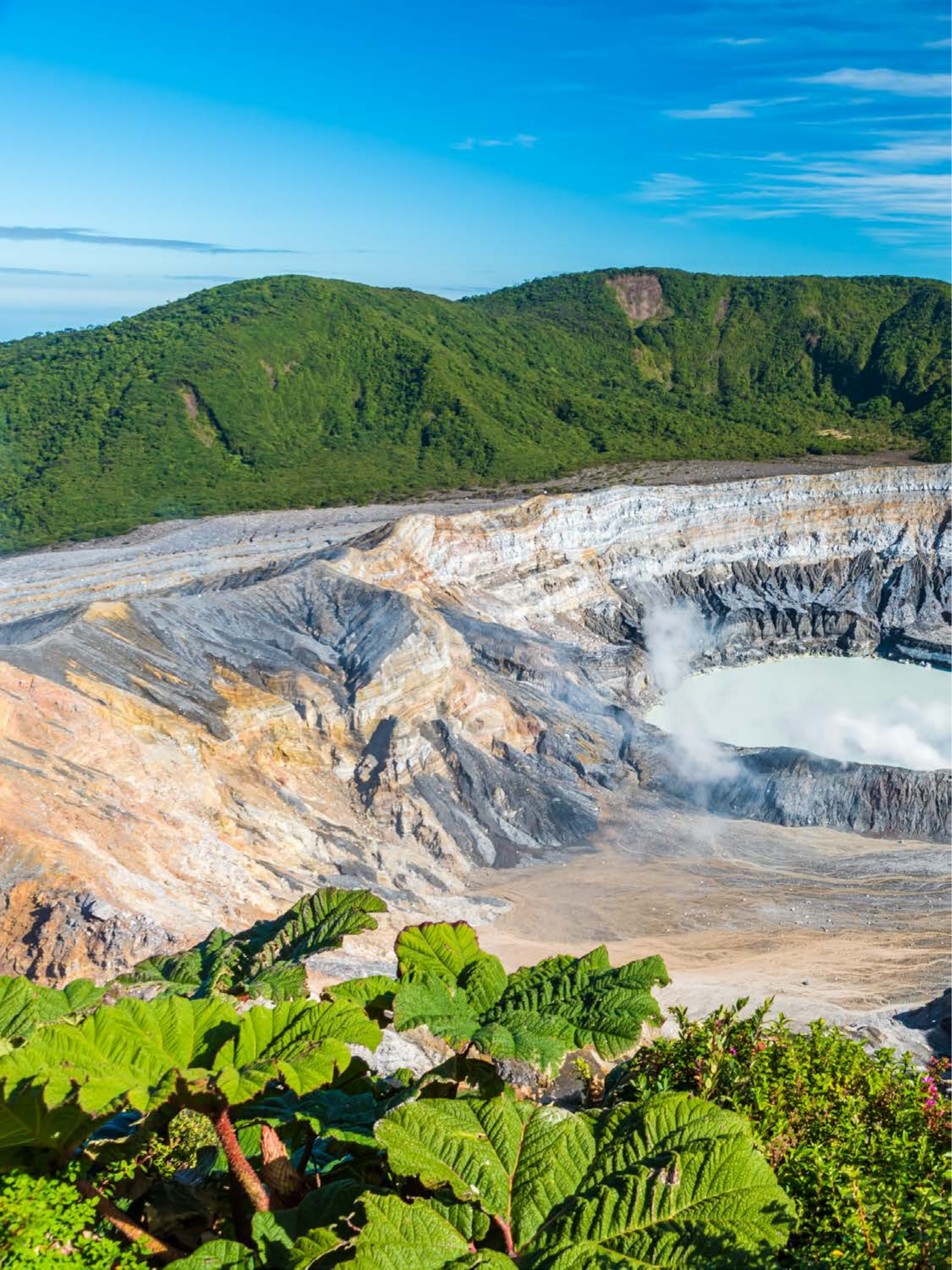
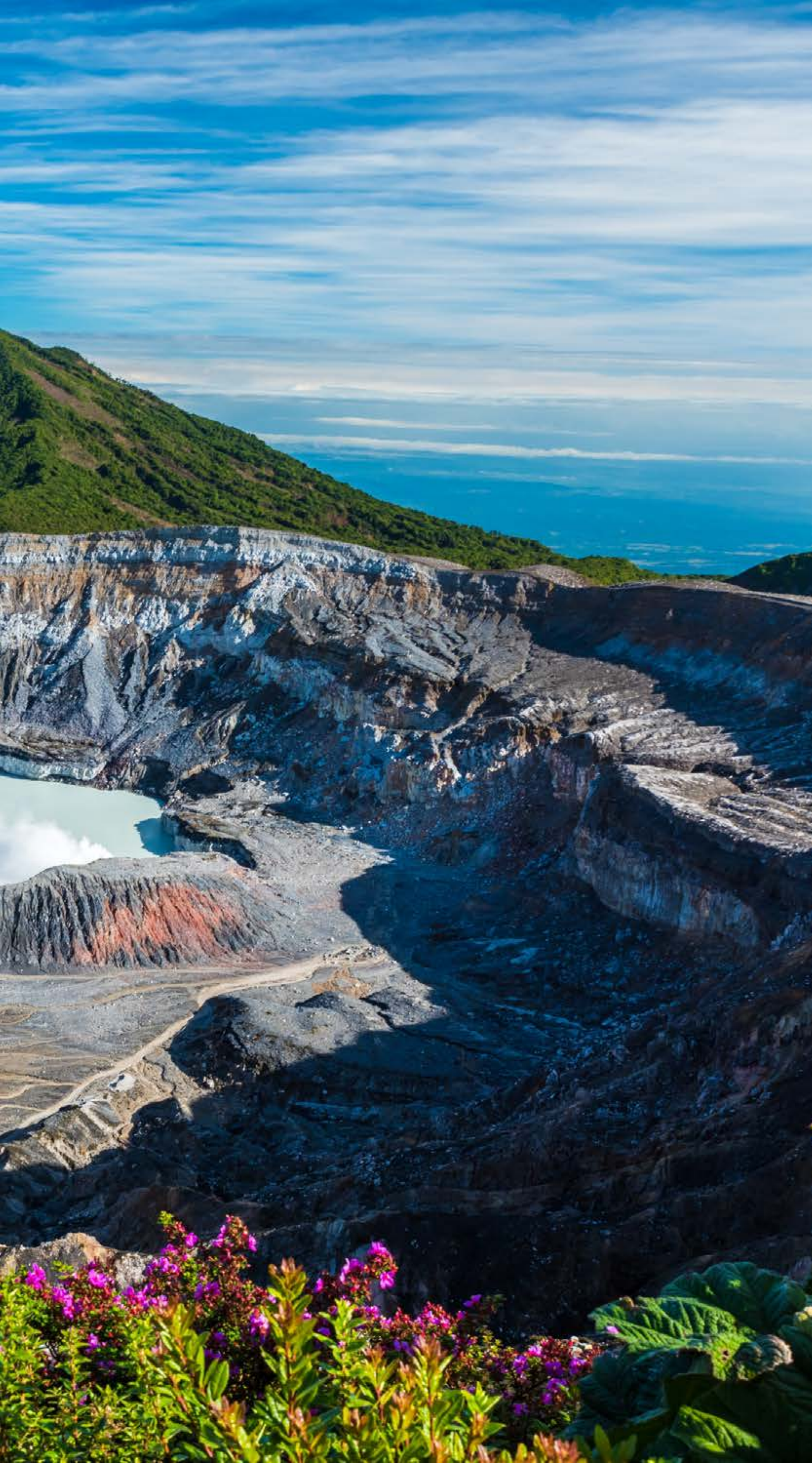
Costa Rica

