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EMPLOYEE BENEFITS NEWSLETTER

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CHANGES AFFECTING PLANS QUALIFIED PURSUANT TO SECTION 1165 OF THE PUERTO RICO INTERNAL REVENUE CODE

A. Increase in the Deferred Contribution Limit

Act No. 186 of August 7, 2008, amended Section 1165(e)(7)(A) of the Puerto Rico Internal Revenue Code of 1994, as amended (the "PRIRC") increasing the amounts that may be deferred by an employee under a cash or deferred contribution arrangement ("CODA Plan"). Prior to the amendment, a CODA Plan participant was allowed to defer the lesser of 10% of the annual salary or \$8,000 annually.

Effective for taxable years ended on or prior to December 31, 2008, the amendment eliminated the 10% compensation limitation and increased the deferred contribution limit amount as follows:

Taxable Year	Amount
Ending on or prior to 12/31/08	\$8,000
Starting on 1/1/09 or before 12/31/2010	\$9,000
Starting on 1/1/2011 or before 12/31/2012	\$10,000
Starting on or after 1/1/2013	\$12,000

For purposes of computing the deferred contribution limit, amounts contributed to other plans in which the employee participates and contributions made to an individual retirement account are taken into consideration.

B. IRS has Ruled that a Transfer of Assets from US Qualified Plan to a Puerto Rico Qualified Plan is Treated as a Taxable Distribution

The US Internal Revenue Service ("IRS") has issued a

ruling holding that the transfer of assets and liabilities from a US situs trust of an Internal Revenue Code ("IRC") Section 401(a) qualified plan that also satisfies the requirements of Section 1165 of the PRIRC to a Puerto Rico situs trust of a plan qualified under the provisions of Section 1165 of the PRIRC will be treated as a taxable distribution and may cause the transferor plan to fail to meet the requirements of IRC Section 401(a), even if the PR plan is an ERISA Section 1022(i)(1) plan, exempt from tax under IRC Section 501(a).

In the case of a participant who is a bona fide resident of Puerto Rico within the meaning of IRC Section 937(a) who has performed all of his or her services for the employer in Puerto Rico, the portion of the transfer attributable to employer contributions made to the plan will be treated as a distribution from sources within Puerto Rico and the portion of the transfer that represents earnings and accretions with respect to both employer and employee contributions will be treated as a distribution from US sources.

Subsequent distributions attributable to post-transfer earnings as well as employer contributions will be treated as Puerto Rico source income provided that the trust remains in Puerto Rico and that the employee's services are performed in Puerto Rico.

The IRS established transitional relief by providing that the holding of the ruling will not be effective for transfers made before *January 1, 2011*. The portion of each distribution from an ERISA Section 1022(i)(1) transferee plan attributable to amounts that were transferred from a Section 401(a) plan before January 1, 2011, will be treated as income from sources within Puerto Rico and, therefore, exempt from US taxation.

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