



Tax



Business



Requirements

# Are you looking to start a business in Puerto Rico?

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[Read this to know what to do and where to file.](#)

For years, Puerto Rico has been offering different benefits and incentives to local and foreign businesses to establish new operations in Puerto Rico. There are several steps and registries you need to complete to comply with state requirements for doing business in Puerto Rico. Below you will find the most common tax-related registries and requirements to start your business in our jurisdiction.

## The basics

### *Initial Registration at the Puerto Rico Department of State*

Depending on the desired form of business, you may be required to register an entity at the Puerto Rico Department of State for your business to exist in legal form. The most common examples include corporations and limited liability companies, governed by the General Law of Corporations in Puerto Rico, as amended. You can complete this process online under the Electronic Registry for Corporations and Entities. Also, an entity organized outside of Puerto Rico may be required to request authorization to do business in Puerto Rico if they perform certain business activities in Puerto Rico.

Once the entity is registered, it will be required to make annual filings to provide certain information and pay its annual dues. Penalties of up to \$500 can apply for failure to file, and eventually, the entity may be canceled, or its authorization to do business in Puerto Rico may be revoked.

### *Assignment of an Employer Identification Number*

Every business entity required to file a federal or state tax return must have an assigned Employer Identification Number (EIN). The EIN is often needed to engage in the most basic business activities, so it is frequently requested as soon as the business is formed. For example, banks will require it to open a business bank account. It will also be necessary for other required government registrations. EINs for PR businesses are commonly requested online and can be retrieved immediately.

### *Registration as a taxpayer in the Puerto Rico Department of Treasury*

You can register a taxpayer at the Puerto Rico Treasury Department (“PRTD”) using two means. You can register using the online platform Unified System of Internal Revenue (known by its Spanish acronym “SURI”) where taxpayers will be able to file returns, make payments, receive notifications, request certifications, verify return status, and request exemptions. This platform will provide access to some required or important registries, such as the Merchant Registry, discussed below.

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A business should also file **Form AS 4809 - Information of Identification Number - Organizations (Employers)** to receive a unique identification code. The unique identification code will allow you to register at Colecturía Virtual. An administrative fine of up to \$200 can be imposed for failure to register.

**Practice Point:** Although Colecturía Virtual is often believed to be in disuse as most of the online functions related to the PRTD have been transitioned to SURI, some transactions can only be completed through Colecturía Virtual, such as making payments for specific applications before the PRTD. Some examples include making payments for tax rulings and opinions, administrative determinations, and general inquiries.

### Upon commencement of operations

The commencement of operations of a business can trigger important state and municipal registrations. In this respect, the first 30 days of operating as a business can be crucial.

#### **Merchant's Registration Certificate**

The PR Code requires every person who does or wishes to do business of any kind in Puerto Rico must request in SURI the Merchant's Registration Certificate at least 30 days before starting operations. This certificate will show whether the merchant must collect the Sales and Use Tax (hereinafter referred to as "SUT") based on the following classifications:

- non-withholding agent – a merchant who will not be required to collect, withhold, report, and remit the SUT. Also, it will not be required to file the monthly SUT returns.
- withholding agent – a merchant who will be required to collect, withhold, report, and remit the SUT. Also, it will be necessary to file the monthly SUT returns. If a withholding certificate is issued, monthly return filing requirements in SURI begin the month of registration. Additional deposit requirements may apply.

**Practice Point:** Although you can file state SUT returns in SURI, a different platform is used to file municipal SUT returns. Depending on the municipality where the business operates, the business will be required to also register in the municipal platform available to file municipal SUT returns. Most municipal SUT returns can be filed using the COFIM (Municipal Finance Corporation) platform. However, some municipalities have their separate filing platform (e.g., San Juan, Bayamón, Carolina, among others).

The Merchant's Registration Certificate shall always be visibly displayed to the public. Failure to register on time may result in administrative fines. The penalty for operating without Merchant's Registration Certificate is \$10,000. The penalty if the information provided on the certificate is false is \$5,000. The penalty for not displaying the certificate is \$1,000.

#### **Sales and Use Tax Monitoring Program (IVU LOTO)**

Once the merchant completes its registration in SURI, it must also complete the registration in the SUT Monitoring Program (previously known as "IVU Loto"). Since its creation, the SUT Monitoring Program has incorporated fiscal terminals as a tool to transfer sales information to the PR Treasury. Merchants with a total sales volume exceeding \$125,000 are responsible for the acquisition, installation, and maintenance of fiscal terminals provided by PR Treasury's Certified Processors. The registration consists of the completion of a questionnaire. Based on the answers, the system will determine if the merchant will be required to install a fiscal terminal or not. The penalty for not having or modifying, manipulating, or destroying this terminal is up to \$20,000 for each violation.

