

Country Guide

Costa Rica

Prepared by

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COSTA RICA

COUNTRY GUIDE

2023

Content

INTRODUCTION	4
I. THE COUNTRY AT A GLANCE	5
A. Language	5
B. Exchange Rate.....	5
C. Country Geography	5
D. Cultural Influences in Business.....	6
E. Religious Influences in Business	6
F. Country Infrastructure.....	6
G. Communication system.....	7
H. Public Services	7
II. GENERAL CONSIDERATIONS	8
A. Investment policies.....	8
B. Diplomatic Relations.....	14
C. Government.....	16
D. Environmental Considerations	17
E. Intellectual Property.....	18
III. INVESTMENT INCENTIVES	21
A. Export Incentives.....	21
B. Grants and subsidies to foreign investors	21
C. Tax Incentives	22
D. Regional Tax Incentives	22
IV. FINANCIAL FACILITIES	24
V. EXCHANGE CONTROLS	24
VI. IMPORT/EXPORT REGULATIONS.....	25
A. Customs Regulations	25
B. Exports.....	26
C. Foreign Trade Regulations	27
D. Imports	27
E. Manufacturing Requirements.....	27
F. Product Labeling	28
VII. STRUCTURES FOR DOING BUSINESS.....	28
A. Business organization.....	28
B. Limited Liability Companies.....	29
C. Limited Partnerships and General Partnerships	29
E. Branches/Subsidiaries.....	29
F. Joint Ventures	31
G. Trusts and Other Fiduciary Entities.....	31
VIII. REQUIREMENTS FOR THE ESTABLISHMENT OF A BUSINESS	32
A. Antitrust Laws	32
B. Environmental Regulations	32
C. Government Approvals; Licenses/Permits	32
D. Insurance	33
IX. OPERATION OF THE BUSINESS.....	34
A. Advertising.....	34
B. Attorneys	34
C. Bookkeeping Requirements	34
D. Business Ethics/Codes.....	35
E. Consumer Protection Laws.....	35
F. Construction.....	35
G. Contracts	36

H.	Price Controls.....	36
I.	Product Registration	37
J.	Reductions or Return on Capital.....	37
K.	Sale of Goods	37
L.	Trade Associations.....	37
X.	CESSATION OR TERMINATION OF BUSINESS	38
A.	Termination.....	38
B.	Insolvency/Bankruptcy	39
XI.	LABOR LEGISLATION, RELATION, AND SUPPLY.....	40
A.	Employer/Employee Relations.....	40
B.	Employment Regulations	40
	Employment's length is categorized as follows:	43
XII.	CORPORATE TAXES.....	46
XIII.	TAX ON INDIVIDUALS.....	56
XIV.	TAX ON OTHER LEGAL BODIES.....	60
XV.	GENERAL TAX CONSIDERATIONS.....	60
XVI.	IMMIGRATION REQUIREMENTS.....	60
XVII.	EXPATRIATE EMPLOYEES	63

INTRODUCTION

The following is a general reference of applicable law in Costa Rica that should be taken into consideration when considering investing in the country.

This does not constitute a legal opinion and may not apply in certain cases based on the circumstances or particularities of a case. Legal counsel is always advised when seeking to invest in Costa Rica.

This guide has been prepared solely for information purposes and for its use in the Lex Mundi website. It shall not substitute the use of legal counsel in a specific case.

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I. THE COUNTRY AT A GLANCE

A. Language

Spanish is the official language in Costa Rica and English is predominantly the second language spoken. Other languages are less frequently used, although German, French, Italian, Portuguese and Hebrew are part of the tradition of a number of communities within the country.

B. Exchange Rate

The official currency is the colon; however US dollars are widely accepted. The official exchange rate of US Dollar and European Euro fluctuates according to the rates set up by the Central Bank of Costa Rica. As of September 27, 2023, the exchange rate of these two currencies were:

Costa Rican Colones Exchange Rate as of September, 2023	
US Dollar (US\$)	539 CRC per US\$
UE Euro (€)	598 CRC per €

C. Country Geography

Costa Rica is located in Central America, South of Nicaragua (Northern border) and North of Panama (Southern border), bathed by the Caribbean Sea on the East and the Pacific Ocean on the West. Both coasts are just hours away from each other.

Although Costa Rica is a relatively small country, it enjoys a privileged global position that allows it to have a variety of climates and habitats. In general, however, temperatures vary between 14 and 28 Celsius in the high Central Valley and between 22 and 36 Celsius in the low and coastal lands. Temperatures in each region remain relatively stable throughout the year, although some slight changes occur from "Summer" (dry season) to "Winter" (rainy season). "Summer" usually goes from December through April and "Winter" from May through November. Costa Rica has no Fall or Spring seasons.

