

▫ DOING BUSINESS IN COSTA RICA

1. Fact Sheet

Geography

Location	Central America
Area	51,000 square kilometers
Land boundaries	Nicaragua and Panamá
Coastline	Pacific Ocean and the Caribbean Sea
Climate	sub-tropical
Terrain	mountains, cliffs, deep canyons and valleys
Time zone	GMT minus 6 hours (US Central Time).

People

Population	about 4,195,000
Ethnic groups	overwhelmingly white or mestizo
Religion	Roman Catholic
Language	Spanish

Government

Country name	Costa Rica
Government type	Democratic Republic
Capital	San José
Administrative divisions	7 provinces 81 cantons
Political situation	Democratic Government with a strong system of constitutional checks and balances. Executive responsibilities are vested in a president, who is the country's center of power. There also are two vice presidents and a 15-member cabinet that includes one



of the vice presidents. The president and 57 Legislative Assembly deputies are elected for 4-year terms

Economy

GDP – per capita	13,0%
GDP – real growth rate	4.9%
Labor force	2,121,451.0 (at October 2009)
Unemployment	165,944.0 (at October 2009)
Currency (code)	Colon (CRC)

2. Business Entities and Accounting

- Types of company structure available to foreign investors and the key characteristics of each.

There is no restriction to a foreign person or company either forming or acquiring a business corporation. Using a CR corporation is the universal practice for nationals and foreigners in CR.

There are five types of business corporations according to Code of Commerce but the most common types of corporations used by businesses are the “*sociedades anónimas (SA’s)*”, a kind of corporation but not of a public nature and “*sociedades de responsabilidad limitada (Ltda.’s)*”, limited liability companies.

SA’s:

- Require incorporation through subscription of the stock capital in public deed, by at least 2 partners that require to appear before a notary public in the country or Costa Rican consulates abroad



- There are no limits up to a minimum amount of stock capital for any of the company types. The stock capital may be in Costa Rican currency, in US \$ or in any other currency and must be deposited in one of the banks of the Costa Rican banking system. The stock capital contribution by the shareholders may also be in any kind of assets
- The management is in charge of a Board of Directors (BOD) of at least 3 members: President, Secretary and Treasurer
- Common and nominative shares, that can be freely transferred unless the by-laws determine otherwise
- President of the BOD shall have the legal representation with full powers of attorney, with no limit as to any amount. Other members of the BOD or managers may be appointed and granted with powers and authorities that the shareholders meeting decide.
- Books must be legalized at the Tax Administration: 3 corporate books (Shareholders Register, Shareholders Meetings and Board of Directors) 3 accounting books (Day book, Ledger book and Inventories and balances book)
- Presence in Shareholders meetings: Require to carry out a summon procedure. Presence can also be accredited by proxy.
- Presence in BOD meetings: Personal presence of members or virtual conference. Members cannot delegate their representation
- BOD grant all kind general and special powers of attorney and resolutions of BOD shall be recorded in writing on the BOD meetings book

Ltda's

- Require incorporation through subscription of the stock capital in public deed, by at least 2 partners that require to appear before a notary public in the country or Costa Rican consulates abroad.



- There are no limits up to a minimum amount of stock capital for any of the company types. The stock capital may be in Costa Rican currency, in US \$ or in any other currency and must be deposited in one of the banks of the Costa Rican banking system. The stock capital contribution by the shareholders may also be in any kind of assets.
- No Board of Directors but 1 or 2 managers.
- Shareholders Accreditation: Quotas participations that can only be transferred if the rest of shareholders approve it. In case of rejection the other shareholders must acquire the quotas.
- At least one manager shall have the legal representation with full powers of attorney, with no limit as to any amount.
- Books must be legalized at the Tax Administration: 2 corporate books (Shareholders Register and Shareholders Meetings) 3 accounting books (Daybook, Ledger and Inventories and balances).
- Presence in Shareholders meetings: Require to carry out a summon procedure. Presence can also be accredited by proxy.
- Quota-holders meetings grant all kind of general and special powers of attorney.

For both kinds of corporations, the term for incorporation takes between 22 days and 1 month.

It is also possible to acquire a shelf-company and to amend the by-laws and appoint new BOD members (although this requires to be recorded at the National Registry and also takes between 22 days and 1 month), with the benefit that the company may begin businesses immediately by granting special powers of attorney since it is already registered and also it is not necessary the presence of the shareholders in the country (as required for a incorporation), since they can be represented by proxy



A company must meet the following requirements in order to operate in Costa Rica:

- Incorporate the company in the Public Registry
- Register with the General Income Tax Office (*Dirección General de Tributación*) as a tax paying entity with economic activities in the country
- Register as an employer with the Costa Rican Social Security Administration (*Caja Costarricense de Seguro Social*) and the National Insurance Institute (*Instituto Nacional de Seguros*)
- Request a permit to operate from the Ministry of Health
- Request a Municipal License (permit to operate a business)
- Undergo the environmental impact evaluation process of SETENA (National Environmental and Technical Secretary)
 - Auditing, accounting and filing requirements (including language and currency requirements).