**Practice point:** In the past, lotteries and prizes were awarded and were associated with the terminal, thus the name "SUT Lotto." Since the lottery prizes are no longer available, many inadvertently believe that completing this questionnaire is no longer required.

### ***Registration for Municipal License Tax***

Generally, any person who starts any newly created industry or business in a Municipality must notify the Director of Finance of such municipality no later than 30 days after beginning such activity. The Finance Director will issue a provisional license exempt from payment for the semester in place. A penalty of \$500 can be imposed for failure to register on time, and the first semester's tax exemption can also be lost.

After the exemption period elapses, businesses will generally require paying a municipal tax on their gross income in the Municipality they carry operations. The tax requirement is often triggered by a physical presence with an income-generating activity. Tax payments are made twice a year, and a filing of Volume of Business declaration will be required to report the gross income.

**Planning tip:** Each municipality has its requirements to register a business and issue a provisional license. It is encouraged you contact the municipality you wish to operate in to request the list of paperwork needed beforehand. You may miss the deadline if you do not actively procure certain documentation, as some documents may take time to gather. For example, you are generally required to include a Permit Use or a Consult Letter with the Municipality (indicating that such Permit is not needed), which can take several weeks to process.

**Planning tip:** To make the most of the first semester exemption, plan to start your business during the first day of the semester (i.e., July 1; Jan 1). If you start your business on the last month of the semester (i.e., Jun 1, Dec 1), you will only enjoy the exemption for one month and will be subject to filing a volume of business declaration and paying tax beginning the next month of operations.

### **Upon employing personnel**

#### ***Puerto Rico Department of Labor and Human Resources ("PRDOL")***

Every business must register with the Puerto Rico Department of Labor and Human Resources as soon as it becomes an employer. Registration should be made online through the Employer Services Portal of the PRDOL, where the employer status will be determined, and a state employer identification number will be assigned.

#### Disability Benefits Insurance Tax (SINOT)

The platform will allow the employer to declare wages, file returns and make unemployment payments online.

The Disability Benefits Insurance Tax (SINOT) provides indemnification to workers for loss of salaries resulting from disability caused by sickness or accidents not related to their employment. SINOT is imposed on the first \$9,000 of wages and salaries paid during the calendar year by the Employer to the employee. Any additional compensation paid thereafter in that year to the employee by the same Employer is not subject to the tax. The tax is to be paid every quarter, on the last day of the following month after the quarter ends. The employer is allowed to purchase this insurance from a private insurance company at a lower cost.

#### Chauffeur's Insurance

A separate registration is required at the PRDOL for employers who hire non-executive employees who are required or permitted to operate motor vehicles as an integral and regular part of their jobs. This insurance must be paid in lieu of SINOT for those types of employees.

Once the registration is completed, a quarterly return must be filed on, or before, the last day of the calendar month following each calendar quarter. Tax payments are remitted with each quarterly return.

## ***Puerto Rico State Insurance Fund Corporation (CFSE)***

### Workmen's Compensation Insurance

All employees of a business, including executive officers, are required to be covered by the workmen's compensation insurance. This insurance is obtained from the PR State Insurance Fund Corporation (CFSE). This is a compulsory insurance for the employer that aims to guarantee the constitutional right of every employee to be insured against health risks in their workplace. The insurance protects the employer by providing employer immunity from accidents in the workplace. It provides indemnification for accidents incidental to or as a consequence of employment. Rates vary according to the type of labor performed by the employees and are revised every year. Insurance premiums are paid by the employer and are generally paid in two installments upon notice mailed to the employer by the CFSE.

### **Final remarks**

Although this article is intended to provide an overview of the most common tax-related business registries, other permits and registrations may apply to your business, such as sanitary licenses, fire & environmental endorsements. Finally, if you are new to Puerto Rico or unfamiliar with working with local governmental agencies, it can be more efficient if you outsource by engaging a professional with extensive local experience, as it may be difficult and time-consuming to navigate these initial processes. We have professionals with extensive experience with local government agencies who can assist you in the business registration and setup process.

*Please note that this article is intended to serve as a general guideline of the most common registries and does not include an exhaustive list of all registries that may be required for your specific business.*

**We are committed to keeping you up to date with all tax-related developments. Please contact our Tax Department should additional information be required regarding this or any other tax issue. We will be glad to assist you.**



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