Doing Business

A guide for Costa Rica

2018

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Preface

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After two consecutive years of economic contraction, this year's growth in the Central America and Dominican Republic region will exceed the average of other regions in Latin America.

The gross domestic product (GDP) of the countries in this region has registered positive changes during this year. Among the factors favouring a better economic environment for the region we can mention the measured recovery in global economy and better growth expectations for the United States, largest trading partner of the region. We should also mention the slight increase in the global trade volume, a higher level of prices of commodities, and an increase in the income from remittances.

This Doing Business seeks to provide a broad understanding of the key aspects to invest in the Central America and Dominican Republic region. In this guidebook we intend to answer the main questions each foreign company and investor has as they enter our markets for the first time, as well as keep informed those companies who already have a presence here and would like to be updated on relevant topics.

Leveraging on our vast experience in the establishment of companies in the region, our Tax & Legal team has developed this complete guide which reflects the changes in regards to taxes, legal forms and accounting and business practices. Additionally, it offers a brief description of each country in the Interamericas region.

As a guide, however, this publication serves mainly as a starting point. Should you need more information, our advisors will be ready to help you individually.

On behalf of PwC Interamericas, I hope you find this information be useful and I wish you the very best in your future investments.

Foreword

Doing Business 2018 is the fourth edition of a series of yearly guidelines offering information about culture, climate for investment, as well as tax systems for Central America and the Dominican Republic. This document is made up by a series of indicators on business regulations for tax, legal and regulatory compliance, based on laws applicable in each country.

The Central American and Dominican Republic region is ideal for investing and starting up businesses due to its fertile ground for investment. Most of its economies are going through a period of stable growth, which makes them an ideal place to start new business. Each country has appropriate legal regulations and incentives to protect and encourage investors, which the authorities aim to highlight all around the world. Regarding their geographical location, this is a privileged region since it is located close to some of the most important ports and cities of the world, which facilitates global commerce. This territory is full of investment opportunities.

Our objective is to provide essential basic information about aspects which may help the investors establish and manage a business in this region, be it an independent entity, a branch of a multinational company, or a subsidiary of an existing multinational company. It also covers essential basic information for those who are considering relocating permanently to live or work in any of the countries in Central America or in the Dominican Republic.

PwC offers personalized services to our clients, which places us as leader in the market, and makes us the trusted advisor in most of the negotiations that take place in the region and in the world.

This is a general guideline and was not created as a comprehensive advice document. Due to the speed of change and the complexity of some of the related topics, we recommend that this guideline be used along with the appropriate professional advice of our team, which specializes in tax, legal and legal topics, and who will provide the help you need after carefully considering your circumstances and objectives.

Edgar Mendoza

Partner and Regional TLS Leader

Costa Rica

The culture of Costa Rica is in many ways a reflection of its ethnic diversity, with a predominantly European and North American influence, along with traces of creole and indigenous affinity.

Costa Rica was discovered by the Europeans around the year 1500, and subsequently became part of the greater Spanish Empire. In 1821, CR obtained its independence from Spain, and after some attempts to conform to the rest of Central America in a union called "Federación Centroamericana", it declared itself as a sovereign and independent republic under the mandate of its first president Jose Maria Castro Madriz in 1848.

Costa Rica
Chapter content

The Economy, cont.

Overview of the country

Brief history

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Climate

CR has a tropical climate with an average temperature of 22°C that increases considerably in the coastal areas; in San José (the capital city), it goes from 14°C to 24°C in December, and 17°C to 27°C in May. The Caribbean coast averages 21°C at night and over 30°C during the day. The Pacific coast is hotter than the Caribbean but less humid.

Population, form of government, language, currency:

Area	51,100 km²
Population	4 857 274 million of inhabitants
Population per km2	95 hab. /km²
Population growth	1,023% (2016)
Urban population	77,67% (total population of the country)
Political system	Democratic Republic
Form of government	Presidential
Language	Spanish
Currency	colon (¢)
Administrative division	7 provinces
Religion	Roman Catholic
Capital city	San Jose

Source: World Bank.

Education

Costa Ricans are a highly literate people: the country boasts of 95% literacy in those 10 years or over, the most literate population in Central America. Many of the country’s early fathers like the first president, Jose Maria Castro, were former teachers who were concerned about the education in Costa Rica. In 1869, the country became one of the first in the world to make primary school education both free and compulsory, funded by the State's share of the great coffee wealth. In those days only one in ten Costa Ricans could read and write. By 1920 50% of the population was literate and by 1970 89% were able to read and write.

The last 20 years have seen a significant boost to educational standards. Since the 70's the country has invested more than 28% of the national budget on primary and secondary education. President Figueres elected in 1994, advocates a computer in each of the nation's 4,000 schools, plus mandatory English classes, following the technological and tourist industries' boom of recent years.

Elementary and High schools are to be found in every community. Students are not required to pay for assistance to school; a nominal voluntary charge of around $20 per year applies. Elementary school has 6 grades or levels; whereas high school has 5 grades or levels. Each is divided in two cycles, and upon completion of each cycle, students are required to pass tests on all subjects studied during those years. The most notorious of these tests are the "high school" ones which are known as "bachelor's tests". The aforementioned tests are required to get the high school diploma needed for admission to Universities.

Although the country lacked a university until 1940, Costa Rica now boasts four state-funded universities and a score of small private ones, the number of which has increased dramatically in the last decade, due to the difficulty of being admitted to state-funded, more prestigious universities. Opportunities abound for adults to earn primary or secondary school diplomas and to have access to higher education.

