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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**TAX ALERT 2021-02**  
**January 25, 2021**  
**www.vgmmcpa.com**

## A PUBLICATION FROM THE TAX DIVISION

### Treasury Explains Scope of New Agreed-Upon Procedures



Please contact your account service partner should you have any questions or comments or if you need additional information regarding these matters.

**Tel. (787) 725-1600**

**Lucy Martínez**  
Partner  
[lmartinez@vgmmcpa.com](mailto:lmartinez@vgmmcpa.com)

**Idsa Ramos**  
Partner  
[iramoss@vgmmcpa.com](mailto:iramoss@vgmmcpa.com)

**Sofía Benítez Arraiza**  
Partner  
[sbenitez@vgmmcpa.com](mailto:sbenitez@vgmmcpa.com)

**Yahaira Feliciano Ramos**  
Partner  
[yfeliciano@vgmmcpa.com](mailto:yfeliciano@vgmmcpa.com)

Please contact us at (787) 725-1600 or at [fsosa@vgmmcpa.com](mailto:fsosa@vgmmcpa.com) if you would like to subscribe or unsubscribe from these publications.

On December 18, 2020, the Puerto Rico Treasury Department ("Treasury") issued Internal Revenue Circular Letter No. 20-39 ("CC RI 20-39", by its Spanish acronym) to establish guidelines for the Agreed-Upon Procedures, and the related Agreed-Upon Procedures Report (the "AUP", and the "AUP Report") that must accompany certain income tax returns for taxable years beginning after December 31, 2019.

As previously discussed in our Tax Alert 2020-03, for taxable years beginning after December 31, 2019, taxpayers will be required to include financial statements audited by a Certified Public Accountant licensed in Puerto Rico ("a CPA") and supplementary information if their volume of business is \$10 million or more. Taxpayers with a volume of business between \$3 million and less than \$10 million may elect to include with the income tax return audited financial statements, an AUP or a Compliance Attestation Report prepared by a CPA. Taxpayers with a volume of business of \$1 million or more that belong to a group of related entities<sup>1</sup> with an aggregate volume of business of \$10 million or more will be required to include financial statements audited by a CPA and supplementary information.

### Scope of Agreed-Upon Procedures

The AUP and the AUP Report should be carried out in compliance with attestation standards established by the American Institute of Certified Public Accountants. Required procedures include, among others, the following:

- Comparison of sales and purchases of goods and products with monthly sales & use tax returns;
- Comparison of service revenues against informative returns (480 Forms);
- Reconciliation of monthly bank deposits vis-a-vis entries in the taxpayer's revenue accounts;
- Selection of a determined sample of expenses or deductions not reported in informative returns and inspection of supporting documentation;
- Reconciliation of informative returns (480 Forms) and expense accounts (cash basis/accrual basis);
- Confirmation of whether related entities are registered in SURI platform.

<sup>1</sup>As defined in Section 1010.05 of the 2011 Puerto Rico Internal Revenue Code, as amended, (the "PRIIRC").

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Upon Procedures**

CC RI 20-39 clarifies that the AUP Report requirement is different from the requirement of the CPA Report provided in Sections 1021.02(a)(2) and 1022.04(a)(7) of the PRIRC and the Internal Revenue Circular Letter No. 19-14 ("CC RI 19-14")<sup>2</sup>. Thus, a taxpayer required to submit an AUP Report or a Compliance Attestation Report do not need to submit the CPA Report required by CC RI 19-14. Likewise, taxpayers who voluntarily submit audited financial statements are exempt from the requirements of CC RI 20-39 and CC RI 19-14.

<sup>2</sup> This CPA Report is required in order to not be subject to limitations on certain deductions for the determination of the net income subject to alternate basic tax/alternative minimum tax.

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