



Doing Business Costa Rica 2026





Preface

Welcome to the edition 2026 of the Doing Business Guide in Costa Rica, an annual publication prepared by PwC Interamericas. The purpose of this publication is to provide the investors a high-level overview of Central America and the Dominican Republic.

Certainly, like every country, there are challenges, many of which are being addressed as the Government seeks to simplify regulatory framework, market-friendly policies, and improve the overall ease of doing business.

This guide only provides an overview of existing opportunities. Credible advice is at the heart of decision-making, so this information should lead to a

more detailed and personalized analysis of the local markets, economic environment, political climate and legislative processes that suit your type of investment. If you need more information, the PwC Interamericas team will be delighted to assist you on an individual basis and walk with you on this journey to explore the opportunities for investments in this territory.

Costa Rica

In many ways, the culture of Costa Rica reflects its ethnic diversity with a predominant European and North American influence, along with some Creole and indigenous affinity traits.



Costa Rica was discovered by the Spanish around the year 1502 and subsequently became part of the Spanish Empire.

In 1821, Costa Rica gained independence from Spain, and after some attempts to join the rest of Central America in a union called the “Central American Federation,” it declared itself a sovereign and independent republic under the leadership of the first president, José María Castro Madriz, in 1848.

Costa Rica is located in Central America, bordered on the north by Nicaragua, on the south by Panama, on the east by the Caribbean Sea, and on the west by the Pacific Ocean.

Why invest in Costa Rica?

The Government's attitude toward foreign investment:

According to the National Development Plan of the Ministry of National Planning and Economic Policy for the period 2019-2022, Costa Rica aims to attract US \$10.5 billion in direct foreign investment. Foreign investment in Costa Rica is growing more and more due to various factors. Among these, Costa Rica stands out as the country with the oldest and one of the most robust democracies in Latin America, providing strong political stability. Another important aspect that makes the country attractive is its high educational levels. Many multinational companies investing in the country seek a young, bilingual, and talented workforce.

The country has signed free trade agreements with various countries, including Mexico, Canada, Chile, the Dominican Republic, Trinidad and Tobago, Panama, Caribbean countries, China, etc. Additionally, Costa Rica has signed Double Taxation Avoidance Treaties; currently, there are four treaties signed with Spain, Germany, Mexico, and the United Arab Emirates.

Costa Rica became a member of the Organization for Economic Cooperation and Development (OECD) in 2021, becoming the fourth country in the Latin America and Caribbean region to join the OECD. To become an OECD member, Costa Rica had to undergo

various processes to be invited to join the organization. Once a member, the country has been required to meet the highest demanding global standards. This enhances confidence among both domestic and international investors.

Free Trade Zone:

The free trade zone program offers a series of incentives and benefits granted by the Costa Rican government to companies making new investments in the country. This program allows these companies to enjoy attractive tax exemptions on income tax, value-added tax (VAT), taxes on remittances abroad, export and import duties,, etc. To qualify under the Free Trade Zone (FTZ) Program, the applicant must meet various requirements stipulated in the Free Trade Zone Program Law and its regulations.

Digital Nomads:

For individuals providing services outside of Costa Rica, it is also attractive to come and work in Costa Rica. In 2021, Costa Rica enacted Law No. 10008, the "Law to Attract Workers and Remote Providers of International Character Services" or the Digital Nomads Law. As the name suggests, it aims to position Costa Rica as a country for foreign investment. Some of the benefits offered by this law are:

Exemption from profit tax.

- Immigration benefit for up to one year, extendable for an additional year.
- Duty-free import of any equipment necessary for work.
- The driver's license issued in the applicant's home country will be valid in Costa Rica.

To be considered a digital nomad in Costa Rica, the requirements are minimal:

- Be a foreigner coming to work in Costa Rica.
- Demonstrate income exceeding \$3,000 per month, and if traveling with family, a minimum of \$4,000.
- Obtain a health services policy that covers the applicant for the entire duration of the applicant's stay in the country. All family members must also be covered.
- Make a one-time payment for the issuance of a non- resident visa as a Worker or Remote Service Provider.

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Overview of the country



Climate

Costa Rica, due to its geographical location, has a tropical climate that is pleasant and relatively stable, with its main changes being a rainy season and a dry season. It has an average temperature of 22°C, which increases considerably in coastal areas. In San Jose (the capital city), temperatures range from 14°C to 24°C in December and from 17°C to 27°C in May. The Caribbean coast has an average of 21°C at night and around 30°C during the day. The Pacific coast is hotter than the Caribbean, although less humid.

Population, form of government, language, currency:

Area	51,100 km ²
Population (*)	5,044,197 millones (al 19-6-23)
Population growth	1,04% (2023)
Political system	Democratic Republic
Form of government	Republican system with 3 independent branches (legislative, executive and judicial)
Language	Spanish
Currency	Colon (¢)
Administrative division	7 provinces
Religion	Roman Catholic
Capital city	San José
Religion	Católica
Ciudad capital	San José

Source: Banco Mundial e INEC: <http://www.inec.go.cr/sites/default/files/documentos-biblioteca-virtual/recostaricaencifras2018.pdf>

Education

The country has a 97.80% literacy rate. In Costa Rica, preschool, basic general, and diversified education are compulsory, public, free, and funded by the nation.

In state education, including higher education, public expenditure, by constitutional mandate, cannot be less than eight percent (8.00%) of the annual gross domestic product.

The state must provide technological access at all levels of education, as well as the continuation of higher education for those lacking financial resources. The allocation of scholarships and assistance is the responsibility of the Ministry of Public Education.

Many of the country's forefathers, such as the first president, José María Castro, were former teachers who cared deeply about education in Costa Rica. In 1869, the country became one of the pioneers in the world by making primary education free and mandatory, partly financed by the large coffee oligarchy. In those days, only 10.00% of Costa Ricans could read and write. By 1920, 50.00% of the population was educated, and by 1970, 89.00% could read and write.

In the last 20 years, there has been a significant growth in educational standards. Virtually all public schools and secondary schools in the country offer English classes, and one of the major efforts that the Ministry of Education has been undertaking in recent years is to provide students with the opportunity to have more and better tools in the field of technology. This

initiative aims to enable children and young people to develop their skills in handling these tools while they are in the classrooms. The educational program seeks to implement a comprehensive platform that includes the necessary infrastructure for the interconnection of equipment, as well as the ongoing training of teachers.

In Costa Rica, it is possible to find primary and secondary schools in every community. Students do not have to pay to attend school; however, there is a voluntary fee of \$25 per year for registration (approximately).

Primary school has 6 grades or levels, while secondary education has 5 grades or levels. Each is divided into two cycles, and each time students pass a cycle, they must complete tests in all subjects studied during those cycles.

There are also so-called “Technical” or “Vocational Schools,” where students are educated in technical areas that better enable them to enter the job market. Many of these schools are crucial for their connection to foreign investment.

The most notable exams are conducted in secondary school, known as “bachillerato exams.” Starting in 2019, the Ministry of Public Education (MEP) implemented a comprehensive evaluation system called “Fortalecimiento de Aprendizajes para la Renovación de Oportunidades” (FARO) in Primary and Secondary education, which are currently known as Standardized Tests.

Costa Rican education aligns the assessment system with the study programs approved by the Higher Council of Education. It also provides information

about classroom learning processes, identifies areas for improvement for each student and educational institution, and establishes the necessary actions to make corrections.

In Costa Rica, the first University, Santo Tomás, was founded in 1843, but closed in 1888. Later, the University of Costa Rica was established in 1941, and now the country has 5 established state universities and a specific group of private universities whose number has increased in the last decade due to the difficulty of admission to state universities. Additionally, there are numerous opportunities for adults to obtain primary and secondary diplomas, providing them access to higher education. The University of Costa Rica (UCR) is the oldest, state-owned, and most prestigious institution in the country. In the year 2022, it welcomed 46,000 students, the majority of whom study with scholarships. However, even for those paying the full tuition, the amount rarely exceeds \$500 per semester.

The main campus is located in the northeast of San Jose, in the community of San Pedro. The University of Costa Rica (the main national university center) also has regional centers in Alajuela, Turrialba, Puntarenas, and Cartago.