The International Financial Reporting Standard (IFRS) and the International Auditing and Assurance Standard Board are the standards accepted by the Costa Rican Chattered of Accountants. Fiscal Authorities have partially accepted these announcements for each case must be analyzed separately.

3. Finance and Investment

Exchange control.

Economic and exchange rate policy corresponds to Costa Rican Central Bank, the following responsibilities also extends to the National Central Bank:

- The maintenance of foreign exchange value and conversion of national currency.



- Administration and custody of International monetary reserves, the definition of the monetary and control exchange policy.
- The roll as a Teller-State and monetary adviser.
- The promotion for favorable conditions for the strengthening, liquidity and solvency for the good performance of the national financial system.
- Currency issuance according to the reality of the national economy.
- The definition of credit and supervision of the national financial system.
- Cash reserves for Financials intermediaries. The establishment, operation and supervision of compensation system.
- The creation of standards for the functioning and control of financial system.
- The collaboration with the economics sectors of the country for the best reaching of their objectives.

Banking and sources of finance.

Costa Rican Financial system includes:

- Banco Nacional de Costa Rica
- Banco Popular y de Desarrollo Comunal
- Banco de Costa Rica
- Banco HSBC (Costa Rica)
- Corporación BCT
- Grupo Financiero BNS de Costa Rica
- Banco Citibank de Costa Rica
- Grupo Financiero Improsa
- Corporación Lafise
- Banco General (Costa Rica)
- Grupo Promérica GBP



- Corporación Tenedora San José (BAC)
- Banco Centroamericano de Integración Económica

Tariffs.

The import taxes in Costa Rica are: import tariff (DAI) on Customs value (CIF), Excise Tax (between 5 and 75%) applicable on the customs value plus the DAI, weapons and Ammunition (75%), jewelry, fireworks and whiskey (50%), wine and beer (40%). Tax Act 6946 applicable on CIF (1%), except human medicines and raw materials for industry and the Sales Tax on CIF value (13%).

Foreign investment incentives/restrictions.

There are no performance requirements or minimum investment levels for foreign investors. There are some investments incentives available for the activities directly related to the exportation of services and/or products from Costa Rica.

Free zone system

Free zones are primary areas for offshore tax and customs operations. These facilities are intended to accommodate operations engaging in input and raw material imports, manufacturing and assembly or marketing of export goods and provision of export-related services.

This system grants beneficiary companies with the widest range of benefits currently available in Costa Rica. Among the fiscal benefits granted under the provisions of the free zone legislation are:



- Exemption from import duties on raw materials, parts and components;
- Exemption from taxes on profits for determined periods of time;
- Exemption from taxes on remittances abroad;
- Exemption from export taxes;
- Exemption from sales tax on local purchases of goods and services.

Tax incentives, first-rate communications, electric power, utilities, and highly-qualified labor are the elements underlying the development of free-zone companies.

Temporary admission system.

The temporary admission system was set up specifically for drawback type operations. Companies can import processed raw materials into Costa Rica free of duties in order to have been used mainly by local contractors. Even though the flexibility and the scope of the fiscal is quite limited in comparison to the free zone system.

In –bond Goods System

This system allows bringing merchandise into the local customs domain under guarantee, with all taxes and suspended.

Merchandise must be submitted to transformation, repair, reconstruction, or assembly, or it must be included into assemblies, machinery, general transportation equipment or devices with increased technological or functional complexity or used for similar purposes under regulated conditions as stated by the appropriate bureau.



4. **Employment Regulation and Social Security**

- **Entry visa and work permit requirements**

According to the immigration law a foreigner in Costa Rica as a tourist must leave the country for at least 72 hours before he or she has been in CR for 90 days. As far as having to travel outside of CR every 90 days for a 72 hours to renew the tourist status.

The law prohibits employment while someone is a tourist or in one of several types of residencies favored by foreigners.

Residence has traditionally been obtained in one of 2 ways:

- Showing a sufficient income whether from investments or from a pension and irrespective of whether the income is sourced locally or abroad. Residence obtained under this law allows an individual to work in Costa Rica but does not allow him to work in areas which would have the effect of displacing indigenous workers.
- Residence permits obtained under Law 1155 of 1950 (known as "the Residence Law 1950") carry no restrictions on the sorts of economic activity that a resident permit holder can engage in. However permits under this law are granted on a very selective basis and only to businessmen and professionals.

