed.

SERVICES TO TAXPAYERS

Technical advice:

For additional information on the technical matters of this booklet or to clarify any doubts, please call **721-2020 (ext. 3611)** or **1-800-981-9236.**

Claims and refunds:

For claims or inquiries about the status of your refund, please call **721-2020 (ext. 3610)** or **1-800-981-7666**.

***HACIENDA* MAKING CONNECTION**

The Department of the Treasury now has a site on the **INTERNET**. Here you can access information about the Total Quality Management Policy, our Vision, Mission and Organizational Values. Also, we include information about our Taxpayer's Bill of Rights and the Department's Organizational Structure. Besides, you can use the program for the preparation of the 1998 Income Tax Return for Individuals and information about our tax orientation system *TeleHacienda*. You can access our site at: **http: //www.hacienda.gov.pr**. Also, you can let us know your opinion through our E-MAIL at: **hacienda @ www.hacienda.gov.pr**.

This service is available only in Spanish.

TAXPAYER'S BILL OF RIGHTS

The Taxpayer's Bill of Rights grants the following rights under the Code:

To receive a proper, considerate and impartial treatment.

Confidentiality of the information submitted.

All interviews must be at a reasonable time and place for the taxpayer, in coordination with the employees of the Department of the Treasury (Department).

The interview or audit must not be used to harass or intimidate in any manner the person interviewed.

To receive an explanation of the process to which the taxpayer will be exposed and subject, and the rights that assist him.

Be assisted by an attorney, accountant, certified public accountant or any other authorized person, at any moment during the interview.

Be informed prior to the interview, of the intention to tape the interview and to be able to obtain an exact copy of such recording prior to the payment of the cost thereof.

Be informed of the nature of your tax liability.

Be advised of your right against self-incrimination, to remain silent and that your silence should not be taken or commented against you, in case of a possible exposure to a criminal action.

Consult and be advised by an attorney, accountant, certified public accountant, or authorized agent to represent you within the Department, or to be able to finish the interview even when it had commenced.

Be notified in writing of any adjustment made by the Department as a result of a tax audit when it involves the addition of interest, penalties and surcharges, as provided by the Code, as well as the exact amount of the adjustment and the reasons for such changes.

Waive the rights described in the preceding paragraphs, if such waiver is made knowingly and voluntarily.

Grant a written power to authorize any person to represent you during a tax interview or process. Such person shall receive, for purposes of the interview, equal treatment as you, unless you are notified that such person is responsible for an unreasonable delay or interference with the audit.

Not to be discriminated because of race, color, sex, birth, origin or social condition, or political, religious ideas or association of any taxpayer or his representative. No records will be maintained containing tax information for these purposes.

The Department's employees will explain and protect your rights during all phases of the process. If you believe that your rights have been violated, you should discuss this matter with the supervisor of the employee. If you do not agree with the action taken by the supervisor, you may file a complaint with the Office for the Protection of Taxpayer's Rights.

OFFICE FOR THE PROTECTION OF TAXPAYER'S RIGHTS

The Office for the Protection of Taxpayer's Rights (Ombudsman of the Taxpayer) was created to assure the compliance of the provisions of the Taxpayer's Bill of Rights. Said office is located at the Department of the Treasury in Old San Juan, Office 800. For assistance, please call **723-1080** or **721-1532**.

The Ombudsman of the Taxpayer is responsible for attending to the problems and claims of the taxpayers and to facilitate the process between the taxpayers and the Department of the Treasury. Also, the Ombudsman of the Taxpayer has authority to prevent or correct any infringement, by any employee of the Department, of the rights of the taxpayer.

For additional information, you can request the booklet: "*Carta de Derechos del Contribuyente*".

SUGGESTIONS TO AVOID MISTAKES WHEN FILING YOUR RETURN

1. Notify any change of address in Form SC 2898 (Change of Address).
2. Verify that your social security number is the one shown in the Withholding Statement.
3. In the case of a married couple filing jointly, the return must be filed under the husband's name.
4. If you are **married filing separately,** you must include the name and social security number of your spouse. Also, **you must use Table B to compute your tax**.
5. If you claimed a credit for taxes paid to the United States, its possessions or foreign countries, you must complete Schedule C Individual and send a copy of the federal return (or **Form 1722**) or foreign country tax return.
6. Do not include estimated tax payments or tax paid in excess in prior years credited to estimated tax, in Part II of Schedule B Individual. You must inform them in Part III of said Schedule.
7. **Include evidence of the income tax withheld with your return (Forms 499R-2/W-2PR, 480.6B or others).**
8. If you claim the deduction for alimony paid to former spouse, include copy of the decree or judgment of divorce and canceled checks as evidence.
9. Include the original documents to evidence contributions to Individual Retirement Accounts (IRA).
10. If you claim ordinary and necessary expenses, make sure that you only claim the smaller of 3% of your adjusted gross income, $1,500 or the amount actually incurred.
11. If you claim automobile loan interest, make sure not to exceed $1,200.
12. **Do not include your spouse as a dependent.** A married individual living with his spouse is not a head of household for tax purposes, therefore, he should not include the wife's name on the box for head of household.
13. **If a dependent entitles you the head of household filing status, do not claim an additional exemption for that dependent.**
14. Complete Part 5 with all the information regarding your dependents.
15. In the case of **university students**, include an official certification from the registrar of the institution.
16. In the case of **blind or disabled** dependents, submit a recent medical certificate including the doctor's license number.
17. Sign your return with **ink** and in the case of a joint return, make sure that both spouses sign it.
18. Use the correct tax return form that applies to you: Short Form or Long Form.
19. Send evidence for **medical expenses** and **charitable contributions** claimed.
20. Make sure to choose **the envelope with the applicable address** in order to send your return: **Yellow Envelope for Returns with Refund or White Envelope for Returns with Payment and Others, and for returns with Payments through Electronic Transference.** Make sure to check the corresponding box in the white envelope.

INSTRUCTIONS TO COMPLETE THE LONG FORM RETURN

NAME, ADDRESS AND SOCIAL SECURITY NUMBER

The mailing label that is on the back of the instructions booklet should be placed on the upper section of page 1 of the return. Its purpose is to allow us to process promptly the return and avoid mistakes that could delay any notice from the Department.

If you did not receive the labeled return through the mail, print with ink or type the required information on the spaces provided.

CHANGE OF ADDRESS

If there is a change in your address, check the corresponding box and use **Form SC 2898 (Change of Address)**. This allows us to keep our records up to date and send you any notice to the correct address.

TAXPAYER DECEASED DURING THE TAXABLE YEAR

If a taxpayer dies during the taxable year, the administrator or representative must file an income tax return including the income derived until the date of death, on or before the 15th day of the fourth month following the date of death. Such return shall be signed by the administrator or representative. If the taxpayer was married and living with his/her spouse, two returns will be filed: one including both spouses' income from January 1st to the date of death, and another with the surviving spouse's income for the remaining months of the year.

The personal exemption in the first return will be married living with spouse. In the second one, the surviving spouse can claim the personal exemption he or she is entitled to at the end of the taxable year.

The person filing the return must identify the same by writing on the upper part **Deceased during the year,** indicating the date of death and enclosing a copy of the Death Certificate .

TAXPAYER MOVED TO PUERTO RICO DURING THE YEAR

If you were a resident of another country and changed your residence to Puerto Rico during the taxable year, you must inform the Government of Puerto Rico the income received from that moment until the end of your taxable year and the income from sources within Puerto Rico while not residing in Puerto Rico.

A taxpayer's residence is determined based upon the facts and circumstances of each case. Generally, an individual is considered a bona fide resident of Puerto Rico if he/she resides in Puerto Rico at least 183 days during the calendar year. However, if his/her intention regarding to his/her stay is merely temporary, his/her family is outside of Puerto Rico and meets other requirements, even when he/she had been in Puerto Rico at least 183 days, he/she may not be considered a bona fide resident of Puerto Rico.

The income from sources outside of Puerto Rico received by an individual attributable to the period when he/she was not a resident of Puerto Rico is not taxable in Puerto Rico. Deductions attributable to amounts so excluded from the gross income will not be allowed.

Nonresident individuals will be taxed in Puerto Rico only on their income from sources within Puerto Rico.

If the individual changes his/her residence from Puerto Rico to the United States or a foreign country, he/she will include in the Puerto Rico income tax return all the income earned until the date he/she changed his/her residence to the United States or a foreign country, independently of the source of said income. Also, he/she will include in his/ her income tax return the income from sources within Puerto Rico earned after the change of residence.

PART 1 - TAXPAYER'S INFORMATION

QUESTIONNAIRE

Check (X) the applicable box to indicate if you are a United States citizen and if you were a resident of Puerto Rico at the end of the taxable year. Also, you must inform if you received tax exempt income during the year. **You must submit a schedule detailing it**. Indicate if you make child support payments through the Child Support Administration (ASUME).

HIGHEST SOURCE OF INCOME

Check (X) the applicable box in accordance with your principal source of income. If you are married and both spouses are self-employed, specify the main industry or business of each one in the space provided for occupation.

FILING STATUS AT THE END OF THE TAXABLE YEAR

Check (X) only one filing status at the end of the taxable year:

a) **Married living with spouse -** This filing status is for those individuals that, at the end of the year, are legally married and living together with his or her spouse. If your spouse died during the year and you did not remarry in said year, you must file a return as married living with spouse up to the date of the death, and another as single or as head of household, from the date of the death up to the end of the year. **You must submit your spouse's name and social security number.**

b) **Married not living with spouse -** This filing status is for those individuals that at the end of the year are not legally separated from their spouses and do not qualify as head of household. **You must submit your spouse's name and social security number.**

c) **Head of household -** This filing status is for those individuals, not married, who really support and maintain in one household, one or more dependents closely related to them by blood, marriage or adoption. If you are not legally separated from your spouse, you can qualify as head of household subject to compliance with the requirements of the Code and its regulations.

d) **Single -** This filing status is for those individuals that have never been married, are legally separated by a divorce decree or those who are widows and have not remarried at the end of the taxable year.

e) **Married filing separately -** This filing status is for those individuals that at the end of the taxable year are legally married and living together, but elect to file separately. If you file under this status, you must include only your own income. Also, you must only claim half of certain deductions in your return, and the other half must be claimed by your spouse. **You must submit your spouse's name and social security number. You must use the tax table for married individuals living with spouse and filing separately (Table B of page 15).**

PART 2 - ADJUSTED GROSS INCOME

Line 1 - Wages, Commissions, Allowances and Tips

Enter on line 1, Column B, all the wages, commissions, allowances and tips subject to withholding in Puerto Rico received by you (and spouse, if applicable) during the taxable year. This information is found in Part 12 of the Withholding Statement (Form 499R-2/W-2PR). Enter on line 1, Column A, the Puerto Rico income tax withheld by each one of your employers shown in Part 14 of your Withholding Statement. If there is no tax withheld, enter zero.

Enter in the space provided in Part 2, line 1, the number of withholding statements included with your return.

Add the amounts of Column A and enter the total income tax withheld at the bottom of the column. Add the amounts in Column B and enter the total of wages, commissions, allowances and tips at the bottom of that column.

Make sure to include with your return all the pink copies of the Withholding Statements (Form 499R-2/W-2PR), so that we can process it.

Line 1C - Federal Government Wages

Enter the total of Federal Government income from salaries and wages received, excluding the Cost of Living Allowance (COLA). To determine if you qualify for this exclusion, refer to RELEVANT FACTS - FEDERAL EMPLOYEES. Also, you can refer to the "*Informative Booklet to Provide Orientation on the Income Tax Responsibilities of Federal, Military and Other Employees*".

Submit with your return copy of Form W-2 and the Certificate of Compliance with Tax Responsibility in the Case of Federal Government Employees who qualify for the COLA exclusion.

Line 2 - Other Income (or losses)

Enter on lines 2A through 2P the total of each type of other income (or deductible losses), and provide detailed information for each one of them on the applicable schedules.

Enter on line 2J the amount of income from alimony received. You must provide the social security number of the person making the payment.

Use Schedule F to inform income from interest, dividends from corporations and distributions from partnerships, distributable share on profits from special partnerships and Subchapter N corporations of individuals, income from prizes and contests, income from judicial or extrajudicial indemnification and miscellaneous income. Transfer the amounts from Schedule F to Part 2, lines 2A through 2G of page 1 of your return (See instructions for Schedule F).

If you received dividends from investment in a Capital Investment or Tourism Fund, use Schedule Q1 to determine this income. This Schedule and its instructions are available at the Forms and Publications Division of the Department of the Treasury .

If you received income from an industry or business or from an activity for the production of income, use the applicable Schedule:

1) Schedule K Individual - to inform industry or business income.

2) Schedule L Individual - to inform farming income.

3) Schedule M Individual - to inform professions and commissions income.

4) Schedule N Individual - to inform rental income.

If such activity does not constitute your principal source of income, transfer only the profits determined on the Schedules to Part 2, lines 2K through 2N, page 1 of your return. **If you had losses, enter zero** on lines 2K through 2N.

