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# Special Instructions For Bona Fide Residents Of Puerto Rico Who Must File A U.S. Individual Income Tax Return (Form 1040 or Form 1040-SR)

If you are a bona fide resident of Puerto Rico who will file a U.S. Federal Income Tax Return, Form 1040, and claim an exclusion for income earned in Puerto Rico, you will have to make certain adjustments on your return. These special instructions explain the adjustments, and how to make them on your return.

**Bona Fide Residents of Puerto Rico:** Generally, you are a bona fide resident of Puerto Rico if during the tax year, you:

- Meet the presence test
- Do not have a tax home outside Puerto Rico, and
- Do not have a closer connection to the United States or to a foreign country than to Puerto Rico.

Publication 570 discusses these requirements and provides information on the special rules that apply in the year you are moving to or from Puerto Rico.

### Who Must File

In general, section 933 of the U.S. Internal Revenue Code requires that U.S. citizens who are bona fide residents of Puerto Rico during the entire taxable year, but who receive income from sources outside Puerto Rico and/or receive income as a civilian or military employee of the U.S. Government in Puerto Rico, must file a U.S. Federal income tax return. Active duty members of the U.S. Armed Forces who claim Puerto Rico as their legal residence are employees of the U.S. Government. They are required to file a U.S. income tax return and declare the income they receive for their services rendered in Puerto Rico, the United States, or foreign countries in compliance with their military orders. The income you receive from Puerto Rico sources (except income received as a civilian or military employee of the U.S. government) is not subject to U.S. income tax. See source of income rules explained in this publication. Because some of the income is exempt (under Code section 933) a part of the itemized deductions or a part of the standard deduction amount on your U.S. return must be allocated to that exempt income. This computation must be made before you can determine if you must file a U.S. tax return, because the minimum income level at which you must file a return is based on the standard deduction for your particular filing status. Use the following worksheet to modify standard deduction and to determine if you have to file a U.S. income tax return:

1. Enter STANDARD DEDUCTION

If your filing status is (see caution below)

Single	under 65 enter \$14,600 . . . . .	}	_____
	65 or older enter \$16,550 . . . . .		
Married filing jointly	both under 65 enter \$29,200 . . . . .		
	one 65 or older enter \$30,750 . . . . .		
	both 65 or older enter \$32,300 . . . . .		
Head of household	under 65 enter \$21,900 . . . . .		
	65 or older enter \$23,850 . . . . .		
Qualifying Surviving Spouse	under 65 enter \$29,200 . . . . .		
	65 or older enter \$30,750 . . . . .		
Married filing separately	See note after line 2d below.		

**CAUTION:** If someone can claim you as a dependent, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040 or Form 1040-SR, as applicable.

2. Allowable portion of STANDARD DEDUCTION

a. Gross income subject to U.S. tax (include taxable social security benefits); use Worksheet 1 of Pub. 915 to compute your taxable social security benefits)	_____
b. Total gross income from all sources (including exempt P.R. Income)	_____
c. Divide line 2a by line 2b . . . . .	_____
d. Adjusted filing requirement: Multiply STANDARD DEDUCTION (line 1) by line 2c . . . . .	_____

You must file a return if your gross income subject to U.S. tax (line 2a) is equal to or more than your adjusted filing requirement (line 2d). If you are married filing a separate return, you must file a return if your gross income subject to U.S. tax is equal to or more than \$5.

## Source Of Income

The source of income is important in determining if the income may be excluded under section 933 of the Internal Revenue Code. The table below describes the general rules for determining the source of your income:

### Example Of Source Of Income Rules

Item of Income	Factor Determining Source
Salaries and other compensation . . . . .	*Where the service is performed
Social Security Benefits . . . . .	**U.S. Source income by definition (IRC Sec. 861)
Pensions:	
Contributions . . . . .	Where services were performed that earned the pension
Investment earnings . . . . .	Where pension trust is located
Interest . . . . .	Residence of the payer
Dividends . . . . .	Location of payer
Rents . . . . .	Location of property
Royalties:	
Natural resources . . . . .	Location of property
Patents, copyrights, etc . . . . .	Where the property is used
Sale of real property . . . . .	Location of property
Sale of personal property . . . . .	***Seller's tax home ( <i>but see Special Rules for Gains From Dispositions of Certain Property for exceptions</i> )
Capital Gain Distribution paid by US Regulated Investment Company (RIC) . . . . .	Residence of shareholder
Unemployment Compensation . . . . .	For U.S. income tax purposes, generally the source of income is where the taxpayer performed the underlying services.

## Special Rules

**Caution: \*Active Duty members of the U.S. Armed Forces.** If you are a bona fide resident of Puerto Rico, your military service pay on active duty will be sourced in Puerto Rico even if you perform the services in the United States, another territory, or a foreign country. However, if you are not a bona fide resident of Puerto Rico, your military service pay will be income from the United States even if you perform services in Puerto Rico.

