

(H. B. 1561)

(No. 50)

(Approved January 30, 2006)

AN ACT

To amend Subsections (a), (b) and (c) of Section 1012C of Act No. 120 of October 31, 1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994” added by Act No. 99 of April 23, 2004 and amended by Act No. 411 of September 22, 2004, in order to extend to December 31, 2006, the effectiveness of several of its provisions regarding exchanges or indirect transfers of variable annuity contracts.

STATEMENT OF MOTIVES

Act No. 411 of 2004 amended Section 1012C of the “Puerto Rico Internal Revenue Code of 1994,” as amended, the “Code” to extend to June 30, 2005, the period to pay in advance a 10% tax on certain accumulated and undistributed amounts on a life insurance, endowment or annuity contract that is exchanged or transferred to an Eligible Variable Annuity Contract. However, Act No. 411 left December 31, 2004 as the deadline to make the exchange or indirect transfer of a life insurance, endowment or annuity contract to an Eligible Variable Annuity Contract.

This measure corrects the disparity in the terms and extends the periods up to December 31, 2006. It is necessary to extend the terms provided in Section 1012C to grant the local insurance companies an additional period for them to be in a position to execute variable annuity contracts, and that the taxpayers may make the changes and payments needed to avail themselves of the special 10% rate provided therein.

Furthermore, the words “contract for a” are added to the text of clause

(a) of Section 1012C in order to clarify that the contract to be exchanged is a life insurance, endowment or annuity contract and not the Eligible Variable Annuity Contract. Also, the references to “this Act” are substituted for “the Code” in clauses (a) and (b).

BE IT ENACTED BY THE LEGISLATURE OF PUERTO RICO:

Section 1.- Subsections (a), (b) and (c) of Section 1012C of Act No. 120 of October 31, 1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994,” are hereby amended to read as follows:

“Section 1012C.- Option to Pay in Advance Taxes on Accumulated and Undistributed Amounts under a Variable Annuity Contract.

- (a) Any individual who is the owner or beneficiary of a life insurance, endowment or annuity contract and who exchanges said Eligible Variable Annuity Contract on or before December 31, 2006, or who makes an indirect transfer in exchange for an Eligible Variable Annuity Contract pursuant to Section 1112(b)(9) of this Code, may opt to pay in advance, in lieu of any other tax, a tax of ten (10) percent on the entirety of the amount accumulated and not distributed in the contract assigned or cancelled, which if distributed would have been subject to income tax. The payment of the tax provided for in this subsection shall be remitted not later than December 31, 2006, by filling out the form that the Secretary provides for these purposes.
- (b) Any amount distributed by an Eligible Variable Annuity Contract shall not be included within the gross income and shall be exempted from the payment of income taxes under this Code, and any succeeding law.

- (c) For the purposes of this Section, an Eligible Variable Annuity Contract constitutes any variable annuity contract issued on or before December 31, 2006, by an insurance company organized under the laws of the Commonwealth of Puerto Rico and whose contractual terms establish that no additional contributions may be made after December 31, 2006.”

Section 2.- This Act shall take effect immediately after its approval.

CERTIFICATION

I hereby certify to the Secretary of State that the following Act No. 50 (H.B. 1561) of the 3rd Session of the 15th Legislature of Puerto Rico:

AN ACT to amend Subsections (a), (b) and (c) of Section 1012C of Act No. 120 of October 31, 1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994” added by Act No. 99 of April 23, 2004 and amended by Act No. 411 of September 22, 2004, in order to extend to December 31, 2006, the effectiveness of several of its provisions regarding exchanges or indirect transfers of variable annuity contracts,

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, today 5th of June of 2006.

Francisco J. Domenech
Director