If you had a net capital gain or loss, use Schedule D Individual to determine them and transfer to Part 2, line 2 O of the return.

If you had a long-term capital gain from Capital Investment Funds, use Schedule Q1 to determine this gain and transfer to Part 2, line 2P of the return.

LOSSES:

Losses incurred in activities that are not the taxpayer's or his spouse's principal business or industry, may be used to offset future income from the same activity that produced the loss.

Losses incurred in an industry or business that is the taxpayer's or his spouse's principal business or industry, may be used to offset your income from other sources, except salaries, wages and pension benefits.

To classify an economic activity as a principal industry or business, the following facts shall be considered:

- Time devoted to the activity.
- If the taxpayer is dedicated to the activity in a regular, continual and substantial basis.
- Taxpayer's knowledge and experience with respect to the activity's operation.
- If such activity essentially constitutes the taxpayer's way of living.

However, the determination as to what constitutes the taxpayer's principal industry or business shall depend on the facts and circumstances present in each case. The taxpayer must show that a particular activity constitutes his principal industry or business. The fact that he/she does so with respect to a particular year, does not automatically qualify such activity as his/her principal industry or business for subsequent years. Thus, the taxpayer must be able to show that such activity constitutes his/her principal industry or business with respect to each taxable year.

If you were a salaried employee and also engaged in any trade or business as your principal activity, and had a loss in that year, you may deduct said loss from your or your spouse's salaries and wages only in the first year in which you began the business and in the following two years. This is a once in a lifetime benefit. Therefore, if you have benefited from the above, you cannot benefit again from the same allowance.

Line 4 - Alimony Paid

Generally, you may deduct any periodic payment made for alimony under a divorce or separation decree, if you comply with the following requirements:

1) Payment is made in the name and for the benefit of the former spouse under a divorce or separation document.

2) Payment is not designated in such document as excludible from the gross income of the recipient and not allowable as a deduction to the payer.

3) The payer and the former spouse are not members of the same household on the date of payment.

4) There is no obligation to continue making any payments after the death of the former spouse.

5) If the payment exceeds $10,000 during any calendar year, it shall be payable during each one of at least 6 years following the divorce or separation.

You must provide the social security number of the person who receives the payment and copy of canceled checks and the divorce decree. Lump-sum payments or assets division, voluntary payments not included in a court decree or agreement for separation support, or child support payments, are not deductible.

PART 3 - DEDUCTIONS, PERSONAL EXEMPTION AND EXEMPTION FOR DEPENDENTS

Line 6 - Standard Deduction

Enter the standard deduction to which you are entitled on this line. The standard deduction is an amount that the Code provides as an automatic deduction against your **ADJUSTED GROSS INCOME**. The standard deduction may be taken as an alternative to the itemized deductions.

The standard deduction to which you are entitled depends on the filing status box that you checked in Part 1 of your return.

In case of married individuals filing separate returns, they may elect the standard deduction ($1,500 by each one of them), only if both spouses elect the standard deduction. Otherwise, **if one of the spouses claims the itemized deductions and the other one does not itemize the deductions, the last one shall enter zero on this line,** because of not being entitled to the standard deduction provided by the Code.

Line 7 - Total itemized deductions

Itemized deductions are allowable in lieu of the standard deduction when they exceed the standard deduction. If you elect to itemize deductions, determine the amount of any itemized deduction to which you are entitled in Schedule A Individual, Part 1 and transfer the amount from line 16 to this line.

Line 9 - Total additional deductions

In addition to the standard deduction or the itemized deductions, the taxpayer is entitled to certain additional deductions depending on qualification. Determine the amount of additional deduction to which you are entitled in Schedule A Individual, Part II. Transfer the total amount of the additional deductions from Schedule A Individual, Part II, line 8 to this line.

Line 11 - Personal Exemption

Enter on this line the personal exemption applicable to the filing status specified in Part 1.

Line 12 - Exemption for Dependents

Enter in the spaces provided in Part 3, lines 12A through 12C, the number of dependents according to their category:

Line	Category	Class
12A	**(N)**	**Non university**
12B	**(U)**	**University student**
12C	**(I)**	**Disabled, blind or age 65 or older**

Multiply the amount of dependents claimed on each line by the total exemption indicated in the return and enter the result in the space provided. Add lines 12A, 12B and 12C and enter on line 12D.

The Code requires you to indicate in your return the Social Security number of any dependent claimed who is age one or older at the end of the taxable year. When filing your return, you shall include the name, date of birth, relationship and social security number of each dependent claimed. **If you do not**

meet these requirements, the dependent will be rejected. If the dependent does not have a social security number, you must request one at the nearest Social Security Office.

The dependent who qualifies you for the head of household status cannot be included in the computation of the total exemption for dependents.

For the **definition of dependent**, refer to instructions for Part 5.

PART 4 - TAX COMPUTATION, CREDITS AND TAX WITHHELD OR PAID

Line 15 - Tax

Once you have determined your net taxable income, you must compute your tax and check (X) in the applicable spaces to indicate the method used to determine the same:

Block 1 - Tax as per tables

Block 2 - Special tax on Capital Gains

Block 3 - Tax to non-resident alien

If you are a resident of Puerto Rico, you must compute your tax using Table A or B, whichever applies.

Tax Tables

Use Table A to compute your tax if you checked Block 1, 2, 3 or 4 in Part 1 (Personal status under which you are filing the return). **Use Table B for married individuals filing separately, that is, if you checked Box 5 in Part 1.** Determine your tax taking into account your Net Taxable Income (Part 3, line 14) and your personal filing status. Enter the total tax amount on this line and check Block1.

TAX COMPUTATION TABLES

A. For married person living with spouse and filing jointly, married person not living with spouse, single person, head of household, estates or trusts

If your net taxable income (line 14) is:	Your tax will be:
Not over $2,000	8%
Over $2,000 but not over $17,000	$160 plus 12% of the excess over $2,000
Over $17,000 but not over $30,000	$1,960 plus 18% of the excess over $17,000
Over $30,000 but not over $50,000	$4,300 plus 31% of the excess over $30,000
Over $50,000	$10,500 plus 33% of the excess over $50,000

B. For married individual living with spouse and filing separately

If your net taxable income (line 14) is:	Your tax will be:
Not over $1,000	8%
Over $1,000 but not over $8,500	$80 plus 12% of the excess over $1,000
Over $8,500 but not over $15,000	$980 plus 18% of the excess over $8,500
Over $15,000 but not over $25,000	$2,150 plus 31% of the excess over $15,000
Over $25,000	$5,250 plus 33% of the excess over $25,000

Special Tax on Long-term Capital Gains

If you are a resident of Puerto Rico and derived long-term capital gains, you must complete Schedule D Individual. If your long-term capital gains exceed your short-term capital losses, and the tax on your net taxable income exceeds the 20% tax rate, you may complete Schedule D2 (Special Tax on Net Long-term Capital Gains).

If you used Schedule D2, transfer the tax amount on line 13 of said schedule to this line and check Block 2. **Submit Schedule D2 with your return.**

Non-resident alien

If you are a non-resident alien not engaged in trade or business within Puerto Rico, all of your income from sources within Puerto Rico is subject to a fixed tax rate of 29%. If you are a non-resident alien engaged in trade or business within Puerto Rico, all your income from sources within Puerto Rico as well as the income which is effectively connected with the operation of a trade or business in Puerto Rico, is subject to normal tax rates. Enter the tax determined on this line and check Block 3.

Line 16 - Gradual Adjustment amount

If the net taxable income is more than $75,000 ($37,500 if married filing separately), you must complete Schedule P Individual. Determine the gradual adjustment amount on said Schedule (See Instructions to Complete the Schedules). Enter the amount determined on Schedule P Individual, line 7. **Submit this Schedule with the return.**

Line 17 - Excess of Alternate Basic Tax over Regular Tax

If your adjusted gross income is $75,000 or more ($37,500, if married filing separately), you must complete Schedule O Individual. **To determine whether you are subject to the Alternate Basic Tax or not, complete and submit this Schedule (See Instructions to Complete the Schedules).** Enter the amount determined on Schedule O Individual, line 6.

Line 26 - Amount of Tax Due

Compare the amounts on lines 24 and 25D. If line 24 is larger than line 25D, there is a balance of tax due. Enter the difference on this line. If the amount on line 25D is larger than the amount on line 24, you have a tax overpayment. Enter this difference plus the amount paid, if any, with the automatic extension of time to file the tax return (line 27), on line 31.

Line 27 - Amount paid with automatic extension of time

If for any reason you cannot file your return on time, you may request an automatic extension of time on or before the due date for filing the return. This will be done using **Form SC 2644. A taxpayer who is required to file an estimated tax declaration, must pay the total tax due with the request for an automatic extension of time.** If you are not required to file an estimated tax declaration, you must pay with your extension of time at least 50% of the balance of tax due.

Line 28 - Balance of Tax Due

If you are required to file an estimated tax declaration, you must pay the entire amount of tax due (line 26) not later than the date required to file your income tax return. **In these cases, you are not entitled to pay the balance of tax due in two installments.**

If you are not required to file an estimated tax declaration, the following conditions prevail:

* If you made a payment with the request for an automatic extension of time and it was less than 50% of your amount of tax due (line 26), then you must pay with the return the balance of tax due (line 28) plus interest from the original due date in which the return should have been filed, to the date of payment.

* If you made a payment with the request for an automatic extension of time on or before the due date of the return, and this payment was 50% or more of your amount of tax due (line 26), then you are entitled to make your payment in two installments. In this case, no payment has to be made when filing the return. The second installment is due not later than October 15, or, if filing on a fiscal year basis, not later than the 15th day of the 6th month after the due date of the return.

Line 29 - Amount paid

You may pay your tax sending the payment with the return, through electronic transference or both. If a payment is sent with the return, you must enter the amount on line 29(a). If you made a payment through electronic transference, you must enter the amount on line 29(b). In this case, you must also indicate the transaction number provided by your banking institution. For additional information about payment of tax through electronic transference, refer to RELEVANT FACTS.

A taxpayer who is not required to file an estimated tax declaration may elect to pay the balance of tax due in two installments. To be entitled to this benefit, you have to pay on or before the due date of the return, at least 50% of the balance of tax due.

Make your check or money order payable to the Secretary of the Treasury. **Indicate your social security number and Form 482.0 - 1998 on the check or money order.**

If you decide to pay in cash, you can do it at any of our Internal Revenue Collections Offices. Make sure to obtain an official receipt from the Collector at the time of payment.

INTEREST, SURCHARGES AND PENALTIES

Interest

The Code provides for the assessment of interest at a 10% annual rate over any tax balance that is not paid by its due date.

Surcharges

In case that imposition of interest is applicable, a surcharge of 5% of the amount due will be assessed, if the delay in paying exceeds 30 days, but not over 60 days; or 10% of the amount due, if the delay exceeds 60 days.

Penalties

The Code imposes a progressive penalty from 5% to 25% of the total tax for late filing unless you can show reasonable cause for the delay.

Any person required under the Code to file a return or declaration, and who voluntarily fails to file such return or declaration within the term or terms required by the Code or regulations, in addition to other penalties, shall be guilty of a misdemeanor and punished by a fine of not more than $500 or imprisonment for a term of not more than 6 months, or both penalties, plus the costs of prosecution.

If any person voluntarily fails to file the above mentioned return or declaration (within the terms required by the Code or regulations) with the intention to avoid or defeat any tax imposed by the Code, in addition to other penalties, shall be guilty of a felony and punished by a fine of not more than $20,000 or imprisonment for a fixed term of 3 years, or both penalties, plus the costs of prosecution. If there were aggravating circumstances, the established fixed jail penalty may be increased to a maximum of 5 years; if there were extenuating circumstances, it may be reduced to a maximum of 2 years.

Line 30 - Balance of Tax Due

This is the amount of tax that you owe and that you must pay on or before October 15 or, if you are filing on a fiscal year basis, on or before the 15th day of the 6th month after the due date of the return.

Remember that if you are required to file an estimated tax declaration, you must pay the total amount of tax due (line 26) not later than the date in which the tax return must be filed.

Line 31 - Amount overpaid

Before issuing a refund, any overpayment will be applied against any tax liability imposed by the Code.

If you are married and any of the spouses owes taxes, the overpayment will be credited against any tax liability of either one.

If there are no previous year debts, you may elect to apply all or part of the tax paid in excess to your estimated tax for the taxable year 1999. If you elect to do so, enter the amount that you want to credit to your estimated tax for the taxable year 1999 on line 31A. Enter the amount to be refunded to you on line 31B. In order to process this refund promptly, it is necessary that you submit evidence of the estimated tax payments (copy of canceled checks, copy of money orders, etc.).

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PART 5 - HEAD OF HOUSEHOLD AND EXEMPTION FOR DEPENDENTS

The term **head of household** means an individual who actually supports and maintains in one household one or more dependents closely related with him/her by blood, marriage or adoption, over whom he/she exercises family control, and whose duty to provide for such dependents is based upon moral or legal obligation. The relationship by marriage shall not be considered terminated because of the death or divorce of the spouse.