D. Cultural Influences in Business

There are no cultural influences or prohibitions on the way business is conducted.

E. Religious Influences in Business

There are no religious influences or prohibitions on the way business is conducted, as the Constitution provides for freedom of religion and the government and the people strictly respect this right.

F. Country Infrastructure

Costa Rica enjoys a highly developed infrastructure. Located in the Central American Isthmus, between Nicaragua and Panama, Costa Rica can be accessed from anywhere in the world through both the Atlantic and the Pacific Oceans. Driving time between the Caribbean and the Pacific ports is approximately 4.5 hours and between the Nicaraguan to the Panamanian border it is approximately 13 hours.

The growing demands for foreign trade have made it necessary to build the necessary infrastructure that allows the transportation of these goods. The seaports of Limon and Moin, located on the Caribbean coast are within a few kilometers of each other. They are connected to the Pacific by internal highways as well as by sea, through the Panama Canal. Both port facilities are primarily dedicated to container shipments offering roll-on/roll-off services.

On the Pacific coast, the main port is Caldera, located a few kilometers South of the city of Puntarenas, which is a major tourism center. Caldera is very well accessed by the Southern coastal highway and route 27, with the Central Valley. Also, secondary ports on the Pacific may be found in Puntarenas and Golfito. In addition, various marinas are located throughout the coastline, particularly in Flamingo, Papagayo, Puntarenas, Herradura and Golfito.

For air transportation, the Juan Santamaría International Airport is located a few kilometers West from the capital city of San Jose, and is served by the main international airlines visiting the country. There are direct flights from Europe, the USA, Mexico, Central and South America. The Liberia International Airport in the Northern touristic Province of Guanacaste also has daily direct flights from the USA and Canada, including chartered flights during the peak of the touristic season. Other international airports are under evaluation, being the one that will service the Southern part of the country the most

advanced in the planning. Additionally, local airports for smaller planes can be found all around the country.

With respect to public transportation, it is easy and quite inexpensive to get around in Costa Rica. The main public transportation is the bus, followed by taxis, also known as the “red force” due to their characteristic red color. Most recently the train has been re-launched and it now serves as an alternative way of public transportation within the great metropolitan area.

All main rental car agencies operate in the country, since one of the most important economic activities in Costa Rica is tourism. It is easy to rent a car and the prices are relatively similar to those of other neighboring countries.

G. Communication system

Costa Rica has one of the most advanced telephone systems in Latin America. International calls can be dialed directly from any point in the country.

Mobile technology has grown rapidly in the last years after the country opened up to private participation in the telecommunications industry after the adoption of CAFTA-DR. Even if the telecom industry was monopolized for decades, Costa Rica is one of the countries in Latin America with the highest density in the popularization of mobile phones. Companies such as Liberty, Claro, and Tigo currently compete directly with the giant state-owned company ICE in the telecom industry. It is possible to buy a mobile phone for immediate use (for prepaid and other different plans) at many stores, most of them located in the main cities of the country.

Internet is also widely developed and connections through several Internet Service Providers may be obtained in one day. Wireless network for public use has not been expanded fully, but it is quite common to find open networks all around the country.

H. Public Services

(i) Water:

Water is mainly distributed by the state water works agency “Acueductos y Alcantarillados” (“AyA”), with coverage of water access in the territory of approximately 97%. Tap water is 99% potable and safe for human consumption in the Central Valley and all major towns in the country. In rural areas, potable water is often higher than 86%. In some areas, local communal organizations known as ASADAS manage the local water sources and are under the supervision of AyA. Normally water is an inexpensive service,

but the rates will vary from region to region. The consumption rate is set by the regulatory agency known as "ARESEP".

(ii) Electricity:

Electricity is mainly distributed by two public companies, Instituto Costarricense de Electricidad (ICE) and Compañía Nacional de Fuerza y Luz (CNFL). Other state-owned, private and a number of mixed ownership entities (granted with public concessions) provide electricity in the provinces of Cartago, Heredia and Alajuela. Electricity coverage in the country is of approximately 97%. The cost of service will vary depending on its use; typically the cost for industry use is less expensive than that for commercial and residential use, but other cost factors include area and its development level. Just like in the case with water, the consumption rate is set by ARESEP.

ICE also controls several hydroelectric power plants and other power generators that produce sufficient energy to fulfill the country's needs.

Carbon and oil fields, and any other hydrocarbon substances, as well as existing radioactive mineral deposits in the national territory and gas deposits, are exclusively controlled by the government, who may grant public concessions for their exploitation. In some cases, concessions may only be granted by the Legislative Assembly (Congress).