Investment Guide





Costa Rica

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General Information

General Information

Costa Rica is a Central American country characterized by having a consolidated democratic system and a stable economy in the region. The country has a low population density of approximately 95.70 inhabitants / km², being that by mid-2018 the population reached 5,003,402 inhabitants. The national territory covers an area of approximately 51,100 km² and it is politically divided into seven provinces: San José, Heredia, Alajuela, Cartago, Puntarenas, Guanacaste and Limón. The capital city is San José, which is located in the country´s Central Valley.

Primary and secondary education is free, and attendance is compulsory between the ages of 6 and 13. Private educational centers are world class institutes and the country have high-level public and private universities. In general, the Costa Rican people have a good educational background, accompanied by knowledge of English and skills to develop an occupation or work.

Costa Rica has a highly developed power, transportation and communications infrastructure. The telecommunications system is among the best in Latin America. In addition, two international airports operate: the Juan Santamaría International Airport is located in Alajuela and provides access to main global markets, while the Daniel Oduber Airport is located in the western province of Guanacaste and is used mainly for tourism.

Life expectancy in Costa Rica (82.7 years to 2017) is one of the highest in the world. Additionally, the infant mortality rate (7.96 in 2017) is one of the lowest compared to other Latin American countries. By international standards, the cost of living in Costa Rica is low, which by no means implies a lower standard of living. The gross domestic product per capita in 2018 was approximately US $ 12,017.8. In addition, the accumulated inflation rate for 2018 was 2.03%.

The Costa Rican monetary unit is the colon (¢), which is divided into 100 cents. Under the current currency exchange system, foreign currency can be freely held or converted into local currency and vice versa, with the exception of certain export proceeds. The only limitation the Central Bank of Costa Rica places on transactions to convert non-export dollars to and from colones is that authorized agents must be used (e.g. private and State-owned banks, hotels, and most financial institutions).The parity of the colon with respect to the US dollar is determined in a free exchange market, under the supervision of the Central Bank of Costa Rica.

Overview of the Legal System

Overview of the Legal System

Forms of Business Organization

Corporation (Sociedad Anónima or S.A.)

Corporations are the most common form of organization due to their structural flexibility. Since local law defines corporations as a bilateral agreement, they must be formed by at least two parties. However, once formed, a single party may legally own 100% of the capital stock without affecting the legal status of the original corporation. For the constitution of a corporation, it is mandatory to grant a public deed before a Notary Public, publish a notice of the constitution of the company in the official Gazette and file the deed of incorporation of the company before the Public Registry, for its registration. Corporations must have a board of directors with at least a President, a Secretary, and a Treasurer as members.

Limited Liability Partnerships "LLPs" (Sociedad de Responsablidad Limitada or SRL or Ltda.)

In a limited liability partnership, the liability of partners is limited to their respective capital contributions. Incorporation procedures and costs for LLPs are very similar to those of the corporations.

Branch

A branch is an extension or subdivision of the parent company with which it shares its legal personality. Foreign companies may conduct business in Costa Rica through parent company branches. The branch registration deed must be granted before a Costa Rican Notary Public and then filed for registration before the Costa Rican Public Registry.

Appointment of a Proxy

In addition to the above, any foreign company may appoint a proxy (proxies) to be its Costa Rican representative and conduct business within the country on its behalf. Requirements that must be fulfilled are similar to those required to establish a branch. The power of attorney must be granted before a Costa Rican Notary Public and then filed for registration before the Public Registry.

