



Doing Business
in COSTA RICA



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1.

About Andersen Global

Andersen Global

Andersen Global® was established in 2013 as an association of legally separate, independent member firms, with a worldwide presence and comprised of professionals that share a common background and the same vision no matter the location where they are.

Our growth is a byproduct of the outstanding client service delivered by our people, the best professionals in the industry and our objective isn't to be the biggest firm, it is to provide best-in-class client services in seamless fashion across the globe.

Outstanding client service has and will continue to be our top priority.

Our professionals are selected based on quality, like-mindedness, and commitment to client service and each and every one of the professionals that are a part of Andersen Global share our core values.

Andersen Global was established to create an enduring place – ONE FIRM where clients across the globe are afforded the best, most comprehensive tax and legal services provided by skilled staff with the highest standards.

Outstanding client service has and will continue to be our top priority.



2.

Country Highlights

Overview

San José, the capital of Costa Rica, has over a million inhabitants and its own Silicon Valley that rivals the most famous in California.

Costa Rica is located between Panama and Nicaragua. With 51,100 km², a population of more than five million people, without an army, with large volcanic mountain ranges and a subtropical climate, the beaches and the beautiful scenery of the country enchant tourists. This former Spanish colony has enjoyed peace and stability since 1948. Its culture and language derive from Spain, but the English language is widely used in business. The country's currency is the Costa Rican colón (CRC).

Political System

The Costa Rican government is governed by a series of constitutional controls. Executive responsibilities are vested in the President, with the support of two Vice Presidents, and 57 deputies (Legislative Assembly), who are elected for four-year terms. The country has a legal system whose administration is in charge of the Judicial Power, which ensures compliance with the laws and protects both nationals and foreigners who are in the national territory.

Political Stability

Latin American Classification

The legal system is based on the Civil Code and the Commercial Code. To a



high degree of literacy, well-educated and trained workforce, and legislation that is reasonably business friendly and less bureaucratic than other countries' civil codes. GDP per person is USD \$12,140 (2022 est.) in equal purchasing power; inflation is 3.3% (2021), unemployment 15% (2021).

Economic Atmosphere

It is traditional for the economy to be based on the export of agricultural products and tourism. Over the past 20 years, the government has created a series of export incentives including free zones, and as a result, exports of manufactured goods have increased. The most famous investor is the Intel company that generates USD \$2 trillion of exports from its chip factory every year.

Costa Rica has a territorial tax regime (for example, it only taxes local income), although for many years it has been considered to make the transition to global income. There are no *offshore* regimes except for free zones. For local businesses, and employees' taxes are high and social security charges are becoming more and more expensive. For new investors, the amount of taxes is low, and the sophisticated business environment is attractive. The country has not signed international double taxation treaties, but now has an information exchange treaty with the United States, which is its main trading partner and the source of most of the incoming investment and has started negotiations for the Double Taxation Agreement (DTA) with various countries.

Costa Rica is a member of the Central American Free Trade Agreement (CAFTA) that began operating in December 2008.

Costa Rica Entry to the Organization for Economic Co-operation and Development (OECD)

Costa Rica is the 38th country to have entered the OECD, the first in Central America and the fourth in all Latin America, behind Mexico, Chile and Colombia.

The entry to the OECD is intended to improve the standards at a global level on subjects or relevance such as taxation of the digital economy, climate change, global value chains, and education of the future, among others. The entry involved changes in a wide range of areas such as comprehensive reform of the competition policy and its application in the redesign of the national statistics system, the introduction of criminal liability in legal persons for foreign bribery, and the establishment of a shareholders register to ensure fiscal transparency.

Additionally, Costa Rica, through its entry to the OECD, also intends to attract investment and increase production and employment in the country, seeking to adopt international standards to improve its competitiveness.

Structures for Doing Business

Business Organization

Costa Rican legislation recognizes the following forms of business organizations:

- Anonymous society
- Limited liability company
- Limited partnership and partnership

Corporations (*Sociedad Anónimas*)

Corporations are the most common entities due to their structural flexibility. The creation costs include:

- Tax stamp costs
- Attorney fees
- Corporate taxes prorated at the time of creation
- Any other notary fees, stamps and registration costs calculated at less than USD \$800
- The registration with the Mercantile Registry whenever a notification of their creation is published in the official newspaper (*La Gaceta*)
- The registration of a corporation can take between 24 to 48 hours after filing

Once created, a natural or legal person can be the owner of all the shares of the company. Foreigners can be shareholders and/or have unlimited board or employee functions. The shared domain is not required

to be named director. When the company does not have a legal representative residing in the country, a resident agent (a practicing Costa Rican attorney) must be appointed only for notification purposes. There are no requirements that a Costa Rican national must participate in any position.