Another important state university is the National University (UNA) in Heredia, which offers a diverse range of programs in liberal arts, sciences, and professional studies. In Cartago, the Costa Rican Institute of Technology (ITCR) specializes in science and technology, aiming to train individuals in areas

such as engineering, systems, agriculture, industry, and mining. The State Distance University, founded in 1977 following the model of the Open University of Great Britain, has 38 regional centers offering 58 university majors in health, education, business administration, engineering, computer science, and liberal arts. As its name suggests, it specializes in long-distance courses and training. In 2008, the Technical National University was founded to address the need for the emergence of quality technical education to provide the scope of a higher university level through effective linkage to the labor market.

On the other hand, in Costa Rica, there is also the INCAE Business School, which has been considered the second-best business school in Latin America according to the QS Global World University Ranking. It is among the top 100 business schools in the world.

Additionally, there are many other private institutions such as the Autonomous University of Central America, EARTH University, and the University for Peace, the latter sponsored by the United Nations, which offers master’s programs in Communications for Peace.

Political and legal system



Legal framework

Costa Rica’s legal and political framework consists of three primary branches: Legislative, Executive and Legal. They are exercised as follows:

	Executive	Legislative	Judicial
Exercised by:	The president and the ministers.	Only Congress.	Supreme Court of Justice.
Comprised of:	The president and the ministers.	57 members of Congress	The Supreme Court of Justice is comprised of 22 magistrates.
Elected or appointed by:	Elected by direct vote every 4 years.	Elected by direct vote every 4 years.	The Magistrates are appointed by Congress for a re-electable period of 8 years.

The Costa Rican legal system is based on Civil Law and is primarily derived from the Napoleonic Code.

According to the latest information from the Supreme Electoral Tribunal, there were 34 different political parties registered at the national level as of the first quarter of 2023. It is worth noting that, for provincial and cantonal purposes, there are also other registered organizations, totaling nearly 130 additional groups.

Presidential elections are held in Costa Rica every four years. The last national elections took place in April 2022, when Mr. Rodrigo Chaves Robles of the Progressive Social Democratic Party was elected as the current President of the Republic.

Since his political campaign, the current president has emphasized the need to combat corruption, address luxury pensions, tackle the fiscal deficit, and enhance the efficiency of the state apparatus.

In the previous administration of President Carlos Alvarado Quesada, there was a perceived urgency for fiscal reform to address the fiscal deficit issue. In December 2018, Law No. 9635, the “Public Finances Strengthening Law,” was enacted. This law introduced a value-added tax, expanding the base of the previous general sales tax.

The law also imposed taxes on income and capital gains, introduced reforms to the public employment program, and implemented a fiscal rule designed to increase the restriction on the growth of current spending as the debt-to-GDP ratio rises.

In the second half of 2023, legislation was approved to exclude Costa Rica from the European Union’s blacklist, on which it was included in March. In this political context, regulatory changes were made that impact considerations related to taxable income, which will be covered in the tax section later on.

The Economy ^{1, 2}



The Central Bank of Costa Rica (BCCR) had reported an economic growth projection for 2023 of 5%, and for 2024, it projects

4.3%

Since 2020, the global economy has been facing the serious effects of the COVID-19 pandemic. And, while still dealing with the consequences of this shock, such as inflationary pressures and disruptions in global supply chains, since February 24, 2022, the world has been facing new political and military shocks generated by the armed conflict between Russia and Ukraine and Israel and Hamas.

Despite this unfavorable external environment, economic recovery continued in Costa Rica in 2022 and 2023. During the first quarter, the GDP showed a year-on-year growth rate of 4.2%.

This is in terms of expenditure components, household consumption, private sector credit, as well as the reduction in unemployment and improvement in available income.

All of this is despite the negative repercussions for growth stemming from the severe deterioration in the terms of trade due to the increase in the prices of imported goods.

Government spending, on the other hand, showed a slow growth rate, combining increased spending on public health to address the COVID-19 pandemic with decreased expenses in public administration and education.

External Demand

In relation to external demand, the growth of exports of goods and services stands out, driven by the sales of manufactured goods under special and definitive programs. This is along with the increased influx of

tourists to the country. The volume of imports has also continued to grow due to the good performance of economic activity it projects 4.3%. and the increase in purchases of supplies (especially hydrocarbons), capital goods, vehicles, and food products, as well as outbound tourism.

Unemployment

Within the context of economic recovery, the labor market also shows improvements, although at a slower pace. As of July 2023, the unemployment rate stood at 9.6%. For the third quarter of 2024, a considerable drop in the unemployment rate was recorded, with the most recent figure being 6.59%.

Balance of Payments

Regarding the balance of payments, during the second semester of 2023, it showed a current account deficit equivalent to 2.6% of GDP, lower than the figures recorded in the year 2022.

Inflation

As in most countries worldwide, in Costa Rica, general inflation and underlying inflation indicators have continued to rise due to strong external pressures.

In October 2023, the year-on-year variation of the Consumer Price Index (CPI) reached 2.24%.

Exchange Rate

Under a managed floating exchange rate program and in line with its Organic Law, the Central Bank acts in

the foreign exchange market for three purposes:

- a) To manage the foreign exchange requirements of the National Public Sector (SPNB).
- b) To limit abrupt movements in the exchange rate but not change the trend of this macro-price (these interventions (are called stabilization operations)
- c) To meet its foreign exchange requirements during reserve expansion programs.

Over the course of 2023, the BCCR has participated in the foreign exchange market primarily to address the first purpose and to a lesser extent, the second. Regarding managing foreign exchange for the SPNB, the BCCR must meet these requirements with its international reserves and replenish them through Foreign Exchange Market (Monex) purchases, depending on the prevailing conditions in the private exchange market.

In 2023, the oil bill increased considerably compared to the previous year. Additionally, there was an increase in the demand for foreign exchange by institutional savers, particularly pension fund operators, who, for portfolio diversification reasons, have increased their holdings of foreign currency assets.

1 BCCR. (2023 Economic Indicators. Available at: <https://www.bccr.fi.cr/seccion-indicadores-economicos/>

1 BCCR (2023). Review of the Macroeconomic Program 2019-2020. Available at: [https://activos.bccr.fi.cr/sitios/bccr/publicaciones/ DocPoliticaMonetariaInflacin/Programa_Macroeconomico_2019-2020.pdf](https://activos.bccr.fi.cr/sitios/bccr/publicaciones/DocPoliticaMonetariaInflacin/Programa_Macroeconomico_2019-2020.pdf)

2 World Bank(2023). Data by country. Available at: <https://datos.bancomundial.org/country/CR>

Doing business in Costa Rica



Costa Rica has distinguished itself throughout its contemporary history with economic, political, and social stability, making it one of the country's most important strengths for successfully attracting foreign investors. Over two decades ago, the Government established a Free Trade Zone Program under Law No. 7210, commonly known as "The Free Trade Zone Law," which has been refined over time. Additionally, fiscal incentives, including substantial tax exemptions of up to 100% for varying periods, are available to companies that meet the requirements related to strategic, investment, and employment sectors stipulated in the law.

Free Trade Zone Treaty and other agreements³

Costa Rica is a member of the World Trade Organization and has various preferential trade agreements. Particularly noteworthy is the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), which Costa Rica approved in 2007.

Costa Rica actively participates in the multilateral trading system and plays a significant role in strengthening the process related to Central American economic integration. According to the official website of the Ministry of Foreign Trade, the country has 16 Free Trade Agreements (FTAs) that govern its trade with 50 trading partners. These partners include 27 European Union countries, Iceland, Liechtenstein, Norway, and Switzerland (EFTA), the United States, Canada, Mexico, Chile, China, Peru, Singapore, etc.

Costa Rica has been internationally acknowledged as the most innovative country in Latin America, as evidenced by the dynamism of its industrial sector. The country's industrial sector is highly competitive, particularly in terms of quality in various diverse subsectors. They include medical devices, jewelry, and personal care products, interior and exterior paints, and metal-mechanics as some of the main sectors in which the country develops. The key industries include e-commerce, home, office, and decor, plastics, electronics, packaging, the Aero-Aerospace cluster, fertilizers and agrochemicals, fashion, wood, metals, industrial services, and construction.