II. GENERAL CONSIDERATIONS

A. Investment policies

1. Climate for Investment

On May 25, 2021, Costa Rica successfully completed its accession process with the Organization for Economic Co-operation and Development ("OECD"), becoming the fourth OECD member country in Latin America, after Mexico, Chile and Colombia. OECD Secretary-General Angel Gurría stated:

"We are delighted to welcome Costa Rica into the OECD family at a time when multilateralism is more important than ever. We have been impressed that the cross-party commitment to OECD accession that we witnessed during the accession process continued into the ratification phase, despite the pandemic. This reflects the importance of working together for designing and implementing better policies,

and Costa Rica will no doubt represent a new beacon for the OECD in the region."¹

Costa Rica is consolidated in the region as one of the most stable countries in the last century politically and economically, with a great fervor and respect for peace and democracy, and an invaluable recognition of the importance of work and effort to emerge as a community through investment in education and development of new industries in the country.

Moreover, Costa Rica has been recognized as a leader in Latin America in the areas of social and economic development. In general, the Costa Rican government welcomes and promotes foreign investment. The governmental agency in charge of promoting foreign trade is the "Promotora de Comercio Exterior", also known as "PROCOMER." PROCOMER coordinates all public initiatives and efforts in promoting the country abroad.

Since September 2013, the country launched its new national campaign for attracting investors under the country trademark "Essential Costa Rica" that promotes a wide series of values and commitments of local business, highlighting the local commitment to develop the economic and industrial sectors in accordance to our environmental and services traditions.

As reported by DI Performance Index of 2023 in June 2023², Costa Rica leads, followed by North Macedonia and the UAE, the attraction of foreign direct investment (FDI) relative to the size of its economy in 2022. As evidence of the report, we have witnessed an increase in the companies that used to choose Asian countries heading into Costa Rica to relocate some or part of their business, openly attracted by the social, political and economic stability as well as the specialized work hand available in the country.

There is also a private agency known as "Costa Rican Coalition for Development Initiatives" (acronym: "CINDE"), serving as an independent association of private sector leaders actively promoting foreign investment in the country through offices

¹ <https://www.oecd.org/costarica/oecd-welcomes-costa-rica-as-its-38th-member.htm>

² <https://www.fdiintelligence.com/content/data-trends/costa-rica-again-tops-list-of-fdi-overachievers-82539>

located in several countries, who also work with PROCOMER and other public entities in endorsing the country as an investment destination.

2. Inflation rate

AS per the effects of the COVID-19 pandemic, and its impact in the foreign trade market, as well as the lockdowns and other international trade crisis experienced during 2020 and 2021, the inflation rate for July 2022 was the highest in the country since April 2009 (that resulted from another international financial crisis) reaching a concerning 11,48%. Nonetheless, the local efforts to control the impact in the economy has made that for July 2023 we had a -2.29% in such indicator.

It is interesting to note that, Austria, Chile, Colombia, Spain, Italy, El Salvador and United States of America also had a variation of more than 7% in their interannual inflation rate from 2021 to 2022³. Some of those countries are working hard to contain those indicators, having positive results for the mid-term of 2023 (as Costa Rica and Chile are showing).

3. Restrictions to foreign investment

There are basically no restrictions to foreign investment in Costa Rica. As indicated above, foreign investment is mostly welcomed in Costa Rica. The main incentive systems, all consisting in tax exemptions, are the following:

(i) Forestry Incentives

Under local law, the Costa Rican government grants tax benefits in the form of "Certificates for Forest Conservation" to compensate landowners for environmental services rendered to the country through the preservation of forests located on private property. The "Environmental Services Program" (ESP) created FONAFIFO (National Fund for Forest Financing), a public agency, to promote and reimburse owners who maintain wooded areas or wish to establish such areas to supply environmental services to society. The certificates are issued to landowners for a minimum term of 20 years, provided that no lumbering activity takes place in the designated area during the two preceding years and for the duration of the term agreed upon.

³ <https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?end=2022&start=1960&view=chart>

(ii) Agriculture Incentives:

Certain local legislation, unaffected by CAFTA-DR, provides for the exemption from all duties and surcharges on imports of machinery, equipment, and materials to be used for agriculture, or goods required for fishing activities (other than sport fishing). All other incentives pertaining to agricultural, tourism, and export industries have been eliminated, mostly due to the approval of CAFTA-DR.