In accordance with the civil, commercial and administrative legislation of Costa Rica, the companies are separate legal entities regardless of the domain of the shares or other forms of relationship. In Costa Rica, the *corporate veil* is applied.

No minimum capital is required, but when it causes an increase in the share capital of a company, the decision of the shareholders to increase the share capital must be documented in a public deed, published in the official newspaper *La Gaceta* and registered in the National Registry.

Limited Liability Companies (*Sociedades de Responsabilidad Limitada*)

Limited liability companies (SRL) are permitted and common. They require at least two partners in a procedure similar to that of corporations and also operate in the same way. However, a board of directors is not appointed for them, but rather a manager or management committee, and *shares* are replaced by *quotas* with some strict and personalized rules for the assignment to operate.

Associations in General

They have few regulations and are not commonly used in the country.

Agencies/Branches

Investors can conduct business in Costa Rica through agencies or branches of the main company. Legal staff can create and implement agencies, branches and joint ventures before they start operations.

Trusts and Other Fiduciary Entities

In Costa Rica, trusts are recognized and used on a regular basis, because the trustor/grantor may transfer ownership of property or rights to the trustee so that certain beneficiaries obtain a benefit. The trustee may not benefit from the administration of the trust's assets except for their fees. The trustee must be authorized by the General Superintendence of Financial Entities (SUGEF) to prevent money laundering. The trustee acts in accordance with his fiduciary duties and is responsible for the administration of the trust's assets and income based on the specific instructions included in the trust agreement and the pre-established provisions.

Requirements for Creating a Business

Foreign Business Law

Businesses are not subject to any foreign business law. There are no registration or reporting requirements.

Antitrust Laws

The Law for the Protection of the Consumer and the Promotion of Competition is opposed to public or private monopolies because monopolistic practices hinder or extinguish competition, prevent competitors from accessing the market and tend to



exclude them from it. The Commission for the Prevention of Competition (COPROCOM) has to approve any merger or acquisition that occurs to ensure that it complies with the law.

Government Approvals: Licenses/Permits

Each company or owner of one must submit to registration as an employer before the Costa Rican Social Security Fund (CCSS) and the National Insurance Institute (INS), which is also a requirement to obtain a municipal commercial patent. The interested party must also register with the following institutions:

- General Directorate of Direct Taxation of the Ministry of Finance as a taxpayer; it is easy and takes about one day.
- National Insurance Institute (INS), as each company must take a work risk insurance policy; it is easy and takes about one day.
- Registration as an employer with the Costa Rican Social Security Fund (CCSS), in relation to contributions to employment social security; it is concluded within a week, and the CCSS will inspect the facilities.



- Each business needs a municipal license or *patent* that requires the payment of a tax for the duration of the activities according to the Municipal Code, Law No. 7794. The forms and requirements to obtain a patent may vary between municipalities in accordance with their own regulations.
- Permission from the Ministry of Health: Before obtaining the municipal license, a health permit is required. The Provisions on Health Permits for Businesses in Operation regulated by the Ministry of Health (Decree No. 32161-S), have three categories depending on the risks that each business in the market comprises in terms of human health.

The requirements for category A permits are the most rigid and are those requested for the production of substances dangerous to human health or the environment (such as chemicals, fertilizers, etc. or industries that produce large amounts of waste).

On the other hand, category C permits are those with the lowest risks in the industry, such as services.

Category B applies to risks located between two categories.

Insurance

After 2008, the traditional insurance company, which is the National Insurance Institute, was opened up to the competition. As of today, there are many other companies to choose from, although the coverage and premiums are very similar. Full-coverage insurance with foreign companies is best to avoid complications, and a policy with a national insurance company is recommended.

Business Operation

Advertising

There are no restrictions on advertising other than the censorship policies regarding rescheduling hours. There are also restrictions regarding the General Health

Law, the Consumer Protection Law and other regulations focused on misleading advertising. Advertising must not be misleading or promote unfair competition between competitors. Brand comparison is not commonly used or accepted by the public.

Lawyers

The best way to enter the commercial or industrial businesses of Costa Rica is to have a solid law firm that supports your company. Local professionals are easily located through professional directories, the yellow pages or the internet, although international rankings will also give good information and reliable sources.