Foreign Investment:

For the year 2022, Costa Rica scored 12.7 according to the Greenfield FDI Performance Index developed by fDi Intelligence, indicating that it attracts 12.7 times more projects than would be suggested by the size of its GDP.

Costa Rica's goods exports grew by 17% compared to the first 9 months of 2022, and in terms of service exports, there was a 22% growth for the same period.

Currently, the country is negotiating the Pacific Alliance, Environmental Goods Agreement (EGA), and Climate Change, Trade, and Sustainability Agreement (ACCTS) treaties.

From January to September 2023, goods exports amounted to 13.633 billion dollars.

Official figures state that the precision and medical equipment sector remains the country's main exporter, with a 34% share.

The agricultural sector remains the second most important, thanks to the good and consistent performance of products such as coffee, cassava, and melon.

The food industry recorded a growth of 4%, the chemical- pharmaceutical sector 17%; electrical and electronic 22%; metal- mechanical 13%; plastic 9%; and livestock and fishing 2%.

So far in 2023, several companies have announced the opening or expansion of operations in the Costa Rican territory: Databricks, OnProcess Technology, Service First, Zimworx, Active Campaign,

Boss Tech, Cigniti Technologies Inc., Headstorm, Hitachi Solutions, Johnson & Johnson (Medtech), Sysdig, Transunion, Intricon, and Zuora Inc. are among the firms that have announced the opening of new locations and the hiring of local talent.

The Monthly Index of Economic Activity (IMAE) shows that special programs maintain double-digit growth rates, while the recovery in the production of companies under the definitive program continues to consolidate.

Although not all companies are located in special programs (free trade zones), they all ensure that the conditions applicable to the national talent and the country made it possible for them to execute their investment plans.

Foreign Investment Incentives

The Costa Rican government has introduced several

³ CINDE. (2019). FAQ. Available at <https://www.ict.go.cr/es/documentos-institucionales/atracci%C3%B3n-de-inversiones/1048-inversiones-en-costa-rica-preguntas-frecuentes/file.html>.

Companies wishing to assemble products in Costa Rica and re-export the finished products to other countries can import all their capital machinery and raw materials, including the parts that will be re-assembled, free of all import taxes.

incentives to encourage foreign investment. The most important incentives are:

The Export Promotion Law, No. 5162, of 1972 encouraged the establishment of assembly plants in Costa Rica.

“Companies wishing to assemble products in Costa Rica and re-export finished products to other markets may import all their capital machinery and raw materials, including parts to be reassembled, free of all import duties. The final product that is re-exported is not subject to any income tax on profits.”

Free Trade Zones are known as Export Processing Zones and regulated by the Free Trade Zone Regime Law.

Companies wishing to assemble products in Costa Rica and re-export the finished products to other countries can import all their capital machinery and raw materials, including the parts that will be re-assembled, free of all import taxes. The final product that is re-exported is not taxed with any income tax on profits.

Free Trade Zones, known as Export Processing Zones and regulated by the Free Trade Zone Regime Law and more recently the Law to Strengthen Territorial Competitiveness to promote the Attraction of Investments Outside the Greater Metropolitan Area (GAM), No. 10234 of May 4, 2022).

It is also important to point out that Costa Rica also offers: Proven track record, skilled workforce, strategic location, excellent business climate, robust infrastructure and a high quality of life.

Establishing a business in Costa Rica:

Companies in Costa Rica are regulated by the Commercial Code (CC), Law No. 3284, enacted on April 30, 1964.

- Commercial Companies
- General Partnership.
- Limited Partnership.
- Limited Liability Company (LLC).
- Corporation (Anonymous Society, .A.).

Creation procedure:

- Overall, the incorporation of any commercial entity follows the steps described below. It is noteworthy to point out that each one has specific requirements that must be met to properly incorporate the desired entity, and a subsequent consultation should be carried out with the legal specialist for each case. The founders engage the services of a Notary Public and prepare draft of the Articles of incorporation, which will include the new company bylaws and the appointment of administrators.
- Shares are issued according to the contributions of the shareholders.
- Registration taxes are paid (based on the company's capital), and the articles of incorporation are submitted to the Public Registry.
- Once the Articles of incorporation are registered, The Public Registry will assign an identification number to the new Entity.

Closure Procedure:

- In accordance with the Commercial Code, a Company is dissolved for the following reasons:
- Shareholders' agreement.
- Completion of the term of the company.
- Inability to achieve the purpose of the company.
- Definitive loss of more than 50.00% of its capital (if not restored by the shareholders or there has been a proportional decrease).

If the shareholders agree to dissolve and liquidate the company, they must register such an agreement in the National Registry, publish a notice in the official gazette, and appoint a liquidator to liquidate assets, pay the company's debts, and distribute the remaining balance to the shareholders according to their contributions.

Branch and/or Commercial Establishment:

Any foreign entity may register a branch in Costa Rica.

In addition, it should be considered that there is a specific tax in Costa Rica for legal entities. It must be paid within a maximum period of 30 days after the entity was created.

Registration procedure:

The foreign entity may register a branch in Costa Rica by filing a document issued by a Costa Rican Notary Public, a Consul, or a Foreign Notary in the National Registry of Costa Rica, which must include:

- The appointment of a legal representative in the country for all company affairs.



- Purpose, capital, and relevant information about the company's directors.
- An explicit declaration of submission to Costa Rican law.

All documents are validated by the Costa Rican consulate in the country of origin and registered in Costa Rica to obtain the local corporate identification number.

De Facto Companies:

A de facto company pertains to a contract between two or more individuals classified as merchants with an interest in one or more specific and transitional business operations. These operations must be managed by one of them under their sole name and personal credit, with the responsibility to account for and share profits or losses with the shareholders in the stipulated proportion.

De Facto Companies are not expressly included in Costa Rican legislation, but they are accepted as valid for business association.

Shareholder registration:

Since 2019, by Law No. 9416, "Law to Improve the Fight against Tax Fraud," it was established the obligation of providing information for the creation of a shareholder and ultimate beneficiary registry for active or inactive companies. Compliance with this obligation started on September 1, 2019, and involves providing information about shareholders representing at least 15% of the company's share capital. The goal of the law is to identify the ultimate beneficiary, the owner of the company's capital, whether is an individual residing in domestic or foreign territory. The information must be provided by the company's Legal Representative or by an attorney who must have a digital signature. The Shareholder Registry is administered by the Central Bank of Costa Rica.

Banking system



Central Bank:

The BCCR is an autonomous public institution and a legal entity. It has its own assets, which is part of the National Banking System. Its main objectives include maintaining the internal and external stability of the national currency and ensuring its conversion to other currencies. Additionally, it is responsible for promoting the development of the Costa Rican economy to achieve full employment of the nation's productive resources, seeking to avoid or moderate inflationary or deflationary trends that may occur in the monetary and credit markets. The BCCR also oversees the proper use of the nation's international monetary reserves to achieve general economic stability, promotes the efficiency of the internal and external payment system, maintains its normal operation, and encourages a stable, efficient, and competitive financial brokerage system. The bank was created on April 23, 1953, and is currently governed by Law No. 7558 dated November 3, 1995.

Commercial banks:

The Organic Law of the Central Bank of Costa Rica (No. 7558), in effect since November 27, 1995, declared the oversight of financial institutions to be a matter of public interest and established the Superintendency of Financial Institutions (SUGEF). This entity operates under a legal framework of maximum decentralization, equipped with administrative autonomy through the establishment of its own Board of Directors.

The General Superintendency of Financial Institutions (SUGEF) is the entity responsible for ensuring the stability, strength, and operational efficiency of the National Financial System by strictly adhering to regulatory and legal provisions. It oversees compliance with regulations, guidelines, and rules issued by the institution itself, safeguarding the public interest. SUGEF supervises the activities within its control and the operations of entities authorized by the Central Bank of Costa Rica (BCCR) participating in the exchange rate market.

Among its powers, SUGEF has the authority to issue general standards for establishing banking practices, provide guidelines to promote the stability, solvency, and transparency of any supervised entities' operations, and to establish categories of financial brokers based on type, size, and risk level.

