



**TAXES IN
IMPUESTOS EN AMERICA**

2021

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Costa Rica

-  **Capital city:**
San José
-  **Aera:**
51,100 km²
-  **Population:**
5,047,560
-  **Language:**
Spanish
-  **Political system:**
Presidential republic
-  **GDP/capita 2019:**
USD 12,243
-  **Currency:**
Cost Rican Colon (CRC)
-  **ISO Code:**
CRI
-  **Telephone code:**
+506
-  **National day:**
15 September



According to the political constitution of the Republic of Costa Rica, the tax laws and municipal laws provide the main taxes that govern our country:
Only the Legislative Power, through a Law, imposes taxes and contributions.

1. National Taxes

The National Taxes that are in force include the following:

1.1 National Taxes

- Tax on Profits;
- Sales Tax;
- Furniture and real estate Capital Income.

1.2 Municipal taxes

The national territory is divided into Provinces, and each province into Municipalities which enjoy their own autonomy.

Each municipality has the power to set taxes and provincial contributions to cover their expenses. Of these, the following should be the main ones:

- Territorial Tax;
- Patent tax.

The main characteristics of the Taxes are described below:

2. Tax on Profits

2.1 Basis of Income Tax in Costa Rica

The tax system in Costa Rica is based on the principle of territoriality, that is to say, income in cash or in kind, continuous or occasional, coming from any Costa Rican source will be subject to tax payment; it shall be understood as income,

income or benefits from a Costa Rican source, those from services rendered, situated goods, or capital used in the national territory, obtained during the fiscal period in accordance with the legal provisions.

2.2 Taxpayers

They will be taxpayers of income tax, regardless of nationality, domicile and place of incorporation of legal persons or of the meeting of their boards of directors or the conclusion of contracts, all those public or private companies that carry out activities or lucrative businesses in the country; are not subject to Income Tax, the Costa Rican State, municipalities, autonomous and semiautonomous institutions of the state that by special law enjoy exemption, state universities, political parties, religious institutions, companies under the Free Trade Zone Regime, trade union organizations, foundations, associations declared of public utility by the Executive Power, cooperatives, sympathetic associations, national teacher organizations and civil associations that aggregate small or medium agricultural producers of goods and services whose purpose is to of technical assistance.

2.3 Fiscal period

For purposes of establishing the tax period is one year, counted from the 1 January to 31 December of each year.

2.4 Determination of the tax base

Gross Income

The gross income all the income or benefits received in the tax period by the taxpayer, by virtue of the economic activities carried out. Likewise, part of the gross income is any increase in equity that does not have its justification in duly registered and declared income, as of the following fiscal period.

Gross Income exclusions

The following are not part of the gross income:

- Contributions of social capital in cash or in kind;
- Revaluations of fixed assets;
- Profits, dividends, social participations, and any other form of distribution of benefits;
- Income generated by virtue of contracts, agreements or negotiations on goods or capital located abroad;
- Revenues generated by virtue of contracts, agreements or negotiations on goods or capital located abroad, even if they were fully and partially

- executed in the country;
- Capital gains obtained by virtue of transfers of chattels and real estate, in any capacity, provided that the income of those assets does not constitute a habitual activity, in which case it must be taxed in accordance with the general norms of the law;
- For fiscal effects that taxes the income received or made available to individuals domiciled in the country, income will not be considered for this tax, inheritances, legacies and community property;
- Prizes of national lotteries;
- Donations.

Deductible expenses

The following are deductible from gross income:

- Cost of goods and services sold, such as the acquisition of goods and services that are the object of the company's activity; raw materials, components, spare parts and services to produce the goods and services sold.
- Salaries, bonuses, salaries, bonuses, gratuities, royalties, bonuses, gifts and any other remuneration for personal services actually provided.
- Taxes and fees that affect the goods, services and negotiations of the company's habitual line of business, or the activities carried out by natural persons.
- Insurance premiums against fire, theft, larceny, earthquake or other risks, contracted with the National Insurance Institute or with other authorized insurance institutions.
- Interest and other financial expenses, paid or incurred by the taxpayer during the fiscal year.
- Deductions for this concept will be subject to the limitations established in the following paragraphs:
 - Interest and other financial expenses paid in favor of partners of limited liability companies will not be deductible, considering them to be equivalent to dividends or social participations;
 - Part of the interest attributable to the fact that a rate exceeding the usual market rates has been agreed will not be deductible;
 - Interest will not be deductible when the tax corresponding to them has not been withheld;
 - When the amount of the interest that the taxpayer intends to deduct is greater than 50% of the liquid income, the taxpayer must elaborate additional information so that said deduction has a legal basis;
 - Debts that are manifestly uncollectible, provided that they originate in

operations of the usual business line, and that legal procedures for their recovery have been exhausted.