Overview of the Legal System

Legal operational permits according to Costa Rican Legislation

Social Security System registration (CCSS)

The employer and their employees must be registered at the Costa Rican Social Security Administration ("CCSS" for its initials in Spanish) which manages the Social Security System and the National Health System. More information related to the Costa Rican Social Security are described further below.

Risk Insurance Policy from the National Insurance Institute (INS, by its initials in Spanish)

According to the Costa Rican Labor Code, the employer must acquire an occupational risk insurance policy for its employees. For this, the employer has to underwrite a policy from the INS. The policy has to be underwritten at the beginning of the operation and has to be in force during the operation. At the moment the policy is underwritten, the company will be automatically registered as an employer before the INS. This procedure takes one business day.

Operating Permit from the Ministry of Health

Pursuant to Costa Rican General Health Law, companies must request authorization from the Ministry of Health prior to the initiation of operations. This is a requisite prior to obtaining the municipal business license. This permit is classified depending on the risk of the activity, into A, B or C. Being A the riskiest one, and C the less risky. Depending on the activity and its corresponding risk, this permit might be granted in one working day until ten working days.

Municipal Use of Land Certificate

The Company must obtain a certificate of use of land granted by each Municipality in which the entity will operate. This permit authorizes the activities that will be conducted by the Company.

Municipal Business License

Any economic activity rendered within the Costa Rican territory, requires a business license granted by the Municipality of the jurisdiction in which the activity is developed. The license granting comes with the mandatory payment of a tax during the time of operations. In virtue of the municipal autonomy, the forms and requisites to obtain a business license may vary among Municipalities, pursuant to their legislation and overall administrative regulations. This business license granting process may last approximately one month.

Overview of the Legal System

Expat services

Foreign nationals without residency status or labor permits are not allowed to work in Costa Rica. Local and foreign entities doing business in Costa Rica may apply for a special authorization from the Immigration Authority to bring temporary workers into Costa Rica.

This exception mainly applies to high-ranking executives and/or technicians from other countries, as well as business agents, traveling agents and business delegates (whom have to receive their wages from outside the country). The process of obtaining authorization must be started before the employee arrives in Costa Rica.

The Costa Rican Government has not defined any incentives for hiring Costa Rican labor, and instead this is the general rule. Foreign labor should be authorized by the Ministry of Labor and the Immigration Authorities and this applies only in qualified cases defined by the Immigration Law.

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Labor Regulations

Employment Contracts

As a general rule, Costa Rican labor laws require employment contracts. However, the labor contract lack thereof is no objection to the parties' labor relationship existence and does not limit their rights. Nevertheless, the Employer has the burden of proof of the labor rights compliance; consequently, the labor contract agreement is advisable. Employment contracts are simple private agreements executed between the employer and employee and are not formally registered. The Costa Rican Labor Code stipulates certain mandatory clauses that must be included in employment contracts.

Main Labor Benefits

The main labor benefits stipulated by Costa Rican labor legislation are the following:

- **Christmas Bonus.** The Christmas Bonus is an additional one-month salary paid to all employees after one year of service, payable each year during the first two weeks of December. If the employee has not worked a full year, the bonus is paid pro-rata.
- **Vacation.** All employees are entitled to a two-weeks paid vacation for every fifty weeks of continuous service. Upon termination of the employment contract, if the vacation days were not taken or were only partially taken, the employee is entitled to payment at a rate of one day's salary for each month worked during any given year.
- **Maternity and Sick Leave.** Maternity leave entitles pregnant employees to a one-month leave of absence prior to delivery and three months after delivery, which may extend on doctor's orders. Pregnant or nursing employees may only be dismissed with just cause and with an authorization of the Ministry of Labor.
- **Leaves of absence as a result of partial work disabilities (i.e. illness)** are authorized by the Social Security System after a medical exam. Minimum sick-leave payment is equivalent to 60% of the salary which is paid by the Social Security System after fourth day of disability.
- **Occupational Hazard Insurance.** All employers must carry one or more insurance policies with the National Insurance Institute to cover occupational risks. Policy premiums vary based on the employer's activity, headcount and each employee's functions.
- **Overtime.** Overtime is legal. However, the employees may not work for more than twelve straight hours, except in extraordinary circumstances. Employers cannot require employees to work overtime on a regular basis. Overtime pay is generally equivalent to the hourly rate plus 50% (i.e. time and a half). These rules only apply to regular and administrative employees. Special rules apply to night shifts.

Overview of the Legal System

Minimum Wage

The mandatory minimum wage is applicable to all jobs. Such wages are adjusted annually by the National Wages Council based on an official cost-of-living index, and which annually updates. Employers are free to choose their compensation structure, provided the minimum wage is observed. The mandatory minimum wage is updated every year, by decree of the Ministry of Labor and Social Security, based on information from the National Institute of Statistics and Census and is detailed by category of worker – e.g. agricultural farmhand, office clerk, different categories of professionals, etc.

Social Security System

The Costa Rican Social Security Administration ("CCSS" for its initials in Spanish) manages the Social Security System and the National Health System together with the Ministry of Health and the Ministry of Labor. These institutions provide benefits related to disability, illness, old age, death, maternity, health, pension systems, etc. Pursuant to Costa Rican legislation, both the employer and employee must contribute to the Costa Rican social security system. Employer and Employee contributions are calculated as a percentage of monthly salaries and amount to 26.5 % for the employer and 10.5 % for the employee.

