

Important Information Regarding Puerto Rico Regulation No. 8049 and Impact on Retirement Distributions

The Puerto Rico Department of the Treasury (Hacienda) issued Regulation No. 8049, which addresses the income taxation of benefits and payments from qualified retirement plans, such as the Puerto Rico Clergy Retirement Security Program (PRCRSP) and the Puerto Rico Personal Investment Plan (PRPIP).

Because of the way the terms “total distribution” and “cash installments” are defined in the regulations, there are a few important things to consider when taking distributions from PRCRSP and PRPIP.

- A total distribution (calling for 20% income tax withholding) is defined as depleting your PRCRSP or PRPIP account within a single calendar year after separation from service (including retirement).
If, after separation from service, you take one or more partial distributions in the same calendar year and the distributions deplete your account, the distributions are total distributions. If however, you take one or more partial distributions across two or more calendar years, the distributions are all considered partial distributions (calling for 10% withholding), including the last distribution.
- Cash installments (calling for no withholding up to certain dollar amounts) are defined as payments that begin after separation from service and that are expected to last for at least two years.
If, after separation from service, you set up cash installments and the cash installments end before two years, the cash installments are considered partial distributions (calling for 10% withholding) and not cash installments.

Because Wespath Benefits and Investments (Wespath) does not know what future distributions you will take, Wespath applies Puerto Rico tax withholding based on the type of distribution you take at the time you take it. This means that Wespath may under- or over-withhold in certain instances. Wespath will report the distributions based on the definitions in *Regulation No. 8049* and report the withheld amount. Depending on your situation, you may be due a refund of any amount over-withheld or you may owe taxes based on the amount under-withheld.

Below are examples of distributions and the applicable withholding and reporting that will occur. For additional information, please contact Wespath:

Example 1: A participant takes a partial distribution in January. Wespath will apply 10% withholding required on partial distributions. The participant takes a second partial distribution in April at which time Wespath applies 10% withholding. In October, the participant takes another distribution which depletes the participant’s account. Wespath will apply 20% to this last distribution. Under the regulations, the first two partial distributions are also defined as total distributions which required 20% withholding. Wespath is unable to go back and apply the additional withholding. Therefore, Wespath will report all three distributions as total distributions and report the amount withheld, which will reflect under-withholding. You may owe the Hacienda additional withholding or income taxes that should have been applied.

Example 2: A participant takes a partial distribution in January and again in March. Wespath will apply 10% withholding to each partial distribution. During the following January, the participant takes another distribution, which depletes the account. Wespath will treat this last distribution as a total distribution and apply 20% withholding. Because the account was not depleted within one year, the last distribution is defined by the Hacienda as a partial distribution and 10% withholding is appropriate. Wespath will report the distribution as a partial distribution and report the amount withheld. You may be eligible for a refund of the amount over-withheld.

Example 3: A participant retires and sets up cash installments which are expected to last 12 years. After one year of receiving the cash installments, the participant elects to stop the payments. Because the payments were stopped prior to two years, under the regulations, the payments are defined as partial distributions which required 10% withholding. Wespath is unable to go back and apply the additional withholding. Therefore, Wespath will report the distributions as partial distributions and report that no withholding was applied. You may owe the Hacienda additional withholding or income taxes that should have been applied.