- Depreciation to compensate for the wear, deterioration or economic, functional or technological obsolescence of the tangible goods producing taxable income. The value of the patent of invention owned by the taxpayer may be amortized based on the time of its validity.
- When an industrial company obtains losses in a fiscal period, these will be accepted as a deduction in the following three periods. In the case of agricultural companies, this deduction may be made in the following five periods.
- The proportional part for the depletion of exploitable assets from non-renewable natural resources, including the expenses incurred to obtain the concession, when applicable.
- The employer's fees established in the laws.
- Remuneration, salaries, commissions, fees or allowances paid or credited to members of boards of directors, boards or other governing bodies acting abroad.
- Payments or credits granted to persons not domiciled in the country for technical, financial or other advice, as well as for the use of patents, supply of formulas, trademarks, privileges, franchises, royalties and the like. When the mentioned payments or credits are in favor of parent companies of subsidiaries, branches, agencies or permanent establishments located in the country, total deduction for the aforementioned concepts may not exceed 10% of gross sales obtained during the corresponding fiscal period. To do this, tax withholdings must have been made.
- Payments or credits granted to persons not domiciled in the country for the supply of news, production, distribution, intermediation or any other form of negotiation in the country, of cinematographic films and for television, videotape, radio soap operas, phonograph records, comic strips, photo novels, and all other similar means of projection, transmission or diffusion of images or sounds.
- Representation expenses and similar expenses incurred inside or outside the country, travel expenses that are allocated or paid to owners, partners, members of boards or other governing bodies or to taxpayers' officers or employees, provided that deductions for these concepts do not represent more than 1% of the declared gross income. Organizational expenses of companies, which may be deducted in the fiscal period in which they are paid or credited, or, if they are accumulated, in five consecutive fiscal periods, starting from the date of their productive activity, until the balance.
- Compensation, benefits and pensions, limited its amount to triple the minimum established in the Labor Code.
- Advertising and promotion expenses.
- Transportation and communications expenses, salaries, fees and any

other remuneration paid to persons not domiciled in the country.

- Donations duly verified that have been delivered, during the respective tax period, to the State, to its autonomous and semi-autonomous institutions, to the municipal corporations, to state universities, to the Social Protection Boards, to the Boards of Education, to state educational institutions, the Costa Rican Red Cross and other institutions, such as associations or foundations for social, scientific or cultural works.
- Losses for destruction of property, due to fire, crimes against the company, duly verified and in the part not covered by insurance.
- Professionals or technicians who provide their services without having a dependency relationship with their clients, as well as sales agents, commission agents and insurance agents, may deduct the necessary expenses to produce their taxable income in accordance with the general rules, or, they may benefit from a single deduction, without the need for any proof, of 25% of the gross income of the activity or of the accrued commissions, as the case may be.

The Tax Administration will accept all the deductions considered in this article, except for the one related to donations, provided that, together, the following requirements are met:

- That are necessary expenses to obtain income, current or potential, taxed by this Law.
- That the obligation to retain and pay the tax established in other provisions of this Law has been complied with.
- That the supporting vouchers are duly authorized by the Tax Administration. It will be in the judgment of this except special cases, which will be indicated in the Regulations of this Law.

Non-deductible expenses

The following are not deductible from gross income:

- The value of permanent upgrades made to assets and buildings and, in general, of all those capitalizing expenditures, including investments.
- Costs or expenses that have not originated in the business, activity or operation that give rise to taxable income, as well as similar expenditures linked to taxable income not supported by the corresponding documentation or that do not refer to the fiscal period that is liquidated.
- Taxes on income, and on sales, the excise tax and specific consumption taxes and the special rates that are established thereon, when natural or legal persons are taxpayers of such taxes, as well as taxes surcharges, fines and interest paid on any tax or payment facilities granted on tax debts.