The legal framework applicable to this field is extensive. Some of the laws regulating this activity include the Organic Law of the Central Bank of Costa Rica, Organic Law, Law on the Banking System for Development, Law on the Modernization of the Financial System of the Republic, Law Regulating Non-Banking Companies, Law on Narcotics, Psychotropic Substances, Money Laundering, and Financing of Terrorism.

List of financial institutions supervised by SUGEF

Public Banks

- Banco Nacional de Costa Rica;
- Banco de Costa Rica.
- Banco Hipotecario de la Vivienda.
- Banco Popular y de Desarrollo Comunal.

Private Banks

- Banco BAC San José, S.A
- Banco BCT S.A.
- Banco Cathay de Costa Rica S.A.
- Banco CMB (Costa Rica) S.A.
- Banco Davivienda (Costa Rica) S.A.
- Banco General (Costa Rica) S.A.
- Banco Improsa S.A.
- Banco Lafise S.A.
- Banco Promérica de Costa Rica S.A.
- Prival Bank (Costa Rica) S.A.
- Scotiabank de Costa Rica S.A.

Labor and social security



Job supply

The Costa Rican work force is distributed as follows:

Gender	Total for Quarter III 2024	Work force	
		Employees	Unemployed
Male	1.446.729	1.352.134	94.595
Female	939.122	867.304	71.818

Source: Instituto Nacional Costarricense de Estadísticas.

Labor law requirements

Social Security Charges/Taxes on Salary.

A. Cost of Employer Obligations as Temporary Withholding Agent:

1. **Income Tax Law:** According to the Costa Rican Income Tax Law, the employer is obligated to withhold income tax on the employee’s salary based on a progressive table (whose highest marginal rate is 25.00%). The withheld amount must be declared and paid by the employer to the Tax Authorities within the first 15 calendar days of the month following the date on which the salary payment was made.

For the purposes of a company’s income tax return, amounts paid as salary may be treated as a deductible expense, provided that all salary taxes and social security contributions have been properly paid and are shown to be necessary for the production of the taxable income.

2. **Social Costs:** The Labor Law of Costa Rica introduces the concept of social costs, commonly known in the local language as “cargas sociales” (employment benefits). These are a series of items that cover all employees’ social needs (medical and create a pension fund for workers). Both the employee and the

Social costs are paid by both the employee and the employer. Unlike the employee’s portion, where the employer acts strictly as a withholding agent, the employer’s share must be paid directly by the employer at any state bank (there are 4 of them)

employer contribute to these costs. The amount paid by the employee is deducted from the employee’s salary by the employer (similar to the income tax described earlier) and then transferred to the Costa Rican Social Security Fund (C.C.S.S.) and other relevant public institutions.

The percentage of this cost that must be paid by the employee and withheld by the employer is 10.67% of the worker’s salary and includes the following items:

Social Costs	Percentage paid by the employee
Health and maternity benefits	5,50%
Disability, old age, and death benefits	4,17%
Banco Popular y de Desarrollo Comunal	1,00%
Total amount paid	10,67%

B. Obligations – Direct Cost to Employer:

1. **Social costs:** As mentioned earlier, social costs are paid by both the employee and the employer. Unlike the employee’s portion, where the employer acts strictly as a withholding agent, the employer’s share must be paid directly by the employer at any state bank (there are 4 of them). This add up to 26.67% of the worker’s salary and includes the following areas:

Employer contributions to the Costa Rican Social Security Fund	
Item	Employer
SEM	9,25%
IVM	5,42%
TOTAL CCSS	14,67%

Collection for other institutions	
Institution	Employer
Employer payment Banco Popular	0,25%
Family payments	5,00%
IMAS	0,50%
INA	1,50%
TOTAL OTHER INSTITUTIONS	7,25%

Employee Protection Law (LPT)	
Item	Employer
Employer payment Banco Popular	0,25%
Labor Capitalization Fund	1,50%
Complementary Pension Fund	2,00%
INS	1,00%
TOTAL LPT	4,75%
Total	Patrono
TOTAL PERCENTAGES	26,67%

2. **Cost of Mandatory Occupational Insurance:** Insurance called “Occupational Risks Insurance” is established as mandatory by the Costa Rican Labor Code. The employer is bound to pay this insurance to the National Insurance Institute (State Insurance Institution) according to the different rates established by the worker’s position or job. The rates increase according to the level of risk associated with the line of work.

C. Other Costs:

1. **Vacation Time:** The Costa Rican Labor Code describes a benefit established as two weeks of vacation for every fifty weeks worked for the same

employer. When the employment relationship ends before the fifty weeks, the employee has the right to one paid vacation day for each month worked before leaving the company.

Additionally, when the employment relationship ends for any reason (including justified dismissal), the worker has the right to receive their vacation benefit in cash proportionally.

2. **“Aguinaldo” or “Year-End Bonus”:** Consists in a payment of an extra month’s salary, which is paid in the month of December. This amount is calculated by averaging the salaries received over the last twelve months (from December of the previous year to November of the current year).

This amount is not subject to income tax or social security charges, but any excess over its calculation is. This benefit must be paid within the first 20 days of December. If the employment relationship ends before December, the employee is entitled to receive a proportional amount of the “aguinaldo,” calculated by adding up the salaries received in the current year and dividing the result by twelve.

Note: Both items, “vacation time” and the “Aguinaldo” (Year-End Bonus) are constitutional labor rights. In Costa Rican law, each employee has the right to receive them even when the employment relationship ends due to causes that may be attributed to the employee.

3. **Pre-notice:** When an employee or employer decides to end the labor relationship, the responsible party must notify the other party in relation to the following terms:

If the relationship lasted fewer than 3 months.	No pre-notice required.
If the relationship lasted more than 3 months but fewer than 6 months.	One week of pre-notice required.
If the relationship lasted more than 6 months but less than 1 year.	15 days of pre-notice required.
If the relationship lasted more than 1 year.	One month of pre-notice required.

This benefit may be cashed out if either of the parties pays the other party the amount of one day of salary for every day included in the terms mentioned in the previous table.

The employer must provide one free day per week during the timelines established above so the employee may find another job.

4. **Unemployment aid or severance pay:** This is known in Costa Rican law as “aid severance payment” and it is a benefit that is only paid when the labor relationship ends due to causes that may not be attributed to the employee.

The severance pay is due according to the following terms

If the relationship lasted fewer than 3 months.	No payment required.
If the relationship lasted more than 3 months but fewer than 6 months.	Payment 7 days of salary
If the relationship lasted more than 6 months but less than 1 year.	Payment 14 days of salary
If the relationship lasted more than 1 year.	Payment of 19.5 to 22 days for each year worked, depending on the number of years of service, with a cap of 8 years (the calculation is based on a table established in Article 29 of the Labor Code).

Accounting, requirements, and auditing practices



Accounting

The Board of Directors of the College of Public Accountants has adopted the International Financial Reporting Standards for the preparation and presentation of Financial Statements, as well as standards for certification work and standards for related services.

Any modification to the current standards, as well as new standards that will be issued in the future by the International Federation of Accountants, will be considered automatically incorporated for mandatory application in Costa Rica. This is without prejudice to the Audit and Accounting Standards Commission of the Costa Rican Association of Public Accountants conducting a complete or partial evaluation and recommendation for their specific application in the country, without undermining potential changes.

Books and records

- The accounting records must be kept in the Spanish language, as specifically required by the Commercial Code.
- The accounting records should include: a Journal, a Ledger, and an inventory and balance book. Similarly, commercial companies must maintain a book of minutes of the Shareholders' Meeting and a Share Registry. Limited liability companies must also keep the aforementioned books.
- The books must be written in Spanish, in a clear manner, in a progressive order by date, without blank spaces, and without strikeouts or interlineations.

Accounting profession:

In Costa Rica, an authorized public accountant must hold a Bachelor's degree in Public Accounting or its equivalent from a University whose curriculum is duly certified by CONESUP or CONARE, as applicable. Due to academic educational requirements for professionals in public accounting and the continuous professional updating that Authorized Public Accountants are obligated to receive, these professionals are capable of working in one or several professional areas, such as

financial audits, compliance audits, evaluations of internal control systems, and acting as internal auditors, among others.