New strategies in agricultural policy have been recently proposed in order to support this sector, which aim to increase competitiveness and exports to our most important commercial partner, the United States. These strategies include:

- Supporting the agricultural productive sector through the modernization of public institutions, for the timely attention to the needs of producers.
- Generating the ideal conditions to improve the competitiveness of producers in the agricultural sector.
- Contributing to increasing the productivity and sustainability of agricultural production, through efficient mechanisms that allow producers to face market challenges.
- Promoting economic development by adding value, technologies, and competitive advantages of agricultural and fishing production for the well-being of the rural population

(iii) Free Trade Zone Incentives

The Free Trade Zone consists of a regulated, non-residential, industry or service areas. Within these areas or "parks", we can find companies that (i) process or manufacture of goods (for its exportation or local sale), (ii) trading companies no producer, for exportation of goods, (iii) services provider that meet the strategic eligibility criteria (a few services are excluded⁴), (iv) management of free trade zone parks, (v) scientific research to improve the technological level of the country, and (vi) ships builders, repairs and maintenance (there is no difference in the ship, it can be marine or aerial, for instance) are currently entitled to operate under a special status with significant tax incentives.

⁴ Insurances, financial services, mineral extraction, trading of weapons.

Certain amendment of the law recently admitted new services to be included as free trade zone companies, which are related to sustainable adventure park, human health services and supply's developers for other companies under the free zone regime. The specific regulation of those new activities are being discussed at the time of this report.

On the other hand, the incentives of this regime will vary depending on the level of development of the geographical region in which the company has been established as well as it will depend on the category of the activity to be developed. Special tax rate will apply as follows:

SERVICES, TRADING AND MANAGERS OF FREE TRADE ZONE REGIME					
INSIDE GMA			OUTSIDE GMA		
Income Tax tariffs			Income Tax tariffs		
0%	15%	30%	0%	15%	30%
From year 1 to year 8	From year 9 to year 12	After From year 12	From year 1 to year 12	From year 13 to year 18	After From year 18

MANUFACTURE ORDINARY PROJECT							
INSIDE GMA				OUTSIDE GMA			
Income Tax tariffs				Income Tax tariffs			
6%	15%	30%		0%	5%	15%	30%
From year 1 to year 8	From year 9 to year 12	After From year 12		From year 1 to year 6	From year 7 to year 12	From year 13 to year 18	After From year 18

MANUFACTURE MEGAPROJECT (>US \$10MM OF INVESTMENT IN DEPRECIABLE ASSETS, 100 EMPLOYMENT)					
INSIDE GMA			OUTSIDE GMA		
Income Tax tariffs			Income Tax tariffs		
0%	15%	30%	0%	15%	30%
From year 1 to year 8	From year 9 to year 12	After From year 12	From year 1 to year 12	From year 13 to year 18	After From year 18

MANUFACTURE STRATEGIC SECTOR 200 EMPLOYMENTS, OUTSIDE GMA		
Income Tax tariffs		
0%	15%	30%
From year 1 to year 12	From year 13 to year 18	After From year 18

Free trade zone companies are also exempted from other taxes, such as importation taxes, dividend withholding tax, commercial license tax, limited land ownership tax, sales tax, among others.

4. De facto restrictions on Investments

There are no de facto restrictions that affect investments activities. Public offices may sometimes work slowly, but bureaucratic discretion is illegal in Costa Rica. An official is subject to personal liability for discretionary acts or for not ruling within the laws and regulations governing the specific issue.

5. Size of markets

Costa Rica's population is of 5.04 million and its economic active population as of 2023 is over 2.1 million.

Costa Rica has also free trade agreements the following countries: United States and Dominican Republic (CAFTA-DR), Central America, Colombia, countries of CARICOM (the Caribbean Community), Canada, Peru, Chile, China, Panama, Singapore, Mexico and the European Union.

6. Types of businesses

Traditionally Costa Rica has been an agriculture driven country, although the economy has experienced a significant diversification over the last decades. Manufacturing and services are now very active sectors, and exports have grown steadily. The high

technology industry, such as those related to medical devices, is growing to a very prominent level within the manufacturing activity. Tourism has become the most significant source of income from abroad.

B. Diplomatic Relations

Established Relationships

Costa Rica is an active member in the international community. It is recognized by its keen and permanent unarmed neutrality approach to international diplomacy. Some key principles in its foreign policy include promotion of human rights and sovereignty, multilateralism, climate action and ocean protection, and peace promotion. The nation has diplomatic relations with over 180 countries. It is a member of several multilateral organizations including the United Nations, Organization of American States, and the Central American Integration System. As promoter of economic growth and peace, Costa Rica has strong relationships with countries all over the continents. Currently, it is strengthening its ties with Asia and the Middle East despite the geographic distance.