- Profits, social participations or dividends, paid or credited to partners, shareholders, owners of companies or individuals who are taxed in accordance with this law.
- Expenses and taxes caused abroad, except as expressly authorized by this law.
- Expenses in luxury investments or personal recreation. When these investments are confused with lucrative activities, separate accounts must be kept to determine the results of one or another kind of operations, so that those that refer to these latter activities can be deducted.
- What is paid for the purchase of key rights, trademarks, factory or trade, manufacturing procedures, intellectual property rights, formulas of other similar intangible assets, as well as what is paid for indemnities.
- Withholdings, payments on account and partial payments made in accordance with this law.
- The following are not deductible from gross income:
 - Remuneration not subject to the quotation regime of the Costa Rican Social Security Fund;
 - Gifts and royalties or donations made to the members or related relatives or consanguineous relatives;
 - Subsistence expenses of the taxpayer and his family;
 - Capital interests and obligations or loans that individual limited liability companies and individual entrepreneurs assign themselves, their spouses, their children and their relatives, up to the third degree of consanguinity.
- Losses of capital produced by virtue of transfers, in any capacity, of chattels or real estate.
- Any other expense that is not linked to obtaining taxable income.

2.5 Net presumptive income of companies not domiciled in Costa Rica

It is presumed, unless proven otherwise, that the minimum annual net income of branches, agencies, and other permanent establishments operating in the country, of persons not domiciled in Costa Rica engaging in the activities mentioned below, is stated in each case:

Transport and communications	15%
Reinsurance	10%
Cinematographic films and similar	30%
International News	30%

2.6 Rate applied to Income Tax

Taxes will be applied to the tax rates that are established below.

- Legal persons: 30%

According to the following table:

GROSS INCOME* (fiscal year 2020)	Rate (%) (October 2019 to December 2020)
On the excess of CRC 5.143.000	5
On the excess of CRC 5.143.000 to CRC 7.715.000	10
On the excess of CRC 7.715.000 to CRC 10.286.000	15
Over CRC 10.286.000	20
When the Gross Income exceeds CRC 109.032.000 the rate must apply will be 30% of the profit	

- Individuals with lucrative activities will be subject to the following scale of rates on taxable income:

2020 Amount of liquid income *	RATE (%) (October 2019 to December 2020)
Up to CRC 3.732.000	Not subject to the tax
On the excess of CRC 3.732.000 to CRC 5.573.000	10
On the excess of CRC 5.573.000 to CRC 9.296.000	15
On the excess of CRC 9.296.000 to CRC 18.613.000	20
On the excess of CRC 18.613.000	25

- Single tax on income received for personal or remunerated work for personal services:

2020 Amount of liquid income *	RATE October 2019 to December 2020 (%)
Up to CRC 840.000	Not subject to the tax
On the excess of CRC 840.000 to CRC 1.233.000	10
On the excess of CRC 1.233.000 to CRC 2.163.000	15
On the excess of CRC 2.163.000 to CRC 4.325.000	20
On the excess of CRC 4.325.000	25

2.7 Classification in the taxed entities

For income tax purposes, companies are classified as capital companies and as partnerships. They are capital companies, anonymous companies, limited partnerships for shares and limited liability companies; they are companies of individuals, simple limited partnerships, collective companies and professional

activity companies, and all others whose capital is not represented by shares, except those mentioned as capital companies.