The University of Costa Rica (UCR), the largest, oldest, and most prestigious university, enrolls some 39,000 students, mostly on scholarships, but even paying full tuition is not hard as it rarely surpasses $200 a semester. The main campus is in the northeastern San Jose community of San Pedro but the UCR also has regional centers in Alajuela, Turrialba, Puntarenas and Cartago. The National University in Heredia, offers a variety of liberal arts, sciences, and professional studies to 18,200 students. Cartago's Technical Institute of Costa Rica (ITCR) specializes in science and technology, and seeks to train people for agriculture, industry and mining. The State Correspondence University, founded in 1978, is modeled after the United Kingdom's Open University and has 32 regional centers offering 15 degree courses in health, education, business administration, and the liberal arts.

Also, in Costa Rica it is located in INCAE Business School Costa Rica, which has been considered as the best business school of Latin America, it ranks at the 27th global position and it is considered among the best business schools of the world.

In addition there are many private institutions like, the Autonomous University of Central America, the University for Peace, sponsored by the United Nations offering a master's degree in communications for Peace.

[1] *Fuente: UNESCO*

Political and legal system

Legal framework

The political and legal structure of Costa Rica is comprises of three main branches: Legislative, Executive and Judicial; which are composed and exercised as follows:

Polítical and Legal Framework			
	Executive	***Legislative***	***Judicial***
Exercised by the:	The President and the Ministers	Unicameral Congress	Supreme Court of Justice
Composed of:	The President and the Ministers	57 Congressmen	The Supreme Court of Justice is composed by 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 the Congress for a renewable for 8-years term.

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

In the 2013 Worldwide Governance Indicators from the World Bank, Costa Rica was first among Latin American countries for Political Stability and Absence of Violence/terrorism.

The Regional Human Development Report (HDI) 2013-2014: "Citizen Security with a Human Face: Evidence of Proposals for Latin America" states that Costa Rica is among the six countries that show the best indicators of Citizen Security in Latin America.

Main political parties

- National Liberation Party (Partido Liberación Nacional - PLN).
- Citizen Action Party (Partido Acción Ciudadana - PAC).
- Libertarian Movement Party (Partido Movimiento Libertario - PML).
- Social Christian Unity Party (Partido Unidad Social Cristiana - PUSC).
- Frente Amplio (FA).

The presidential elections are carried out in Costa Rica each four years. Next elections period is scheduled for February 2018.

The economy

One of the pillars of the Costa Rican economic development has been trade liberalization, which has allowed exports to surpass its 30% ratio of GDP in 1990 to a current rate of 31.6% rate for 2016 (includes exports of goods and services).

This trade liberalization has been followed by a series of structural changes resulting in productivity growth, diversification of the economy and a higher level of investment. The real GDP has been increasing at a compound annual growth rate of 5.3% since 1991. All these changes have translated into important social achievements. In the last 20 years poverty was reduced from 40% to less than 20%.

	2014	2015	2016
GDP			
GDP million of US$	49,552.6	51.11 mil	54,736 mil
Real GDP growth (%)	0.60%	2.8%	4,329%
Prices and financial indicators			
Exchange rate Colón: US$ (end-period)	538.3	531.94	561.10
Lending interest rate (avg. %) Jan 1st Estimate. Industry loans in national currency	16.00%	17.01%	14,25%
Lending interest rate (avg. %) Jan 1st Estimate. Industry loans in USD currency	10.37%	9.85%	9.82%
Current account (US$ millions)			
Exports	11,304.42	9,649,6	9.932,7
Imports	17,186.2	15,154.2	15.324,7
Trade Balance	-5881.78	-5946.40	-5392
Unemployment			
(Unemployment (avg. %)	9.60%	9.60%	8.99%

Sources: Costa Rican Central Bank. Costa Rican Foreign Commerce Ministry, Worlds Bank.

Inflation

In 2016 year Costa Rica accrued an inflation of 0.77%.

The national Institute of Statistics and Censes of Costa Rica (INEC as per the acronym in Spanish) informed that Costa Rica, during the first quarter of 2017, registered an inflation of 0.7% with the inter-annual inflation fallen to the 1.64%. It is envisaged that the Gross Domestic Product will grow in a 4.5% in 2017; the expected growth is related to the expansion of the internal and external demand, this last one linked to the acceleration of the economic activity of the main commercial partners of the country.

Doing business in Costa Rica

Government attitude towards foreign investment

CR's economic, political and social stability is one characteristic that has distinguished the country throughout its entire contemporary history and is one of the most important strengths that has enabled it to reach great success in alluring foreign investors.

The Government created Free Trade Zones under law No. 7210 (known as the "Free Trade Zone Law"). Fiscal incentives, including 100% exemption from virtually all taxes and Government finance for the training of employees, are available to companies which comply with the investment and employment requirements stated in the Law.

In addition, there are other specific sectors, such as tourism and forestry that are promoted by the government through tax incentive laws. These sectors are briefly defined in the Tax System epigraph.

Free trade agreement and other agreements

Costa Rica is a member of the World Trade Organization and has some preferred treatments. The country has access to United States through the Caribbean Basin Trade Partnership Act (CBTPA) which was an extension of the Caribbean Basin Initiative (CBI) and the Preferred Generalized System GSP.

Costa Rica has bilateral free trade agreements with the following countries and blocs which took effect on (see date): Canada (November 1, 2002), Chile (February 15, 2002), Caribbean Community (CARICOM)¨ (November 15, 2002), Dominican Republic (March 7, 2002), El Salvador Customs union, (1963, re-launched on October 29, 1993), Guatemala Customs union, (1963, re-launched on October 29, 1993), Honduras Customs union, (1963, re-launched on October 29, 1993), Mexico (January 1, 1995), Nicaragua Customs union, (1963, re-launched on October 29, 1993), Panama (July 31, 1973, renegotiated and expanded for (January 1, 2009), United States (January 1, 2009), China under negotiation, Singapore under negotiation, European Union under negotiation, Perú (June 1st, 2013), Central America, United States and Dominican Republic Free Trade Agreement (CAFTA-DR) January 1st, 2009.

