

CLIENT ALERT

January 2010

Immediate Action Required

Please be advised on certain tax developments that may require some immediate action.

IVU-Loto Program

Recently, the Puerto Rico Department of the Treasury (the "PRDT") issued some guidance with respect to the IVU Loto Program (the "Program"), a program implemented by the PRDT which establishes a connection between each Merchant's data capture device and the PRDT in order to strengthen PRDT's ability to control and audit merchant's collections of the sale and use tax. The PRDT commenced the Program on December 2010 with a pilot project in the Municipality of Ponce, and it will implement the Program across the Island during 2011.

The Secretary of the PRDT (the "Secretary") shall circulate to each Merchant eligible for the Program a written notice with information and instructions on how to comply with the requirements of the Program, and will request the Merchant to complete a questionnaire on or before February 9, 2011. Regulations issued by the Secretary provide certain exceptions under the Program, as well as applicable penalties for non-compliance.

Payroll Tax Relief

On December 17, 2010, [President Barack Obama](#) signed into law the Tax Relief,

Unemployment Insurance Reauthorization, and Jobs Creation Act of 2010 (the "Tax Relief Act"), which reduces, for calendar year 2011 only, the employee's share of the social security tax from 6.2% to 4.2%. The Tax Relief Act makes no changes to the employer's share of the social security tax (which remains at 6.2%) and Medicare tax rate (which remains at 2.9%).

The IRS released Notice 1036 containing the new withholding tables for use in 2011. Employers must implement the new withholding tables as soon as possible and no later than January 31, 2011. After implementing the new 4.2% rate, employers should make any necessary offsetting adjustments to correct any overwithholding of social security taxes by no later than March 31, 2011.

SISCON-Excise Taxes System

During 2005, the PRDT implemented a new excise tax electronic procedure, whereby all land, air and sea carriers with a license to operate in Puerto Rico and custom brokers shall electronically transmit manifests and, when duly authorized, pay excise taxes on behalf of their clients. This new electronic procedure will (i) significantly reduce the flow of documents and the need of the PRDT to visit the carrier's offices, (ii) guarantee a faster processing of the manifests, (iii) allow the electronic release of the merchandise, (iv) provide carriers the benefit of making payments without the need to visit a

collection center; and (v) offer carriers transaction information through the PRDT's web page.

or agency, or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

The PRDT implemented the aforementioned electronic procedure through an electronic tax system known as Tax System of the Department SISCO-Excise Taxes (the "SISCO System"), which is available through the Internet at the PRDT web page. Since its implementation, the PRDT has offered various informative sessions providing guidance and instructions on how to implement the SISCO System. The user code and password to access the SISCO System were delivered to each carrier on such informative sessions. On January 25, 2011, the PRDT issued Informative Bulletin No. 11-02 to expand, effective February 1, 2011, the information that carriers must include in the SISCO System to process manifests. Therefore, those carriers that did not attend the informative sessions must contact the PRDT to obtain their user code and password, and assure that they are in compliance with these new requirements.

If you have any questions or comments, or wish to obtain additional information, please contact us at 787-274-1212.

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