Rules for filing Financial Statements:

Since 2001, the IFRS has been adopted as a mandatory accounting framework for the preparation of financial statements for public and private companies (excluding banks, financial institutions, and government entities). This requirement also applies to companies considered to be Large Territorial Contributors, including companies in Free Trade Zones that have been classified as large contributors or large territorial contributors.



Tax system



Such taxes will be collected and managed by the Costa Rican Government through the General Taxation Directorate, which is an entity belonging to the Ministry of Finance.

Income tax on companies

Tax on Profits:

The profit tax applies to individuals, legal entities, and collective entities with no legal status when they are residing in the country and engaged in lucrative activities from Costa Rican sources.

The triggering event for the profit tax is the receipt or accrual of income in money or in kind, whether continuous or occasional, derived from lucrative activities from Costa Rican sources. This includes any other income or benefit from Costa Rican sources not exempted by law. Income, earnings, or benefits from Costa Rican sources are understood to be those generated exclusively within the national territory, in accordance with the definition of territorial space. Therefore, the national territory should be interpreted based on the geographical limits established in Articles 5 and 6 of the Political Constitution. These sources include services rendered, located assets, invested capital, and rights used that are received during the fiscal period.

It is important to note that Costa Rica recently approved dispositions that impact the concept of income from Costa Rican sources, which is the basis for the imposition of the main taxes. In this sense, the dispositions tend to delimit the scope of the taxing power, restricting it to a purely

Costa Rica's Political Constitution authorizes the Legislative Assembly to define taxes.



geographical matter, by indicating that the following are generators of income from Costa Rican sources: services provided, assets located, capital invested and rights used, all within the limits of the national territory.

The above ignores the extensive the stance that the Tax Administration had been applying, which had been endorsed at the judicial level and even at the highest level, by the Constitutional Court.

The profit tax is levied against the net income received by taxpayers and allows as deductible expenses those directly linked to the generation of taxable income with this tax, provided they are properly documented with electronic receipts and subject to withholdings of other taxes established in the Income Tax Law.

In general terms, a limit is set on the deduction of non-banking interest at 20.00% of profit before interest, tax, depreciation, and amortization for each tax period. Expenses exceeding this percentage can be deducted in subsequent tax periods until the difference is exhausted. There are transitional rules allowing a maximum deduction of 30.00% for FY 2021 (In this regard, refer to Official Document DGT-1212-2021 dated November 2, 2021), gradually decreasing by 2 percentage points until reaching 20% in the fiscal year 2027. The deductibility limit applicable for the year 2025 will be up to 24%.

The amortization of losses from companies is allowed over the next three fiscal periods. In the case of agricultural companies, this deduction can be made over the following five periods.

For entities whose gross income exceeds ₡119,629,000.00, a rate of 30% of gross income will be applied.

For entities whose gross income does not reach this amount, the tax will be levied according to the following graduated rate:

Income tax calculation for legal entities

Net Income	Rate (applicable to the net income)
Up to ₡5.642.000,00	5%
On the excess of five million six hundred forty-two thousand colones (₡5,642,000.00) and up to eight million four hundred sixty-five thousand colones (₡8,465,000.00) of annual net income.	10%
On the excess of eight million four hundred sixty-five thousand colones (₡8,465,000.00) and up to eleven million two hundred eighty-six thousand colones (₡11,286,000.00) of annual net income.	15%
On the excess of eleven million two hundred eighty-six thousand colones (₡11,286,000.00) of annual net income	20%

The previous tax brackets are adjusted annually and apply throughout the fiscal period. One of the recent modifications to the Income Tax Law is that the fiscal period for income tax has been aligned with the calendar year (from January 1 to December 31), previously being from October 1 to September 30.

There is a differentiated fee scale for micro and small businesses registered with the Ministry of Economy, Industry and Commerce or the Ministry of Agriculture and Livestock.

Tax on profits and capital gains:

Income and capital gains are subject to a tax rate of 15%. The Tax on Capital Income and Gains and Losses of Capital (RCGPC) applies to income from Costa Rican sources, whether in money or in kind, derived from capital, and capital gains or losses arising from assets or rights owned by the taxpayer. This also includes exchange rate differences originating in assets or liabilities resulting between the time of the transaction and the receipt of income or payment of the liability. This is provided they come from assets or rights not affected by their owner to obtain income subject to the aforementioned profit tax.

In the event that said capital gain or income corresponds to or comes from assets or rights related to a lucrative activity of the taxpayer, the withholding of this tax will be integrated into the income tax as a payment on account, as explained in the previous section.

Qualified entities:

This concept is defined in article 2 bis of the Income Tax Law, which details that these are those taxpayers with an adequate economic substance in Costa Rican territory, during the fiscal period. It is determined whether it is a qualified entity based on each taxed passive income that comes from assets located or rights used economically outside the national territory.

Non-qualified entities:

There are passive incomes from foreign sources that will exceptionally be taxed, coming from assets located or rights used economically outside the national territory, when it is an entity that is part of a multinational group that obtains it and that, in addition, is considered as a non-qualified entity in accordance with the provisions of article 1 of this Income Tax Law.

- a) dividends; b) interest; c) royalties;
 d) capital gains; e) real estate capital income;
 f) other personal capital income.

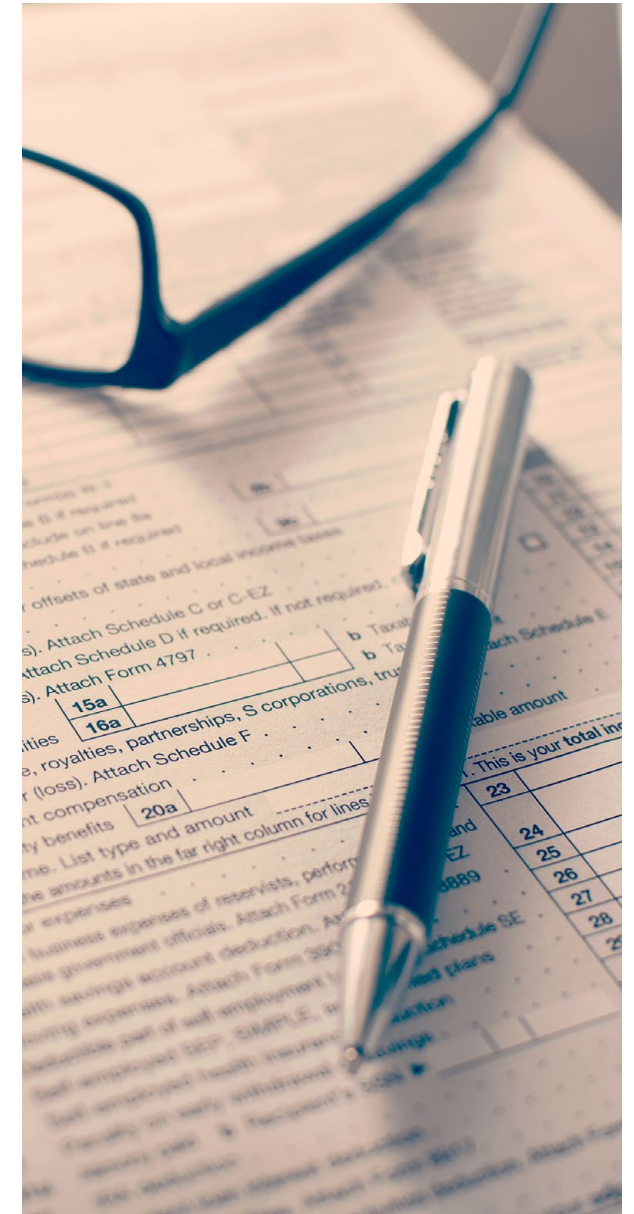
Capital income is classified as follows and includes the following items:

- Real estate capital income: Income from leases, subleases, creation and transfer of rights or rights of use or enjoyment of real estate.
- Personal capital income: Includes the payment of interest, leases and subleases of rights of use of personal property, royalties, rights of use, key rights or other intellectual property rights or other

intangibles, contributions to mandatory pension scheme benefit plans, labor capitalization fund and the payment of dividends. The distribution of dividends is exempt when the distribution is made in registered shares or in social quotas of the company that pays them.