No one can work in Costa Rica without first obtaining a work permit. A work permit cannot be applied for until a residence permit has been granted. Work permits are valid for one year and require annual renewal.

A company which has more than 30 employees can apply for a general work permit enabling it to bring foreign technicians and executives to work in the jurisdiction without the



need to make an individual application for each person it wishes to engage. Such a permit is valid for one year and must also be renewed annually.

The labor code limits the percentage of foreigners working in each corporation, specifying that at least 90% must be indigenous and that 85% of salaries paid by a company must go to Costa Rican nationals. Moreover foreigners cannot occupy jobs for which Costa Rica nationals are available unless special permission is granted.

- **Hiring local employees**

In Costa Rica, the employer and the employee freely agree upon salary issues. Nevertheless, it shall not be lower than the minimum wage that is established annually by the government for each type of job.

According to the Costa Rican laws, employees are required to pay taxes on any income earned as a result of an employment contract. The employer is responsible to apply the tax withholdings on a monthly basis and report the taxes to the Tax Authority; so, employees are not required to report their income and taxes, it is responsibility of the employer.

Extra salary payments, rewards, bonuses, gratuities, commissions, overtime pay, royalties, additional payments for increased responsibilities, zoning allotments, subsidies, vacation pay (where vacation time is not actually taken), and any part of the Christmas bonus that exceeds the legal minimum are some of the earnings subject to this tax. Furthermore, the employee must pay tax on any other income received from the employer.

The employer must make an accounting provision or reserve for severance payment, according to the section 29 of the Labor Code; employers are required to pay severance where the employment terminates for reasons not attributable to the employee. The



employer must make a monthly provision of 5.33% of the employee's salary in order to be able to face severance payments, where applicable. In accordance with local labor laws, employers are required to pay severance at a rate of approximately 21 days of salary for each year of service, with an upper limit of eight (8) years.

Employees have to two weeks of paid vacation for each fifty continuous weeks of employment with the same employer; the law provides that where employment terminates before this fifty week term, the employee must be paid for vacation time at a rate of one day of vacation for each month of service. The provision for this payment is 4.16% of the employee's monthly salary. The Costa Rican law provides that all employees shall receive, during the first days of December, the equivalent of one month's salary as a Christmas bonus. This benefit is calculated on the basis of the average salary earned by the employee during the twelve months preceding December 1st of the relevant year. The employer should make provision for this payment by reserving 8.33% of the employee's monthly salary.

- **Trade Unions.**

According to Costa Rican law (Political Constitution, Labor Code and ILO Conventions adopted by our country as well as the pronouncements of the Constitutional Chamber), there is a legal framework that secures and supports the free exercise of freedom of association in Costa Rica. However, currently in Costa Rica (private sector) the trade unions membership is barely 4%.



- **Social security system.**

Costa Rica's social security system is financed through a three tiered system:

1. State contributions.
2. Employer contributions.
3. Employee contributions.

Furthermore, all Costa Rican workers are covered under workers compensation insurance, which is mandatory.

Based on constitutional and legal precepts that create the obligation to contribute to the financing of the social security system, employers and employees must pay to some State offices social security withholdings and payroll charges.

Social security coverage is mandatory for all workers and the amount of the contributions is calculated on the basis of the entire compensation paid to employees (salary in cash, salary in kind, overtime, salary bonuses and any other item considered salary).

Also, there is a legal obligation to provide workers compensation insurance coverage for all employees. The Instituto Nacional de Seguros ("INS", a state –owned enterprise) is the insurer authorized to underwrite the workers compensation coverage. Workers compensation insurance covers employees for work-related accidents and for illnesses that arise in connection with or as a consequence of the employment, as well as the deterioration of the employee's health resulting as a direct, immediate and certain consequence of those accidents or illnesses.



Costa Rican Social Security Administration (CCSS)

Employer contribution

Health insurance	9.25%
Pensions	4.75%
Banco Popular y de Desarrollo Comunal	0.5%
National Training Institute (INA)	1.5%
Social Welfare Institute (IMAS)	0.5%
Family Welfare Programs (ASFA)	5.0%
Worker Capitalization Fund	3%
Supplementary Retirement Fund	1.5%
TOTAL	26%

Employees contribution

Health and maternity coverage	5.5%
Pensions Supplementary	2.5%
Retirement Fund	1%
Total	9%

5. Taxation

The Costa Rican tax system is based on Consumption Taxes (Sales Tax, Excise Taxes, and Import Duties), Income Tax, and Real Estate Tax and other Municipal Taxes.