The system includes: 1) Healthcare (medical treatment); 2) Disability and Pensions; and 3) Complementary Pensions. All three are mandatory for legal employers and their employees. The Social Security System does not prevent employers or employees from becoming affiliated with complementary pension, health, or retirement plans managed by public or private entities that are authorized to operate by the national Pensions Superintendence (known as "SUPEN" based on its Spanish Acronym). All Costa Rican based workers (including expatriate employees located in the country) must contribute to the Social Security tax, without exception.

Overview of the Legal System

Ultimate Beneficial Owner (UBO) Register

The Ultimate Beneficial Owner (UBO) Register will be enforced in Costa Rica. This register is mandatory; and will essentially require companies to provide the information related to their share or quota holders, which are ultimately the beneficial owners. The companies are compelled to file the UBO Register whether they are local or international before the Costa Rican Central Bank (CRCB), when the share or quota holders' percentage is greater than fifteen percent (15%) of the total share/quota capital. the lack of compliance with this registration should carry out pecuniary sanctions.

The Ultimate Beneficial Owner (UBO) Register will be managed by the Costa Rican Central Bank, and will be enforced as of September 2019, being mandatory for: a) The corporations, limited liability partnerships and overall legal structures domiciled in Costa Rica, b) Private trust funds, c) Third parties administrators, and d) non-profit organizations and their branches.

Overview of the Tax System

Overview of the Tax System

Corporate income tax

Generalities

In Costa Rica, legal entities that carry out lucrative activities of a Costa Rican source, are considered as corporate income tax payers. In this sense, the country is characterized by a territorial taxation system, due to the concept of a Costa Rican source, with which profits generated from services rendered, assets located and capital used in the national territory are taxed.

It is important to note that in December 2018 a tax reform was approved through the Law of Strengthening of Public Finances (Law number 9635) within which were made modifications and additions to the Income Tax Law (Law number 7092). As part of the reform, it is important to mention the incorporation of a new tax, named as capital income and capital gains and losses tax.

In this regard, the taxable event of corporate income tax includes a similar figure to “global income”, in relation to the capital income and capital gains tax. When these types of income are obtained and can be considered as affected to the taxpayer's lucrative activity, they are subject to corporate income tax. In case that capital income or capital gains have been taxed with capital income or capital gains tax, this will constitute a tax credit for corporate income tax purposes.

Finally, the exchange rate differential obtained from the tax payer operations, will be subject through the accrual accounting.

Tax Rates

In general, for all legal persons the tax rate should be 30%. However, there is a progressive tax rate for companies whose gross income does not exceed ¢109.032.000, as follows:

Amount	Tax Rate
Up to ₡5.143.000,00	5 %
Over ₡5.143.000,00 and up to ₡7.715.000,00	10 %
Over ₡7.715.000,00 and up to ₡10.286.000,00	15 %
Over ₡10.286.000,00	20%

These amounts are updated annually by decree of the Tax Administration, based on data from the National Institute of Statistics and Census.

In Addition, the Law has a preferential treatment for small companies registered at the Ministry of Economy, Industry and Commerce (MEIC by its initials in Spanish), or with the Ministry of Agriculture and Livestock (MAG by its initials in Spanish), which can apply the progressive tax rate indicated above, but under the following conditions from its first year of operations: the first year a 0% tax rate, second year a 25%, and the third year a 50%.

Overview of the Tax System

Tax Return

Taxpayers must file a return within two months and fifteen days following the end of the fiscal year. As part of the modifications of the tax reform, the tax period of was changed, being established from January 1 to December 31. Thus, the declaration and payment of the tax must be made as of March 15 of the following year.

However, because before the reform was a different period, the fiscal year 2020 has transitory provisions in its application. Before the tax reform, the ordinary fiscal year was computed from October 1 to September 30 of the following year, and there were also other special periods. Therefore, the beginning of the 2020 fiscal year may be different for each taxpayer, depending on the period it had before the reform. Finally, the Tax Administration can establish fiscal years with different starting and closing dates by branch of activity, whenever it is justifiable and does not undermine the tax interests.

Quarterly Estimated Income Tax Payments

Taxpayers are required to render quarterly estimated income tax payments for corporate tax purposes in the months of March, June and September. In the case of taxpayers whose fiscal period 2020 is more or less than 12 months, depending on the amount of quarters that the fiscal year has, there will be more or less partial payments to cover. These payments are computed on the basis of the greater of the prior year's stated income as declared in the corporate income or the average of the prior 3 years and will count as a credit towards the final year- end income tax return liability.

Dividends

Taxable Event

Due to the tax reform, the dividend distributions are subject to capital income tax. In this sense, the distribution of disposable income in the form of dividends, social interests, and all types of benefits similar to dividends are considered as movable capital income. The taxable event is produced at the time the dividends are paid or are enforceable, whichever comes first.

When a capital company distributes dividends to another capital company that has an economic activity subject to income tax, said distribution will be exempt from withholding tax.

Tax return

The entity that distributes the dividends must render the corresponding withholding, pay and declare the withholding tax return within the first fifteen days of the month following the event that the generating event occurred.

Tax rate

The applicable tax rate is 15%.

Overview of the Tax System

Remittances abroad withholding tax

Taxable Event

Income or benefits from a Costa Rican source obtained by a natural or legal person domiciled abroad, it is subject to non-residents tax. However, the Law covers some special cases that are taxed by the simple fact of having been paid or remitted a profit to non- resident beneficiary. For these purposes, the taxable event occurs when the non-domiciled income is paid, credited or is placed at the disposal of the non- resident.

Tax return

The payer of the income acts as a withholding agent and must file the withholding tax return and pay the tax within the first fifteen days of the following month in which the generating event occurred.

