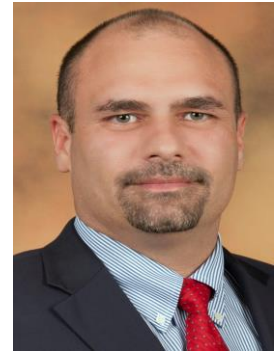




ESTATES, WILLS &
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TAXATION OF PUERTO RICO RESIDENTS MOVING TO THE U.S. MAINLAND

The enchanted island of the Caribbean, Puerto Rico, has experienced a massive exodus since about 2010. People from all ages have decided to relocate to the mainland US, particularly to Florida, Texas, and Illinois. This trend, unlike the trend in the 1950's, is spearheaded by highly educated, productive and hard - working individuals and families. As such, these individuals and families are subject to federal income taxes, in addition to any applicable state income taxes. Thus, these individuals, who were not subject to federal income taxes while they resided in Puerto Rico and for Puerto Rico source income, must now account for all of their income to Uncle Sam. However, as a general rule, only income from US sources is subject to federal taxation the year of the move.

One of the cornerstones, albeit a drawback, of U.S. citizenship is that a U.S. citizen, and certainly all resident aliens that generate income in the U.S., must file and, as a general rule, pay income taxes in the U.S. Nonetheless, a U.S. citizen or a resident alien who is a bona fide resident of Puerto Rico during the **entire** tax year is generally not required to file a U.S. individual tax return if his or her only income is from sources within Puerto Rico. If the individual has income from sources outside of Puerto Rico, including from U.S. sources, he or she is required to file a U.S. federal income tax return as long as the amount exceeds the filing threshold. It must be noted that a bona fide resident of Puerto Rico with a U.S. filing obligation, generally will not report Puerto Rican source income on a U.S. income tax return.

The Internal Revenue Code does provide some leeway to people moving from the Island to the mainland. Essentially, U.S. citizens and resident aliens who are not bona fide residents of Puerto Rico during the entire tax year, are required to report all income from worldwide sources on their U.S. income tax return. The exception to this rule provides that a U.S. citizen who changes residence from Puerto Rico to the United States, and who was a bona fide resident of Puerto Rico for a period of at least two years before moving can exclude any Puerto Rico source income generated while he or she still resided in Puerto Rico, from his or her U.S. income tax. Income generated after the move, nonetheless, is subject to U.S. income tax.

There are certainly many other intricacies related to income taxation and a Puerto Rico bona-fide resident move to the mainland. These rules must not be analyzed lightly as a change in residency is certainly a life changing event. Thus, if you have recently moved from Puerto Rico to the U.S. mainland, you may want to consult an attorney and CPA with experience in both jurisdictions. As such, feel free to contact JP Navarro, a Texas and Puerto Rico attorney and CPA, for advice and guidance on how to navigate within the your new financial arena. Feel free to send an e-mail to jpnavarro@nacpr.net for a consultation.

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