- **Corporate and individual taxation.**

Corporate Income Tax

Tax rates

Small companies: legal entities having a gross income not exceeding ₡82.698.000. (\$ 143,572.91)

Income (gross income) Rates

Up to ₡41.112.000 (\$ 71,375) 10%

Up to ₡82.698.000 (\$143, 572.91) 20%

Over ₡82.698.000 30%

Gross income includes earnings, benefits and rents, whether in cash or in kind derived from a Costa Rican source. Companies may deduct from gross income all costs and expenses necessary to produce taxable income or to protect their investments.

Partnerships are treated as corporations independent of their partners and are liable for corporate taxes on net profits.

As a general rule, capital gains and losses on non-depreciable assets or shares of other companies are excluded from gross income for income tax purposes (if they do not derive from the normal activity of the taxpayer). Branch income is taxed at the same rate applied to corporations and foreign source income is not taxed. Nevertheless, there is a trend in case law to try to tax foreign source income based on “enterprise’s activity” concept.



- **Salary tax**

Income Rates

Up to ₡619.000 exempt¹ (\$ 1,074.65)

From ₡619.000 (\$1074.65) to ₡929.000 (\$1,612.84) 10%

Over ₡929.000 (\$1,612.84) 15%

Taxpayers may accredit monthly ₡1.170 (\$2.03) per child and ₡1.730 (\$3.00) for the spouse.

Tax on dividends

Upon accrual or payment of a dividend, whichever occurs first, the company must withhold 15% of the amount credited or paid. The 15% withholding tax rate does not apply if payments are made in shares of the distributing entity or if payment is made to another Costa Rican corporation subject to income tax; or foreign tax credits are not allowed by the recipient country (this may be subject to review or authorization from local Tax Authorities). If the distributing company is registered in a local stock exchange and the shareholder acquired the shares through the stock exchange, the applicable withholding tax rate decreases to 5%.

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Exchange rate 8-12-09 : ₡ 576



Foreign Remittances

Foreign remittances such as royalties, leasing, and technical advise, salaries or services are subject to withholding taxes ranging from 5.5 to 33%, as follows:

1. Transport and communications 8.5%.
2. Salaries 10%.
3. Fees on personal basis, commissions, and other personal remunerations for non employees 15%.
4. Reinsurance premiums 5.5%.
5. Dividends 15%.
6. Operating leasing 15%.
7. Royalties, technical consultancies, management fees or other services provided by consulting companies or headquarters 25%.
8. Other concepts not defined above 30%.

Sales Tax

The general sales tax is value added tax which is levied on the sale and import of goods and the rendering of specified services (e.g. insurance, restaurants, repair shops and photocopiers). The tax is charged only once on the various transactions in chargeable goods so the tax is computed by the subtraction method, i.e. crediting taxes paid on purchases (regarding inputs physically incorporated in the production of taxable goods) against tax liabilities arising from sales.

The filing of the tax return and the payment must be done, at the latest, the fifteenth calendar day of the month that follows the date in which the sale took place. The rate is 13%. A 10% rate applies to the sale of wood and a 5% rate to the consumption electric energy for residential purposes.



- **Other taxes that may affect foreign investors.**

Municipal, Permit and Stamp Taxes

In Costa Rica there are municipal taxes, operation permit fees and stamp taxes. These municipal taxes vary from one municipality to another. Stamp taxes are levied on most legal documents.

Education & Culture Stamp Tax & Tax on Equity

An education and culture statutory stamp tax is imposed annually, with fees ranging from ¢750 to ¢9,000, based on the capital stock of the company.

Real Estate Tax

This tax is applicable to real estate, land, buildings and permanent structures.

The tax is managed, assessed and controlled by local governments (Municipalities) of the administrative district where the property is located. The taxable base is the value of the property registered with the Municipality.

Luxury Houses Tax

This tax applies for any land, urban or rural, that contains one or more fixed and permanent constructions or installations, used as a regular, occasional or recreational house, which constitutes a housing unit, even though it is located in independent properties or in a building partially occupied by locals destined to other uses, in such way that a functional integrality exists between the land and the fixed and permanent constructions and installations, when it corresponds.



Based on this criterion, each proprietor must carry out an assessment of his constructions in order to know if they are part of this Law's stipulation, in other words, if his construction has a value that is superior to one hundred million colones (**approximately US \$170.000, 00**). If the construction has this value or more, then the proprietor becomes a passive subject of the tax and must add the value of the land of the housing unit. The product of this sum will be the base for the determination of the tax based on the percentages established in the Law.

The assessments of the constructions and of the land must be done taking into consideration the criterion and parameters established by the Tax Authorities.