The main agriculture products are bananas, pineapples, coffee, melons, ornamental plants, sugar, corn, rice, beans, potatoes; beef, poultry, dairy; timber.

The main industries are: microprocessors, food processing, medical equipment, textiles and clothing, construction materials, fertilizer, plastic products.

Foreign investment

Foreign investment, which is welcomed in Costa Rica, the gross is concentrated 3 sectors: services (28,6%), manufacturing (28%) and agriculture (16,4%, mainly banana and coffee); other sectors include real state (11,2%) & commercial (11,1%)2. Other investments are placed in the railways,

[2] *Source: MIDEPLAN*

tobacco, communications, airlines, government bonds, and real estate. The US, Costa Rica's major foreign investor, has interests in computer chip manufacturing, agriculture, petroleum refining, distribution, utilities, cement, and fertilizers. The continued high level of trade with the US has been conducive to private foreign investment, especially in export industries. Investment incentives include constitutional equal treatment guarantees and free trade zones. Foreign direct investment in Costa Rica in 2016 was $3.18 billion, or 5.5% of GDP[3].

Liberalization of Costa Rica's trade and investment regimes, have resolved the internal debt problem, and passage of legislation expanding private sector investment in energy, telecommunications, roads, ports, and airports have boosted opportunities for foreign and local investors and increase Costa Rica's prosperity. The Public Concessions Law defines the ways in which foreigners could invest in Costa Rica's public sector.

The Costa Rican government has introduced a wide variety of incentives in an effort to encourage foreign investment. To support this effort, CINDE (Costa Rican Investment Promotion Agency), a private non-profit organization, was set up to assist and guide investors and companies in the set up for operations in Costa Rica.

A further step on this effort was the promulgation of legislation providing significant tax and operational incentives to companies in export related activities. These sets of incentives are: the export contract, the free zone and the temporary admission system, all of which include total or partial tax exemptions and expedite customs clearance services among other simplified operational aspects.

Costa Rican laws, regulations and practices foster competition and do not discriminate between locals and foreigners, for the conduction of business. The only exceptions to this are the entities that are constitutionally precluded from total foreign ownership such as telecommunications, energy generation and insurance. Tax, labor, health and safety laws do not inhibit the flow of investment.

Foreign investment incentives

The Costa Rican government has introduced a wide variety of incentives to encourage foreign investment. Among the most important are:

- The 'Drawback' law no 5162 of 1972 encouraged the citing in Costa Rica of "screw driver" assembly plants. Enterprises which wish to assemble products in Costa Rica and re-export the finished products to other markets can import all their capital machinery and raw materials including the parts to be re-assembled free of all import duties. The final product which is re-exported is not assessed to any business income tax on profits.
- Free Zones, known as Export Processing Zones - see above.

Establishing business in Costa Rica

Costa Rican corporations are regulated by the Code of Commerce, Law N° 3284, enacted on April 30th, 1964 (henceforth "C.C.").

[3] *Source: Wolrds Bank*

Commercial Corporations

- General Partnership (Sociedad en Nombre Colectivo).
- Ordinary Limited Partnership (Sociedad en Comandita Simple).
- Limited Liability Company (Sociedad de Responsabilidad Limitada -S.R.L.-).
- Corporation (Sociedad Anónima – S.A.).

Formation procedure

In general terms, the formation of any type of commercial entity follows the steps described below. However, it is important to bear in mind that each have specific requirements that must be complied with in order to duly incorporate the desired entity, and that further consultation must be carried out with the particular legal specialist in each case.

- The founders acquire the services of a Public Notary and draft an incorporation deed, containing the new company´s by-laws and the appointment of the administrators.
- Issue shares in accordance with the shareholder´s contributions.
- Pay the registrations fees (based in the company´s capital) and submit the incorporation deed to the Public Registry.
- Upon registration of the incorporation deed the company is assigned a corporate identification number.

Closing procedure

According to the C.C., a corporation is closed by either of the following reasons: - Shareholder´s agreement. – Completion of the corporate term. – Impossibility of achieving the corporate object. – Definitive loss of more than 50% of its capital (unless replenished by the shareholders or proportionally decreased).

If the shareholders agree to close and liquidate the corporation, they have to register such agreement in the National Registry, publish a notice in the Official Ledger and appoint a liquidator in order to pay the company debts and distribute the balance to the shareholders in accordance with their contributions.

Branch and/or Mercantile Establishment

Any foreign entity may register a branch in Costa Rica.

Registration procedure

The foreign entity must register a Shareholders agreement in the Costa Rican National Registry containing:

- Appointment of a Legal Representative in the country for the company´s businesses.
- Object, capital, and compete data of the main company´s directors.
- An express declaration of submission to the Costa Rican Law.

All documents are validated by the Consulate of the country of origin and registered in Costa Rica in order to acquire a local corporate identification.

Joint-Venture (Sociedades de Hecho)

Joint Venture is a contract between 2 or more persons who are classified as traders with an interest in one or various specific and transitional business operations, which shall be run by one of them at his sole name and under his personal credit, with the responsibility to account and divide with its stakeholders the gains or losses in the agreed proportion.

Joint Ventures are not expressly contained in the Costa Rican law, but are accepted as valid for the business association.

