

9 June 2020

# Global Tax Alert

News from EY Americas Tax

## Puerto Rico's Treasury Department establishes procedure for distributing COVID-19 economic incentives to small and medium-sized businesses under Strategic Disbursement Plan for funds received under CARES Act

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Through Circular Letter (CL) 20-26, the Puerto Rico Treasury Department (PRTD) has established the procedure for distributing funds that the Strategic Disbursement Plan (Strategic Plan) provides under the CARES Act to help small and medium-sized businesses (PYMES for its Spanish acronym).

### Programs to help PYMES

Under the Strategic Plan, the PRTD will distribute the funds to small and medium-sized companies through two programs. The program for small businesses allows businesses to receive up to US\$5,000<sup>1</sup> for economic losses suffered as a result of the COVID-19 pandemic and for expenses related to the pandemic, while the program for medium-sized businesses allows businesses to receive up to \$10,000 for those losses and expenses. A small business is defined as a business that had 2 to 49 employees during March 2020 and a valid merchant registration certificate in effect on 16 May 2020. A medium-sized business is defined as a business that had 50 to 500 employees during March 2020 and a valid merchant registration certificate in effect on 16 May 2020. A small or medium-sized business also includes nonprofit entities that directly provide services to citizens and meet the number-of-employees requirement.

These programs will apply to all types of businesses, including individuals who operate through a legal entity, limited liability companies and corporations, provided they meet the requirement for the number of employees.

Self-employed individuals who already received \$1,000 under the program for self-employed individuals may receive funds under these programs. Self-employed individuals who are considered small businesses and had already received the \$1,000 incentive will only be allowed to receive up to \$4,000; those considered medium-sized businesses will only be allowed to receive up to \$9,000.

The funds received under these programs will not be considered income for income tax purposes.

## Procedure

To receive funds under these programs, businesses must submit a request through the Internal Revenue Unified System (SURI for its Spanish acronym). Beginning 5 June 2020, the PRTD will include a link on SURI for each merchant that is eligible for one of the programs. The PRTD will use the information from Form 499-R-1B, *Employer Quarterly Return for Withholding Tax*, filed for the quarter ending 31 March 2020, to determine if businesses are eligible for either of the programs. If a business has not filed the quarterly return for the quarter ending 31 March 2020, the PRTD will use the quarterly return filed for the quarter ending 31 December 2019, to determine eligibility.

With the request, the businesses should submit a copy of Form 941-PR, *Employer's Quarterly Federal Return*, for the quarter ending 31 March 2020. The businesses also must certify that the funds will be used to cover expenses related to the COVID-19 pandemic, including economic losses resulting from the pandemic. They cannot use the funds to pay executive bonuses, refinance debt or pay any other expense not permitted by the programs.

The businesses must use the funds on or before 30 December 2020. Funds will be available on a first-come, first-served basis until funds are no longer available.

## Implications

Specific provisions of the PYMES program guidelines define what expenditures PYMESs can cover with the funds. The program guidelines also impose a series of requirements with which the eligible PYMESs must comply, including not using the funds for expenses that have been covered or reimbursed by other COVID-19 assistance.

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## Endnote

1. Currency references in this Alert are to the US\$.



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