If you claim the filing status of head of household in Part I, indicate in the space provided the name, date of birth, relationship and social security number of the dependent who entitles you to claim such status.

The term **dependent** means:

1) a person who at the close of the calendar year in which the taxpayer's taxable year begins **has not reached the age of 21;**

2) the taxpayer's father or mother;

3) a person who is **age 65 or older;**

4) a person who has reached the age of 21 or older and is blind or incapable of self-support because of being mentally or physically disabled;

5) an university student who at the close of the calendar year in which the taxpayer's taxable year begins, **has not reached the age of 26,** provided he has completed as a regular student, at least one semester in an **university institution recognized as such by the educational authorities of Puerto Rico, or of the applicable country, until he/she receives his/her university degree.**

Notwithstanding the above, to be entitled to claim a dependent, you must comply with the following requirements:

1) the person claiming the dependent must provide more than half of the support for the dependent during the calendar year in which the taxpayer's taxable year began;

2) the dependent's gross income for the calendar year in which the taxpayer's taxable year began, is less than the amount allowed as a credit for this concept. Nevertheless, if the dependent is your son/daughter and also a regular student, he/she may earn a gross income of up to **$3,300**, and still you have the right to claim him/her as a dependent.

In the case of children from divorced or separated parents to whom both parents provide more than half of their support, the exemption for dependents will be claimed by the parent who has the legal custody of the children. However, the parent who has the legal custody may release his/her right to claim the exemption in favor of the parent who does not have that custody. The release should be made using **Schedule CH**-Release of Claim to Exemption for Child (Children) of Divorced or Separated Parents. The parent to whom the right to claim the exemption was released, must submit Schedule CH with the return (See INSTRUCTIONS TO COMPLETE THE SCHEDULES).

An individual eligible by the Code to file a joint return with his or her spouse, does not qualify as a dependent.

The dependent who qualifies you for the head of household filing status cannot be included in the computation of the total exemption for dependents.

Non-resident aliens of Puerto Rico do not qualify as dependents.

If the dependent is totally or partially blind, include with your return a certificate from an ophthalmologist or optometrist indicating the visual condition of the dependent.

If you claimed the exemption for dependents who are university students, or who are disabled, blind or age 65 or older, you must submit anually with your return the evidence to claim the exemption for those dependents.

In the space provided, **write the complete name, date of birth, relationship and social security number** of all dependents who are age one or older for whom you claim an exemption in your return. **Also, classify the dependent in one of the following categories:**

Category	Class
(N)	**Non university**
(U)	**University student**
(I)	**Disabled, blind or age 65 or older**

If you do not comply with these requirements, the exemption will be rejected.

SIGNATURE OF THE RETURN

The return will not be considered filed unless it is signed and all necessary documents and information are submitted. In the case of married individuals filing jointly, both spouses must sign the return.

PAYMENTS FOR THE PREPARATION OF THE RETURN

If a payment is made for the preparation of the tax return, make sure that the specialist (preparer) signs the return and includes his/her specialist registration number. The Code imposes civil and criminal sanctions to those income tax return specialists that fail to submit this information. The Specialist must declare under penalty of perjury that he/she examined the return, and to the best of his/her knowledge and belief the return is correct and complete. If the return is prepared by an accounting firm duly registered as a Specialist, it must include the firm's employer identification number and be signed by the employee who prepared such return.

INSTRUCTIONS TO COMPLETE THE SCHEDULES

SCHEDULE A INDIVIDUAL - ITEMIZED AND ADDITIONAL DEDUCTIONS

Use this Schedule to determine the itemized and additional deductions. You must submit evidence in order to claim these deductions.

PART I - ITEMIZED DEDUCTIONS

You must submit the evidence in the same order that you claim the deductions.

Line 1 - Enter the amount of home mortgage interest paid to acquire, refinance, improve or construct a property that constitutes a qualified residence. **Qualified residence** means:

1) the principal residence of the taxpayer;

2) a second residence located in Puerto Rico and used by the taxpayer, or by any other person that has an interest in that property or by any member of his/her family, as a residence for a number of days that exceeds the larger of:

   (a) 14 days, or

   (b) 10% of the number of days during the taxable year in which the property have been rented at the rental prevailing market value.

Interest payments attributable to any portion of the mortgage debt in excess of the fair market value of the residence are not deductible.

A participant partner of a housing cooperative association may deduct payments representing home mortgage interest.

If you use a personal loan to acquire, construct or improve a qualified residence, which is not accepted by a mortgage institution as a mortgage guarantee or equity, you must submit a copy of the property tax exemption application or of the appraised revision of the property. In addition, you must include the name of the bank, amount, loan number and the number of installments.

The loan origination fees and loan discounts will be admitted as a home mortgage interest deduction, for the year in which they were incurred, as long as the following requirements are met:

1) they are described on the Uniform Settlement Statement,

2) they are paid to acquire your principal residence or a second residence,

3) they are paid by the taxpayer, and not by using funds from the granted loan, and

4) a copy of the canceled check(s) is submitted with the return.

The loan origination fees and loan discounts financed through a home mortgage loan will be deductible throughout the term of the loan. The deduction that you may claim will be the apportioned amount paid during the term of the loan.

In cases of married couples filing separately that own only one residence, one of the spouses has the sole right to claim such deduction. If the married couple has two residences, one spouse may claim the interest of the principal residence and the other spouse may claim the interest of the second residence. However, one of the spouses may claim all the home mortgage interest for both residences, if both spouses agree that in writing.

Enter in the spaces provided on line 1, the name of the banking or financial institution to which the payments were made, the loan number and the total amount of the home mortgage interest paid.

Line 2 - Enter the amount paid for motor vehicle license plates paid during the taxable year for automobiles used for personal purposes. Enter the license plate number and the date of payment in the spaces provided. Do not include any amount paid to ACAA, or amounts paid for compulsory insurance or fines.

Line 3 - Enter the amount paid to a person who is not a dependent of the taxpayer, for child care expenses incurred up to the amount of $600 ($300 if married filing separately) for one child, or $1,200 ($600 if married filing separately) for two or more children. In order to claim this deduction, you must comply with the following requirements:

1) The dependent with respect to which this deduction is claimed, cannot be over age 14.

2) The expense is incurred to enable the taxpayer to be employed or engaged in a profitable activity.

In the case of a married taxpayer living with spouse at the end of the taxable year, both spouses must be employed or otherwise engaged in a profitable activity. If one of the spouses is disabled, you are entitled to this deduction, but you must submit a medical certificate indicating the disability.

If you are a divorced parent, the deduction is allowed only if the dependent is under your custody.

Deductible child care expenses are those made primarily to assure the safety and well being of the dependent while the taxpayer is working. Amounts paid solely to provide benefits such as food, clothing, education, medicines and physicians are not deductible as child care expenses.

If the taxpayer paid a person to take care of the child and also to perform housework, only the part of the payment attributable to the child care will be allowed as a deduction.

When the child receives other benefits besides care, which are inseparable one from the other, the total expense will be considered as child care expense.

The taxpayer who claims this deduction must include with the return copy of canceled checks or receipts indicating the name, address and social security number of the person to whom the payment was made.

Line 4 - Enter 10% of the total rent paid during the year, but not more than $500 per year ($250 if married filing separately). To be entitled to this deduction, the leased property must be your principal residence.

You must submit with your return a receipt of the total rent paid and indicate in a schedule the address or location of the property and social security number of the person to whom the payment was made.

Line 5 - Enter the amount of property taxes paid on the property owned by you that constitutes your principal residence. This deduction is allowable to a participant partner of a housing cooperative association.

If part of the property is used for purposes other than for principal residence, you may deduct only the portion of the tax paid attributable to the part used as your principal residence.

You must submit with the return copy of canceled checks or receipts as evidence of the payment of this tax.

Line 6 - Enter **losses** incurred during the taxable year, not compensated by insurance or otherwise, **of real property used as your principal residence.** Such losses must be **caused by hurricane, earthquake**, **storm, tropical depression, floods, fire or other casualties**.

You must submit with your return a certification stating the amount of the loss and the type of damage. **Submit a certification from the Civil Defense or Fire Department if the loss was from fire. Also, you must submit with the return any documents, public deeds or appraissals which reflect the value of the property subject to the loss.**

If after claiming the deduction, you receive any compensation from an insurance company or from a local or federal agency, you must include in the return the total amount received as part of your gross income.

In the case of married persons filing separte returns, each spouse may claim 50% of this deduction.

Line 7 - Enter 50% of the total medical expenses paid, not compensated by insurance or otherwise, exceeding 3% of your adjusted gross income.

Medical expenses are:

1) professional services rendered by physicians, dentists, radiologists, clinical pathologists, surgeons, nurses or hospitals, within or outside Puerto Rico, and

2) health or accident insurance premiums.

Payments for medicines are not deductible expenses. However, when the medicines are part of hospitalization expenses, they may be deducted as medical expenses.

To claim the medical expense deduction, **follow the instructions of Schedule J and submit the same with your return.** Transfer the amount from Schedule J, line 4 to Part I, line 7 of this Schedule.

You must submit with the return copy of canceled checks or receipts evidencing the payments made.

Line 8 - You may deduct, subject to certain limitations, contributions or donations paid during the taxable year to religious, charitable, scientific, literary or educational organizations, or to organizations for the prevention of cruelty to children or animals, or to organizations of war veterans in the United States or Puerto Rico. However, no part of the net earnings of any organization to which you contributed, may benefit any private shareholder or individual.

You may also deduct contributions or donations paid to:

- the Government of Puerto Rico, the United States Government, or any of its states, territories or possessions, or any political subdivision thereof, or the District of Columbia, when the contributions or donations are used exclusively for public purposes;

- the special fund for vocational rehabilitation authorized by the Vocational Rehabilitation Act;

- a domestic fraternal association or partnership operating as a lodge, but only if the contributions are to be used exclusively for religious, charitable, literary or educational purposes, or for the prevention of cruelty to children or animals;

- the Educational Foundation for the Free Selection of Schools to provide economic assistance for students of elementary and secondary level of public or private educational institutions in Puerto Rico, but only if the total amount of the contribution or donation exceeds the Tax Credit for Contributions to the Educational Foundation for Free Selection of Schools allowed against the income tax.

The allowable deduction is the total amount of contributions or donations in excess of 3% of your adjusted gross income. However, the deduction allowed shall not exceed 15% of your adjusted gross income, except for the additional deduction up to 15% of your adjusted gross income for contributions or donations paid to accredited educational institutions at university level established in Puerto Rico, to the José Jaime Pierluisi Foundation, to the National Fund for the Financing of Cultural Affairs of Puerto Rico or to the 98 Centennial Commission. The donations or contributions in excess of the limit allowed, may be carried over to five subsequent taxable years subject to the limits previously indicated.

You may claim an unlimited deduction for charitable and other contributions, if the amount of qualified contributions or donations plus the total amount of income taxes paid during the taxable year and in each of the 10 preceding taxable years, exceed 90% of your net income for each of those years, determined without the benefit of the contributions or donations.

Net income is the adjusted gross income less the standard deduction and additional deductions, or less the itemized deductions and the additional deductions.

The contributions made to a municipality that conducts an activity or event of cultural or historic value, certified by the Institute of Puerto Rican Culture or the Cultural Center of each municipality that makes possible the realization of any cultural or historic work, may be claimed as charitable contributions. The contributed amount shall be $50,000 or more, and must be made in connection with the celebration of the centennial foundation of the municipality. The total of said contributions are not subject to the aforementioned limitations.

To claim the donations, **follow the instructions in Schedule J and submit it with your return.** Transfer the amount from Schedule J, line 8 to Part I, line 8 of this Schedule.

You must submit with the return copy of canceled checks, receipts or certifications as evidence of the payments made.

Line 9 - Enter **losses** of automobiles, furniture, fixtures and other household goods (excluding the value of jewelry and cash), not compensated by insurance or in any other form, occurred during the taxable year **due to** earthquakes, **hurricanes,** storms, tropical depressions and floods. The deduction is limited to $5,000 ($2,500 if married filing separately) for the year in which the loss was incurred.

The amount of the loss not used during the year in which it occurred, may be carried over to the following two taxable years as a loss of personal property due to casualties. **In order to be entitled to this deduction, the affected area must be declared as disaster area by the Governor of Puerto Rico, and you must have claimed, within the appropriate dates and places, the applicable benefits from the assistance programs approved for disaster cases.**

You must submit with your return a copy of the approved claim filed stating the damages suffered.

Line 10 - Enter 50% up to $3,000 ($1,500 if married filing separately), of the expenses incurred for the acquisition and installation in your residence of a windmill with all its accessories used to generate electric power. To claim this deduction, the windmill must have been manufactured in Puerto Rico, or at least 50% of the added manufacturing cost must have been done locally. **A taxpayer will be allowed to claim only one deduction for this purpose**.

You must enclose with your return the invoice or receipt containing the information regarding the cost and installation expense, a copy of the installation permit or authorization from the Puerto Rico Regulations and Permits Administration, copy of the certification issued to the manufacturer or distributor by the Energy Affairs Administration of the Department of Natural and Environmental Resources, as well as a guarantee certification for 5 years or more.