Banking system

Central Bank

The Central Bank of Costa Rica (Banco Central de Costa Rica BCCR) was created on April 23, 1953, and currently it is governed by the Law No. 7558 dated November 3, 1995.

The Central Bank is an autonomous institution responsible in the contribution to the development of the Costa Rican economy, security and price stability. Also, it is tasked with maintaining the internal and external stability of the national currency and to ensure its conversion to other currencies.

Commercial banks

The Superintendence of Financial Institutions (Superintendencia General de Entidades Financieras SUGEF), is the entity in charge of ensuring the stability, solidity and efficient operation of the national financial system, by following strictly legal and regulatory provisions and according to regulations, guidelines and rulings issued by the institution itself, safeguarding the general interest.

SUGEF supervises the operations and activities of the entities under its control and the operations of the entities authorized by the BCCR that are to participate in the exchange market. Within its powers are the faculty to issue general norms for establishing sound bank practices, to issue guidelines it deems necessary to promote stability, solvency and transparency of the operations of the supervised entities, and to establish categories of financial intermediaries in terms of the type, size and degree of risk.

The legal framework applicable to this field is broad. Some of the laws regulating such activity are: Organic Law of the National Bank System, Lay of the Banking System for the Development, Law of the Modernization of the Financial System of the Republic, Regulatory Law of Non-Banking Companies; Law of Narcotics, Psychotropic substances, Capital Legitimation and Terrorism Financing.

List of banks

Central bank

- Banco central de Costa Rica.

Government-owned banks

- Banco de Costa Rica.
- Banco Nacional de Costa Rica.

Banks created with special laws

- 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.
- The Bank of Nova Scotia (Costa Rica) S.A.

Labor and social security

Labor supply

The Costa Rican labor force is distributed as follows:

Fuerza Laboral			
	Total as of 2016	**Employed**	**Unemployed**
Country total	2,280,989	2 063 366	217 623
			Gender
Male	1 415 247	1 317 044	98 203
Female	865 742	746 322	119 420

Source: Costa Rican National Institute of Statistics

Labor law requirements and Social Security

Social security charges/payroll taxes based on salary paid to the staff in Costa Rica.

A. Cost obligations of the employer as a temporary withholder:

1. Income Tax Law: According to Costa Rican Income Tax Law, the employer has the obligation of withholding salary income tax on the employee's salary (with an upper marginal rate of 15%) as part of his (employer) Income Tax Obligations. The retained amount has to be declared and paid to the Tax Authorities within the first 15 calendar days of the month immediately following that in which the payment of salary was rendered.

For the purposes of the company's year-end Income Tax Return, the amounts paid as salary can be treated as a deductible expense, as long as all salary income tax and social security contribution obligations have been duly carried out.

The percentage of the withheld tax varies according to the salary paid to the employee, in accordance with the following progressive scale:

Up to 799,000 CRC	**Exempt**
On the excess of CRC 799,000.00 up to CRC 1,199,000.00	10%
On the excess of CRC 1,181,000.00	15%

2. Social Costs: Costa Rican labor law introduces the concept of Social Costs, commonly known in the local language as "Cargas sociales" as a series of items that cover all the employee's social security needs, this costs are paid both by the employee and the employers. The amount paid by the employee is retained from his salary by the employer (in the same manner as the income tax described above) and then transferred to the Costa Rican Social Security Fund: "Caja Costarricense del Seguro Social" (C.C.S.S.).

The percentage of this cost that has to be paid by the employee and retained by the employer is 9.84% of the employee's salary and contains the following category:

Social Costs	**Percentage paid by the employee**
Health and maternity leave Benefits	5.50%
Old age, disability and death Benefits	3.34%
People's and Community Development Bank	1.00%
Payable Total amount	**9.84%**

B. Direct cost obligations of the employer:

1. Social Costs: As mentioned before, the social costs are paid by both the employer and the employee. Different from the employee´s portion, where the employer acts strictly as a withholder, the portion corresponding to the employer has to be paid directly by it in any state owned bank (there are four of them) and adds 26.33% of the worker's salary and contains the following items:

Social Costs	Percentage paid by the employer
Health and maternity leave Benefits	9.25%
Old age, disability and death Benefits	5.08%
Family Allowances	5.00%
INA*	2.00%
People's and Community Development Bank	0.50%
IMAS*	0.50%
Employee's Protection Law***	3%
INS*	1%
Total amount to pay	**26.33%**

** INA, IMAS, and INS are government institutions.*
*** Tis law has been effective since March 2001.*

2. Mandatory Labor Risks insurance cost:

An insurance policy called "Labor Risks Insurance" is set as mandatory by the Costa Rican Labor Code. The employer is obligated to pay this policy to the National Insurance Institute (an insurance entity of the country) according to different rates set by the employee's status or position. (The rates increase according to the risk level of the line of work, for example the rate of a common office clerk is set in a low 1% of the salary).

C. Other costs

1. Vacations: Costa Rican labor code describes a benefit set as two weeks paid vacations for every fifty weeks worked for the same employer.

When the employment relation ends before fifty weeks, the employee has the right of one paid vacation day for every month worked, before leaving the company.

Also when the labor relation ends by any cause (including justified termination) the worker has the right of receiving in cash his or hers vacation benefit. This is calculated based in the average salary of the last fifty weeks worked.

2. "Aguinaldo", "Thirteenth Month" or "Christmas Bonus": This is a specific Costa Rican benefit that consists on paying and extra entire month's salary every December. The amount is calculated adding the last twelve salaries received (from December of the previous year to November of the current year) and dividing it by twelve. This amount is not taxed at the income tax, but what exceeds its calculation, will be taxable.