Attorney fees may vary depending on the area of consultation. It is common practice for Costa Rican law firms to have an hourly rate for specialized attorney work outside of the areas for which the fixed rate has been established. The minimum hourly rate is USD \$190, but this hourly rate may increase depending on your experience. The Costa Rican Bar Association has fixed fees to avoid unfair competition.

Accounting Requirements

Businesses must keep accounting and corporate books (i.e., journals, minutes, inventories and balances, shareholders registry, and minutes of board meetings and shareholders' meetings).

These books must have the seals and authorizations of the Mercantile Registry. They must be written in Spanish, with due clarity and in chronological order, and

must be available at any time when the corresponding authorities request it.

Business Ethics/Codes

Business ethics is a common standard; however, there is a General Law for the Prevention of Illicit Enrichment that includes criminal, civil and administrative sanctions in relation to the conduct of public officials, as well as private companies and individuals (as accomplices) when they violate ethical provisions of the public function, including fraud against the government. The Penal Code sanctions fraud, falsehood, malpractice and other illegal acts committed by private individuals and public officials. The sanctions can be economic or administrative.

4. Payroll Charges and Labor Rights



The Costa Rican Labor Code, Law No. 2 of August 2, 1943, and its amendments, are the main legal reference source in terms of employment and work. There are specific laws and regulations in the following areas related to employment:

- a. Against discrimination and harassment
- b. Social Security and insurance
- c. Payment of the mandatory Christmas bonus
- d. Child and youth labor
- e. Taxes, pensions and immigration
- f. Safety in the workplace
- g. Associations and unions
- h. Confidentiality and non-disclosure of information

Employment Regulations

In matters of employment, companies must always choose Costa Ricans before foreigners in the case of equal conditions. The minimum wage for each occupation is published in the official journal for each

line of work that exists. The National Salary Council determines the minimum basic wages twice a year, in December (effective from January 1) and in June (effective from June 1).

The work schedule is classified into three standard shifts (day, night and mixed) in addition to the specific shift for employees in positions of trust:

- Day shift (5 AM to 7 PM):
 - 48 hours per week
 - Eight hours per day
- Night shift (7 PM to 5 AM):
 - 36 hours per week
 - Six hours per shift
- Mixed or fragmented shift (includes day and night shifts):
 - If working more than three and a half hours after 7 PM, the entire shift is considered as nighttime.
 - 42 hours per week
- Shifts for exempt employees:
 - Ordinary 12-hour shifts with paid break (food and/or rest time) of one and a half hours

The current situation of the country and competitiveness have encouraged the country to approve other flexible shifts such as: working four days for 12 continuous hours and the rest for three consecutive days. This system is only possible in low-risk industries such as services.

5.

Costa Rican Taxes Overview

The general corporate income tax rate is 30%, with lower rates applicable in businesses that qualify as *small businesses* or small and medium enterprises (SMEs). Municipal operating permits are also subject to taxes that are calculated based on earnings.

The taxable base is the net income, which is the total income produced by the corporation less all costs and expenses that are necessary to produce such taxable income.



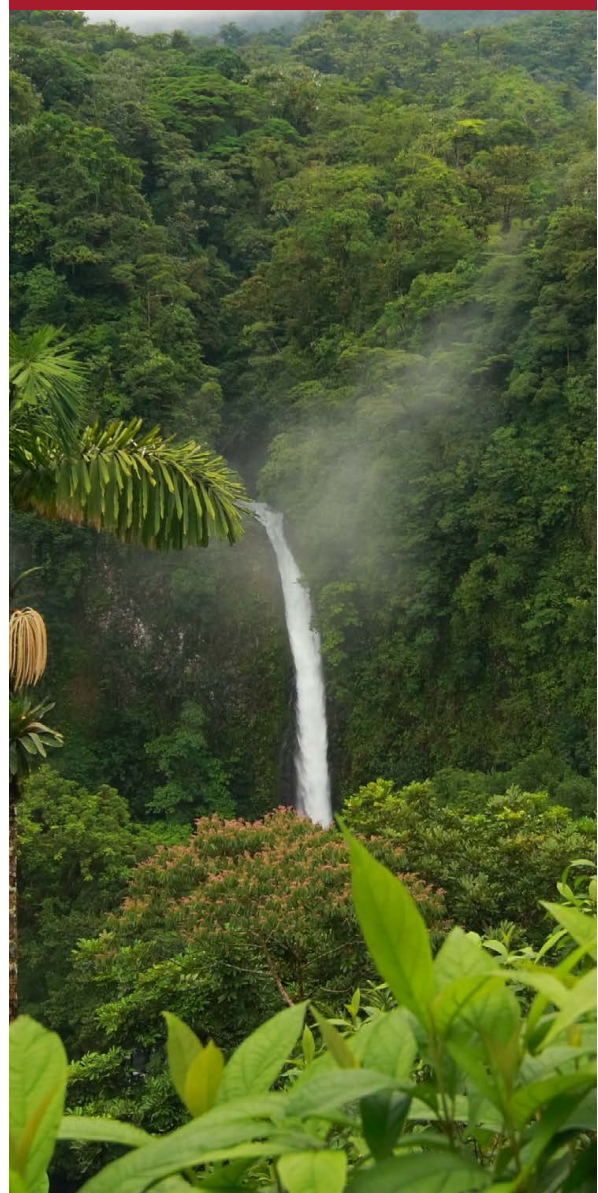
6.