Tax rates

Concept	Tax Rate
Dividends.	15%
Dividends on shares registered and acquired through a local stock exchange.	5%
Professional services.	25%
Interests and other financial payments (if the recipients are a foreign financial institution subject to supervision in their corresponding jurisdiction, the withholding is 5, 5%).	15%
Insurance payments.	5.5%
Soap operas and similar items	50%
Motion pictures, TV programs, soundtracks, and any similar means of dissemination of images or sounds, as well as the use of international news.	20%
Technical services, royalties, use of patents, trademarks, franchise, and formulas.	25%
Transportation and communication.	8.5%
Wages, salaries, pensions in employer –employee relationships.	15%
Public entertainments.	15%
Any other remittance of Costa Rican source income.	30%

Overview of the Tax System

Payroll taxes

Taxable Event

The tax is levied on income generated from personal dependent work services such as salaries, bonuses, or retirement benefits. In addition, payments to members of the company's board of directors is also subject to withholding tax.

Tax Return

The payer or the employer carry out the withholding on the employee's salary, file the tax return and pay the tax within the first fifteen days of the following month when the taxable event occurred.

Tax Rate

The tax has a progressive rate according to the following brackets:

Income	Tax Rate
Up to ₡840.000	Exempt
Over the excess of ₡840.000 and up to ₡1.233.000	10%
Over the excess of ₡1.233.000 and up to ₡2.163.000	15%
Over the excess of ₡2.163.000 and up to ₡4.325.000	20%
Over the excess of ₡4.325.000,00	25%

Overview of the Tax System

Expats tax treatment

In Costa Rica there is no differentiated treatment in the case of expatriates, who are subject to the same tax and social security conditions as those corresponding to a national citizen. However, we consider it appropriate to make the following clarifications:

Tax Residence

In accordance with Article 5 of the Regulations on the Income Tax Law, a natural person is considered as a fiscal resident in the respective tax year in Costa Rica, when has remained 183 days in the country, either continuously or discontinuous, considering sporadic departures.

However, in the case of Salary Income Tax, it is applied since the beginning of the execution of labors in the country, regardless whether the residence criterion has not been met if the individual is working with a local resident entity.

Totalization agreements (Social Security)

To date, Costa Rica has not signed totalization agreements to recognize the social security contributions of expatriates once their assignment in the country ends.

Note that expatriates must still contribute during the period of assignment to the pension fund of the Costa Rican Social Security Authority.

Agreements to avoid Double Taxation

For expatriate purposes, the Agreements contain a section referring to the services of dependent persons to avoid double taxation between the country of origin and the Contracting State. The Agreements in force in Costa Rica currently are with Spain, Germany and Mexico, so if there is an expatriate from any of those countries, it is foreseeable that may have a differentiated tax treatment.

Overview of the Tax System

Natural Persons Income Tax

Taxable Event

Individuals who obtain income or benefits of a Costa Rican source from the development of lucrative activities, are income tax payers.

Tax Return

The fiscal year is from January 1 to December 31. Therefore, the taxpayer must submit the declaration within two months and fifteen days after the end of the fiscal year. As mentioned above, in the section on corporate income tax, for fiscal year 2020, taxpayers must consider the transitional provisions made by the tax reform regarding the beginning of this period.

Tax Rate

Natural persons are subject to a progressive tax rate according to the net income obtained in the fiscal year:

Net Income	Tax Rate
Up to ₡3.732.000	Exempt
Over the excess of ₡3.732.000 and up to ₡5.573.000	10%
Over the excess of ₡5.573.000 and up to ₡9.296.000	15%
Over the excess of ₡9.296.000 and up to ₡18.631.000	20%
Over the excess of ₡18. 631.000	25%

Overview of the Tax System

Capital tax (profits, gains and losses)

Taxable Event

As it was indicated above, part of the Law for Strengthened of Public Finances reforms was the inclusion of a new tax category to the Income Tax Law, named Tax on Capital Income and Capital Gains and Losses.

In these terms, the taxable event of capital income tax (which can be movable or immovable) is the perception or accreditation of capital income. In case of gains and losses of capital, the taxable event occurs when the gain is perceived. Likewise, the exchange rate differential that are subject under this tax, will be recognize through cash accounting.

Tax Return

A monthly tax return is established, which must be submitted within the first fifteen days of the following month after the event occurred.

Tax rates

Net Income	Tax Rate
Capital income and gains and losses of capital.	15%
Securities income in national currency of Peoples Bank (Banco Popular in Spanish) and credit cooperatives.	15%
Securities in national currency issued by the National Housing Financial System.	7%
Return on savings for associates in credit cooperatives and solidarity association (there is an annual exemption of half base salary, which corresponds to ₡223.100, 00).	8%
Surpluses or profits paid by cooperatives u other similar to their associates.	10%

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Additionally, for the case of surpluses or profits paid by solidarity associations to their associates, the following progressive tax rate applies:

Concept	Tax Rate
Until a base salary (₡446.200,00)	5 %
Over the excess of a base salary (₡446.200,00) until two base salaries (₡892.400,00)	7 %
Over the excess of two base salaries (₡892.400,00)	10 %

Overview of the Tax System

VAT/ITBMS/ Sales tax

Generalities

As part of the tax reform carried out through the Law on Strengthening of Public Finances (Law number 9635) as of July 1, 2019, the Value Added Tax Law came into force, with which the sale of goods as the provision of services are subject to VAT.

Taxable Event

According to article 1 of the Value Added Tax Law, that the generating event is the sale of goods or the provision of services performed within the national territory. For the sale of goods, the taxable event occurs, at the time of its invoicing or the delivery of the good (whichever comes first), and in case of services at the time of its invoicing or the provision of the service (whichever occurs first).