Addresses, telephone numbers for the embassies or consulates

Country	Address	Phone	Fax	P.O. Box
Argentina	Curridabat, de Plaza del Sol 700 mts. sur y 50 mts. Est	2234-6520	2283-9983	
Belgica	Del Centro Comercial Plaza Rose, 75 metros Este San Rafael de Escazú	2289-5058		
Bolivia	Curriabat Plaza Freses 200 norte 200 este 50 norte	2524-3491		84810-1000
Brazil	Paseo Colón, Edificio Torre, Mercedes 6°. Piso	2295-6875	2295-6874	10132-1000
Canada	Oficentro Ejecutivo La Sabana edificio 5, piso 3. Detras de la Contraloria Sabana Sur	2242-4400	2242-4410	351-1007
Chile	225 metros al sur del Automercado de Los Yoses Calle 39, avenidas 10 y 12 - Casa 225	2280-0037	2253-7016	
China	De la casa de D. Oscar Arias 100 metros al sur y 50 metros al oeste Rohmoser, Pavas	2291-4811	2291-4820	1518-1200
Colombia	De taco Bell San Pedro 250 metros Oeste Casa gris con rejas negras	2283-6871	2283-0507	
Czech Republic	Carretera a Pavas, De Euromobilia 50 m. norte Rohmoser	2296-3605	2291-5283	
Dominican Republic	Curridabat de McDonalds - Plaza del Sol 900 Metros al Sur, y 75 Metros al Este casa No.20	2280-4968	2280-7604	
Ecuador	Sabana Sur 400 sur 75 este de la Contraloria.	2232-1503	2291-3547	1374-1000
El Salvador	Del Restaurante McDonald's de Plaza del Sol 7 cuadras Sur y 50 Metros Este Curridabat	2234-9256	2234-9271	
France	De la Mitsubishi 200 m, 25 m west Curridabat	2234-4167	2234-4196	

Germany	Edificio Torre la Sabana, 8º piso 300 metros al oeste del ICE Sabana Norte	2290-9091	2231-6403	4017-1000
Great Britan and No Ireland	Edificio Centro Colón Paseo Colón and Streets 38 and 40	2258-2025		
Guatemala	Del Colegio de Medicos 200 este, calle 62 A. 100 sur 50 oeste	2291-6172	2290-4111	
Honduras	De la esquina norte de Teletica Canal 7 175 metros al oeste, casa a mano derecha con verjas azules	2232-9506		
Israel	Paseo Colón, Calle 38 avenida 2 1000 San José	2221-6444		
Italy	5ª entrada del Barrio Los Yoses-Casa blanca esq. 2 piso	2224-6574	2225-8200	1729-1000
Japan	Sabana Norte, del ICE 300 metros oeste y 25 norte Edificio Torre La Sabana, Piso 10	2232-1255	2231-3140	501-1000
Korea	400 mts norte y 200 mts oeste del Restaurante Rostipollos en Trejos Montealegre San Rafael de Escazú	2588-0852	2588-0760	
Malta	33rd Ave., 110th. St., Rohrmoser del Am Pm 100 N Edificio Esquinero, 2 pisos	2290-3737	2290-3738	
Mexico	Avenida 7ma. No. 1371 75 m, este Casa Amarilla	2257-0633	2258-2437	
Netherlands	Oficentro La Sabana Edificio 3, Piso 3 Detrás de la Contraloría, La Sabana	2296-1490	2296-2933	10285 - 1000
Nicaragua	Ave. Central, Calle 25 bis Barrio La California	2222-7896	2221-3036	
Norway	Avenida 10, Calle 37/39, Los Yoses	2283-3070	2283-3234	
Panama	Barrio La Granja, del Antiguo Higuerón de San Pedro 200 sur y 25 este, San Pedro	2280-1570		1032050
Paraguay	Curridabat de Mac Donalds Plaza del Sol 700 al sur y 200 al este, casa esquinera con columnas color beige 600 mtrs Sur y 25 mtrs Este Casa Nº 12	2234-1857	2234-1857	
Peru	Del McDonalds de Plaza del Sol 500 m. Sur y 175 m Este Curridabat	2225-9145		
Poland	400 mts Norte y 25 Oeste de La Embajada Americana, Bv. Ernesto Rohrmoser, San José, Rorhmoser	2231-2005	2231-2008	
Rusia	Barrio Escalante, 100 m Norte y 150 Este de la Iglesia Santa Teresita	2256-9181	2221-2054	
Spain	Calle 32 (entre Paseo Colón y Avenida Segunda)	2222-1933	2222- 4180	10150-1000
Switzerland	Edificio Centro Colón 10º piso, Paseo Colón	2221-4829	2255-2831	
United States of America	Calle 98 Vía 104, Pavas, San José,	2519-2000	2519-2305	
Uruguay	San Rafael de Escazú, del vivero Exótica 1 km oeste av 2 malinche cas 1236	2288-3424	2288-3070	