Line 11 - Enter the expenses incurred and not compensated by insurance or otherwise, for the acquisition of any orthopedic equipment for the use of the disabled person, up to $1,000 ($500 if married filing separately). This deduction may be claimed by the disabled person, or a parent, tutor or guardian of a disabled person.

No deduction shall be granted with respect to any orthopedic equipment over which a deduction has been claimed in any previous year.

You must enclose the invoice or receipt indicating the cost of the equipment and a medical certificate stating that said equipment is necessary for the patient's condition.

Line 12 - A deduction is allowed, subject to certain limitations, for expenses incurred during the taxable year regarding the dependent's educational expenses at elementary and secondary school level. Such expenses include school tuition and registration, school transportation and text books.

This deduction is limited to $200 ($100 if married filing separately) **for each dependent who is studying at an elementary school level, that is, from Kindergarten** to sixth grade, or $300 ($150 if married filing separately) for each dependent in a secondary level up to twelfth grade, or the amount actually paid, whichever is smaller.

In order to qualify for this deduction, the dependents must be studying in public or private educational institutions operating under a license granted by the Department of Public Education of Puerto Rico.

If for the taxable year the dependent qualifies as university student for purposes of the exemption for dependents, this deduction will not be allowed with respect to that dependent.

The deductible expenses allowed for text books are those incurred for the purpose of providing the dependent a secular education, excluding any books or printed material of a sectarian nature.

For purposes of this deduction, **the term dependent means** a person under 21 years of age at the close of the taxpayer's taxable year, and who, for the calendar year in which the taxpayer's taxable year began, received from the taxpayer more than half of his or her support.

You must submit with your return copy of canceled checks or invoices indicating the expenses incurred, and a certification from the public or private school where the dependent is enrolled. It must include the dependent's name as well as his/her school grade at the end of the taxable year.

Line 13 - Enter 30% of the expenses incurred during the taxable year for the purchase, manufacture and installation of solar equipment in your principal residence, whether owned or leased, up to an amount of $500 ($250 if married filing separately). When the equipment is being installed by the lessee, the owner of the real estate is not entitled to any deduction with respect to the same equipment, even when the equipment will remain for the benefit of the owner at the end of the lease contract.

Solar equipment means all equipment which can convert solar energy into usable energy, whether in a direct or indirect form. This equipment may be purchased or manufactured by the taxpayer, and it must be in working condition.

You must enclose with your return copy of the receipts or invoices stating the cost of the solar equipment or its parts and the expenses incurred in its manufacture or installation, copy of a certification issued to the manufacturer or distributor by the Energy Affairs Administration of the Department of Natural and Environmental Resources, as well as a guarantee certification for 5 years or more.

A taxpayer will be allowed to claim only one deduction for this purpose.

Line 14 - Enter the amount of interest paid or accrued during the taxable year over debts incurred for student loans **to cover expenses of the taxpayer** for registration, tuition and textbooks at university level, as well as expenses for transportation, meals and lodging in those cases in which the taxpayer had to live outside his/her home in order to pursue such studies.

You must submit with the return a certification from the bank or financial institution as evidence of the deduction claimed.

Line 15 - Enter contributions made in cash during the year to the Fund for Sevices Against Remediable Catastrophic Diseases (previously known as the Emergency Medical Treatment Fund for Indigent Patients) up to $100 per taxable year.

You must submit with the return invoices or certifications as evidence of the deduction claimed.

PART II - ADDITIONAL DEDUCTIONS

The following additional deductions from the adjusted gross income will be allowed in addition to the standard deduction or the itemized deductions.

You must include the evidence in the same order that you claim the deductions.

Line 1 - Enter all cash contributions made during the taxable year to governmental pension or retirement systems, other than Social Security, established by the Congress of the United States, the Legislative Assembly of Puerto Rico, the municipalities, agencies, instrumentalities and public corporations of Puerto Rico.

This contribution must be informed in the Withholding Statement (Form 499R-2/W-2PR or in Form W-2, if you are a federal employee). **If such contribution is not reported in Form W-2, you must submit the last payment stub of the calendar year.**

Line 2 - Enter all contributions made to a qualified Individual Retirement Account (IRA). **The maximum deduction for an individual is $3,000**, or your adjusted gross income from salaries or the earnings attributable to professions or business, whichever is smaller.

In order to claim this deduction, the IRA must constitute a trust created or organized under the laws of the Commonwealth of Puerto Rico.

In the case of married taxpayers filing a joint return, this deduction cannot exceed $6,000, or your aggregated adjusted gross income from salaries or the earnings attributable to professions or business, whichever is smaller. However, the deduction for each spouse cannot exceed $3,000.

No deduction is allowed for the taxable year in which the individual has reached 70 1/2 years of age on or prior to the end of the taxable year and thereafter.

The taxpayer will have until April 15, or until the date of expiration of any extension of time granted by the Secretary to file the return, in order to make a contribution to his/her IRA.

To be entitled to this deduction, you must submit with your return an IRA Informative Return (Form 480.7) or a certification from the bank or institution in which you opened your account. The certification shall include the amount of the contribution and the taxable year for which it was made.

Line 3 - Enter $300 if the taxpayer is married living with spouse and filing jointly, and both spouses receive earned income. If your filing status is married filing separately, you are not entitled to claim this deduction.

The term **earned income** shall mean income from salaries, wages, earnings, professional fees and other amounts received as compensation for personal services actually rendered. The amount received from annuities or pensions is not considered earned income.

Line 4 - Enter $500 if you are resident of Puerto Rico and a veteran of the United States Armed Forces.

Submit copy of Form DD- 214 (Discharge of U.S. Armed Forces) with your return. Once Form DD- 214 is submitted for the first time, you do not have to send it again.

Line 6 - Enter the interest paid or accrued on a loan for the acquisition of an automobile which is guaranteed by it. **The deduction shall be allowed for only one vehicle and will not exceed $1,200 ($600 if married filing separately), unless both spouses consent that one of them take this deduction in full.**

You must submit with the return a certification from the bank or financial institution as evidence of the deduction claimed.

Line 7 - Young people who study and work

Enter the amount of $**1,000** if you are a young person who, at any moment of the taxable year, are between 16 and 25 years old who study and work.

To claim this deduction, the young person must submit copy of his/her Birth Certificate and a certificate from the high school (public or private) or college where the young person studies.

SCHEDULE B INDIVIDUAL - RECAPTURE OF EXCESS OF CREDIT CLAIMED FOR AN INVESTMENT, TAX CREDITS AND OTHER PAYMENTS AND WITHHOLDINGS

PART I - RECAPTURE EXCESS OF CREDIT FOR INVESTMENT CLAIMED

Enter the credit claimed in excess in previous years as a result of the intervention of the Agency Director who regulates each of the following acts: Puerto Rico Tourism Development Act, Solid Waste Authority Act and Agricultural Incentives Act.

The total investment carried out by the exempt business in the project is subject to the revision of the Director of each agency within three years after the notification of the credit distribution among the investors. If the investment credit claimed by the investors exceeds the investment credit computed by the Director, this excess shall be due as income tax. This debt must be paid by the investors in two installments beginning with the first taxable year following the expiration date of the three year period mentioned before. The Director will notify the Secretary the excess of credit taken by the investors.

The three year term may be postponed by the Director through an order issued by him/her, but never for an additional period larger than two years.

The provisions of the recapture of credit mentioned before will not apply to the participants or investors that are not developers in a project under the Puerto Rico Tourism Development Act and Puerto Rico Solid Waste Authority Act.

On the other hand, the provisions of the recapture of the credit under the Agricultural Tax Incentives Act will apply to the investors or participants in agricultural businesses.

In the case of condohotels, the operator of the integrated rental program shall send an annual report to the Director and the Secretary of the Treasury identifying the units participating in the integrated rental program. Such report must indicate the aforesaid program beginning dates with respect to the participating units, as well as the date or dates in which one or more units were withdrawn from the program.

If any unit is withdrawn from the program before the expiration of the 10 year period, the investor will owe as income tax an amount to be computed as follow:

$$\text{Income tax owed} = \text{Total credit for tourism investment claimed for the unit} \times \frac{\text{Balance of the 10 year period}}{10}$$

The income tax amount owed must be paid in two installments beginning with the first taxable year following the date of the withdrawal of the unit from the integrated rental program.

Line 1 - Enter the total excess of credit notified by the Director, or in the case of condohotels, the total of income tax debt according to the formula previously mentioned.

You must indicate the name of the entity, the employer identification number and check on the block corresponding to the type of investment credit claimed in excess, in accordance to its classification and based on the Act under which it was claimed.

Line 3 - Multiply line 1 by 50%. Transfer the result to Part 4, line 22 of the return. In case that you had paid part of the recapture of excess of credit in the previous year, enter the difference owed.

Line 4 - Subtract line 3 from line 1 and enter the difference. This will be the tax debt to be paid for next year. If this is your second year of recapture, subtract lines 2 and 3 from line 1.

PART II - TAX CREDITS

Line 2 - Enter the tax withheld on dividends from Industrial Development income under Act No. 8 of January 24, 1987 and/or 30% of your proportional share in the fixed tax rate on Industrial Development income paid by the exempt business under Act No. 135 of December 1997.

Line 3 - Enter the amount determined on Schedule Q. You must submit Schedule Q and Q1 to claim this credit, as well as other forms that indicate the credit earned for the investment in several capital investment funds or direct investment such as Solid Waste Facilities, Agricultural Incentives, Production of Full Length Films, as well as Tourism Development Fund.

In order to claim said credit, you must submit with your return a copy of the certification issued by the pertinent agencies and a copy of a sworn statement issued by said agency indicating the distribution or allocation of the credit.

Line 5 - Enter the amount of contribution made to the **Educational Foundation for Free Selection of Schools.** The amount of credit allowed must not exceed $250.

The amount of contributions made in excess of the credit will be deducted as charitable contributions up to the limit allowed by the Code.

In order to claim said credit you must submit a certification from the Educational Foundation for Free Selection of Schools or a copy of the canceled check as evidence of the contribution made.

Line 6 - Any person to whom a certificate of membership is issued as ordinary or extraordinary member of a Employees-Owned Special Corporation, **is entitled to a credit of 25% of the total amount paid for said certificate up to $1,000.** The credit shall be taken against the determined income tax for the year in which the payments to acquire the certificate is made, whether paid totally or paid in installments in one or more taxable years, as applicable. **The credit granted shall not be applicable against the alternate basic tax of individuals.**

In case that the amount of credit allowed exceeds the determined income tax for the taxable year, the excess may be carried forward during the next two years.

Refer to the Code and its regulations for qualifications and requirements to be entitled to this credit.

Line 7 - Enter the tax credit acquired during the year through the purchase, exchange or transfer made by the investor or participant of the primary investor. See instructions of Schedule Q in order to know the percentages and limitations to claim in the return.

To claim this credit, the conveyor and the cessionary must submit with the income tax return in the year of the cession, a sworn statement notifying the same to the Secretary.

PART III - OTHER PAYMENTS AND WITHHOLDINGS

Line 1 - Enter the estimated tax paid for the taxable year. **For more information about estimated taxes, refer to INSTRUCTIONS TO COMPLETE THE SCHEDULES (FORM 480-E - ESTIMATED TAX DECLARATION).**

Line 2 - Amounts already included on line 1 should not be included again on this line.

Line 4 - Enter the amount reported in Schedule F, Part I, line 7. Submit the Informative Return-Income Subject to Withholding (Form 480.6B) with the return.

Line 5 - Enter the amount reported in Schedule F, Part II, line 3A. Submit Form 480.6B with the return.

Line 7 - Enter the tax withheld reported in Form 480.6B. You must submit this form with your return.

Line 8 - Enter the tax withheld reported in Form 480.6B. You must submit this form with your return.

Line 9 - Enter the amount of tax withheld reported in the Informative Return - Corporation of Individuals (Form 480.6 CI). You must submit this form with your return.

Line 10 - Enter the amount of tax withheld reported in the Informative Return - Special Partnership (Form 480.6 SE). You must submit this form with your return.

Line 11 - Enter the total of other payments and withholdings not included on the preceding lines, for example, **the 20% withholding over lump-sum distributions (one payment or various payments during one year) from qualified pension plans**.

If payments and withholdings of different nature are included on this line, you must submit a schedule (your own format) containing a breakdown of such payments and withholdings. You must submit also documents or evidence to support the payments and withholdings, such as Form 480.6B or copy of canceled checks.

SCHEDULE C INDIVIDUAL - CREDIT FOR TAXES PAID TO THE UNITED STATES, ITS POSSESSIONS AND FOREIGN COUNTRIES

Use this Schedule to determine the portion of the taxes paid to the United States, its possessions and foreign countries allowable as a credit.

To claim a credit for taxes paid to the United States, its possesssions and foreign countries, it is necessary that you:

1) Paid or accrued income tax outside of Puerto Rico.

2) Included taxable income from outside of Puerto Rico in your Puerto Rico income tax return.

3) Submit evidence of the tax paid outside of Puerto Rico (copy of the canceled checks and copy of the return filed to the IRS or foreign countries). If the payment receipt or tax return is written in a foreign language, you must provide a certified translation of the same.