This benefit has to be paid during the first 20 days of December. If the work relation ends before December, the employee has the right of receiving a proportional "Aguinaldo" calculated by adding the salaries received in the current year and dividing it by twelve.

Note: Both the vacations and the "Aguinaldo" are constitutional labor rights, and, in Costa Rican law, every worker has the right of receiving them even if the employment relationship is terminated by causes attributable to the employee.

3. Notice: When either the employee or the employer decide to terminate the employment relationship, the responsible party has to give notice to the other party in the following terms:

If the relationship lasted less than 3 months.	No notice required.
If the relationship lasted more than 3 months but less than 6 months.	One week notice required.
If the relationship lasted more than 6 months but less than one year.	Fifteen days notice required.
If the relationship lasted more than one year.	One month notice required.

This benefit can be converted in cash if one party pays the other one, the amount of one salary day for each day contained in the terms listed in the table above.

The employer has the obligation of granting one day off every week during the terms listed above so the employee can find another job.

4. Unemployment Aid or Severance: Known in Costa Rican law as "auxilio de cesantía", this benefit is paid only when the employment relationship is terminated by causes not attributed to the employee. This is why it is known as an "expected right" or "not consolidated right" of the worker.

The unemployment Aid is paid according to the following terms:

If the relationship lasted less than 3 months.	No payment required.
If the relationship lasted more than 3 months but less than 6 months.	Seven salary days payment.
If the relationship lasted more than 6 months but less than one year.	Fourteen days payment.
If the relationship lasted more than one year.	Payment of 19.5 to 22 days for each year worked depending on the years worked and with a maximum of 8 years (The calculation is made based on a table established in article 29 of the Labor Code)

Accounting and audit requirements and practices

Accounting

The Costa Rican Public Accountant Association has adopted the International Financial Reporting Standards for the recording of financial information, standards for attestation works, and standards for related services and statements.

Any modification to the Standards in force, as well as new Standards that in the future are to be issued by the International Federation of Accountants, will be deemed to be automatically incorporated for mandatory application in CR, without the prejudice that the Commission of Auditing and Accounting Standards of the Costa Rican Public Accountant Association performs an evaluation and recommendation, totally or partially, for its specific application in the country, without the impairment of possible changes.

Books and records

- Accounting records should be kept in Spanish and are specifically required by the Commercial Code.
- The accounting records should include: Daily Ledger, General Ledger, Inventories and Balances Ledger; in addition, business corporations must keep a Shareholder's Assembly Minutes Ledger and a Shareholder's Registry Ledger. These books must also be kept by limited liability corporations.
- The books must be written in Spanish language, in a clear way, in a progressive order by date, with no blank spaces and no scratching or interlineations.

Accounting profession

In CR, the authorized public accountant must have the degree of Licenciatura en Contaduría Pública or its equivalent degree, in a university whose curriculum is duly guaranteed by the CONESUP or the CONARE, as appropriate.

The Public Accountant Association was created with Law No. 1038 of August 19, 1947.

Due to the academic education of Public Accounting professionals and the continuous professional update which Authorized Public Accountants are obliged to have, they are able to develop in one or several professional areas, such as financial audits, compliance audits, Internal Control system assessments, and act as internal auditors, among others.

Rules for listed filings

IFRS is required for consolidated and standalone/separate financial statements for listed companies.

As published by the IASB, subsidiaries of foreign companies, or foreign companies listed on local exchanges, are not subject to different rules.

Rules for statutory filings

Is IFRS or IFRS for SMEs required, permitted or prohibited for statutory filings?

Since 2001, IFRS was adopted as the mandatory accounting framework for preparation of financial statements for public and private companies (with the exception of banks and financial institutions and government entities). This contribution applies also to the companies considered as Large Territorial Corporates. In compliance with the resolution DGT of 2013, it also includes the companies in Free Zone that have been classified as large taxpayers or territorial corporations.

Tax System

The Costa Rican Constitution states that the Congress is empowered to levy taxes. Such taxes will be collected and administrated by the Costa Rican Government through the Tax General Directorate which is an entity that belongs to the Ministry of Treasury.

Tax on corporate income

The current income tax rate is 30%.

However, the law establishes special regulations for small companies whose gross income does not exceed CRC 106.835.000. For this category, the following tariffs will be applied:

10% for companies with gross income up to CRC 53.113,000

20% for companies with gross income up to CRC 106.835.000

Please note that these income tax brackets are adjusted yearly, effective October 1st to September 30th. The tax brackets listed are for the 2016-2017 fiscal year.

Tax on corporations

The Tax on Corporations is the tax established by the State in order to obtain resources for the Ministry of Public Security for the performance of its duties, as well as for the Ministry of Justice and Peace; and the Judiciary of the Republic to finance the Judicial Investigation Agency in the attention of organized crime.

This tax was in force for the periods 2012 to 2015 by Law No. 9024 of December 23, 2011 and was suspended by resolution No. 2015-001241 of January 28th, 2015, issued by the Constitutional Chamber of the Supreme Court of Justice and published in the Judicial Bulletin No. 234 of December 2nd, 2015 - (Exp. No. 12-016277-0007-CO).

Subsequently, it is established with Law No. 9428 Tax on Legal Persons published in Digital Scope No. 64 to La Gaceta N ° 58 of March 22, 2017 and governed from September 1, 2017, in conjunction with the regulation issued by Executive Decree No. 40417-H published in Digital Scope No. 114 to La Gaceta N ° 99 of May 26, 2017. In this law, article 18 repeals Law No. 9024.