Business Deal Prohibitions/Restrictions

Costa Rica promotes trade and foreign investment. Thus, its policies adapt to further enhance national and international business deals. However, there are regulations and restrictions that businesses must adhere to. For example, in health care and environmental aspects businesses must comply with strict regulations including permits

and authorizations. Furthermore, there are restrictions related to the ownership of certain coastal properties that should be of public interest. In addition, there are labor regulations that intend to control the minimum wage and working hours. Also, there is a Financial Superintendency that oversees transactions around the nation. For example, institutions that manage third party funds must be registered in it. Costa Rica also has competition laws that prevent monopolistic behaviors or unfair competition. In general terms regulations intend to bring legal stability and control aspects like anticorruption, intellectual property, data privacy, taxation, permits, imports, export and foreign ownership. Costa Rica is a country that promotes economic growth and investment while understanding that there must be legal certainty and regulations that protect its people and environment.

Travel Restrictions

Costa Rica usually requires a valid passport to enter the territory. In some cases, it must be valid for at least six months from the date of entry. Depending on the nationality a visa may be needed and limitations to duration of the stay may apply.

Most travelers usually fall in some of the following categories:

- Visa not required and may stay for a maximum of 90 days in Costa Rica.
- Visa not required and may stay for a maximum of 30 days in Costa Rica.
- Visa is required and may stay for a maximum of 30 days in Costa Rica.
- Visa is required and restricted. Require local government approval.

No visas or special permits are necessary to travel within the country. However, foreign citizens must always carry a valid identification or passport.

Please note that Costa Rica recently introduced a special permit for digital nomads allowing them to stay for longer periods of time and benefit from some tax exceptions.

C. Government

Electoral System

Costa Rica has a democratic electoral system. Presidential elections occur every four years. The president is elected by a two-round system. Presidents may be reelected but not immediately. If no candidate received more than forty percent of the votes in the first round a second round with the top two candidates is needed. The electoral tribunal is an independent authority responsible for organizing and controlling the elections. Costa Rica emphasizes on electoral transparency. Thus, international and national observers may monitor the electoral process. Typically, the voting period is peaceful and organized. Voting is considered a civic duty and privilege.

Stability and Political History in the Last Decade

Over the last decade Costa Rica continued to have a stable democracy with no army and economic steadiness. It maintained its global leadership in environmental conservation and sustainability while aiming to become carbon neutral by 2050. It strengthened its relationship with the middle east and attracted foreign investments especially in sectors of technology, tourism, and agriculture. However, fiscal deficit and public debt continue to be a concern in the region.

Judicial System

The judicial system in Costa Rica tackles the rule of law and protects the citizens. It is independent from the executive and legislative branches. Its main role is interpreting the law. The system is constituted of several stages. At the top of the tier is the Supreme Court of Justice. Below the Supreme Court there are Courts of Appeal and the Administrative Contentious Court. Also, there are specialized courts like civil or labor courts. A very important court in Costa Rica is the Constitutional Court that reviews the constitutionality of laws and government actions in the nation.

Costa Rica has a civil law system based on the Napoleonic Code. It offers judicial assistance to those that cannot afford it. As part of the judicial system is the opportunity of alternative dispute resolution methods. The stability of the nation has made it attractive as a pioneer in this field.

Legislative System

The nation has a single legislative body. The Legislative Assembly is composed of 57 members elected by popular vote. The Assembly has a diverse political landscape in which usually no single political party has absolute control. The main role of the Legislative Assembly is amending the constitution, overseeing the executive branch, and enacting national laws. Costa Rica considers transparency as a key skill for growth. Thus, there is public access to legislative proceedings. The legislative system is independent from the other branches but is also responsible for the precision and efficiency of national laws.

D. Environmental Considerations

1. Public/government attitude towards environmental regulation

The country's general attitude towards environmental regulation is one of protection based on constitutional principles, such as the right that each citizen has to live in a healthy and balanced environment. The government guarantees the enforceability of this right, and will act on it as required. Through the Ministry of Environment and Energy, the Ministry of Agriculture, and various NGOs, there is widespread enforcement of current environmental rules.

In Costa Rica there is a wide spread culture of protecting the environment. At least 25% of the country's territory consists of national parks and protected natural areas.

2. Environmental regulations.

Prior to initiating certain new projects (exploitation activities or development works), they must be submitted for approval through an environmental impact evaluation process with SETENA (the "National Technical Environmental Agency"). The fundamental objective of this procedure is to determine the environmental feasibility of the project and the impact it will have on the environment. This prior approval must be obtained before initiating any other administrative procedures and, of course, any construction works.

There are other provisions and requirements pertaining to the protection of the environment in matters pertaining to water sources, mangroves, coasts, oceans, rivers, lakes, air and forests, among others, which establish restrictions on the use of land and other resources.