Tax Return

It is a monthly tax return, which must be submitted in the first 15 days of the following month that the taxable event occurred.

Tax Rate

The Law establishes a general tax rate of 13%, however, there are also different situations that are subject to reduced rates, which are detailed below:

Concept	Tax Rate
Air tickets (for international flights the taxable base is a 10% of the ticket value).	4%
Private health services.	4%
Medicines.	2%
Private education services.	2%
Personal insurance premiums.	2%
Purchase and sale of goods and services from superior education institutions, their foundations, the Nacional Provosts Council (“CONARE” by its initials in Spanish) and the National System of Superior Education certification (“SINAES” by its initials in Spanish)	2%
Sale or imports of goods that are cover in the basic food basket, for tax purposes.	1%
Raw materials and inputs of the following products: wheat, bean, soybean, fruit and almond, corn.	1%
Veterinary products, agricultural and fishing inputs.	1%

Overview of the Tax System

Tax Credits

The tax payer has the right to use as a tax credit the VAT paid for the purchases of goods and services that are used for the purpose of their taxed transactions. However, it is important to mention that there are some exceptions to this rule, such as sales to the State or to private entities that has an exemption due to a special law, which otherwise the transaction would be taxed, or exports.

Transfer tax and real estate tax

The real estate tax corresponds to 0.25% of the value of the property (considering the land and buildings) registered by the Tax Administration from January 1 of the corresponding year. The fiscal year is annual, from January 1 to December 31 and the tax payment must be done annually, six-month basis or in four quarterly tranches, as it is determined by the Local Government. The taxpayer must declare, at least every five years, the value of their property to the Local Government where they are located.

Regarding the transfer of real estate tax, the tax rate is a 1.5% of the highest value among the following: real value of the transaction, value of the property accounted for in the records of the tax administration, and the market value. The transmitters and the acquirers are jointly liable in the tax payment. In this sense, the tax must be paid within the month following the date of granting of the respective document.

Other taxes

Local government taxes

Natural or legal persons that carry out commercial activities must pay a tax to the Local Government for the development of lucrative activities in their corresponding canton. Each Municipality has its own particularities regarding the collection and payment of the tax. Additionally, the Municipalities charge fees for the municipal services provided in the Canton such as garbage collection, public lighting, security, among others. In general, these charges are similar between the Local Movements and it is common for the payment to be made quarterly.

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Other tax compliance regulations

Transfer pricing

Currently, transfer pricing issues in Costa Rica are governed by article 81 bis of the Income Tax Law No. 9635 and its Regulations, specifically in "Title V, Related Parties Transactions", which became effective on July 1, 2019. It is important to mention that prior to the aforementioned law, the issue of transfer pricing was governed by Decree No. 37898-H, published on September 13, 2013.

Likewise, Article 68 refers to the definition of related parties for purposes of the Income Tax law:

> *"Related parties are those established in Article 2 of the Income Tax Law and also those residents abroad or in the national territory, who participate directly or indirectly in the management, control or share capital of the taxpayer, or when they the same persons participate directly or indirectly in the management, control or share capital of both parties, or that for some other objective cause they can exert a systematic influence on their decisions about the price."*

Additionally, one of the main changes was the extension of the definition of related parties to include residents of jurisdictions whose income and profit tax is 18% or less, in addition to residents of jurisdictions without an active agreement for Information exchange with Costa Rica.

Finally, the Regulation adds the issue of the informative transfer pricing statement, which indicates that all taxpayers who carry out national or cross-border operations with related parties that exceed the thousand base salaries of the corresponding year individually or jointly (approx. CRC 446.200.000 / USD 745.000 for fiscal period 2019) will be required to submit the informative transfer pricing statement.

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Transfer pricing report

Transfer pricing report must be submitted by companies that carry out transactions with related parties, as established in article 64 of the Regulations of the Income Tax Law. There are no thresholds for company income or materiality of operations and the following should be included:

- Description of the local entity (administration and strategy)
- Description of controlled transactions
- Functional analysis (assets, functions and risks assumed by the local company to carry out the main business activity)
- Selection of the best method to analyze the controlled transaction
- Economic analysis
- Financial information of the local company of the fiscal period under analysis

Transfer pricing report is presented only at the request of the Tax Administration.

Statement

All taxpayers who carry out national or cross-border operations with related parties that jointly exceed one thousand base salaries for the corresponding year (approx. CRC 446.200.000 / USD 745,000 for the fiscal period 2019) are required to submit the informative transfer pricing statement. The regulation does not change the obligation to present the statement for large taxpayers, large territorial companies and free zone companies and does not set a deadline for the presentation of the informative transfer pricing statement.

Master File

The Master File is governed by the regulations DGT-R-16-2017 of March 30, 2017, and this regulation defines in Article 2 that the following information must be submitted to the Tax Administration:

- Organizational structure of the Multinational Group.
- Description of the Multinational Group's business.
- Development, improvement, maintenance, protection and exploitation of intangibles.
- Intercompany financial operations.
- Fiscal and financial position.

The DGT-R-16-2017 regulation that governs the Master File is attached to what is indicated in the BEPS guidelines of the OECD. Likewise, there is no specific filing date and it is presented only at the request of the Tax Administration.

