

## Tax

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### AREAS OF CONCENTRATION

- Act 60
- Employee Benefits
- Nonprofit Organizations
- Retail
- Sales & Use Tax
- Tax Exemption
  - Act 60
- Tax Litigation
- Trusts & Estates

### RELATED PRACTICE AREAS

- Employee Benefits
- Infrastructure/Public-Private Partnerships
- Sales & Use Tax

Tax considerations are a significant factor in any business transaction.

The McConnell Valdés Tax Practice group is the only stand-alone tax group in Puerto Rico with over a dozen seasoned attorneys committed to helping some of the world's leading companies minimize their tax burdens and maximize the benefits of doing business in Puerto Rico.

Our profound understanding of Puerto Rico tax laws and policy enables us to pinpoint potential tax issues even in a volatile market – so that clients can plan effectively for the future. We are well connected and maintain an active and results-driven tax lobbying group that focuses on all areas of tax and tax incentives legislation that affects our clients.

Superb strategists and problem solvers, our team of seasoned attorneys is committed to helping some of the world's leading companies minimize their tax burdens – and maximize the benefits of doing business in Puerto Rico. They are vastly experienced in handling complex commercial and financial transactions for both multinational corporations with Puerto Rico operations as well as for local companies.

Individual team members ranked among *Chambers & Partners'* Leading Attorneys in the field are singled out as “excellent,” “knowledgeable and hands-on.” A number of our attorneys are also CPAs: this training is indispensable to our understanding of complex tax and business issues – and leads to innovative solutions and tangible cost efficiencies. Others of us gained valuable insights from prior experience working in the Puerto Rico Treasury Department.

Whether providing federal and local tax advice on the formation, operation, restructuring and disposition of business entities on the island, our team's approach couples our understanding of client business needs with responsive, highly personalized service. *Chambers & Partners Latin America* praises the team's ability to make clients feel “important,” while noting our ability to offer “impeccable” guidance on future tax-related developments.

Top-tier clients – from leading multinational companies to local entrepreneurial start-ups -- turn to us for assistance in establishing or relocating businesses in Puerto Rico. We are particularly experienced in handling tax issues for pharmaceutical, medical device, electronics, chemical manufacturing, software, green energy, export services companies and retail. We also regularly handle

- Tax Exemption
- Tax Litigation

excise, municipal license, and income tax matters related to the import and distribution of petroleum and petroleum derivative products within and outside a foreign trade zone.

Our team regularly handles the tax aspects of our clients' ongoing business endeavors, including real estate purchases and sales, mergers and acquisitions, joint ventures, e-commerce transactions, and year-end tax planning.

Ours is the broadest tax exemption group in Puerto Rico, and we regularly apply our detailed knowledge of Puerto Rico's tax exemption incentives to help clients optimize their tax outlooks in industries ranging from manufacturing, agriculture to tourism.

We possess a singular proficiency in handling the intricacies of Act 154 as it applies to multinational manufacturing companies. We are equally experienced in representing our clients in competent authority proceedings with the Puerto Rico Treasury Department, the IRS, and/or foreign jurisdictions in order to prevent double taxation.

The firm's stand-alone Tax Litigation Practice group carries the largest and most significant caseload in Puerto Rico and represents clients at every level and in every type of dispute resolution with tax authorities. We advocate on behalf of our clients before the United States Internal Revenue Service and Department of Labor, the Puerto Rico Treasury Department, The Center for the Collection of Municipal Revenue (CRIM) and various municipal taxing authorities. We boast a superlative success record in handling litigation matters from tax audits and examinations through administrative appeals and court proceedings.

We offer our clients cutting-edge counsel on:

#### **Act 60**

The Export Services & Commerce and Individual Investors Incentives provide opportunity for tax savings. [Read More...](#)

#### **Employee Benefits**

Our Employee Benefits practice is the largest of its kind in Puerto Rico, and is regularly called on to counsel clients on everything from retirement plans to executive compensation issues. [Read More...](#)

### **Sales & Use Tax**

We provide up-to-the-minute accurate and practical sales and use tax counseling to a diverse group of business clients. [Read More...](#)

### **Tax Exemption**

The broadest tax incentives practice in Puerto Rico, we work with clients from around the world that are seeking to develop and maintain businesses on the island. [Read More...](#)

### **Tax Litigation**

The firm's stand-alone Tax Litigation Practice group carries the largest and most significant caseload in Puerto Rico and represents clients at every level and in every type of dispute resolution with tax authorities. [Read more...](#)

### **Trusts & Estates**

We offer creative advice and an array of services designed to not only meet each client's unique estate planning and trust administration needs, but also to minimize future burdens. [Read More...](#)