**Caution: \*\*Bona Fide Residents of Puerto Rico** should use Publication 915 to determine how much of their Social Security Benefits may be taxable.

**Caution: \*\*\*There are special rules for gains from dispositions of certain investment property** (for example, stocks, bonds, debt instruments, diamonds, and gold) owned by a U.S. citizen or resident alien prior to becoming a bona fide resident of a territory. For additional details see Publication 570.

## Deductions

It is important to remember that deductions which apply to your exempt Puerto Rico income are not deductible on your Federal income tax return.

The deduction for personal exemption is suspended (reduced to \$0) for tax years 2018 through 2025 by the Tax Cuts and Jobs Act.

## Standard Deduction

The standard deduction and the additional standard deduction for taxpayers who are blind or age 65 or over are deductions that do not apply to any particular type of income. If you do not itemize, they must be apportioned by the ratio that gross income subject to Federal tax bears to gross income from all sources (including exempt Puerto Rico income). This adjustment must be made before you enter your standard deduction on line 12 of Form 1040 or line 12 of Form 1040-SR.

Use the following worksheet to apportion the standard deduction.

Worksheet For Puerto Rico Filers With Exempt Income Under Section 933 Who Do Not Itemize Deductions	
1. Enter STANDARD DEDUCTION: If your filing status is	
Single or Married filing separately enter \$14,600. . . . .	} _____
Married filing jointly or Qualifying Surviving Spouse enter \$29,200 . . . . .	
Head of Household enter \$21,900. . . . .	
<b>CAUTION:</b> If you are 65 or over and/or blind, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040 or Form 1040-SR, as applicable;	
<b>or</b>	
If someone can claim you as a dependent, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040 or Form 1040-SR, as applicable.	
2. Allowable portion of STANDARD DEDUCTION:	
a. Gross income subject to U.S. tax . . . . .	_____
b. Total gross income from all sources (including exempt P.R. income) . . . . .	_____
c. Divide line 2a by line 2b . . . . .	_____
d. Multiply Standard Deduction (line 1) by line 2c and enter this amount on Form 1040 or Form 1040-SR, line 12 (allowable portion of STANDARD DEDUCTION) . . . . .	_____
Write the following above line 12, Form 1040 or line 12 of Form 1040-SR: "Standard Deduction modified due to exempt income under section 933."	

**Example:** Gabriel and Sofia are U.S. citizens, under 65, and bona fide residents of Puerto Rico for all of 2024. They file a joint income tax return. During 2024 they received \$15,000 of income from Puerto Rico sources not subject to U.S. income tax; \$20,000 of federal wages subject to U.S. income tax and \$6,000 interest income from a bank account in the U.S. They do not itemize deductions. Line 15 of their Federal tax return, Form 1040, shows \$26,000. They will apportion their standard deduction as follows:

Worksheet For Puerto Rico Filers With Exempt Income Under Section 933 Who Do Not Itemize Deductions	
1. Enter STANDARD DEDUCTION for:	
Single or Married filing separately enter \$14,600. . . . .	} <b>29,200</b>
Married filing jointly or Qualifying Surviving Spouse enter \$29,200 . . . . .	
Head of Household enter \$21,900 . . . . .	
<b>CAUTION:</b> If you are 65 or over and/or blind, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040, as applicable;	
<b>or</b>	
If someone can claim you as a dependent, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040, as applicable.	
2. Allowable portion of STANDARD DEDUCTION:	
a. Gross income subject to U.S. tax . . . . .	<b>26,000</b>
b. Total gross income from all sources (including exempt P.R. income) . . . . .	<b>41,000</b>
c. Divide line 2a by line 2b . . . . .	<b>.6341</b>
d. Multiply Standard Deduction (line 1) by line 2c and enter this amount on Form 1040, line 12 (allowable portion of STANDARD DEDUCTION) . . . . .	<b>18,516</b>
Write the following above line 12, Form 1040 "Standard Deduction modified due to exempt income under section 933."	

## Itemized Deductions

Deductions that do not specifically apply to a particular income item must be allocated between your gross income subject to U.S. tax and your total gross income from all other sources. Examples of such deductions that do not apply to a particular type of income are medical expenses, charitable contributions, real estate taxes and mortgage interest on your personal residence. To find the part of the deduction that is allowable, you must apportion those items that do not apply to any specific type of income based on the ratio that your gross income subject to Federal tax bears to gross income from all sources.