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Country-by-country

The Country by Country is governed by the regulations DGT-R-001-2018 of January 11, 2018. The Country by Country must be presented by entities whose gross and aggregate gross income is equal to or greater than 750 million euros or its equivalent in national currency, in the reportable tax period and the data that must be recorded include: overview of distribution of income, taxes and economic activities by tax jurisdiction, list of all the entities that are part of the multinational group, among other details necessary for a better understanding of the information provided. The document must be submitted on the last business day of December with the information corresponding to the previous fiscal period.

Tax audit

The statute of limitation that the Tax Administration has to audit a tax payer fiscal year is of 4 years. However, this term can be extended to 10 years if the tax payer is not registered with the Tax Administration, has not filed any corresponding tax returns, or the tax returns have been declared fraudulent.

Moreover, through the Regulations to the Objective Criteria of Selection of Taxpayers for Tax Audit (Executive decree 25925), a list of criteria with which the tax administration can choose a tax payer for an audit is established. The criteria include, for example: if the company is considered a "Large National Taxpayer or Large Territorial Company", non-compliance with tax obligations such as the filing of tax returns or being part of some sectors or economic branches.

Tax Information Exchange Agreements and Double Taxation Treaties

Costa Rica has a total of 16 Tax Information Exchange agreements in force, with the following countries: Argentina, Australia, Canada, South Korea, Denmark, Ecuador, United States of America, Finland, France, Greenland, Italy, Mexico, Norway, Netherlands, South Africa and Guernsey. Furthermore, there are two agreements that are in exchange of notes, corresponding to Island and Faroe Islands, and another agreement with the United States of America is pending of legislative ratification. In addition, Costa Rica has two multilateral agreements for the exchange of information, which are the Convention on Mutual Assistance in Central America and Convention on Mutual Administrative Assistance in Tax.

Regarding Double Taxation Treaties, Costa Rica has three agreements in force, agreed with Germany, Spain and Mexico. Besides, there are in process of ratification a double taxation treaty with United Arab Emirates and the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion AND Profit Shifting.

Overview of the Tax System

Available Tax Incentives and Special Areas of Business

Costa Rica is a country that since the previous century opted for its inclusion in the global market of goods and services, through the attraction of foreign direct investment (FDI). One of the main instruments to achieve this objective has been the tax incentives and benefits systems, which have allowed an improvement of the national economy, and have considerably influenced in the development of the country.

The main tax incentive systems are the following:

Free Trade Zone System

Currently, 467 companies operate under the Free Trade Zone System (FTZ), and they represent almost 50% of total exports of goods from Costa Rica, and about 40% of service exports. Regarding the location within the national territory, the FTZ has the particularity that it is not concentrated in a specific area of the country, but as long as the companies meet the investment and activity requirements, they will be able to obtain the System's tax incentives.

However, there are Free Trade Zone Parks, in which several FTZ companies operate, and that when installed within any of these, the investment requirements are considerably reduced. In terms of investment, it will depend on the location of the projects, as described below:

Location		Minimum Investment
Within the Great Metropolitan Area (GAM)	Within a Park	USD 150,000
	Outside a Park	USD 2,000,000
Outside the GAM	Within a Park	USD 100,000
	Outside a Park	USD 500,000
Megaprojects	USD 10,000,000 in depreciable fixed assets subject to an investment plan of 8 years.	

The amounts mentioned refer to fixed assets necessary for the operations under the System, and which are acquired after the submission of the application to operate under the FTZ.

Overview of the Tax System

Regarding the activities that can be carried out under the FTZ we can mention the following: Commercial export companies, Industries and services companies, Park management companies: these are the companies that develop infrastructure projects, within which several FTZ companies can operate, Companies or entities that are dedicated to scientific research, Companies that operate shipyards and dry or floating docks, Processing industries that export or not.

As part of Costa Rica's efforts to enter the Organization for Economic Cooperation and Development (OECD), a reform of the Law of on the Free Trade Zone System regarding the category of services companies was recently carried out, which includes that the Government is currently preparing a strategic eligibility index, in which the activities that may be carried out under the System within the category of services industries should be established.

With regards to FTZ benefits for manufacturing companies, these must operate under one (or more) of the strategic development sectors defined by the Government or be installed outside the Great Metropolitan Area. The strategic sectors are the following: Advanced electronics, Advanced electrical components, Devices, equipment, implants and medical supplies, Automotive, High precision machined parts and components, Aerospace and aeronautics, Pharmaceutical and biotechnology industry, Renewable energies, Automation and Sensitive manufacturing systems, advanced materials.

Finally, companies that decide to operate under the FTZ will enjoy the following tax benefits:

- Tax exemption on the import of machinery and equipment required for the operations under the System.
- Exemption of the General Sales Tax on and Excise Tax, which levy the goods and services that are acquired in the local market.
- Exemption of the Withholding Tax on the Remittances Abroad.
- Exemption of municipal taxes and license tax for a period of ten years.
- Exemption of taxes on capital and net assets, Territorial Tax and Real Estate Transfer Tax.

Overview of the Tax System

In the case of the Income Tax, the benefit has terms and percentages, as described below:

Concept	Exemption	Term
Within the GAM	100% 50%	First 8 years Second 4 years
Outside the GAM	100% 50%	First 12 years Second 6 years

However, in the case of manufacturing companies, the conditions are specific, as they are determined with the following considerations:

Concept	Exemption	Term
Within the GAM	6% 15%	First 8 years Second 4 years
Outside the GAM	0% 5% 15%	First 6 years Second 6 years Third 6 years
	Megaprojects	
Within the GAM	0% 15%	First 8 years Second 4 years
Outside the GAM	0% 15%	First 12 years Second 6 years

Inward processing relief system

The Inward Processing Relief System (IPRS), is a system that allows companies to enter raw materials and other goods that are directly incorporated into a final product, without paying taxes on importation. To benefit of this System, companies must subject the goods or products to processes of: Transformation, Repair, Reconstruction, and Incorporation of goods in sets to machinery, transport equipment or more complex devices.