E. Intellectual Property

Intellectual Property is currently governed by the Law of Trademarks and Other Distinctive Signs No. 7978, Law No. 7979 for the Amendment of the Law for Patents, Industrial Models, Drawings and Utility Models No. 6867, the Amendment of the Copyright Law and Related Rights No. 6683, the Law of Undisclosed Information No. 7975, the Law for the Protection of Microchips Traceability Systems No. 7961), and the Law for the Compliance of the Procedures of Intellectual Property Rights No. 8039. It is important to point out that most of these laws were amended when the CAFTA-DR was approved by the Costa Rican Congress.

Costa Rica is a party to the Berne Convention (Paris text), the Convention Establishing the World Intellectual Property Organization, the Geneva Convention, the Inter American Copyright Convention, the Inter American Patent Convention, the Paris Convention for the Protection of Industrial Property, the Rome Convention, the Universal Copyright Convention Paris Text, and the Patent Cooperation Treaty.

(i) Patents

In order to seek a patent in Costa Rica an applicant must apply for registration with the Industrial Property Registry Office. The Registry Office then conducts a professional technical study of the patent, notices are published to allow third party oppositions and should no oppositions be filed, the patent is approved and issued. The process usually takes five to six years.

Patents in Costa Rica are granted for a 20 year term from the filing date, or for the term remaining according to the registration date of the invention in the country of origin, provided such term does not exceed 20 years. The same applies for patent rights to medicines, goods and substances of therapeutic application, beverages, food products, fertilizers, general agrochemicals, and substances or products for the control, treatment, or prevention of weeds or animal or vegetable pests. Patents may not be renewed.

There is a use requirement in the sense that the issuance of a patent requires its exploitation (i.e., commercial use.)

(ii) Industrial Designs and Models

The procedure for registering patents applies to that of an industrial design or model and it takes approximately two years. The standard for registration is that the design or model exhibits novelty at both national and international levels. Protection is granted for a ten-year term with no renewal. As with patents, registration of an industrial design or model imposes the obligation of exploitation.

(iii) Copyrights

Copyright registration is not mandatory in Costa Rica. Its registration only serves the purpose for third party publication and in infringement proceedings. Copyright protection lasts for the author's lifetime and extends for seventy years after death, for the benefit of the author and his/her heirs. All literary and artistic works, as well as other works including computer software, are eligible for copyright protection in Costa Rica.

(iv) Moral and Other Related Rights

Costa Rica protects an author's moral and economic rights. These include the right to: (a) maintain any work in unpublished form; (b) require mention of the name or pen name of the author as author of the work; (c) prevent any reproduction or distribution to the public if the work has been misappropriated, deformed, edited or altered in any way; (d) make subsequent modifications to the work, (e) defend the author's honor and reputation as author of a work; and (f) withdraw the work from public circulation. Moral rights can not be assigned in Costa Rica, as a result, the author of a work will always have the right to be acknowledged as the author, on the contrary economic rights may be assigned to third parties.

(v) Trademarks

To register a trademark, the applicant must submit a power of attorney. If no objections are filed, the registration process takes approximately six months.

Service marks, collective marks, and commercial marks are subject to registration in Costa Rica. The same applies to slogans and trade names. Unregistered trademarks are also protected if they qualify as famous, well-known, or notorious trademarks. Use is not a prerequisite to registration; however, the current Trademark Law establishes that if a registered trademark is not used within a five-year period from the registration date, it will be subject to cancellation at the request of a third party.

The initial trademark registration is granted for ten years from the date of issuance. A trademark may be renewed for additional ten-year periods, indefinitely.

(vi) Trade Secrets

Trade and industrial secrets are protected by the Undisclosed Information Law. This law protects the information that: (a) is secret, meaning that it is not generally known or easily accessible for persons in groups where said information is normally used; (b) is legally under control of a person who has adopted reasonable and proportional measures to keep it secret; and (c) has certain commercial value due to its secret condition.

(vii) Licensing

In Costa Rica, there are formalities and prerequisites for the approval of licenses. In general, intellectual property licenses do not have to be registered with the Industrial Property Registry Office, but they may be registered just for third party publication purposes.

There are no restrictions on the assignment of intellectual property.

III. INVESTMENT INCENTIVES

A. Export Incentives

As a result of certain commitments the country has with the World Trade Organization's policies on the abrogation of subsidies and other distortions to free trade, and the economical commitments engaged by the country when entering into the OECD, the free trade zone regime regulates all the incentives related to goods and services exportation as indicated above.

No other incentives for exportation of goods and services are available in the country outside such regime. Also, please note that new categories are being ruled at the time of drafting this report.