- Likewise, dividends are exempt when the partner receiving them is another capital company domiciled in Costa Rica and carries out an economic activity subject to income tax, or is a holding company of a financial group regulated by a superintendency attached to the National Council for the Supervision of the Financial System (CONASSIF).
- Capital Gains and Losses: Capital gains and losses are considered to be those generated by changes in the value of the taxpayer's assets. According to the Law, there is no change in assets in the cases of location of rights, distributions of joint property, contributions to guarantee or testamentary trusts and capital reductions (except when said reduction has as its object the return of the contribution, in which case the part corresponding to undistributed accumulated profits will be considered income from movable capital).

If the contribution was recorded in the accounts, the returns will not be subject to this tax. In the case of capital gains, there is the possibility of opting for a differentiated rate of 2.25% applicable to the entire transaction in the event that two conditions are met: that the asset or right subject to the transaction from



For interest, commissions and other financial expenses paid or credited by entities subject to the supervision and inspection of the General Superintendence of Financial Entities to entities abroad that are subject to supervision and inspection in their corresponding jurisdictions, a fee of

5.5%

of the amount paid or credited will be paid

which the gain arises was acquired prior to July 2019; and, in addition, that it is the first sale of the same after that date.

Tax withholding on remittances abroad:

In relation to the following payments to non-domiciled individuals or legal entities, the following tax withholdings must be made:

1. Dividends – 15% Interest, commissions and other financial expenses, as well as the leasing of capital goods paid or credited by individuals or legal entities domiciled in Costa Rica to entities or individuals abroad, a fee of 15% of the amount paid or credited will be paid.
2. For interest, commissions and other financial expenses paid or credited by entities subject to the supervision and inspection of the General Superintendence of Financial Entities to entities abroad that are subject to supervision and inspection in their corresponding jurisdictions, a fee of 5.5% of the amount paid or credited will be paid. Interest, commissions, and other financial expenses arising from loans granted by multilateral development banks and multilateral or bilateral development agencies, as well as non-profit organizations that are exempt from the tax or are not subject to the tax according to current legislation, are exempt from this tax.
3. Technical-financial or other types of advice, as well as payments related to the use of patents, formula supplies, trademarks, privileges, franchises and royalties, are subject to a 25% rate.

4. Pensions, retirement, salaries and any other remuneration paid for personal work performed in an employment relationship, are subject to a 10% withholding.
5. Fees, commissions, allowances and other personal services performed without an employment relationship, are subject to a 25% withholding.
6. Transportation and communication services are subject to a 8.5% withholding.

These withholdings may vary under the application of any of the agreements to avoid double taxation that Costa Rica has.

Tax on Legal Entities:

The Tax on Legal Entities is a tax that must be paid by all commercial entities, as well as any branch of a foreign company or its representative and individual limited liability companies, which are registered or register in the Registry of Legal Entities of the National Registry.

The fiscal period is one year, from January 1 to December 31 of the same year, and the accrual of the tax occurs on January 1 of each year. For new companies, it happens at the time of filing the incorporation deed to the National Registry, paying the tax proportionally.

The annually established rates are:

- a) 15% of a monthly base salary for legal entities that are not registered with the Single Tax Registry of the General Taxation Directorate or are in the

registration process with the Corporate Registry of the National Registry

- b) 15% of a monthly base salary, based on the proportion of the time remaining between the date of the company's registration with the Corporate Registry of the National Registry and the end of the period, for legal entities established and registered during the fiscal period.
- c) 25% of a monthly base salary for Income Tax contributors whose income tax declaration for the immediately preceding period recorded gross income less than 120 base salaries.
- d) 30% of a monthly base salary for Income Tax contributors whose income tax declaration for the immediately preceding period recorded gross income in a range from 120 base salaries to less than 280 base salaries.
- e) 50% of a monthly base salary for Income Tax contributors whose income tax declaration for the immediately preceding period recorded gross income of more than 280 base salaries or more.

The Superior Council of the Judiciary establishes the applicable base salary for each period through a flyer published in the Judicial Bulletin, La Gaceta. This item is used as a parameter to establish penalties and some taxes, such as in this case. Currently, this amount is set at CRC 462,200 (four hundred sixty-two thousand two hundred colones). By 2025, a new base salary amount is expected to be established by the Ministry of Finance.

With this base salary parameter, it is possible to set the payable amounts for this tax, both for existing companies and for new companies that are submitted for registration during the current year.

Fiscal Domicile:

In most cases, the place where a company is incorporated is referred to by Costa Rican tax authorities as the “fiscal domicile”. However, any company that carries out industrial, agricultural, or commercial activities in Costa Rica is subject to local income tax in the same way as a registered business, regardless of the place of its incorporation. Such companies that do business in Costa Rica are subject to the permanent establishment (PE) rules.

Transfer Pricing:

The Code of Standards and Tax Procedures of Costa Rica (Law 4755), enacted on May 3, 1971, established in Article 12 the Agreement between Individuals, stating that agreements related to tax matters entered into between individuals are not admissible against the Tax Administration.

On June 10, 2003, Interpretative Guideline No. 20-03 was approved, titled Fiscal Treatment of Transfer Prices, according to the Normal Market Value.

In this guideline, the application of the Comparable Uncontrolled Price (CUP) method in the Full Competition market for related-party transactions was explained. This method is generally based on comparing the conditions of a related-party

transaction with those transactions carried out by independent companies. In other words, these prices should be equivalent to those of similar transactions between independent companies.

In this guideline, the Tax Administration was granted the authority to assess transactions between related persons or entities when the agreed valuation results in a lower tax than that derived from the application of the normal market value. In such cases, adjustments must be made accordingly.

By September 10, 2012, through Law 9069, Article 12 of the Tax Standards and Procedures Code was modified, establishing that elements of the tax obligation, such as defining the taxpayer, the triggering event, and others, which cannot be altered by acts or agreements of individuals, and which will have no effect in relation to the Administration, without prejudice to their legal-private consequences.

However, none of the aforementioned laws covered important issues related to application of Transfer Pricing, such as:

- Application of Transfer Pricing rules;
- Applicable analysis methods;
- OECD guidelines; and
- Advance Pricing Agreements (APA).

Subsequent to the aforementioned, on September 13, 2013, the Ministry of Finance issued General Decree No. 37898-H to regulate transactions between related parties to govern the provisions related to the application of Guideline 20-03.

With the issuance of this Decree, taxpayers were obliged to evaluate the prices agreed upon in transactions involving goods or services sold to related companies locally and abroad, considering the prices that would be agreed upon between independent parties, in accordance with the Principle of Free Competition.

- This Decree applies to any operation or transaction carried out by companies’ resident in the country with:
- Local and foreign related parties;
- Individuals or companies’ resident or domiciled in low-tax jurisdictions or havens; and
- Related parties who are members of the Free Trade Zone Program.

On September 13, 2016, Ruling DGT-R-44-2016 was published in the official journal La Gaceta, Supplement No. 182, pertaining to the Transfer Pricing Information Declaration. In this regard, taxpayers must submit the transfer pricing declaration on the last business day of June each year, covering all transactions carried out during the taxpayer’s income tax period. However, in Ruling No. DGT-R-28-2017, its submission was suspended, and so far a specific date for its submission has not been defined.