Corporate Income Taxes

Regarding income tax, companies must file their tax return and pay the corresponding tax within three months and 15 calendar days from the end of the tax period (the tax year established for companies has been changed to ordinary calendar year, starting from January 1st until December 31st).

Taxpayers must make three partial payments as an advance on the income tax obligation during the fiscal year. The balance must be paid during the previously stipulated period or before March 15 of the following year (dates published by the Ministry of Finance or Direct Taxation, which is the institution that collects the taxes).

Corporate entities may deduct from their gross income all costs and expenses that are necessary to produce taxable income as well as any depreciation of assets that produce taxable income. Expenses incurred to obtain exempted income are not deductible. The country's Income Tax Law lists the major expenses that may not be deducted, which include, inter alia: income.



7.

Indirect Taxes

In accordance with the Sales Tax Law (the Value-Added Tax or VAT Law), VAT is levied on the sale of all merchandise within the country and/or the import of merchandise into the country.

According to Article 1 of the Executive Regulation to the Sales Tax Law, the term merchandise is understood as any material, product, article, manufacture and, in general, all movable goods produced or acquired for their processing or trade. According to this article, the term merchandise does not include intangible property such as stock or securities. Immovable property is also excluded from the term merchandise.

Only those goods specifically listed in the regulations as exempt are exempted from VAT. Unlike goods, services are not subject to VAT except when expressly taxed by law. Article 1 of the VAT Law includes a list of services that are subject to the General Sales Tax. Taxable services include:

- a. Services provided by restaurants
- b. Bars
- c. Night, social, or recreational centers
- d. Hotels, motels, pensions, and similar establishments
- e. Repair shops of any kind of merchandise including motor vehicles
- f. Parking facilities
- g. Telephone, cable or telex services

Article 1 of the law also includes:

- a. Photocopying and photographic development services
- b. Certain storage services
- c. Laundry and ironing services
- d. Public shows except for sports, theater and children's movies
- e. Advertising services
- f. Cable and satellite television services
- g. Customs broker services
- h. Removal services
- i. Services rendered by real property brokers
- j. Pagers and similar services
- k. Washing, cleaning and maintenance services for vehicles
- l. Services rendered by printing houses and lithographers
- m. Insurance premiums (except for insurance referring to work risks, crops, social housing and personal insurance)

All other services are not subject to VAT since the law does not expressly mention them.

The standard rate for VAT is 13 percent, with reduced rates of 0%, 5% and 10%.



Income taxes range typically between 10% and 50%.

Reduced VAT rates are applicable on:

- a. Wood – 10%
- b. Residential electricity – 5%
- c. *Basic basket* of groceries and other basic goods – 0%
- d. Exports – 0%

VAT/GST Registration

A legal entity should be registered as a VAT taxpayer when it sells goods or provides services that are subject to VAT in the local market on a regular basis. There are no thresholds for VAT registration.

However, there are several methods providing for an exemption, suspension or reimbursement of VAT, usually in connection with re-export of the goods or with the

production of goods sold locally under the VAT exemption.

In order to register as a VAT taxpayer, it is necessary to have a local presence that conducts taxable transactions within Costa Rica. This implies either a permanent establishment or the incorporation of a subsidiary, branch or corporation in Costa Rica.

Regarding excise taxes, individuals or entities that assemble or manufacture goods above CRC 2 million in market value a year are required to register as taxpayers.

8.