Duty drawback system

The third special system in Costa Rica is the duty drawback, which allows companies to obtain a reimbursement from the treasury of import taxes and duties, especially when companies import supplies, packages or packaging used to incorporate them into products that will be exported.

Accounting Regulations

Accounting Regulations

Applicable regulations

On August 31st 2001, the CCPA (Association of Certified Public Accountants of Costa Rica), adopted as generally accepted accounting principles and fully the International Accounting Standards (IAS), today known as International Financial Reporting Standards (IFRS); which were ratified as accounting principles for the preparation and presentation of financial statements on December 11, 2014 by said Institute. Similarly, on September 30, 2009, the International Financial Reporting Standard for Small and Medium-sized Entities called IFRS for SMEs was adopted.

In the reform of September 2012, it was included in the Tax Code of Rules and Procedures (hereinafter CNPT), the obligations of individuals to keep accounts in accordance with the International Financial Reporting Standards adopted by the Association, provided that these do not imply modifications to the tax laws, and in case of conflict between both standards (accounting vs. tax) for tax purposes; tax rules will prevail.

On September 6, 2001, Resolution No. 52-01 is issued by the General Directorate of Taxation, which establishes the interpretative criteria regarding the effect on income tax, in the application of the International Standards of Accounting adopted by the Institute of Chartered Public Accountants of Costa Rica. Subsequently, on June 15, 2018, the General Directorate of Taxation under the update of accounting regulations, issued resolution DGT-R-029-2018 in which the criteria for interpretation between accounting standards (IFRS) and tax regulations are established.

Accepted variations between financial and fiscal Statements

The preparation of financial statements in Costa Rica is based on IFRS, which represents differences between some tax treatments according to the Income Tax Law (Law 7092); with which article 86 of the Regulations to the Income Tax Law (Executive Decree 41818-H and its reforms), in order to obtain the tax base for the period according to the financial statements, taxpayers must prepare a conciliation, in which the net income is subtracted the total non-taxable income and the non-deductible expenses will be added; for such adjustments, the tax rule allows the provisions of International Accounting Standard No.12 regarding Deferred Income Tax.

Accounting Regulations

Requirement of audited financial statements

The General Directorate of Taxation, established through resolutions DGT-R-46-2014 and DGT-R-026-2015, in accordance with the powers provided by Article 104 of the Tax Code of Rules and Procedures, provided information of tax importance is required, the obligation to present financial statements for the taxpayers, regardless of the regime to which they belong, classified as “Large National Taxpayers or Large Territorial Companies”. Said obligation is established when the General Directorate of Taxation makes the request.

The presentation of the audited financial statements will be within a maximum period of three months following the request made by the General Directorate of Taxation, and a grace period for another equal term, upon duly justifying the request for additional time.

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Financial System

Financial System

Generalities

In Costa Rica, the supervision of the financial system is in four Superintendence that are bodies of the Central Bank of Costa Rica. However, the superintendence is under the direction of the National Council for Supervision of the Financial System (CONASSIF, by its initials in Spanish) which are:

- Superintendence for Pensions (SUPEN, by its initials in Spanish): responsible for the supervision of all pension operators.
- General Superintendence of Financial Entities (SUGEF, by its initials in Spanish): in charge of the supervision of financial entities, banks, cooperatives and other entities that carry out financial intermediation activities.
- General Superintendence of Insurance (SUGESE, by its initials in Spanish): supervises insurance marketing entities.
- General Superintendence of Securities (SUGEVAL, by its initials in Spanish): it is in charge of the entities that make stock market intermediation and other participants of this market.

Requirements for the operation of financial and banking entities.

In general, through the Agreement SUGEF-8-08 named as “Regulation on authorizations of entities supervised by SUGEF and on authorizations and operation of financial groups and conglomerates” are established the requirements and procedures for the operation of financial groups and conglomerates. Some constitution and operation requirements that can be mention are:

- Express authorization of SUGEF.
- The entity must be incorporated as a corporation.
- The minimum operating capital of a private bank is ₡ 16,348.00 million.
- Documentation related to the entity's partners (natural or legal persons)
- Documentation of the business project that the entity aims to carry out (financial information and financial projections, organization and administration and control systems, activities to be outsourced, operations start-up plan, among others).
- Regarding operational aspects, financial institutions must have external audits, comply with the minimum level of legal reserve (12% in deposits in colones and 15% in dollars, updated as of September 2019), payment of para-fiscal charge for the financing of the Superintendence, among others.

Financial System

Conditions for currency management

In accordance with article 86 of the Organic Law of the Central Bank of Costa Rica, the negotiation of currencies in the national territory is carried out through the Central Bank, the entities supervised by the Superintendence and other entities that are authorized by the Central Bank of Costa Rica Board of Directors. Some conditions for the management of foreign exchange are that the authorized entity participates at its own risk and exclusively as an intermediary between buyers and sellers, all information related to exchange transactions are available to the disposal of the Central Bank, and the entity must be subject to the different regulations issued by the Board of Directors of the Central Bank and SUGEF supervision.

Credit availability

The Costa Rican financial system has enough resources through which the population can access to favorable lending conditions. In this regard, it is worth mentioning that in this year the Central Bank of Costa Rica has taken measures in order to increase the liquidity of the financial system, as it has been the reduction of the minimum level of legal reserve to banking entities in order to increase the availability of credit and reduce interest rates.

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