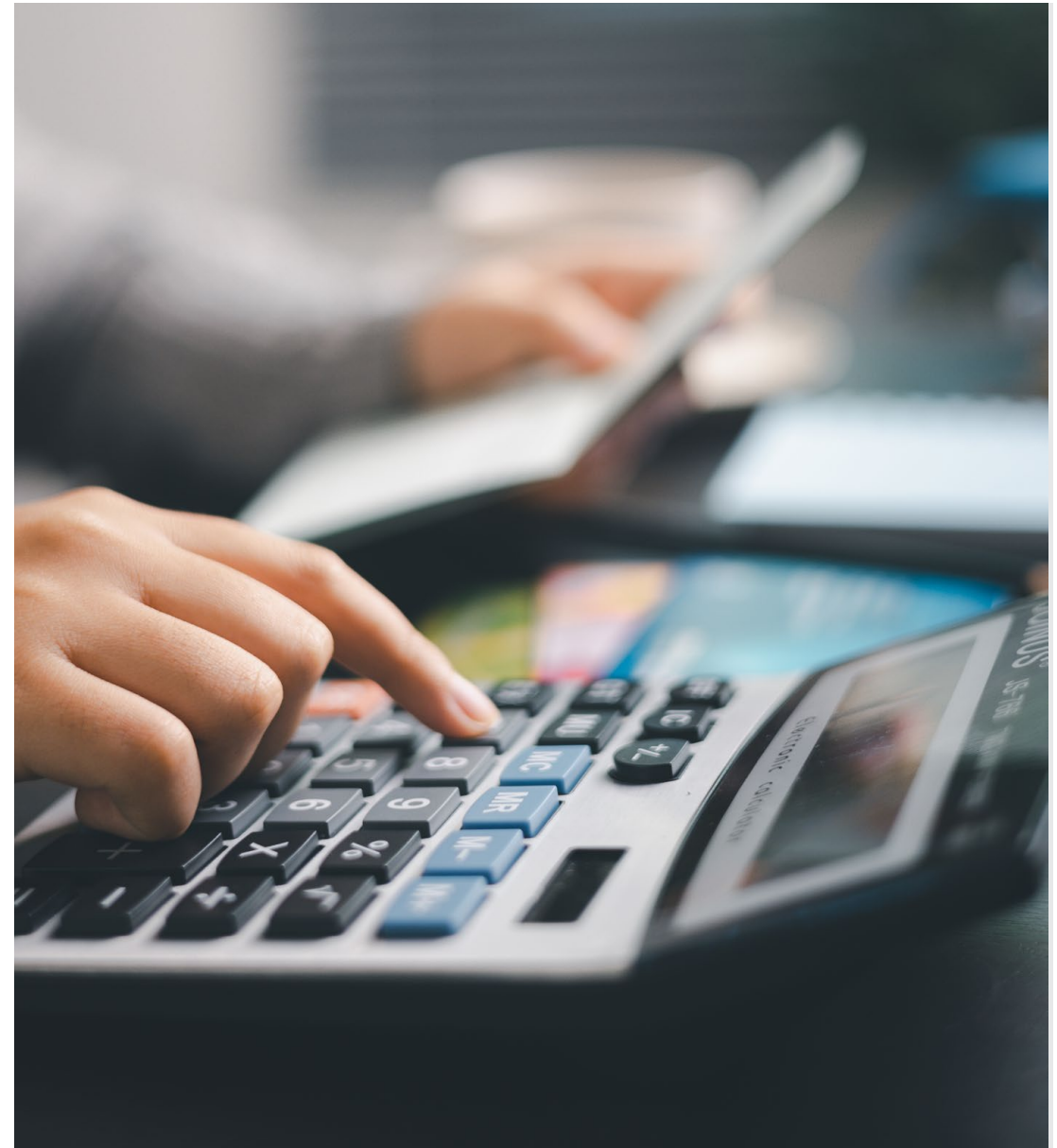
On April 21, 2017, Ruling DGT-R-16-2017 was published in the official journal La Gaceta, Supplement No.75, pertaining to the documentation of transfer prices. This document indicates that the information must be available to the Tax Administration to be whenever it is requested.

Ruling No. DGT-R-001-2018, dated January 11, 2018, defined the obligation to submit the country-by-country report (CbC) to all resident parent companies whose global revenue may amount to more than 750 million euros. Taxpayers subject to this documentation requirement were required to submit the first declaration no later than December 31, 2018, for transactions related to the 2017 period.

In 2019, the regulatory history for transfer pricing in Costa Rica underwent a transformation. On December 4, 2018, Law No. 9635 Strengthening Public Finances was published in Supplement 202 of the official journal La Gaceta. This law added a new Chapter XXXI, incorporating a new Article 81 bis to Title V, General Provisions, of Law No. 7092, the Income Tax Law.

Subsequently, on June 26, 2019, Supplement 145 of the official journal La Gaceta published Decree No. 41818-H titled “Modifications and Additions to the Regulation of the Income Tax Law, Executive Decree No. 18445-H of September 9, 1988, and Its Amendments.” This decree regulates the practice of transfer pricing described in the aforementioned Article 81 bis, repealing the previous executive decree 37898-H.

On November 13, 2019, the General Taxation Directorate published ruling DGT-R-49-2019, establishing new guidelines for Transfer Pricing documentation, thereby repealing Ruling DGT-R-16-2017. In general terms, the ruling emphasizes that all taxpayers engaged in transactions with related companies must retain, for the period stipulated in Article 109 of the Code of Tax Standards and Procedures, documentation supporting how transfer prices conform to prices charged between independent operators. In this case, the information must be made available to the Tax Administration upon request.



The Convention on Mutual Administrative Assistance in Tax Matters (MAAC):

Through Law 9118 in 2013, Costa Rica adhered to and approved in all its parts the Convention on Mutual Administrative Assistance in Tax Matters. The purpose of this treaty is, in a multilateral manner, to assist the signatory countries in improving their tax systems and in the application of these.

Information Exchange for Tax Matters :

Contracting Country	Status	Effective Date
Argentina	Law 9007	November 10, 2011
Australia	Law 9075	July 1, 2011
Canada	Law 9045	August 11, 2011
South Korea	Law 9611	September 18, 2018
Denmark	Law 9202	November 23, 2009
Ecuador	Law 9360	June 4, 2013
United States	Law 9449	November 12, 2019
Finland	Law 9197	June 29, 2011
France	Law 9012	November 10, 2011
Greenland	Law 9200	December 18, 2013
Guernsey	Law 9551	May 9, 2018
Italy	Law 9664	February 19, 2019
Mexico	Law 9033	April 19, 2012
Norway	Law 9201	December 18, 2013
Netherlands	Law 9040	May 13, 2012
South Africa	Law 9413	December 7, 2016
Sweden	Law 9203	January 29, 2014

There is no taxation of transfers of real estate and vehicles.

Corporate Fiscal Compliance

Statements:

The deadline for filing the income tax return is March 15 of each year when it is a business day, or the following business day in a regular period. The taxpayer may request a special tax period.

Partial Tax Payments:

Taxpayers are required to make partial payments as income tax in each fiscal period, according to the following general rules:

- a) The basis for calculating the partial payment installments is the tax determined in the immediately previous year or the arithmetic average for the last three fiscal periods, whichever is higher.
- b) For taxpayers who, for any reason, have not filed a declaration in the three previous fiscal periods, the basis for calculating the partial payments will be determined using the declarations they have submitted. If it is the first period, it will be based on a founded estimate provided to the Tax Administration. Once the amount of the on-account payment is determined, 75% of that amount should be divided into three equal installments, which must be paid successively no later than the last business day of the months of June, September, and December each year (considering that the regular fiscal period is equal to the calendar year from January 1st to December 31st).

- c) From the total tax determined when filing the tax return, the partial payments pertaining to that fiscal period must be deducted. The resulting balance must be paid within the two months and fifteen natural days following the end of the respective fiscal period.

Value Added Tax:

As of July 2019, Value Added Tax (VAT) came into effect in Costa Rica, replacing the previously applicable General Sales Tax. The main characteristic of this tax is that it expanded the base of the former tax, applying a widespread tax not only to the sale of goods but also to the provision of services, rights, and intangible assets. The applicable rate remains at 13%, except for certain services and goods that were taxed at reduced rates. For example: a 1% tariff for basic basket products, agricultural inputs and their machinery, veterinary products, products and inputs for non-sport fishing, sales, imports or internationalization of sun protection products registered with the Ministry of Health, which do not contain chemical components toxic to coral reefs. A 2% rate for medicines and their raw materials, machinery, and equipment for their production, private education services, personal insurance, and the purchase and sale of goods and services for public universities. A 4% rate for airline tickets and health services, among other special rates.

Temporarily, some services have been given a differentiated treatment during the initial years of the law's enforcement. However, it is anticipated that

the rates will gradually increase, in most cases, until reaching 13%.

There is no taxation of transfers of real estate and vehicles.

As a general rule, the law allows for the application of tax credits for Value Added Tax incurred in the acquisition of taxed goods and services directly and exclusively related to taxable and non-exempt transactions. Deduction or accreditation is also allowed for taxpayers who have engaged in transactions with institutions related to the state or public or private entities that, due to the special law have an exemption.

Similarly, tax credits are allowed when they are related to the tax paid on the acquisition of goods and services used in operations related to exports.