Property Taxes

Property taxes in Costa Rica are low. Property owners will pay a 0.25% property tax on the value appraised and registered before each City Hall, which is always a lot lower than the real value.

Property owners do not receive a notification from the City Hall to inform that it is required for them to pay property tax. So, they either pay your real estate tax every quarter or they get the amount for the whole year in February. When purchasing Costa Rica real estate, the payment for property tax is due at closing.

Property tax and municipal tax have to be paid every quarter.

It is mandatory to file the property value declaration every five years. This declaration has to be presented at the municipality where your properties are located.

Property tax and municipal tax have to be paid every quarter. Individuals can request the annual amount from their municipality before the end of January. By mid-February, most municipalities will be able to give you the total amount for the whole year.

There are taxes assessed on land ownership, buildings and other permanent structures. The tax is managed, assessed and controlled by the municipality with jurisdiction over the respective real property.

The real estate tax rate is set by law at 0.25% of the assessed value. The real estate tax is calculated on a calendar year basis and can be paid annually, semiannually, or quarterly. In recent years, a solidarity tax on luxury homes was approved. Luxury homes are those valued at more than USD \$250,000 (only building structures are considered, not the value of the land). The applicable tax rate thereon will vary from 0.25% to 0.55% of the construction and property value.

9. Funding Alternatives (Debt x Equity)



Also, the contribution can be made as an additional payment to the capital of the company. This kind of contribution does not increase the capital stock but must be made for the short term. The corporation can make refunds of this paid-in capital to a non-resident shareholder without incurring Costa Rican withholding tax.

Debt Financing

Costa Rican corporations can borrow funds from related third parties. A contract well documented is required and a real guarantee must be a part of it.

A transfer pricing study will be required for this transaction. If the lender is located abroad, interest will be subjected to a 15% withholding tax (amortization is not subject to withholding).

Costa Rica has no thin capitalization rules.

Equity Financing

Contributions traded by share; an investment can be made in a Costa Rican entity in exchange for shares. The amount of the investment is added to the entity's share capital account. A corporation's share capital is usually the same as its paid-up capital for tax purposes.

Contributions are not traded by shares; an equity contribution can be done by a shareholder in an entity incorporated in Costa Rica. A shareholders meeting must be held to document the interest in increasing the capital stock by modifying the value or number of existing shares. This is the best option from a tax perspective.

Penalties and fines are divided into formal and material.

Regarding the formal duty, the penalty is up to USD \$2,500. This corresponds to the lack of presentation of the forms required by the local tax authorities, however, in the case of not complying with requirements from the tax authorities, the fine may be up to 2% of the total income of the immediately preceding period.

In the case of material sanctions, the tax administration applies an interest rate that is approximately 15% per year and a default rate of 1% per month up to 20%; the previous percentages apply to the unpaid taxes.

Penalties and fines are divided into formal and material.

In those taxes that the taxpayer acts as a withholding agent, there is an additional sanction to the previous ones, known as the closing of business, for a period of up to five days.

The law contains a section for tax offenses, which have economic and prison penalties.

11. Transfer Pricing

The Costa Rican tax authorities published Resolution DGT-R-49-2019 (Resolution 2019), which requires taxpayers to prepare certain transfer pricing documentation for the corporate group and local taxpayer. Resolution 2019 was published in the *Official Gazette* on November 13, 2019 and supersedes Resolution DGT-R-16-2017 (Resolution 2017).

Resolution 2017 was based on the Final Report on Action 13 of the Base Erosion and Profit Shifting (BEPS) framework published by the Organization for Economic Co-operation and Development. Although Resolution 2019 supersedes, Resolution 2017 and includes several changes, it also maintains many of the same requirements in Resolution 2017.

The main changes introduced by Resolution 2019:

Corporate documentation

Resolution 2019 requires taxpayers to prepare and maintain the following corporate documentation:

1. A description of the most important business restructuring for the past five years
2. Links to websites containing a representative analysis of the industry and the company prepared by rating agencies or similar organizations

3. A table with the total number of employees for each country in which the international corporation operates
4. The consolidated income statement for the most recent period

Taxpayers are no longer required to provide a description of the value chain of the five most important products or services, the products or services that represent at least 5% of the gross revenues, and the most important geographical markets.

Local taxpayer documentation

Under Resolution 2019, taxpayers must collect or prepare and maintain certain local taxpayer documentation, including:

1. The accumulated expenses for each transaction category and a comparison of current expenses against prior years
2. Audited financial statements for the last three years



Central Law, Costa Rica

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