PART I - DETERMINATION OF NET INCOME FROM SOURCES OUTSIDE OF PUERTO RICO

Line 1 - Enter the adjusted gross income from sources outside of Puerto Rico. The adjusted gross income from outside sources is determined by subtracting the gross income of Puerto Rico not taxable in the United States, its possessions and foreign countries from the adjusted gross income of your return (Part 2, line 5). Therefore, it is important to accurately determine the source of the income at the moment you are completing and filing your return.

The source of income is determined as follows:

1) Interest and dividends - It is determined by the residence or place of incorporation of the payer.

2) Payments for personal services - It is determined by the place where the services are rendered.

3) Royalties - It is determined by the place of payment for the use of, or the privilege of using, patents, copyrights, trademarks, goodwill and property, among others.

4) Profit on the sale of inventory - It is determined by the place where the title of goods is transferred. There is an exemption when you buy products manufactured outside of Puerto Rico.

5) Profit on the sale of personal property - It is determined by the place where the title of such property is transferred.

6) Profit on the sale of real property - It is determined by the place where such property is located.

PART II - DETERMINATION OF NET INCOME FROM ALL SOURCES

Determine your net income from all sources according to your income tax return.

PART III - TAXES PAID OR ACCRUED TO THE UNITED STATES, ITS POSSESSIONS AND FOREIGN COUNTRIES

Indicate the date of payment and the total amount of tax paid or accrued.

If the tax was paid or accrued in a foreign currency, you must translate such tax to U.S. dollars at the date of the payment. You must submit with your return a schedule indicating the translation to U.S. dollars.

PART IV - DETERMINATION OF CREDIT

Determine the credit to be claimed and enter the amount that you are entitled.

The credit cannot exceed the amount of taxes paid to the United States, its possessions and foreign countries.

SCHEDULE D INDIVIDUAL - CAPITAL GAINS OR LOSSES

Use this Schedule to determine capital gains or losses on the sale or exchange of capital assets. Capital assets could be defined as a property acquired for investment.

Capital gains or losses are classified in two classes, based on the period of time you held the property:

1) short term - property held not more than six months.

2) long term - property held more than six months.

In order to determine short or long-term capital gains or losses, you must describe the property sold and complete Columns (A) through (F) of Parts I and II with respect to the properties.

In case that the elegible person to claim the 20% and 7% special tax rates has capital gains from both categories, and at the same time has capital losses, to determine the net capital gain under each category, said losses will be applied against the gains in the proportion that each one of these gains bears with the total amount of said gains. For this purposes, you must submit a detailed schedule. **For additional information, refer to Instructions to Complete Schedule D2**.

The adjusted basis of the property is its original cost plus the cost of the permanent improvements, less depreciation. If the property was leased during its possession, the cost should be reduced for the accumulated depreciation corresponding to the lease period.

Sale expenses include sales commissions, advertisements, legal, appraisal and other similar expenses. Do not include lodging expenses (i.e. hotels) nor travel expenses (i.e. airplane tickets).

PART I - SHORT - TERM CAPITAL ASSETS GAINS OR LOSSES (HELD 6 MONTHS OR LESS)

Line 1 - Add Column (F) and enter the result on this line.

Line 4 - If you elected to pay taxes using the bracket method, enter the amount determined in Form 480.6 SE, regarding the distributable share on the net short-term capital gain (or loss) of special partnerships. You must submit this form with your return.

Line 5 - If you elected to pay taxes using the bracket method, enter the amount determined on Form 480.6 CI, regarding the distributable share on the net short-term capital gain (or loss) of Subchapter N corporations of individuals. You must submit this form with your return.

Line 6 - Enter the amount determined in Form 480.6 CPT (may be applicable only if you have an investment in an Employees-Owned Special Corporation). If applicable, you must submit this form with your return.

PART II - LONG - TERM CAPITAL ASSETS GAINS AND LOSSES (HELD MORE THAN 6 MONTHS)

Line 10 - Add Column (F) and enter the result on this line.

Line 12 - If you elected to pay taxes using the bracket method, enter the amount determined in Form 480.6 SE (may be applicable only if you have an investment in a Special Partnership). If applicable, you must submit this form with your return.

Line 13 - If you elected to pay taxes using the bracket method, enter the amount determined in Form 480.6 CI (may be applicable only if you have an investment in a Subchapter N Corporation of Individuals). If applicable, you must submit this form with your return.

Line 14 - Enter the amount determined in Form 480.6 CPT (may be applicable only if you have an investment in a Employees-Owned Special Corporation). If applicable, you must submit this form with your return.

Line 16 - Enter the distributions from pension plans qualified in Puerto Rico by the Department of the Treasury, as long as such distributions are received in a lump-sum (one payment or various payments during one year only), and have resulted from a job termination.

PART III - NET CAPITAL GAINS OR LOSSES FOR DETERMINATION OF THE ADJUSTED GROSS INCOME

Line 19 - If you derived a net capital gain, you must transfer to Schedule D2, line 2(a), and to Part 2, line 2 O of your return, the excess of the net long-term capital gain over the net short-term capital losses. The net short-term capital gain must be transferred only to Part 2, line 2 O of the return.

Line 20 - If the amount on line 18 of this schedule is a loss, enter on this line and in Part 2, line 2 O of the return, the smaller of the following amounts: (a) the amount of the loss reflected on line 18, or (b) $1,000. If you have a net capital loss from the sale or exchange of assets, you may deduct up to $1,000 in your return. Any loss not used may be carried over subsequently for a period of 5 years. Such loss may be used against any capital gain derived in the future, and if there is any remaining loss, you may claim as a deduction up to $1,000 in each of the 5 years.

SCHEDULE D1 - SALE OR EXCHANGE OF PRINCIPAL RESIDENCE

If you sold or exchanged your principal residence during the year, you must complete this Schedule in order to pay taxes on the gain, if any.

However, if you have the intention to purchase or construct a new residence, you may postpone the payment of taxes on the gain, if any, if you meet the following requirements:

1) within a year prior to or a year after the sale of the old residence, you purchase a new residence in Puerto Rico and use it as your principal residence, provided that the purchase price of said new residence is equal to or larger than the selling price of the old residence;

2) within a year prior to or 18 months after the sale of the old residence, you construct a new residence in Puerto Rico and use it as your principal residence, provided that the cost of construction of said new residence is equal to or larger than the selling price of the old residence.

On the other hand, if you do not invest the sale proceeds in another residence within the established period of time, or do not invest the total sale proceeds in another residence, you must recognize the gain in the year in which the sale occurred.

PART I - GAIN ON SALE

Line 1 - Enter the date of sale of the old residence. This date appears on the Sale and Purchase Deed.

Line 2 - If you used funds from your Individual Retirement Account (IRA) to purchase your old residence, these funds are taxable when the old residence is sold. Enter the amount withdrawn from the IRA to purchase the old residence. Transfer to Schedule F, Part V, Column A.

Line 3 - If you sold your principal residence during the taxable year, you must inform the Secretary of the Treasury whether you purchased or constructed a new residence and the dates thereof.

Line 4 - Enter the selling price of your old residence, without including personal property items. Generally, the sale price includes the cash received from the sale plus the mortgages assumed by the purchaser.

Line 5 - Enter the expenses incurred in order to sell the old residence. These expenses include sales commissions, advertising, legal, appraisal and other expenses. Lodging expenses (i.e. hotels) nor travel expenses (i.e. airplane tickets) are not considered selling expenses. Do not include fixing-up expenses on this line (see the instructions for line 16).

Line 7 - Enter the adjusted basis of the old residence. The adjusted basis is the original cost of the old residence and its permanent improvements, less the accumulated depreciation, if the property was leased during its possession.

Line 9 - If you answered "Yes", do not complete the rest of the Schedule and include the same with your return. You must complete an additional Schedule D1 on the following year if you have not replaced your residence and have the intention of doing so during the replacement period. If you answered "No", continue with Part II or III, whichever applies.

PART II - ONE - TIME EXCLUSION FOR TAXPAYERS AGE 60 OR OLDER

If you or your spouse are age 60 or older at the date of the sale or exchange of the principal residence, you may exclude from the gross income up to $50,000 ($25,000 if married filing separately) from the gain realized on the sale or exchange of your principal residence. This exclusion will apply as long as you have used the property as your principal residence for a period of 3 years or more of the 5 years previous to the sale . **This exclusion may be claimed by the taxpayer once in a lifetime.**

If you realized a gain on the sale or exchange of your principal residence, and did not purchase or construct a new residence within the time limits previously mentioned, or do not have the intention of buying or constructing a residence, and do not qualify for the $50,000 exclusion ($25,000 if married filing separately), or did not claim said exclusion, transfer the total amount of the gain from line 8 of this Schedule to line 1 (if you possessed the residence for 6 months or less), or to line 10 (if you possessed the residence for more than 6 months) of Schedule D Individual.

If you qualify for the exclusion and claimed it, but did not purchase a new residence, transfer the amount of gain recognized from line 15 of this Schedule to Schedule D Individual, Part I or II, whichever applies.

PART III - ADJUSTED SALES PRICE, TAXABLE GAIN AND ADJUSTED BASIS OF NEW RESIDENCE

Line 15 - If the purchase price or cost of construction of the new residence is smaller than the adjusted sale or exchange price of the old residence, the gain will be recognized only up to the total amount by which the adjusted sales or exchange price of the old residence exceeds the cost of purchase of the new residence.

Line 16 - Enter the fixing-up expenses you paid in order to sell the old residence. Fixing-up expenses include repair, maintenance, painting and cleaning expenses paid in order to facilitate the sale of the property. However, to qualify, the expenses must be:

- by work performed during the 90 day period ended on the date in which the sales contract of the old residence took place;
- paid not later than 30 days after the date of sale of the old residence.

The fixing-up expenses do not include amounts paid for sales expenses nor permanent improvements. To claim said expenses, see instructions for lines 5 and 7 respectively.

Line 19(b) - Enter the cost of the new residence. The cost of the new residence includes that part of such cost that is ascribed to the purchase, construction, reconstruction and improvements made that can appropriately be charged to the capital account during the established replacement period.

SCHEDULE D2 - SPECIAL TAX ON NET LONG TERM CAPITAL GAINS

Every individual, estate or trust will pay, in lieu of any other tax imposed by the Code, a tax of 20% for the total amount that exceeds the net long-term capital gains over any net short-term capital loss, including the direct investments and not through a Capital Investment or Tourism Fund.

Furthermore, you may elect to pay a tax of 10% for the total amount that exceeds the net long-term capital gains attributable to investments made in a Tourism Development Fund and Capital Investment Funds, over any net short-term capital loss for the same concept.

Also, every elegible person may elect to pay a tax of 7% on the total excess of any net long-term capital gain over any net short-term capital loss from the sale of shares from an elegible corporation or partnership. For this purposes, **elegible person** means any individual, estate or trust that is a shareholder or partner in a elegible corporation or partnership at the moment in which said corporation or partnership makes its first stocks or shares sales offer at any national stock market in the United States of America, provided that the offer is made after June 30, 1997 and before December 31, 2000. **Elegible corporation or partnership** means any private corporation or particular partnership, both domestic, which make the first sales offer of its stocks or shares with the purpose of obtaining funds to be used on its industry or business in Puerto Rico, including improvements or expansion of said industry or business, or in the acquisition of a new industry or business in Puerto Rico.

However, you may elect to include such gains as part of your gross income in the income tax return for the year in which said gains are recognized, and pay a tax in accordance with the normal tax rates, whichever is more beneficial.

Based on the above provisions, you may reduce your tax liability by using Schedule D2, if the total amount on lines 17 and 18 of Schedule D Individual are more than zero, and

You checked the Personal Status Block Under Which you File:	In Part 3, line 14 is more than:
1, 2, 3 or 4	$17,000
5	$8,500

You must complete your return up to Part 3, line 14 before using Schedule D2.

PART I - COMPUTATION OF SPECIAL TAX ON NET LONG-TERM CAPITAL GAINS

Line 2(a) - Enter the excess of net long-term capital gains over the net short-term capital losses. The net short-term capital gains must be taxed at regular rates, and hence, they cannot be transferred to this line.

Line 4(a) - Enter the standard or itemized deduction, whichever is larger. Re-compute your deductions for Medical Expenses and Charitable Contributions (if any), based on the Adjusted Gross Income indicated on line 3 of this schedule. Do not alter any of the previously established amounts in other schedules.

Line 5 - Subtract line 4(e) from line 3 and enter the difference (but not less than zero). This is the Net Taxable Income without including the excess of the net long-term capital gains over the net short-term capital losses.

Line 10 - Add the amounts of lines 6, 7, 8 and 9 of this Schedule. This is your total tax as per special tax on the excess of net long-term capital gains over the net short-term capital losses.