## **REPRESENTATIVE CLIENTS & MATTERS**

- Assisting in the negotiation of amendments of industrial tax incentives grant to classify products as novel to attain million dollar tax savings. We filed a Competent Authority Request and negotiated with the Puerto Rico Treasury Department a closing agreement on the Puerto Rico income tax consequences of IRS income reallocations to prevent double taxation [deletion]. We successfully assisted client in obtaining a closing agreement with the Puerto Rico Treasury Department granting unique tax credits under the Puerto Rico Internal Revenue Code related to the excise tax of Act 154 to multinational manufacturing companies in Puerto Rico. We also successfully assisted client in obtaining a closing agreement with the Puerto Rico Treasury Department attributing proceeds from a multi-million dollar IP litigation settlement in the U.S. to Puerto Rico and taxing at preferential rates.
- Representing a company in negotiation of a tax incentives grant with the Puerto Rico Industrial Development Company, Puerto Rico Treasury Department, and Department of Economic Development and Commerce to maintain operations in Puerto Rico in light of the negative impact of excise tax of Act 154. We assisted in the negotiation of incentives, as well as the

negotiation, drafting and execution of grant documents, closing agreements, regulatory amendments and others. We filed a Competent Authority Request regarding the Puerto Rico income tax consequences of IRS and UK income reallocations, and started negotiations thereunder. We also successfully drafted and lobbied for legislation providing for pioneer product treatment carryover in the renegotiation process of an Act 135 tax incentives grant to an Act 73 grant. Since its enactment, this legislation has promoted significant economic activity in Puerto Rico.

- Providing tax advice on the divestiture of a client's Puerto Rico real estate properties into a real estate investment trust, including the lease back of stores to continue their retail operations. The transaction was part of a larger strategy to monetize about \$2.7 billion of real estate assets in an attempt to integrate its retail business. Puerto Rico tax advice was provided in all areas of taxation, including income taxation of earnings attributable to a business owned through a multi-tiered partnership structure, sales and use tax consequences of transfer of operational assets, and income taxation of a foreign real estate investment trust.
- Actively engaging in lobbying efforts during the passage of legislation to enact the value added tax regime in Puerto Rico and the repeal of the business-to-business exemption under the sales and use tax regime. The services we provided included regular advice on the application and implementation of the new taxes, particularly on matters related to taxable transactions between related parties. We also provided advice in the income tax area with regard to the increase in the transfer pricing tax component of the computation of the alternative minimum tax, and the impact on the Puerto Rico operations of such changes.
- Advising a client on the design and structure of the Puerto Rico business model for the import, storage, blending and distribution of petroleum and petroleum derivative products in Puerto Rico to maximize tax benefits, including the use of local tax exemption and foreign trade zone benefits. We also provide strategic counsel and audit defense on municipal license tax matters, including litigation in judicial venues to establish a volume of business allocation formula for the sale of fuel stored in one municipality and delivered in another.
- Serving as a Puerto Rico tax advisor in the restructuring of major tourism resort, including handling complex negotiations with various government entities and multiple parties, and related tax planning. We also developed and led strategy on Puerto Rico tax aspects of these complex negotiations.

- Representing more than 30 United States and Puerto Rico retail companies in tax-related issues.
- Advising numerous high net worth individuals on the tax issues related to relocating to Puerto Rico, as well as structuring and establishing export service companies in the Island under Act 20-2012 and 22-2012.
- Assisting client with complexities of Puerto Rico taxation of e-commerce transactions and establishment of operations in Puerto Rico.
- Assisting two subsidiaries in challenging and litigating various multi-million dollar municipal license tax assessments. One of these assessments relates to a novel issue regarding the impact of federal (U.S.) income reallocations on the municipal license tax liability. We obtained a favorable judgment from the Puerto Rico Court of First Instance ordering the cancellation of the deficiency notice, which was affirmed by the Puerto Rico Court of Appeals.
- Currently representing clients in complex litigation against two municipalities challenging final notices of deficiency on the payment of municipal license taxes. The assessments relate to various novel issues regarding the municipal license tax exemption applicable to businesses located within a duly authorized Foreign Trade Zone, and to challenges of the long-standing Puerto Rico tax incentives programs by the municipal government.
- Assist client to challenge the constitutionality of statutory provisions imposing on the acquisition personal property from related parties outside of Puerto Rico.
- Restructuring the defined contribution and defined benefit plans of a multinational client's worldwide reorganization. We examined the proposed restructuring and related tax and ERISA implications to advise our client on how to proceed with the restructuring of the PR Plans and related establishment of new PR plans in complying with legal requirements. We drafted and revised related plan documentation, multiple resolutions, and negotiated trust and agency agreements.
- Structuring a spin-off from the U.S. Consolidated Retirement Plan ("Old Plan") into a new PR Plan. This entails: (i) determining the best tax qualification scenario for the new PR Plan (PR only or dual qualified) and related implications, (ii) negotiating the terms of PR trust agreement and related documentation, (iii) the discussion and modification of Old Plan terms and drafting new PR plan document, (iv) qualifying Old Plan and new PR Plan with the Puerto Rico Treasury, (iv) determining which plan should continue maintaining retired Puerto Rico employees based on current residency and tax reporting issues, and (v) the revision of U.S. master trust provisions.