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Puerto Rico Treasury Department Issues Guidance on Retirement Plan Limits for 2016 and Reminder on Taxation, Withholding and Reporting Requirements Applicable to Distributions from Puerto Rico Tax Qualified Plans

Plan Limits for 2016

On December 28, 2015, the Puerto Rico Secretary of the Treasury (the “Secretary”) issued Circular Letter of Tax Policy 15-16 (CLTP 15-16), formally announcing the key pension limits for 2016, as required by the Puerto Rico Internal Revenue Code of 2011.

For plans qualified only in Puerto Rico (PR-Only Plans), and for plans qualified both in Puerto Rico and the U.S., including the U.S. Federal Government Thrift Plan (Dual-Qualified Plans), the limits on elective deferrals, catch-up and after-tax contributions, annual benefits, annual contributions and plan compensation, and the highly compensated employee threshold all remain unchanged for 2016. The chart below reflects the key limits. CLTP 15-16 in Spanish is available [here](#).

	2015	2016
1081.01(d) Elective Deferrals – PR-Only Plans	\$15,000	\$15,000
1081.01(d) Elective Deferrals – Dual-Qualified Plans and U.S. Federal Government Thrift Plan ¹	18,000	18,000
Catch-up Contributions – PR-Only Plans and Dual-Qualified Plans	1,500	1,500
Catch-up Contributions – Federal Government Thrift Plan	6,000	6,000

¹ Note that the sum of elective deferrals and contributions to a Puerto Rico deductible individual retirement account (PR-IRA) by a Puerto Rico participant in a dual qualified plan cannot exceed the sum of the PR Code annual limit on elective deferrals for participants in PR-only plans and the PR Code annual limit on deductible contributions to a PR-IRA (i.e., \$15,000 + \$5,000 = \$20,000, in 2016). For example, a participant in a dual-qualified plan who makes \$18,000 in elective deferrals in 2016, would only be able to contribute \$2,000 to his PR-IRA in 2016 (i.e., \$18,000 + \$2,000 = \$20,000).

After-Tax Contributions – All Plans	10% of the employee’s aggregate compensation during time employee is a plan participant	10% of the employee’s aggregate compensation during time employee is a plan participant
Annual Limitation on Compensation – All Plans	265,000	265,000
Annual Benefit Limitation on DB Benefits – All Plans	210,000	210,000
Annual Contribution Limitation on DC Plan Contributions – All Plans	53,000	53,000

Taxation of Distributions from Puerto Rico Tax Qualified Plans

In CLTP 15-16, the Secretary provides that distributions from a Puerto Rico tax qualified retirement plan to: (i) a participant or beneficiary who is a resident of Puerto Rico, or (ii) to an individual who was a resident of Puerto Rico while an active plan participant and accruing benefits or receiving contributions under the plan, are subject to the taxation requirements of PR Code Section 1081.01(b).

Withholding and Reporting Requirements on Distributions from Puerto Rico Tax Qualified Plans

In CLTP 15-16, the Secretary also reminds plan sponsors that distributions from Puerto Rico tax qualified plans, **including those plans established in, and operated from, the U.S. and which are also qualified under the US Code (Dual-Qualified Plans)**, are subject to the applicable PR Code Puerto Rico income tax withholding (e.g., 10% or 20%) and reporting requirements (i.e., Form 480.7C). Failure to comply with such requirements may expose the person/entity making the distribution and the employer that sponsors or maintains the plan to the various penalties imposed by the PR Code or the regulations issued thereunder.

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