PART II - COMPUTATION OF REGULAR TAX OVER THE NET TAXABLE INCOME AS PER THE RETURN

Line 13 - Enter line 10 or 12, whichever is smaller. If the amount on line 12 from the computation of the Regular Tax is smaller than the amount on line 10, enter the tax of line 12 on Part 4, line 15 of your return and check Block 1 in said Part. If the amount on line 10 is smaller, enter this amount in Part 4, line 15 of your return and check Block 2 in said Part. **In this case, submit this Schedule with your return.**

SCHEDULE E INDIVIDUAL - DEPRECIATION

This Schedule must be completed by those taxpayers who are engaged in an industry or business, or who derived income from professions, commissions, farming and rents.

Schedule E Individual will be used to inform each of the properties for which you claim depreciation.

There are spaces for current, flexible and accelerated depreciation, and for improvements amortization.

In this schedule you must inform the following:

* classification of the property;
* date acquired;
* allowable cost or basis;
* depreciation claimed in previous years;
* estimated useful life to determine the depreciation;
* depreciation claimed in the current year.

Line (b) - Flexible Depreciation

In order to be entitled to claim flexible depreciation in lieu of current depreciation, the Code requires you to make an option through a sworn statement to be filed not later than 30 days after the end of the taxable year. Said option may be exercised only for property acquired by the taxpayer prior to June 30, 1995.

Line (c) - Accelerated Depreciation

The Code grants a deduction for accelerated depreciation in lieu of current depreciation. In order to be entitled to this deduction, the taxpayer is required to make an election with his/her return to use the accelerated depreciation method. Said election may be exercised only for property acquired by the taxpayer during taxable years commenced after June 30, 1995. The aforesaid election, once made, is irrevocable.

Refer to the Code and its regulations for other requirements and provisions in connection with the deduction under the flexible and accelerated depreciation methods.

Submit this Schedule with your return.

SCHEDULE F - OTHER INCOME

The following types of income will be reported on Schedule F: interest, dividends from corporations and distributions from partnerships, distributable share on profits from special partnerships and Subchapter N corporations of individuals, income received from withdrawal of funds from Individual Retirement Accounts (IRA), prizes and contests, judicial or extrajudicial indemnifications and miscellaneous income.

PART I - INTEREST

Enter in the indicated spaces, the payer's name and account number.

Column A - Enter the elegible interest received from corporations and partnerships' debt, engaged in industry or business in Puerto Rico, and interest from new mortgages over residential property located in Puerto Rico, if you elected to pay a special tax rate of 17%, according to the provisions of Act. No. 42 of July 22, 1997.

The term **elegible interest** means any interest over bonds, notes or other debts issued by a corporation or partnership engaged in a trade or business in Puerto Rico, provided that the proceeds from these debts are invested in the industry or business in Puerto Rico of said corporation or partnership within a period of 24 months or less from the issuance date of said debts.

Also, interest from mortgage loans over residential property located in Puerto Rico which mortgages are granted after July 31, 1997, insured or guaranteed by the provisions of the National Housing Act of June 27,1934, as amended, or by the provisions of the Servicemen's Readjustment Act of 1944, will qualify for the aforementioned special tax rate of 17%.

Column B - You must show the interest subject to withholding if you exercised the election to pay a special tax rate of 17% over the excess of $2,000. Submit with your return Form 480.6B (Informative Return - Income Subject to Withholding).

Column C - Enter the interest received from investments for which the election of 17% withholding at source was not made. Submit with your return Form 480.6A (Informative Return - Income Not Subject to Withholding).

Interest received from financial institutions engaged in trade or business in Puerto Rico are exempt up to $2,000. This exclusion will be claimed on Schedule F, Part I, line 2, Column B or C. The total amount of line 2 in both columns should not exceed $2,000.

Column D - Enter the interest received or credited from deposits, certificates of deposit, current accounts held in savings cooperatives and associations, which are kept in any commercial bank or financial institution located outside of Puerto Rico.

PART II - CORPORATE DIVIDENDS AND PARTNERSHIPS DISTRIBUTIONS

Enter in the indicated space, the payer's name, address and account number.

Column A - You must include dividends and profits from corporations or partnerships subject to withholding. Every distribution made by a domestic or foreign corporation, whose income from sources within Puerto Rico is at least 80% of its gross income derived during 3 taxable years preceding the date of the distribution, is subject to a 10% special tax. If you have an investment in stocks or participations in a domestic corporation or partnership, a 10% withholding will be made automatically from any distribution, unless you elect that such withholding be inapplicable.

If you elected that no withholding be made, you must inform such income as ordinary income and pay taxes at the regular rates. This income must be informed in Column B.

If the 10% tax withholding was made, you may elect to pay taxes from the dividends or profits as ordinary income, if it is more beneficial.

The tax withheld from interest, dividends or profits will be credited against your tax liability. Transfer the amounts withheld in Parts I and II of this Schedule, to Schedule B Individual, Part III, line 4 or 5, as applicable. Submit Form 480.6B with your return.

Column B - Enter any dividend or profit distribution received from a foreign corporation or partnership not engaged in trade or business in Puerto Rico, or from income that is substantially from sources outside Puerto Rico.

PART III - SPECIAL PARTNERSHIPS PROFITS

Enter here only the distributable share on income derived by a special partnership.

Submit with the return Schedule R Individual - Special Partnership.

PART IV - PROFITS FROM SUBCHAPTER N CORPORATIONS OF INDIVIDUALS

You must report your distributable share on income or loss derived by a Subchapter N corporation of individuals. If the Subchapter N corporation of individuals derived losses, you may use said losses only against income derived from the distributable share of other investment made in a Subchapter N corporation of individuals or against income derived by the Subchapter N corporation of individuals that produced the loss. Losses not admissible may be carried over indefinitely.

PART V - MISCELLANEOUS INCOME

Column A - Enter the distributions received from an Individual Retirement Account (IRA). Submit Form 480.7 with the return.

Column B - Enter those miscellaneous income not itemized in any part of the return or schedules. You must report also the amounts received from judicial or extrajudicial indemnification, paid under a judgement issued by the Court or under an extrajudicial claim, that constitute taxable income.

The term **taxable income** includes, among others:

1) any part of the compensation that represents or substitutes losses from income or salaries, including ceased profits; and

2) the indemnification from lost or ceased salaries in cases of job suspension or termination, or from illegal dismissals.

The net amount received must be transferred to Part 2, line 2G of the return.

The amounts received from judicial or extrajudicial indemnification are subject to a 7% withholding of tax at source. Submit Form 480.6B with your return. Enter such payments on Schedule B Individual, Part III, line 8.

Column C - You must inform the income received from prizes or contests. If the prize consists of a property, equipment or other value, you must inform its fair marker value.

SCHEDULE G - SALE OR EXCHANGE OF ALL TRADE OR BUSINESS ASSETS OF A SOLE PROPRIETORSHIP BUSINESS

Every individual who sells, exchanges or disposes of all the assets used in his/her sole proprietorship business may defer the gain if:

1) Re-invests the product of the sale or exchange in another sole proprietorship business in Puerto Rico.

2) Makes the reinvestment within 12 months from the date of the sale or exchange of the first business.

This gain deferment will not apply to businesses conducted by corporations or partnerships, or other types of organizations.

Definitions:

Sole proprietorship business - Any business dedicated to manufacture, agriculture, construction, sale and purchase of consumers' goods or to render services, all of which are totally owned by a natural person.

Assets used in your sole proprietorship business - It includes land, real and personal property subject to the concession of depreciation, property included on the taxpayer's inventory in existence at the end of the taxable year, property possessed for the sale during the ordinary course of business or industry, sales or payable promissory notes and other intangible property. The term does not include property for personal use, property possessed as investment and property that is not used in your sole proprietorship business.

PART I - QUESTIONNAIRE

You must indicate on line 1 if in previous years you have taken the benefit of postponing the gain of a sole proprietorship business. In case you have answered "Yes", you must inform in the spaces indicated the taxable year in which you commenced to postpone the gain and the amount claimed.

The adjusted basis to be informed on line 2 will be equal to the amount determined on Schedule G, Part III, line 20, for the taxable year in which you elected to benefit from the gain postposition.

This Schedule must include the aforesaid information and will be submitted with your return for **all the subsequent years in which you elected to benefit from the postposition of the gain from a sole proprietorship business.**

PART II - COMPUTATION OF GAIN

Line 7 - You must inform those expenses incurred that made possible the sale of your first sole proprietorship business. The following examples are considered these type of expenses: advertisements, legal fees, commissions, etc.

Line 9 - The adjusted basis of your first sole proprietorship business will be its cost, increased by the permanent improvements made to the business, and reduced by the depreciation expense taken over the business assets used.

Line 11 - If you sold your first sole proprietorship business and have the intention of purchasing another new sole proprietorship business, the Code provides you the benefit to postpone the realized gain as long as you comply with the requirements previously mentioned. Do not complete the rest of the form and submit it with your return. You must fill out another Schedule G for next year to inform the postponed gain and the adjusted basis of the new sole proprietorship business.

PART III - ADJUSTED SALES PRICE, TAXABLE GAIN AND ADJUSTED BASIS OF NEW SOLE PROPRIETORSHIP

Line 12 - Enter on this line the total amount realized on the sale of your first sole proprietorship business as determined on line 10.

If this line is zero, then there is no gain to be recognized for this taxable year. In this case, do not complete the rest of the form and include the same with the return.

If this line is larger than zero and you acquired a new sole proprietorship business, continue with the rest of the form in order to determine if any part of this realized gain will be taxed in this taxable year. This occurs when the assets sales price of your first proprietorship business exceeds the purchase cost of the new sole proprietorship business.

On the other hand, if this line is more than zero and you do not have the intention of buying another business during the replacement period provided by the Code, all realized gain, as determined on line 10 of this schedule, will be recognized and taxed in this taxable year. That amount must be transferred to Part I or II, Column F of Schedule D Individual.

Line 13 - To determine which part of the realized gain is taxable, the sales price of the first sole proprietorship business will include only the amount of any mortgage, fiduciary cession for the benefit of creditors (trust deed), or any other debt to which is subject such property in possession of the purchaser. In this case, the commissions and other selling expenses paid or incurred on the sale of the first sole proprietorship business, will not be deduced nor taken in consideration while determining the sales price.

Line 14(b) - The cost of the new sole proprietorship business will be its cost plus those debts to which the property is subject (including mortgages) as of the date of the purchase, and the nominal value of the taxpayer's debts that are part of the consideration for the purchase.

Line 18 - Enter the smaller of line 12 or 17. If the result is zero or less, there will be no taxable gain for this taxable year.

If the amount is more than zero, this will be the taxable gain for this taxable year. Transfer this amount to Part I or II of Schedule D Individual, as applicable. This occurs when the total amount reinvested in the new sole proprietorship business is lower than the sales price of the first sole proprietorship business.

Line 20 - This will be the adjusted basis of the new sole proprietorship business which you must inform in all the subsequent taxable years in which you elected the benefit of postponing the gain. The same will be informed on Schedule G, Part I, line 2 of the following year of said election.

This provision has the effect of postponing the gain not recognized on the sale of the first sole proprietorship business until a sale is made of all the assets of the new sole proprietorship business.

SCHEDULE H - INCOME FROM ANNUITIES OR PENSIONS

This Schedule must be completed if you received income for annuities or pensions exceeding $5,000 for individuals younger than age 60, or $8,000 for individuals age 60 or older. Schedule H provides space to report the income from only one annuity or pension. Therefore, in cases of individuals receiving more than one annuity or pension, a separate schedule should be completed for each annuity or pension. If the taxpayer receives more than one annuity or pension, the exclusion will apply for each annuity or pension separately.

If you receive income from Social Security pension, do not complete this Schedule because the same is not taxable in Puerto Rico. Otherwise, if you bought an annuity through a financial or insurance institution, do not complete this Schedule. Any income received from such annuity must be informed in Schedule F, after considering the annuity's cost to be recovered.

PART I - DETERMINATION OF COST TO BE RECOVERED

Line 1 - Enter the cost of the annuity or pension. The cost of the annuity is the amount that the taxpayer paid in order to be entitled to receive the annuity or pension. Said cost appears in Form 499R-2/W-2PR, Part 7.

PART II - TAXABLE INCOME

Line 7 - Enter the total amount received from annuities or pensions during the year. This information appears in Form 499R-2/W-2PR, Part 12.

Line 8 - Enter $5,000 if you are younger than age 60, or enter $8,000 if you are age 60 or older.

If the total amount received during the year exceeds $5,000 or $8,000, as applicable, only the excess over such amount will be subject to tax. As long as you are recovering the cost of the annuity or pension, you will be taxed up to 3% of such cost.

If you claim the exempt amount of $8,000, you must include a copy of your birth or baptism certificate. If you have previously submitted this evidence, it should not be submitted again.

Line 12 - Enter the amount of line 11 or 3% of the cost of the annuity, whichever is larger, but not larger than line 9, until you have recovered the total cost of your annuity or pension tax free.

If the payments received covered less than 12 months, multiply 1/12th from the 3% of the pension cost (line 1) by the number of months for which the pension was received. Enter on line 12 of this Schedule, and in Part 2, line 2 I of the return, the amount determined from the above computation, or the amount indicated on line 11 of this Schedule, whichever is larger, but not larger than the amount of line 9.