The Law taxes the provision of cross-border digital services.

The taxpayer's main obligations to the Tax Administration regarding the Value Added Tax (VAT) are:

1. Register as taxpayers with the Tax Administration and declare their monetary activity(ies) subject to the Value Added Tax, as well as modify relevant tax information and deregister when necessary.
2. Self-assess, declare, and pay the Value Added Tax according to the means provided by the Tax Administration. The declaration of the Value Added Tax must be submitted every month, even if there is no tax to pay in that month.

3. Have, according to the provisions set by the Tax Administration, electronic means that allow the issuance of electronic receipts authorized by it to support the transactions carried out.
4. Issue electronic receipts according to the provisions set by the Tax Administration.

In Costa Rica, the reverse charge mechanism exists, which is applied when taxpayers acquire services provided by non-resident suppliers.

Use of Electronic Receipts:

In Costa Rica, the use of electronic receipts is in effect, which involves the issuance of electronic invoices, electronic debit notes, electronic credit notes, and electronic tickets to support all transactions. Previously, there was a general requirement for confirmation or acceptance of the electronic receipt; currently, such confirmation is only required in specific cases.

Electronic receipts must meet certain formal requirements, as well as technical specifications established by law and through regulations.

Decree No. 44.479 and its amendments regulate this matter, outlining exceptions to the obligation to issue electronic receipts, provided that goods are not sold or services subject to the Value Added Tax are not provided.

These exceptions include:

- The state, municipalities, and autonomous or semi-autonomous state institutions.

- Political parties.
- Unions
- The Life Insurance Society of the National Teachers' Union, Savings and Loan Association of the National Teachers' Association, and the Multiple Services Corporation of the National Teachers' Union.
- Individuals or legal entities engaged in the paid transportation of people, holding a permit or concession granted by the State, and whose fare is regulated by the Public Services Regulatory Authority.

Selective Consumption Tax:

The selective consumption tax is a tax imposed on the importation or domestic manufacturing of the goods detailed in the Appendix to Law No. 4961, Consolidation Law of the Selective Consumption Tax and its amendments.

This is a tax levied on importing and transferring ownership of specific goods by manufacturers. The rates are variable and selective, ranging up to 100%, and are typically applied to products considered non-essential.

The tax base is the cost, insurance, and freight (CIF) plus import taxes for imported items, or the selling price of items produced in Costa Rica. The tax is applied in a single stage during the sale of goods. Payment of the tax is required at the time of importation or, for items produced in Costa Rica,

within 15 days following the month of sale. The fiscal period is monthly.

Additionally, in Costa Rica, there are some specific consumption taxes.

Property Tax on Real Estate:

Each local municipal government is responsible for the assessment of real estate located within its jurisdiction. The property tax applied throughout the Costa Rican territory is 0.25% of the assessed value registered in the respective municipality when the tax obligation arises.

Depending on the municipality or region, the local government may grant an exemption from property tax if the taxpayer is an individual who owns only one property within the country.

Property Transfer Tax:

The property transfer tax is 1.50% of the sale price of the property or its fiscal value, whichever is higher.

Determining Income and the Corporate Deduction

Inventory appraisal:

Inventories are generally recorded at cost and can be valued using the weighted average cost method, FIFO (first in, first out), specific identification method, or detailed method. Since all entities must maintain legal records, any adjustment resulting from the different inventory valuation methods for tax and financial purposes must be recorded.

Territoriality principle:

Income from foreign sources is not taxable.

Deductions

Depreciation and Amortization:

Linear and sum-of-the-years-digits depreciation methods are allowed.

Class	Years
Buildings	50
Machinery and equipment	10
Furniture and devices	10
Vehicles	10
Agriculture	2 a 10

The Tax Administration, according to the request of the taxpayer, may adopt special depreciation methods that are technically acceptable and justified by the taxpayer. Additionally, the Tax Administration may authorize, through a general ruling, an accelerated depreciation method for new assets acquired by companies engaged in monetary activities that require constant technology updates, increased installed production capacity, and productive restructuring processes to maintain and strengthen their competitive advantages.

Payments to the headquarters:

When the aforementioned payments or credits are to parent companies of subsidiaries, branches, agencies,

or permanent establishments located in the country, the total deduction for the specified items may not exceed 10% of the gross sales obtained during the pertinent fiscal period. To do so, the withholdings of the tax established in this Law must have been made.

Tax Deductions:

Except for the Value Added Tax, selective tax, tax on legal entities, specific consumption taxes, and special taxes on them as established by law, penalties and interest paid on any other obligation, and the income tax itself, all other taxes related to the usual line of business and income-generating production are deductible expenses when determining the taxable base for calculating the income tax, unless otherwise provided by law.

Fiscal incentives:

Entities established in a Free Trade Zone will receive exemptions from export tax on goods, income tax in various modes (ranging from 0% to 15% depending on the activity, location within the national territory, and the number of years the benefit has been applied), value-added tax, export tax, selective consumption tax, property transfer tax, and withholding on payments abroad. They will also have the free possession and management of currencies related to their local operations. However, these incentives for manufacturing export activities have been affected by the rules established by the World Trade Organization, effective from 2015, so these benefits will only be available for certain manufacturing operations in

accordance with the Law that regulates the Free Trade Zone Program and its stipulations. The requirements and benefits of the Free Trade Zone for service sector companies have not undergone any changes.

Other tax refund programs apply to industries that import materials that have been semi-finished for assembly in Costa Rica, importation, and exportation of finished products.

The benefits include duty-free imports of raw materials for subsequent export as manufactured products. Machinery for these industries can also be imported duty-free.

Tourism Development:

The Law of Incentives for Tourism Development provides various tax benefits. These benefits include exemptions from tariffs on certain goods related to tourism services and property tax exemptions for tourism-related businesses, but only for those with a signed Tourism agreement.

Double Taxation Treaties:

Costa Rica – Spain: This agreement was approved by Law number 8888, to avoid double taxation and tax evasion on income and goods.

Costa Rica – Germany: This agreement was approved by Law number 9345, to avoid double taxation on income and assets.

Costa Rica – Mexico: This agreement was approved by Law number 9644, to avoid double taxation and prevent tax evasion on income.

Costa Rica - United Arab Emirates: This agreement was approved by Law number 9963, for the elimination of double taxation on income and capital gains and the prevention of tax evasion and avoidance, including its protocol.

Tax on Individuals:

Individuals engaging in profitable activities in Costa Rica are subject to the income tax on the same terms mentioned earlier.

Foreign citizens will be subject to income tax on their Costa Rican income from a Costa Rican source regardless of where they receive payment for their work in Costa Rica.

Resident individuals with independent profitable activities (i.e., non-salaried) are taxed at graduated rates ranging from 0% to 25%.

Fiscal Compliance for Individuals:

Declarations: Individual taxpayers must file their tax returns on the same dates as corporate income taxpayers. Additionally, they are obligated to keep records and are allowed to apply the same deductions

Income tax on wages and other payments for personal services:

Employers are required to withhold tax on salary, wages, bonuses, and other income derived from dependent personal work, retirement or pension, and other compensation for personal services. The tax is applied using a progressive table with defined tax brackets.



The year-end bonus (up to an amount not exceeding the twelfth part of the salaries earned in the year or the proportion pertaining to a shorter period worked), social security contributions, severance pay, and severance payments received in accordance with the Labor Code are not subject to income tax.

Current individual income tax rates:

Income tax for individuals with independent profitable activities:

Tax on independent profit-making activities (annually):		
Up to ₡4.094.000	Not subject	0%
From ₡4.094.000	Up to ₡6.115.000,	10%
From ₡6.115.000	Up to ₡10.200.000	15%
From ₡10.200.000	Up to ₡20.442.000	20%
Above ₡20.442.000		25%
Tax credits (annually):		
For each child		₡20.640
For the spouse		₡31.200
Salary tax:		
Up to ₡922.000	Exempt	0%
From ₡922.000	Up to ₡1.352.000	10%
From ₡1.352.000	Up to ₡2.373.000	15%
From ₡2.373.000	Up to ₡4.745.000	20%
Above ₡4.745.000		25%
Tax credits::		
For each child		₡1.720
For the spouse		₡2.600



Contact

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