**EXAMPLE:** You and your spouse, both under 65, are U.S. citizens and bona fide residents of Puerto Rico for the entire year. You file a joint return. This year you earned \$24,000 from Puerto Rico sources and your spouse earned \$96,000 from the U.S. Government. You have \$42,250 of itemized deductions that do not apply to any specific type of income. These are medical expenses (doctor's fees) \$11,000, real estate taxes \$10,000, home mortgage interest of \$16,250, and charitable deductions of \$5,000 (cash contributions). You apportion deductions for your Federal tax return as follows: multiply the deduction to be allocated by a fraction. The numerator of the fraction is your gross income subject to Federal tax and the denominator is your total gross income from all sources (including exempt Puerto Rico income).

$$\text{Formula: } \frac{\text{gross income subject to Federal tax}}{\text{gross income from all sources}} \times \text{deduction} = \text{allowable portion of deduction}$$

**SCHEDULE A** — Itemized Deductions should be modified as shown in the sample below:

**Medical Expenses** (doctor's fees)

$\$96,000 \times \$11,000 = \$8,800$  (Enter on line 1 of Schedule A.)

\$120,000

**Real Estate Taxes**

$\$96,000 \times \$10,000 = \$8,000$  (Enter on line 5b of Schedule A.)

\$120,000

**Home Mortgage Interest**

$\$96,000 \times \$16,250 = \$13,000$  (Enter on line 8 of Schedule A.)

\$120,000

**Charitable deduction** (cash contributions)

$\$96,000 \times \$5,000 = \$4,000$  (Enter on line 11 of Schedule A.)

\$120,000

**NOTE:** Enter on Schedule A only the allowable portion of each deduction.

## Qualified Business Income Deduction

Bona fide residents of Puerto Rico cannot take the Qualified Business Income Deduction related to their Puerto Rico source self-employment income they are excluding under Sec. 933.

**Caution:** You cannot take any deductions from Part II of Schedule 1 (Adjustments to Income) directly related to exempt Puerto Rico Income. For example, you cannot deduct one-half of self-employment tax (Schedule SE) if you are excluding your self-employment income (Schedule C). Adjustments to income which are not directly related to exempt Puerto Rico income must be allocated using the formula for allocating the standard deduction shown above.

## Credits

**Caution:** Exempt Puerto Rico source income must be included in gross income when calculating income limits for certain credits. It is important to remember that credits which apply to your exempt Puerto Rico income are not allowed on your Federal income tax return.

### American Opportunity Tax Credit

Bona fide residents of Puerto Rico will receive the refundable part of this credit from the Puerto Rico Treasury Department.

### Foreign Tax Credit

If you are claiming a credit for taxes paid or accrued to Puerto Rico and you have income from P.R. sources not taxable on the Federal tax return, you must reduce your foreign taxes paid or accrued by the taxes allocable to exempt income. To find the amount allocable to the exempt income, multiply the taxes paid or accrued to Puerto Rico by a fraction. The numerator of the fraction is the exempt income (under IRC 933) from P.R. sources less deductible expenses allocable to that income. The denominator is the total amount of income subject to P.R. tax less deductible expenses allocable to that income.

#### Formula to calculate the Reduction in Foreign Taxes:

**Formula:**

$$\frac{\text{Income from P.R. sources not subject to Federal tax less deductible expenses allocable to that income}}{\text{Total income subject to Puerto Rico tax less deductible expenses allocable to that income}} \times \text{Tax paid or accrued to Puerto Rico}$$

**Example:** John and Mary are bona fide residents of Puerto Rico filing jointly. John works for the Federal Government and received salary of \$42,000 during 2024. Mary works for private industry and received salary of \$18,000. Total taxes paid to Puerto Rico: \$3,010.

$$\frac{\$18,000 \times \$3,010}{\$60,000} = \$903 = \text{taxes allocable to excluded income. (Enter on Form 1116, Part III, line 12 "Reduction in foreign taxes".)}$$

**U.S. Armed Forces.** If you are a bona fide resident of Puerto Rico, your military service pay on active duty will be sourced in Puerto Rico even if you perform the services in the United States, another territory, or a foreign country. To avoid double taxation, a Foreign Tax Credit can be claimed for taxes paid to Puerto Rico allocable to the military pay income, regardless of where you performed the services.

### Child Tax Credit

Special rules apply to bona fide residents of Puerto Rico claiming the child tax and additional child tax credits. See the instructions for Form 1040 Schedule 8812.

### Earned Income Tax Credit

Bona fide residents of Puerto Rico cannot claim the Earned Income Tax Credit.

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## Reporting a Change in Bona Fide Residence

Taxpayers who begin or end bona fide residence in a U.S. territory during the tax year (when their worldwide gross income is more than \$75,000) may need to file IRS Form 8898, Statement for Individuals Who Begin or End Bona Fide Residence in a U.S. Territory. When figuring whether your worldwide gross income is more than \$75,000, do not include any of your spouse's income. If both you and your spouse are required to file Form 8898, file a separate Form 8898 for each of you. Worldwide gross income includes Puerto Rico income exempt under Section 933. Mail Form 8898 separately from your tax return by the due date (including extensions) for filing Form 1040. If you are required to file Form 8898 for any tax year and you fail to file it, you may owe a penalty of \$1,000.

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