The rates established annually are:

a) Fifteen percent (15%) of a monthly salary base for legal entities that are not registered with the Single Tax Registry (RUT) of the General Directorate of Taxation.

b) Fifteen percent (15%) of a monthly salary base for the proportion of time remaining between the date of registration of the company before the Registry of Legal Entities of the National Registry and the end of the period those legal entities that are constituted and enter in the course of the fiscal period

(c) Twenty-five percent (25%) of a monthly salary base for taxpayers of the Income Tax, whose income tax return for the immediately preceding period has recorded gross income less than one hundred and twenty basic salaries (120 base salaries) .

d) Thirty percent (30%) of a monthly salary base for the taxpayers of the Income Tax, whose income tax declaration for the immediately preceding period recorded gross income of 120 base salaries (120 base salaries) to less than two hundred and eighty basic salaries (280 base salaries).

e) Fifty percent (50%) of a monthly salary base for taxpayers of the Income Tax, whose income tax return for the immediately preceding period has registered gross income of two hundred and eighty basic salaries (280 salary basis) or plus.

The legal entities that are constituted and registered during the fiscal period, must pay the rate established in item a) proportionally to the time that remains between the date of presentation of the deed before the cited Registry and the end of the fiscal period.

The Superior Council of the Judicial Branch establishes the salary base applicable for each period, through a circular that is published in the Judicial Bulletin of the official journal La Gaceta.

For calendar year 2017 the wage base is located set in the sum of ¢ 426,200 colones (four hundred twenty-six thousand two hundred colones). In this way, it is possible to establish the amounts payable for this tax, both for the existing companies as for the new corporations that are filed for its corresponding registration during the current year.

Corporate residence

In most cases, the place where a company is incorporated is known by the Costa Rican tax authorities as “the tax domicile”. However, any company that carries out industrial, agricultural or commercial activities in Costa Rica is subject to local income tax in the same manner as a registered business, regardless of where it is incorporated. Such companies that conduct business in Costa Rica are subject to the rules of permanent establishment (EP).On the other hand, under the Costa Rican income tax law, income from transactions carried out completely abroad may be regarded as non-Costa Rican-source income and, therefore, are not subject to income tax in Costa Rica.

On the other hand, under the Income Tax Law, income from transactions carried out entirely abroad can be considered as income from non-Costa Rican sources; therefore, would not be subject to income tax in Costa Rica.

Franchise tax

The payment made abroad for the use of a franchise, royalty or use of license will be subject to a 25% withholding on the tax on remittances abroad.

Capital gains tax

Currently, there is no capital gains tax for the sale of real estate or securities as long as such sales do not represent a habitual activity. There is a capital gain tax (at the normal rate of 30%) on the sale of depreciable assets when their selling price is higher than their adjusted basis (book value).

Transfer Pricing

On September 13, 2013, through Executive Decree No. 37898-H “Transfer Pricing Provisions”, transfer prices were regulated at the regulatory level in Costa Rica, prior to that date they had been regulated only by a guideline interpretive.

With the issuance of this Decree, the taxpayers are forced to evaluate the prices agreed in operations of goods or services sold to companies locally and abroad, whereas the prices that will be agreed between independent parties, according to the Principle of Free Competition and Economic Reality.

Recently, the Tax Administration published Resolution No. DGT-R-28-2017, which modifies Resolution DGT-R-44-2016, where the Tax Administration indicates that it will communicate, at least three months in advance, the date and by means of which it will request the presentation of the first or first information declarations of transfer prices, by publication on the website of the Ministry of Finance and in a written communication medium with national circulation. This period of three months will be granted in order for taxpayers to make adjustments in their computer systems to perform the electronic transmission of data. It will also inform the same term in advance, the technological means that for that purpose, will make available to those taxpayers who cannot access the Internet.

Sales Tax

A fixed sales tax rate of 13% applies at all stages of the sale of goods and in the billing of certain limited services expressly indicated in the Law. The tax applies to (i) sales of goods within of the national territory (except sales of land, buildings, exports and certain articles of basic necessity, such as staples, certain medicines and veterinary products); (ii) the value of services provided by restaurants, bars, motels, printing houses, social and recreational clubs, paint and repair shops, and others; and (iii) the importation of merchandise for personal use or consumption or to meet commercial needs.

Use of electronic vouchers:

On September 20th, 2017, the notice regarding the start dates for the use of electronic vouchers was published in the scope of La Gaceta No. 178. In accordance with the obligation established by Resolution No. DGT-R-48-2016 of October 7th, 2016 and in compliance with the provisions of Article 2 entitled “Objective Criteria for Taxpayer Selection” in Resolution No. DGT- R-51-2016 of October 10, 2016, the Directorate General of Taxation announces the start dates for compliance with the obligation to use the electronic billing system, electronic ticket, electronic credit note and electronic debit note, as well as vouchers for the support of revenues, costs and expenses, in accordance with the defined technical and normative specifications, for the groups of taxpayers described in the following sectors:

1. Health Sector - January 15th, 2018
2. Accounting-financial-administrative sector - February 1st, 2018
3. Legal sector - March 1st, 2018
4. Engineering-architecture-computer science sector - April 2nd, 2018
5. Other sectors - May 1st, 2018

Excise tax

The excise tax must be applied at a rate of up to 100% and it is applicable in products that are considered non-essential. The base tax is a cost, insurance or freight (CIF) plus import tax for imported goods or the value of the sale of goods produced in Costa Rica. The tax is applied in only one stage in the sale of goods. The payment of the tax is required at the time of importation or, for articles produced in CR, within 15 days of the month of sale.

Property tax

Each local municipal government is in charge of real estate appraisal. The property tax to be applied throughout Costa Rican territory is 0.25% of the appraised value, registered in the respective municipality when the tax liability originates. Depending on the municipality and the region, the local government can apply an exemption from the property tax if the taxpayer is an individual who owns only one price of property within the country.

