



Puerto Rico Labor & Employment Alert

CERTAIN SEVERANCE PAYMENTS CLASSIFIED AS “EXEMPT INCOME” MUST NOW BE REPORTED IN FORM 499R-2/W-2PR

Section 1031.01(b)(11) of Puerto Rico’s Internal Revenue Code, as amended, exempts from income those severance payments that an employer makes to an employee on account of the employee’s separation for service without making a determination of just cause, provided such payments do not exceed the maximum amount payable under Law 80 of May 30, 1976, as amended. Despite being exempted from income and, therefore, not taxable to the employee for purposes of Puerto Rico income tax, the employer is still required to report these payments to both, the employee and the Treasury Department, on an official informative return. For tax year 2017, the Treasury Department required employers to report these payments on Form 480.6D (Exempt and Excluded Income).

Beginning on the 2018 tax year, Form 480.6D will no longer be used to report these severance payments. Instead, as announced by the Treasury Department in the Internal Revenue Informative Bulletin issued on October 30, 2018, employers will be required to report them on Form 499R-2/W-2PR. Specifically, the Informative Bulletin announced changes to Form 499R-2/W-2PR to, among other things, add a new exemption code “I” to be used to report these payments in Box 16,16A and 16B of the Form. Accordingly, for the 2018 tax year, employers must report severance payments excludable from income on Form 499R-2/W-2PR and not on Form 480.6D.

Form 499R-2/W-2PR must be filed by January 31, 2019. Failure to do so may result in penalties.

Contact us

Please feel free to call us to clarify any doubts on the above.

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