2.8 Retention at the source

All public or private companies, subject or not to the payment of this tax, including the State, the banks of the National Banking System, the National Institute of Insurance and the other autonomous or semi-autonomous institutions, the municipalities and the associations and institutions referred to in Article 3 of this Law is obligated to act as a withholding agent or tax collection agent, when paying or crediting income subject to the tax established in this Law. For these purposes, the aforementioned subjects must retain and inform the Treasury, on behalf of the beneficiaries of the rents that are mentioned below, which amounts are indicated for each:

Source	Withholding Tax (%)
Salaries and any other remuneration paid on the occasion of personal work performed in relation to dependence.	As determined by the established ranges on said income.
Diets, whether or not they come from a dependent employment relationship, bonuses and other benefits for personal services, on the occasion of work in a dependent relationship, if such income is from persons domiciled in the country.	15
Issuers, paying agents, corporations and other public or private entities that, in order to capture resources from the financial market, pay or credit interest or grant discounts on promissory notes and all kinds of securities, to persons domiciled in Costa Rica	15
Securities registered in a Stock Exchange or issued by entities registered in the General Superintendence of Financial Entities.	8
Surpluses paid by cooperatives and sympathetic associations and similar	5
Remittances or credits in favor of beneficiaries domiciled abroad	
Transportation, communications, reinsurance, cinematographic films, international news and the others, applies only in cases where companies have a representative in the country. Otherwise, other withholdings apply.	3 for companies that have a representative in the country.
For those that have no representative in the country, the withholdings range from 5.5% to 20%.	2
The State or its institutions, autonomous or semi-autonomous, municipalities, public companies and other public entities, in cases of public or private tenders, contracts, business or other operations performed by them, that pay or credit income to natural or legal persons with address in the country.	2
In the case of persons not domiciled in the country that obtain income from a Costa Rican source, for the provision of personal services of any nature.	15

2.9 Rates for remittances abroad

Taxpayers of this tax are natural or legal persons domiciled abroad receiving income or benefits from a Costa Rican source, according to the following detail:

Item	Tax Rate (%)
For transportation and communications	8.5
For pensions, retirements, salaries and any other remuneration paid for personal work performed in a dependent relationship.	10
For fees, commissions, allowances and other benefits of personal services executed without a dependency relationship.	15
For reinsurance, re-consolidation and insurance premiums of any kind	5.5
For the use of cinematographic films, films for television, recordings, phonograph records, comic strips and, in general, any means of diffusing similar images or sounds, as well as for the use of international news	20
By radio soap operas and TV soap operas	50
For profits, dividends or social participation.	5
Not sure you need about legal interests	15
Leasing by commercial activities	15
Technical-financial or other advice, as well as payments related to the use of patents, formula supplies, trademarks, privileges, franchises and royalties	25
For any remittance of income from a Costa Rican source not contemplated in the previous concepts	30

3. Sales tax

As of July 2019, the Value Added Tax was established with 13% (except for some differences), whose application base covers the professional services sector and other transfer of goods.

For the purposes of this law, sale means:

- The transfer of the merchandise domain;
- The import or internment of merchandise in the national territory;
- The consignment sale, the merchandise section, as well as the leasing of goods with purchase option;
- The withdrawal of goods for personal use or consumption by the taxpayer;
- The provision of the services referred to in the previous article;
- Any act that involves or has as final purpose the transfer of the merchandise domain, regardless of its legal nature and designation, as well as the conditions agreed by the parties.

The event generating the tax occurs:

- During the sale of merchandise, at the time of billing or delivering them, in the act that takes place first;
- During the import or internment of merchandise at the time of acceptance of the policy or the customs form, as appropriate;
- In the provision of services, at the moment of billing or providing a service (except professionals);
- In the use or consumption of merchandise by taxpayers, on the date when they are withdrawn from the company;
- In consignment sales and items of merchandise, at the time the merchandise is set aside, as the case may be.

4. Real estate tax

4.1 Territorial Tax

Taxes on the transfer of real estate property in Costa Rica of 0.25% on the registered value of the property.

This means that your luxury home worth USD 250,000, it will pay USD 625 per year in property taxes.

It is important to note that Costa Rica's property tax law requires homeowners to file a declaration (Declaration of Real Estate) with the municipal government declaring the value of the home every five years.

The property transfer tax (Transfer Tax) is 1.5% of the value indicated in the act of the transfer or the registered value of the property tax, whichever is higher and will apply when the title of a property is transferred from the seller to the buyer.

4.2 Tax on patent

It corresponds to 0.5% of the sales made in each municipality.