Real property transfer tax

Real estate transfer is calculated as the 1.5% of the selling price of the real estate or it tax value, whichever is greater. The indirect transfer of real property was levied in the year 2012 through the Enforced Law of Tax Management No. 9069 and it was created a tax on the indirect transfer of real property understanding for it all legal business that implies the transfer of the control power on a corporation holder of the real property.

Tax on branch income

Branch income is subject to income tax at the rates applicable for corporate income taxes. Additionally, there is a withholding tax of 15% on dividends distributed within the country to legal entities and on the profits transferred abroad.

Income Determination and Corporate deduction

Inventory valuation

Inventories are generally stated at cost and can be valued at the compound average cost method, FIFO, LIFO, retailer method, or specific identification method. Since all entities must keep legal records, any adjustment resulting from different methods of inventory valuation for tax purposes and financial purposes should be recorded.

Capital gains

Capital gains and losses on the disposition of non-depreciable fixed assets or shares of other companies are excluded for income tax purposes as long as such dispositions are not a habitual activity.

Intercompany dividends

Dividends between domestic subsidiaries and other domestic corporations are not subject to any taxes. There are no ownership requirements to qualify for this exclusion.

Foreign income

Foreign-source income is not taxable.

Stock dividends

The stock dividends are subject to income tax of 15%, or 5% if the share is registered in a stock market approved in Costa Rica. Dividends paid in the form of shares are permitted and tax exempt.

Deductions

Depreciation and depletion / The straight-line and sum-of-the-years-digits methods of depreciation are allowed.

Class	Years
Buildings	50
Machinery and equipments	10
Furniture and fixtures	10
Vehicles	10
Agricultural plantation	2 a 10

The tax administration, at the request of the taxpayer, could adopt technically acceptable special depreciation methods in cases duly justified by the taxpayer. In addition, the tax administration could authorize, through general resolution, accelerated depreciation method on new assets, acquired by corporations with monetary activities requiring constant technological update, higher installed production capacity and productive reconversion processes, in order to maintain and strengthen their competitive advantage.

Payments to foreign affiliates

Corporations can claim deductions for royalties, technical and management service fees, and interest charges paid to foreign affiliates, provided that a tax of 25% for royalties, franchising's and other services, and 15% for interest is withheld. However, the deductions for technical/ financial advisory, use of patents, supply of formulae, trademarks, privileges, franchises, royalties and the like cannot exceed 10% of gross sales in the aggregate if paid to the parent company.

Taxes

With the exception of sales tax, selective consumption tax, specific taxes over consumption and special duties over them established by law, penalties and interest paid over any tax obligation, and the income tax itself, all other taxes are deductible expenses when determining taxable income.

Net operating losses

Losses incurred by industrial and agricultural enterprises may be carried forward and deducted from the taxable profits for the following three and five years, respectively. Loss carry backs are not allowed.

Group taxation

There is no group taxation in CR.

Withholding tax (WHT)

Regarding payments to non-domiciled foreigner's corporation or individuals, taxes are withheld as follows:

1. Dividends – 15%

   Withholding depends on the origin or source of the retained earnings.

   Total or partial exemptions will be authorized by the tax authorities to the extent that a foreign tax credit is totally or partially disallowed to the taxpayer in the taxpayer's country of residence. This exemption will not be allowed, however, if this type of income is not taxable to the taxpayer in the country of residence.

2. For the interests, commissions and other financial expenses; as well as, for the lease of capital assets, it will be paid a rate of fifteen percent (15%) of the amount paid or accredited.
3. Interest, commissions and other financial expenses paid by foreign banks that are part of a Costa Rican financial group or conglomerate regulated by the National System of Financial System Supervision shall pay a five-point rate of five percent (5.5%); during the first year of validity of the law that established that tax (from November 27, 2014 to November 27, 2015); during the second year (from November 27, 2015 to November 27, 2016) will pay nine percent (9%); during the third year (from November 27, 2016 to November 27, 2017), will pay thirteen percent (13%) and, from the fourth year (beginning November 27, 2017), they will pay fifteen percent (15%) of the amount paid or credited.
4. For the technical and financial advice or other service, as well as payments for the use of patents, formula supplies, trademarks, privileges, franchises and royalties, a fee of twenty five percent (25%) will be paid.
5. For the pensions, the retirement, the wages and any other remuneration to be paid for personal work performed as an employee, a WTH of 10% will be applicable.
6. For the fees, commissions, allowances and other provisions of personal service performed without a relationship of dependency, a WTH of 15% will be applicable.
7. Transportation and communication services are subject to a 8.5% withholding.

Tax incentives

Entities established in Free Trade Zone, may enjoy tax exemption on export of goods, income tax in various forms (ranging from 0% to 15% depending on the activity, location within the national territory and the amount of years in which he has enjoyed the benefit), sales tax, export tax, selective consumption tax, real estate transfer tax, and WHT on payments abroad, as well as they will enjoy of the discretionary use of foreign exchange related to local operations. However, these incentives for export manufacturing activities have been affected by the rules established by the World Trade Organization, in force since 2015, such that these benefits will be made available for certain qualifying manufacturing operations in accordance with the Free Trade Zone Law as amended. The requirements and benefits of the Free Trade Zone for services sector companies did not suffer any changes.

Other devolutive tax regimes, apply for industries that import semi-finished materials for assembly in Costa Rica and import and export of finished products. Benefits consist of duty-free imports of raw materials for subsequent export as manufactured products. Machinery for these industries may also be imported duty-free.