Line 13 - Enter the income tax withheld, and transfer this amount to Part 4, line 25B of your return.

Submit with your return the Withholding Statement (Form 499R-2/W-2PR) and this Schedule.

SCHEDULE I - ORDINARY AND NECESSARY EXPENSES

The Code provides a deduction for certain ordinary and necessary expenses incurred to derive income as an employee. This deduction is limited to the amount paid up to $1,500, or 3% of the adjusted gross income, whichever is smaller. The deduction claimed for ordinary and necessary expenses will be subject to a rigorous investigation. Therefore, in order to claim these expenses, you must be entitled to them, and keep the necessary evidence.

PART I - DETAIL OF EXPENSES

Line 1(A) - Enter 100% of expenses for meals and entertainment, which are neither luxurious or extravagant, paid by you as a result of your services as an employee.

Line 1(B) - Enter the amount reimbursed by your employer for meals and entertainment only.

Line 1(C) - Enter the difference between lines 1(A) and 1(B). If the amount on line 1(B) exceeds the amount on line 1(A), such excess constitutes income and must be included on Schedule F, Part V.

Line 1(D) - If line 1(A) exceeds line 1(B), enter 50% of the amount on line 1(C). This is the amount of meals and entertainment you will use to determine the deduction for ordinary and necessary expenses.

Line 2(A) - Enter the cost for the purchase and maintenance of uniforms (Do not include civilian clothes. The uniform must identify the business or organization you work for).

Enter on lines 2(B) through 2(D) the expenses incurred for dues paid to unions, college memberships, labor or professional associations, or the purchase by teachers of educational materials, and the purchase of technical books related to professional or technical work.

Line 2(E) - Enter the educational expenses paid during the taxable year to maintain or improve the skills required in your profession or occupation, to comply with the express requirements of an employer, or to comply with the legal or regulatory provisions to maintain your salary or job as an employee. If the taxpayer is a teacher or professor, the educational expenses are allowed whether or not the employer has required you to maintain or improve your skills, but only if the studies completed are usually taken by the members of your profession and result in the benefit of the school population.

Line 2(F) - Enter the depreciation of any property used that is related to your employment. Complete the detail on the reverse side (Part II) to determine the deduction.
Assets used in your profession or occupation must be depreciated under the straight-line method.

An automobile may be depreciated over a 3 year period if it is used only in sales activities and over a 5 year period if it is used for other purposes. The maximum basis to determine the amount to be deducted for automobile depreciation will be $25,000. These rules apply to automobiles leased with a purchase option. In case of ordinary leases, the total amount of rent paid will be considered as basically equivalent to current depreciation, and a deduction is allowed for that part of the rent paid related to your employment.

If the automobile is used by the taxpayer in his/her industry or business, or for the production of income as an employee, and for personal purposes, the deduction for depreciation will be reduced by the amount applicable to personal use.

Line 2(G) - Enter other ordinary and necessary expenses related to your profession or occupation. **Expenses incurred for traveling from your residence to your place of work, or vice versa are not deductible**.

When an employee is transferred from one location to another by request of the employer, and receives a payment for such transfer, or that of his/her family or personal belongings, the amount so paid will be deductible from the employee's gross income. If the payment represents an allowance, the expenses paid or incurred by the employee for his/her transfer can be claimed as ordinary and necessary expenses up to the limit of $1,500 ($750 if married filing separately) or 3% of the adjusted gross income from salaries, whichever is smaller. Otherwise, if the payment represents a reimbursement, the expense actually paid or incurred can be deducted up to the amount reimbursed by the employer. Any excess paid with respect to the expenses actually incurred, will be included in the employee's gross income for the taxable year in which said excess was received.

If the transfer is made for the exclusive benefit of the employee, any concession received will be included in the gross income and such expenses are not deductible.

The expenses reimbursed must be informed by the employer in the Withholding Statement (Form 499R-2/W-2PR, Part 13).

Line 3 - Enter the sum of lines 1(D) and 2(K). This is the total amount to be used to determine the ordinary and necessary expenses to be deducted.

Line 4 - Enter the salaries and wages subject to withholding from Part 2, line 1B of your return.

Line 5 - Enter the salaries received from the Federal Government from Part 2, line 1C of your return.

Submit this Schedule with your return.

SCHEDULE J - MEDICAL EXPENSES AND CHARITABLE CONTRIBUTIONS

Use this Schedule to determine the deduction for medical expenses and charitable contributions that you will claim in your return. You must provide a detail of each medical expense or contribution that you made during the year.

See full details for those deductions in the instructions to complete Schedule A Individual, Part I, lines 7 and 8.

It is very important to enter the name and address of the person or organization to whom the payment was made and the amount paid. **Evidence to support your payment must be submitted with your return.**

Line 3 - If you earned gains from the sale or exchange of capital assets and elected to pay based on the special tax rates of 20%, 10% or 7%, as applicable , you must multiply the adjusted gross income determined on Schedule D2, line 3 by 3% and enter the result on this line.

If you claimed any of these two deductions, **submit this Schedule with your return.** Transfer the amount of the allowable deduction for medical expenses from line 4 to Schedule A Individual, Part I, line 7. Transfer the amount of the deduction allowable for charitable contributions from line 8, to Schedule A Individual, Part I, line 8.

SCHEDULE K INDIVIDUAL, L INDIVIDUAL, M INDIVIDUAL AND N INDIVIDUAL

Use these Schedules if you had income from:

1) Industry or Business = Schedule K Individual

2) Farming = Schedule L Individual

3) Professions and Commissions = Schedule M Individual

4) Rents = Schedule N Individual

Said Schedules provide spaces to inform only one source of income. Therefore, if you have more than one source of income, you must complete a separate schedule for each one.

Also, you must consolidate the gain or benefit determined in Part II of the applicable schedules corresponding to the same source of income, and transfer the total amount to the applicable line on page 1, Part 2 of the return.

For example, in the case of a taxpayer who files a joint return, and he is a lawyer and she is a physician, they will use two Schedules M Individual to determine the income and expenses for each one of the professions, and then will transfer the sum of line 5 of said schedules to page 1, Part 2, line 2M of the return.

In the case of earning income from professions and commissions, you must use a separate Schedule M Individual for each one of this concepts and check (X) the corresponding Box. Also, you must use a Schedule M Individual for each source of income.

If the taxpayer has a supermarket and a gas station, he or she will use two Schedules K Individual to detail the income and expenses, and then will transfer the sum of line 9 of said schedules to page 1, Part 2, line 2K of the return.

PART I - QUESTIONNAIRE

Every taxpayer engaged in a trade or business must submit the information requested in the questionnaire of Part I. You must include your employer identification number, assigned by the **FEDERAL INTERNAL REVENUE SERVICE (IRS).**

If you are engaged in a trade or business and your operations are covered by a tax exemption decree under Act No. 26 of 1978 (Industrial Incentives Act of Puerto Rico), Act No. 8 of 1987 (Tax Incentives Act of Puerto Rico), or by a resolution issued under Act No. 78 of 1993 (Tourism Development Act of Puerto Rico) or Act No. 14 of 1996 (Special Act for the Development of Castañer), check the applicable box and indicate the case or concession number, if applicable. If you are not covered by a decree or resolution, you must check the box "Fully Taxable".

If you are engaged in a farming business, the Code establishes an special deduction of 90% of the net income from an agricultural business of a bona fide farmer who has a valid or a current certification issued by the Secretary of Agriculture of Puerto Rico. To be elegible for this deduction, you must derive at least 50% of your gross income from farming activities as an operator, owner or lessee, and submit copy of the current certification issued by the Secretary of Agriculture. That deduction will be entered in Part II, line 10 of Schedule L Individual. If you are elegible, you must check the applicable box.

However, if you elected to receive the tax benefits granted by the Agricultural Tax Incentives Act of Puerto Rico (Act No. 225 of 1995), as amended, you will have a 90% tax exemption as long as you have derived at least 50% of the gross income from agricultural activities, and submit a copy of the current bona fide farmer certificate issued by the Secretary of Agriculture. In order that this exemption be recognized, you must check the applicable box. **It is important to indicate that you cannot claim both benefits at the same time**.

PART II - DETERMINATION OF PROFIT OR LOSS

If you had income from industry or business, agriculture, professions and commissions or rents, use Parts II and III to provide the information related to those activities.

In Schedule K Individual, Part II, line 6, L Individual, Part II, line 8, and Schedules M Individual and N Individual, Part II, line 4, you will include the **Net Losses from Previous Years Operations** carryover. On this line you may include: the net loss from previous years operations carryover of your principal activity from which the income was obtained. If there is a balance from the loss of the activity which is your principal source of income, said balance will be transferred to Part 2, lines 2K through 2N of the return, as applicable. You may reduce any income from other sources, **except from salaries or pensions.** The balance from business losses which are not your principal source of income will be carried over to future years and may be deducted only against the income derived from the same activity that produced the loss.

See full details for the **treatment of losses** of industry or business on the **INSTRUCTIONS TO COMPLETE THE LONG FORM RETURN: Part 2, Line 2 - Other Income (or losses).**

PART III - OPERATING EXPENSES AND OTHER COSTS

It is allowed a reasonable deduction of those ordinary and necessary expenses incurred for the production of income related to your business.

The salaries deduction will be verified by an electronic system in order to determine if the amounts claimed agree with the Withholding Statements and the forms that must be filed by the employers.

The Code allows a deduction for contributions to pension plans or other qualified plans. To claim the deduction for contributions made to any of said plans, it will be necessary to preserve in your records the information required by the Regulations under the Code.

The contributions made to a qualified plan for the benefit of an individual, commonly known as *"Keogh Plans"*, cannot exceed 25% (15% if a profit sharing plan) of your earned income without considering said deduction. Because this deduction and the amount of net profits from sole propietorship income depend on each other, it is required to adjust the amount of said net profits. This adjustment can be determined indirectly through the reduction in the percentage of contributions made, attributable to said individual. The contributions adjusted percentage and the deduction for contributions can be determined as follows:

(A) Percentage of contributions according to the plan	%
(B) Percentage in (A), reflected in decimal, plus 1	1._
(C) Adjuste percentage (divide (A) by (B)	%
(D) Net gains (without adjustment)	$
(E) Maximum deduction (multiply (D) by (C)	$

Up to 50% of the total amount for meals and entertainment expenses incurred or paid during the year may be deducted. **However, said deduction cannot exceed 25% of the gross income.**

The Code provides a **$400 deduction for employers from private industries for each severely disabled person** that is employed for at least 20 hours per week for nine months during the taxable year. This deduction will be allowed up to five severely disabled persons employed. The regulation in force applicable to the Vocational Rehabilitation Program of the Department of the Family, will be used for the definition of the term "severely disabled person".

To claim this deduction, you must submit with your return:

1) a certification indicating that the person for which the deduction is claimed, has been an employee for at least nine months of the taxable year in which the deduction is claimed, and

2) a certification issued by the Secretary of the Department of the Family, indicating that the individual for which the deduction is claimed is a severely disabled person, in accordance to the regulations and procedures of said Department.

Those expense items for which there are no specific spaces provided in Part III, will be added and entered as **Other Expenses. Submit with your return a schedule detailing such expenses.**

Submit with your return the Schedules that you have used.

SCHEDULE O INDIVIDUAL - ALTERNATE BASIC TAX

If you have an adjusted gross income of $75,000 or more ($37,500 if married filing separately), you must complete this Schedule.

An alternate basic tax will be imposed and determined in accordance to the following table, when the same is larger than the regular tax:

Adjusted Gross Income:	Tax rate:
From $75,000 to $125,000	10%
Over $125,000, but not over $175,000	15%
Over $175,000	20%

If you file separate returns, the indicated adjusted gross income levels will be reduced to 50% for purposes of the alternate basic tax.

SCHEDULE P INDIVIDUAL - GRADUAL ADJUSTMENT

In the case of taxpayers whose net taxable income is over $75,000 ($37,500 if married filing separately), the Code provides for a gradual adjustment to the lower tax rates applicable to income under $75,000 ($37,500 if married filing separately) and the gradual elimination of personal exemption and exemption for dependents. If the net taxable income in Part 3, line 14 of the return is more than $75,000 ($37,500 if married filing separately), it will be subject to this adjustment.

SCHEDULE R INDIVIDUAL - SPECIAL PARTNERSHIP

Part I of Schedule R Individual is used every year to determine the taxpayer's basis in each special partnership. Part II of this schedule is used in those taxable years in which the taxpayer claims his/her distributable share on the special partnership's losses in the current year, as well as those losses carried over from previous years. Part II provides for the reduction of the carryover losses by the distributable share on income and profits attributable to the partern during the year.

You must complete this Schedule anually whether the Special Partnership has derived gains (or losses) or not.

PART I - ADJUSTED BASIS DETERMINATION OF A PARTNER IN ONE OR MORE SPECIAL PARTNERSHIPS

Line 1 - Enter the amount from Part I, line 4 of last year's Schedule R Individual.

The basis of a partner's share from a Special Partnership will be the amount of cash, or the adjusted basis of any property that is not considered cash, contributed to said partnership.