5. Social Security and obligations of companies

Given the social security scheme, any company that carries out operations in Costa Rica must also contribute with the corresponding taxes, with social security which consists of a percentage of the wages paid to their workers according to the following table:

Item	%	Basis for Calculation
Contribution to the Costa Rican Social Security Fund	14.50	Paid salaries
National Insurance Institute	1.5	Paid salaries
Centralized Collection System of the CCSS-Sicere	3 - for Labor Capitalization Fund.	Paid salaries
Other institutions	7.25	Paid salaries
Bonus	8.33	Wages earned during the year or fraction. One month per year worked or fraction.
Holidays	4.33	On average, each worker is recognized fifteen days for each year worked.

The worker makes a contribution to social security of 9% of his monthly wage.

6. Foreign Investment

Through Law 6990, the Tourism Incentive Act, Costa Rica established the regulations applicable to promote tourism investment and, in turn, the incentives to which investors intervening in said economic sector have access.

Companies qualified to obtain the benefits of this law may be granted, in whole or in part, the following incentives in accordance with the activity in which they are classified:

Hotel services

- Exemption from all taxes and surcharges applied to the import or local purchase of the indispensable articles for the operation or establishment of new companies or those that, when established, offer new services, as well as for the construction, expansion or remodeling of the respective building, with the exception of motor vehicles and fuels.
- Accelerated depreciation of assets that due to their use and nature are extinguished more quickly, in accordance with the Law on Income Tax.
- Granting of municipal patents required by companies for the development of their activities. The municipalities will grant these patents within a maximum period of thirty calendar days after the presentation of the application and will collect the corresponding tax. Patents cannot be granted for games rooms prohibited by other laws.
- Authorization of the Central Bank of Costa Rica for Costa Rican hotel companies dedicated to the care of international tourism, to be hired as auxiliary funds of that institution for the purchase of foreign currency for foreign tourists. Transactions will be carried out in the name and on behalf of the Central Bank of Costa Rica, which will state, in the respective agreement, the terms and conditions in which the hotels will transfer the currency they receive through this activity.
- Exemption from the territorial tax, up to a period of six years from signing the contract, to those establishments outside the metropolitan region established by the Ministry of Planning.

International and national air transport of tourists:

Only companies that transport tourists on international routes and itinerary flights within the national territory are classified in this section.

Incentives:

- Accelerated depreciation, in accordance with the Law on Income Tax;
- Supply of fuel at a competitive price not higher than the average established in the international market;
- Exemption of all taxes and surcharges for the import or local purchase of the necessary spare parts for the correct operation of the aircraft.

Tourist water transport

- Exemption from all taxes and surcharges applied to the import or local purchase of essential goods for the construction, expansion or remodeling

ling of docks and other places destined for the embark or disembark of tourists, as well as for the construction and maintenance of marinas, spas and aquariums destined to the attention of tourism, provided that the goods to be imported are not manufactured in the territory of the signatory countries of the Central American Tariff and Customs Regime, under competitive conditions of price, quantity, quality and opportunity, according to the Ministry of Economy, Industry and Commerce;

- Accelerated depreciation, in accordance with the Law on Income Tax;
- Exemption from all taxes and surcharges, except for import duties whose tariff is set at 20%, on the import or local purchase of watercraft destined exclusively for the tourist transportation of passengers, for that adequate facilities should be available for mooring, boarding and disembarking passengers.
- The activities of tourist coasting in any of its forms, from port to Costa Rican port, will be exclusively reserved for yachts, tourist cruises and similar boats, of national flag;
- Classification of the vessels, their characteristics and verification requirements on the use and destination of the exempted goods, will be determined by Executive Decree.

Receptive tourism of travel agencies that exclusively dedicate themselves to this activity:

- Exoneration of all taxes and surcharges, except for customs duties for the import of vehicles for collective transportation with a minimum capacity of 15 persons. If the ad valorem tax rate exceeds 5%, the tax obligation corresponding to said tariff surplus.

Leasing of vehicles to foreign and national tourists:

- 50% of the total amount resulting from applying the taxes in force that affect the import of motor vehicles destined exclusively to lease them to tourists;
- Vehicles exempt by this Law must be renewed every three years at the most;
- Tariffs and the service will be regulated by the Costa Rican Institute of Tourism.

Jorge Castillo

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