

## **Deloitte Tax LLP** **Puerto Rico Tax Alert – February 2024 – Number 2**

### **Distributions On Qualified Retirement Plans and Individual Retirement Account**

The Puerto Rico Treasury Department (PRTD) issued Internal Revenue Circular Letter Number 24-01 (IR CC 24-01) with the purpose of establishing the limits applicable to qualified retirement plans under Section 1081.01 of the Puerto Rico Internal Revenue Code of 2011 (PR Code).

Limits applicable for taxable year 2024 are as follows:

- Annual Benefits payable to participants in defined benefit pension plans – \$275,000
- Annual Contributions applicable to the accounts of participants in defined contribution plans – \$69,000
- Annual Compensation applicable for the computation of benefits under qualified retirement plans – \$345,000
- Compensation for highly compensated employees – \$155,000
- Additional Contributions applicable to participants in a retirement plan sponsored by the US federal government who are 50 years of age - \$7,500

### **Disregarded Entity Election for Limited Liability Companies**

The PRTD issued Internal Revenue Circular Letter Number 24-02 (IR CC 24-02) to clarify tax rules for limited liability companies (LLCs) that elect to be treated as a Disregarded Entity (DRE).

IR CC 24-02 establishes the following:

- DREs have the obligation to withhold taxes at source and to file the corresponding Withholding Statement and Informative Returns.
- If a DRE pays salaries or other compensation to the owner, such amounts will not be considered income to the owner or expense to the DRE. Amounts paid by the DRE, such as unemployment insurance, social security and Medicare are allowed deductions. Any Informative Return prepared by the DRE to its owner or vice versa, will not be considered income or an expense.
- Withholdings at source made to, tax credits generated by, and estimated tax payments made by the DRE can be claimed on the owner's income tax return.
- As a DRE, the taxable year of the LLC will be the same as that of its owner. If the election is not effective by the first day of the LLC's taxable year, an Income Tax Return must be filed for the short period ending the day before the election becomes effective.
- Two or more DREs are understood to carry out the same "industry or business" if the NAICS code reported on the corresponding schedules for the income tax return are recorded.
- A chain of LLCs can be treated as DREs.
- The optional tax computation is available to the sole owner if PR Code provisions are met. Gross income from owner and all DREs must be taken into account for these purposes.
- DREs tax payment to the United States, U.S. territories, and foreign countries may be claimed as a credit by the owner.
- LLCs with DRE election may request through their SURI account a Debt Certificate or Filing Certificate. Both certificates will reflect debts and filing status for periods where the LLC was taxed as a Pass-Through Entity or Corporation. The Filing Certificate will reflect as "Not applicable" for the tax periods for which the elected to be taxed as a DRE.



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