Tourism development:

The incentive Law for Tourism Development grants several tax benefits, such as exemption from import duties on certain tourism service-related goods and from property tax for companies dedicated to tourism, but only for those with a signed tourism agreement.

Costa Rica -United States: The only tax treaty in force between CR and the United States, effective since 12th of February, 1991 is a Tax Information Exchange Agreement, whereby both countries agree to exchange information, from and/or in relation to public and private entities and individuals, at the request of the party's corresponding authority, in relation to any tax relevant issue.

Double Taxation Treaties:

Costa Rica -Spain: This agreement was approved with law number 8888 to avoid the double taxation and tax evasion on income and assets.

Costa Rica -Germany: This agreement was approved with law number 9345, in the scope No. 59 of Wednesday, April 20th, 2016. In the official newspaper La Gaceta, the agreement between the Republic of Costa Rica and the Federal Republic of Germany was given, in order to avoid double taxation on the income tax and the tax on capital.

Tax Information Exchange Agreement (TIEAs)

Contracting State	Reference	Applicable date
Argentina	Law 9007	Jul. 12th 2012
Canadá	Law 9045	August 14th 2012
Ecuador	Law 9370	September 17th 2016
El Salvador	Law 8880	October 31st 2012
España	Law 8888	January 01st 2011
Estados Unidos	Law 7194	February 12th 1991
Finlandia	Law 9197	January 01st 2015
Francia	Law 9012	December 14th 2011
Guatemala	Law 8880	February 11th 2011
Holanda	Law 9040	July 1st 2012
Honduras	Law 8880	April 25th 2006
México	Law 9033	June 26th 2012
Nicaragua	Law 8880	July 9th 2011
Noruega	Law 9201	April 13th 2014
Suecia	Law 9203	August 8th 2015

Source: Ministry of Treasury

Corporate Tax compliance

Returns

Corporations must file by December 15th the income tax return based on ordinary fiscal period (from October 1st to September 30th). Entities with an operating period of four months or less may file a return together with the following year´s tax return.

Costa Rican Tax Administration, will only authorize the change to a calendar fiscal period (January 1st to December 31st) in the specific cases of the following taxpayers:

a) Entities or enterprises of the Public Sector which are required to set the budget period between the January 1st and December 31st of each year.

b) A transportation company or international communication or a related company for management, possession of property or business relationship with other goods or services of this type.

c) An entity comprised in any of subparagraphs b), c), ch) and d) of Article 3rd of the Income Tax Act No. 7092 of April 21st, 1988 and its amendments, and that because of the laws governing should make economic closures in accordance with the calendar year.

d) That is a Mutual savings and loan authorized by the Housing Mortgage Bank to operate within the National Financial System for Housing.

e) Engaged in financial and securities (member of the National Banking System, savings and loan, nonbank financial company, but regulated by the Superintendent of Financial Entities) engages market.

f) Engaged in banana cultivation or its correlated activities.

g) Engaged in planting or industrialization of paddy.

h) It is a subsidiary of a foreign parent company, subsidiary of a parent company based in Costa Rica, parent company of a foreign subsidiary, branch or agency of a foreign domiciled company or a related company -in the terms set forth in subsection b) of this article- another, which (in either case) is subject to a different ordinarily established in the Law on Income tax or has previously hosted a special fiscal period.

Taxpayers benefiting from a special fiscal period must provide the sworn statement of their incomes and pay the tax within two months and fifteen days after the end of the fiscal period authorized. They also have the obligation to make partial payments of tax, in three quarterly, equal and successive installments, six months after the date of the special prosecutor authorized period.

The tax system is one of self-assessment with occasional auditing by the tax authorities.

Payment of tax

On the last day of March, June and September all corporations and taxpayers that will have an ordinary fiscal period, must prepay installments that amount 75% of the average income taxes paid in the past three fiscal years, or the amount paid in the prior year, whichever is greater.

The taxpayer may request the tax authorities to eliminate or modify partial payments or advances tax corresponding income in certain specific cases (i.e. if the company anticipates a loss that year, or if the average of the three previous fiscal years used to calculate partial payments of the current period was affected by some extraordinary income no longer be charged).

Individual's taxation summary

Costa Rica follows a territorial concept for the determination of taxable income. Costa Rican citizens are subject to income tax on their income from Costa Rican source, which is understood to be any income from assets used, goods located or services rendered within the Costa Rican territory.

Foreign citizens will be subject to income tax on their income from Costa Rican source, regardless the location these receive the payment for their work in the C.R.

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

Individual tax compliance

Returns

Individual tax payers must file their tax returns the same dates scheduled for the corporate tax payers, they are required to keep the same records, and are allowed to apply the same deductions, except for small to medium companies (which can apply to a Simplified Taxpayer's Regime) and the activities of certain taxpayers (such as non- professional services), which apply different income calculation methodologies and simplified documentation requirements.

Salary Tax

Employers are required to withhold income tax on salaries, wages and bonuses. The tax is levied using also progressive rates with defined brackets. Christmas bonus, Social Security contributions, severance and termination payments are not subject to income tax according to Labor Code.

Current Individual Tax Rates

Income tax for individuals with independent lucrative activities:

Up to ¢3,549,000 (annually)	**Exempt**	
From ¢3,549,000	Up to ¢5,299,000	10%
From ¢5,299,000	Up to ¢8,840,000	15%
From ¢8,840,000	Up to ¢17,716,000	20%
On the excess of ¢17,716,000		25%

Salary wage tax & applicable credits:

Up to ¢799,000	**Exempt**	
From ¢ 799,000	Up to ¢1,199.000	10%
Over ¢ 1,199,000		15%

Tax Credits

Per child	¢1,500
Spouse	¢2,240

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