

(H. B. 2711)

(No. 161)

(Approved August 16, 2006)

AN ACT

To add paragraph (27) to Section 1101 of Act No. 120 of October 31, 1994, known as the “Internal Revenue Code of 1994,” as amended, to grant a tax exemption to certain recreation and sports organizations or entities under restrictive parameters.

STATEMENT OF MOTIVES

Section 1101 of the Internal Revenue Code of 1994 (“the Code”), as amended, lists certain organizations to which corporate tax exemptions are granted in order to promote activities to improve the general social well-being of Puerto Rico, including charity, recreational or educational activities.

However, although several sports and recreation leagues qualify for the exemption under Section 1101(6) of the Code, several other nonprofit organizations or entities devoted to promoting and developing sports, as well as other recreational activities, have been unable to obtain a tax exemption, causing a disruption in the activities carried out by these organizations to promote and develop sports and recreation in Puerto Rico.

These other nonprofit organizations or entities that are not exempted at present, promote basketball, volleyball, baseball and other sports, fostering a social well-being that the Government cannot directly address properly, if not through this sort of organizations. If it is indeed true

that the development of activities related to basketball constitutes a valuable contribution to society and to the Puerto Rican family, we also consider that granting a tax exemption to entities that foster these activities is a worthy cause.

In the past, the Legislature has granted tax exemptions to certain sports activities, such as Major League Baseball games, Act No. 104 of April 10, 2003, and National Basketball Association (NBA) games, Act No. 253 of September 7, 2004, which promote the development of sports activities that foster the family unity and an environment of social wellbeing that is needed in Puerto Rico. Therefore, this Legislature deems it equally important to grant a tax exemption to nonprofit organizations or entities devoted exclusively to promoting and developing basketball in Puerto Rico.

BE IT ENACTED BY THE LEGISLATURE OF PUERTO RICO:

Section 1.- Paragraph (27) is hereby added to Section 1101 of Act No. 120 of October 31, 1994, known as the “Internal Revenue Code of 1994,” as amended, to read as follows:

“(27) Nonprofit organizations or entities devoted exclusively to promoting and developing sports for recreational purposes, provided that they do not do business with the public in general in a manner similar to that of for profit organizations, and that they meet the following conditions:

- a) The exempted entity uses its income for the expenses of the trainers, managers, administrative operations, sports clinics for children and youths, minor team programs, such as, among others, exhibition games, tournaments for children and youths, social programs related to basketball and other

activities related to the development of sports that promote a benefit for society in general, as well as for recreational activities;

b) Operations devoted to the management of taxable activities, such as the payment of professional or semi-professional players, income from ticket sales, sale of snacks, private sponsorships or transactions that are not devoted to the development of sports, shall remain within a separate taxable entity.

c) Donations received by the Commonwealth of Puerto Rico, its agencies, dependencies, instrumentalities, public corporations or municipalities must remain accountably separate from other sports funds generated by the exempted entity. The entities or organizations exempted under the provisions of this paragraph may receive government donations that have been separated, appropriated or which are pending disbursement, even when the exemption for the entity or organization has been granted after the designation, identification or appropriation of the government donations.

d) The exempted entity shall submit the financial statements audited by a Certified Public Accountant licensed to practice in Puerto Rico to the Department of the Treasury, every year.

e) The net income of the exempted entity shall not result, in whole or in part, in benefit for shareholders or individuals.

Section 2.- Regulations

The Secretary of the Treasury is hereby authorized to approve the rules and regulations needed to grant the tax exemption.

Section 3.- Separability Clause

Should any paragraph, section or provision of this Act be ruled null or unconstitutional by any court with competence and jurisdiction, said ruling shall not affect or invalidate the remaining provisions of this Act, and its effect shall be limited to the paragraph, section, article, part or provision ruled null or unconstitutional.

Section 4.- Effectiveness

This Act shall take effect immediately after its approval.

CERTIFICATION

I hereby certify to the Secretary of State that the following Act No. 161 (H.B. 2711) of the 3rd Session of the 15th Legislature of Puerto Rico:

AN ACT to add paragraph (27) to Section 1101 of Act No. 120 of October 31, 1994, known as the “Internal Revenue Code of 1994,” as amended, to grant a tax exemption to certain recreation and sports organizations or entities under restrictive parameters,

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

In San Juan, Puerto Rico, today 22nd of January of 2007.

Francisco J. Domenech
Director