

TAX ALERT

January 10, 2014

Change in Puerto Rico Income Tax Treatment of Certain Dividends distributed by U.S. Regulated Investment Companies

On November 27, 2013, the Puerto Rico Investment Companies Act of 2013, as amended, became effective. Such legislation governs the creation and taxation of Puerto Rico Investment Companies.

Previously, "capital dividends" and "exempt dividends" received by a resident of Puerto Rico on shares of stock issued by a U.S. investment company were afforded the same Puerto Rico income tax treatment as dividends distributed by Puerto Rico investment companies. In other words, "capital dividends" distributed by a U.S. investment company were taxed in Puerto Rico as long term capital gains and "exempt dividends" distributed by such an entity were also exempt from Puerto Rico income tax.

With the effectiveness of this new law, "capital gain dividends" and "exempt dividends" distributed by U.S. investment companies **will no longer** qualify for the more favorable tax treatment described before. Rather, "capital dividends" and "exempt dividends" distributed by a U.S. investment company on and after January 1, 2014, will be treated in the same manner as dividends from any U.S. corporation and therefore, **subject to Puerto Rico income tax as ordinary income.**

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If you have any questions or comments, or would like additional information about this matter, please call any of our tax attorneys:

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