This basis will be adjusted by the following entries or transactions made during the current taxable year and others included in previous year's income tax return.

Line 2 - Basis increase

(a) Enter the partner's distributable share on the previous year's income and profits. For example, in the case of a taxpayer with a calendar taxable year, enter the total distributable share on the special partnership's income or profit included in the income tax return filed on April 15 of previous year (or later if you requested an extension of time to file your return). This amount must be the same as the one shown on line 7, Part 11 of Schedule R Individual included in previous year's income tax return.

(b) through (d) these entries are from the current taxable year.

(e) Enter the proportion of income or gain attributable to your share on the income from agriculture earned by the special partnership, which is exempt under section 1023 (A) of the Code.

(f) Enter other income or gains for example, the distributable share on the dividends and interest received by the special partnership.

Line 3 - Basis decrease

(a) Enter the distributable share on the loss attributable to the partner in previous year. For example, in the case of a taxpayer with a calendar taxable year, enter the total distributable share on the special partnership's loss included in the income tax return filed on April 15 of previous year (or later if you requested an extension of time to file your return). To determine the total loss claimed in previous year's return, add lines 5(e), 8 and 13 of Part II from Schedule R Individual included in previous year's return. In order to add lines 5(e), 8 and 13 use the parentheses of line 8, if the excess is a loss. For example, if line 5(e) is $12,000, line 8 ($2,000) and line 13 $1,000, the result will be $11,000 ($12,000 + ($2,000) + $1,000.

(b) The distributable share on special partnership's capital assets loss.

(c) Distributions made to the partner by the Special Partnership, whether in cash or in property, including tax exempt income.

(d) The amount taken as credit against the income tax on previous taxable year for investments made in special partnerships engaged in the production of feature films or under the Tourism Development Act of Puerto Rico of 1993, the Capital Investment Fund Act of Puerto Rico, the Agricultural Tax Incentives Act of Puerto Rico, as amended, or any other credit admitted by law to the partners related to the Special Partnership's activities.

(e) The amount taken as credit against the income tax for withholding of tax at source from the distributable share made to a resident partner (33%) or to a non-resident alien partner (29%).

(f) Any expense from the Special Partnership not allowed as a deduction while determinig your net income and that is not capitalized.

(g) The distributable share on net losses from tax exempt operations under the Tourism Incentives Act of 1983 and the Tourism Development Act of 1993.

PART II - DETERMINATION OF PARTNER'S ALLOWABLE LOSS IN ONE OR MORE SPECIAL PARTNERSHIPS

If the Special Partnership derived losses, the partner may take such losses as a deduction from salaries, pension or any other income. Said loss will be limited to the adjusted basis of the partner's share in the partnership at the end of the taxable year in which the loss of the partnership ocurred, or up to 50% of the taxpayer's net taxable income determined without considering said loss, whichever is smaller.

The adjusted basis limitation will be determined for each one of the Special Partnerships in which the partner invests.

If the deduction allowed to the partner for any taxable year is smaller than his/her distributable share in the partnership's net loss, the partner may claim said excess as a deduction in any subsequent taxable year, subject to the smaller of the previously mentioned limitations.

Line 5(a) - Enter the amount distributed from the partner's loss in accordance to his/her share percentage in the Special Partnership. This amount is informed to the partner in Form 480.6 SE.

Line 5(b) - Enter the carryover losses which were not claimed in previous years due to the limitation. This amount must be the same as the one shown in line 14, Part II of Schedule R Individual included in previous year's income tax return.

If a partner possesses share in losses from more than one Special Partnership, the balance subject to the loss carryover, as determined on the previous taxable year, will be proportionally attributed to the loss of each one of the partnerships. Said attribution will be done by using as factor the adjusted basis of the partner's share in each one of the partnerships at the end of the previous taxable year.

Line 6 - Enter on this line the amount determined in Part I, line 4. If the special partnership has an exemption decree under the Tourism Incentives Act of Puerto Rico or the Tourism Development Act of Puerto Rico, you may use the debts of the Special Partnership in proportion to your share to increase your adjusted basis, only to claim losses of the Special Partnership from this activity.

Line 7 - Enter the partner's distributable share on the income and profits derived from the Special Partnership during the year. This amount is reflected in Form 480.6 SE.

Line 9 - Enter the smaller of the amounts on lines 6(c) and 8. This will be the maximum amount to which the partner is entitled to take as a deduction for losses during this taxable year.

Line 10 - Enter the result of the computation from line 9. In cases in which the partner has losses in more than one partnership, enter the result of the sum from line 9, Columns A through C. This is the total amount of losses to claim for this taxable year.

Line 11 - Subtract from the Adjusted Gross Income (without considering the losses from Special Partnerships), the standard or itemized deduction and the additional deductions. This will be the net income subject to the computation of line 12.

Line 12 - Enter 50% of line 11. This limitation determines which amount of the total of losses on line 10 you will claim on this year's return.

Line 13 - Enter the smaller of line 10 or 12. This is the amount that you may deduct in your return this year.

SCHEDULE CH - RELEASE OF CLAIM TO EXEMPTION FOR CHILD (CHILDREN) OF DIVORCED OR SEPARATED PARENTS

In the case of minor children from divorced or separated parents, the exemption for dependents will be claimed by the parent with the right to custody. However, a minor child will be considered to have received more than half of his/her support during a calendar year from the parent who does not have the right to custody if:

1) the parent with the right to custody signs a Schedule CH, establishing that he (or she) shall not claim said child as a dependent for any taxable year commencing within said calendar year, and

2) the parent who does not have the right to custody submits said Schedule with the return for the taxable year commencing within said calendar year.

You may agree to release your claim to the child's exemption for the current taxable year or for future years, or both.

- Complete **Part I** only if you agree to release your claim to the child's exemption for this taxable year.

- Complete **Part II** only if you agree to release your claim to the child's exemption for any or all future years. If you do, write the specific future years or "all future years" in the space provided.

If the custodial parent completed Part II, you must submit a copy of this Schedule with your return for each future year in which you claim the exemption.

SCHEDULE CV - COST OF LIVING ANALYSIS

This Schedule must be completed and kept for your records to be submitted at any moment at the request of the Department of the Treasury in case of an investigation. In this Schedule, you must indicate the total amount of cash received during the year, including the applicable disbursements.
It is very important that you keep all the necessary documents to support the information indicated in this Schedule, in the event it is requested by the Department.

FORM 480 - E - ESTIMATED TAX DECLARATION

WHO MUST FILE THE ESTIMATED TAX DECLARATION?

Every person:

- single or married not living with his or her spouse, whose gross income from sources not subject to withholding exceeds 50% of his/her total estimated gross income from all sources, or $5,000; or

- married living with his or her spouse whose combined gross income from sources not subject to withholding exceeds 50% of his total estimated gross income from all sources, or $10,000.

However, if the total amount of tax is $200 or less, you are not required to file an estimated tax declaration.

If you only derive income from the following sources, you are not required to file an estimated tax declaration:

- wages from an agricultural business not subject to wihholding;

- dividend distributions, partnership's profits and interest subject to withholding;

- compensation received for services rendered to the Government of the United States subject to withholding of tax at source, for purposes of the Government of the United States.

- lump-sum distributions from qualified pension plans over which the corresponding witholding of tax at sources was made.

INSTRUCTIONS TO PREPARE THE ESTIMATED TAX DECLARATION FOR INDIVIDUALS

The Estimated Tax Declaration (Form 480-E) must be filed not later than the 15th day of the fourth month of the taxable year, except when the requirements to file are met for the first time:

1) after the last day of the third month and prior to the first day of the sixth month of the taxable year, the filing date will be not later than the 15th day of the sixth month of the taxable year; or

2) after the last day of the fifth month and prior to the first day of the ninth month of the taxable year, the filing date will be not later than the 15th day of the ninth month of the taxable year; or

3) after the last day of the eighth month of the taxable year, the filing date will be not later than the 15th day of the first month of the following taxable year.

The Declaration may be filed in the Internal Revenue Collections Office of the Municipality where the taxpayer resides or may be sent to:

DEPARTMENT OF THE TREASURY
RETURNS PROCESSING BUREAU
PO BOX 9022501
SAN JUAN PR 00902-2501

Every taxpayer required to file the Declaration, must enter his/her name, address and social security number, and check the applicable box to indicate if the same is original or amended. Also, you must specify the taxable year to which the payments of estimated tax will be applied, as well as the type of taxpayer.

Line 1 - Determine the estimated tax to be paid for the indicated taxable year. This amount cannot be less than the smaller of the following amounts:

- 90% of the tax to be paid at the end of the taxable year, or
- 100% of the tax paid in the previous taxable year.

Line 2 - Enter as estimated credit the amounts withheld for services rendered, salaries and interest, distributable share of income from partnerships, special partnerships and Subchapter N corporations of individuals, payments for indemnification received from judicial or extrajudicial procedures, contributions to the Educational Foundation for Free Selection of Schools and the tax withheld under the Tax Incentives Act of Puerto Rico of 1987 and the Tourism Development Act of Puerto Rico of 1993.

Line 4 - Enter as credit the tax paid in excess in the income tax return of the previous year, to be applied as payment of estimated tax. If you choose to claim this credit against one of the determined installments, enter zero and go to line 5.

Line 6 - Divide the result from line 5, by the number of remaining installments.

Line 7 - Enter here the tax paid in excess applied as payment of estimated tax in the income tax return of the previous year, that you will claim against the amount of any installment. If you already considered this credit on line 4, you cannot consider it again.

PAYMENT OF TAX

If the Declaration is filed not later than the 15th day of the fourth month of the taxable year, the estimated tax will be paid in four equal installments:

1st installment: 15th day of the fourth month

2nd installment: 15th day of the sixth month

3rd installment: 15th day of the ninth month

4th installment: 15th day of the first month of the following taxable year.

If you file the Declaration after the 15th day of the fourth month and prior to the 15th day of the sixth month of the taxable year, the estimated tax will be paid in three equal installments:

1st installment: 15th day of the sixth month

2nd installment: 15th day of the ninth month

3rd installment: 15th day of the first month of the following taxable year.

If you file after the 15th day of the sixth month, and prior to the 15th day of the ninth month of the taxable year, the installments will be paid in two equal installments:

1st installment: 15th day of the ninth month

2nd installment: 15th day of the first month of the following taxable year.

If you file after the 15th day of the ninth month, the estimated tax will be paid in its entirety on the 15th day of the first month of the following taxable year.

The estimated tax installments will be paid along with a payment coupon (Forms 480.E-1 or 480.E-2). The taxpayers who filed a Declaration in the previous year, will receive a booklet containg 4 coupons (Forms 480.E-2) with their name, address and social security or employer identification number. The taxpayers who have not received the coupons booklet, must visit the Estimated and Employer Manual Coupon Section (Office 421-A) of the Department of the Treasury in Old San Juan, where the payment coupons (Forms 480.E-1) will be prepared. To contact this Office, please call 722-1499 or 721-2020, extensions 2446 and 2456.

The estimated tax payments will be made in the participating banks, (if you have the pre-printed coupon), the Internal Revenue Collections Offices or in the Returns Processing Bureau at the address previously indicated.

Payments with checks in the participating banks must be made payable to the order of such banks. Payments with managers checks, checks or money orders at the Internal Revenue Collections Offices will be made payable to the Secretary of the Treasury.

EXTENSION OF TIME

If for any justified reason, a taxpayer is not able to file the Declaration as indicated, he/she may request to the Secretary an extension of time to file said Declaration. The extension of time will be requested on Form SC 2650. No extension of time will be granted for a period larger than 3 months, except in cases of taxpayers who are outside of Puerto Rico.

AMENDMENTS TO THE ESTIMATED TAX DECLARATION

If after filing the Declaration it is determined that the estimated tax will be substantially increased or reduced as a result of a change in income, personal exemption, exemption for dependents or for any other reason, an Amended Declaration must be filed. The Amended Declaration must be identified on the applicable box. The increase or reduction in the estimated tax must be proportionally distributed among the remaining installments. Any Amended Declaration filed after the 15th day of the ninth month following the beginning of the taxable year as a result of an increase on the tax previously estimated, must include the total amount of said increase. The Amended Declaration in this case will be unnecessary if on the date in which you are required to file said Declaration, the final income tax return had been filed and the income tax balance was paid.

FARMERS

If 2/3 or more of an individual estimated gross income was derived from agricultural activities, the Declaration may be filed not later than January 15 of the following year, if the income tax return is filed on a calendar year basis, or not later than the 15th day of the month in which the following taxable year begins, if the income tax return is filed on a fiscal year basis. In that case, the tax must be paid in its entirety when filing the Declaration.

Farmers who file the income tax return not later than January 31 of the following year (if you file on a calendar basis), or not later than the last day of the month in which the following taxable year begins (if you file on a fiscal year basis) and pay in its entirety the total amount determined on the income tax return, are not required to file the Declaration.

PENALTIES

The Code establishes penalties for not filing the Declaration and for not paying the estimated tax installments. Also, a penalty is imposed for determining a substantially lower amount of estimated tax.