B. Grants and subsidies to foreign investors

Please refer to Section II.A.3 above.

C. Tax Incentives

Please refer to Section II.A.3 above.

D. Regional Tax Incentives

Costa Rica is a member of several regional agreements that are worth exploring for foreign investors in this country.

CENTRAL AMERICAN COMMON MARKET

The Central American Common Market (*Mercado Común Centroamericano* or "MCC"), is a trade organization which dates from the 1960s and applies to products originating in Guatemala, Honduras, Nicaragua, El Salvador and Costa Rica. Panama is an observer.

The treaty contemplates a Secretariat for the Central American Economic Integration (commonly referred to as "SIECA"), which Costa Rica joined in 1963.

The MMC had its best years during the 1960s and part of the 1970s, when local production was promoted through hefty subsidies, and intra-regional exports and imports soared to the detriment of products originating in third countries, which were heavily taxed. However, serious political and economic crisis within member countries (Costa Rica excluded), civil wars and a short war between Honduras and El Salvador, brought the whole system down for two decades.

As of now, the MMC has little relevance vis-à-vis CAFTA and other trade agreements entered into by the Central American countries, whether individually or as a group.

An agreement for political, cultural, and migratory integration, known as SICA, does not include Costa Rica, who refused to join in.

CAFTA-DR

The United States – Central America – Dominican Republic Free Trade Agreement, commonly called CAFTA-DR came into effect in 2006 in all signatory countries except for Costa Rica, where it took a referendum in 2007 for its ratification by the Legislative Assembly.

The purpose of CAFTA-DR is the creation of a free trade area, similar to the North American Free Trade Agreement (NAFTA: Canada – U.S. – Mexico), in which products of the member countries may enter into the other territories free of import and customs taxes.

Almost 80 percent of US export products tariffs and taxes have been eliminated and the rest will be phased out over the next 10 years. In exchange, almost all Central American and Dominican Republic products have now full tax and customs exemptions upon entering into the United States, with few exceptions that also will be fully exempted in the next decade.

The region covered by CAFTA-DR is the second-largest Latin American export market for U.S. producers only behind Mexico, representing US\$15 billion worth of goods a year. Two-way trade amounts to some US\$32 billion annually between the Central American region and the U.S. while only Costa Rica's trade equals about US \$12 billion annually both ways.

Association Trade Agreement with the European Union

As of October 1st, 2013, the Free Trade Agreement between Central America and the European Union, also known as “E.U.” – Central America Association Agreement (EUCAA) entered into full force and effect for Costa Rica after being ratified by the Legislative Assembly.

In recent years, trade in Costa Rica with the E.U. has increased considerably, doubling in value from US\$1.6 billion in 2002 to US\$3.3 billion in 2012. This is the second largest Latin American trade block with the E.U. and Costa Rica being the first trading partner of the E.U. in Central America.

IV. FINANCIAL FACILITIES

The financial system is comprised of the Central Bank (*Banco Central de Costa Rica*), two state-owned commercial banks (*Banco Nacional de Costa Rica* and *Banco de Costa Rica*), the *Banco Hipotecario de la Vivienda*, the *Banco Popular y de Desarrollo Comunal*), various private banks (more than twenty) and several other financial private institutions that do not qualify as banks. The General Supervisory Agency of Financial Institutions (*Superintendencia General de Entidades Financieras* or SUGEF) supervises all financial institutions (banks and non-banking financial institutions). SUGEF, among other supervisory agencies, is subject to the Supervisory National Council of the Financial System (*Consejo Nacional del Sistema Financiero* or CONASSIF).

It is not mandatory but strongly advised that investors maintain a bank account in the country. Requirements to open a bank account are usually the same in all banks though they may vary slightly. Applicant companies must submit a certificate of legal representation (*personería jurídica*), a copy of the identification document of the entity's representative, a certified copy of the entity's bylaws, banking and personal recommendation letters (at least two), a copy of the water or electric services invoice (as proof of actual place of business), and a projected cash flow. "Know Your Customer" forms and a written declaration about the source and projected use of funds must also be filed.

Investors may apply for local or foreign bank loans to finance their business ventures.

There is a stock market in the country, though it is small in the number of companies listed. The General Supervisory Agency of Securities (*Superintendencia General de Valores* or SUGIVAL), also subject to the supervision of CONASSIF, is the entity in charge of regulating the local securities market. The regulatory framework is set forth in the Securities Market Regulation Law which governs the trading of securities, the operation of individuals or corporations involved directly or indirectly in trading and the acts or contracts related to these matters.

V. EXCHANGE CONTROLS

A. Business Transactions with Nationals, Residents or Non-Residents

Other than money laundering regulations, which require reporting cash transactions in amounts exceeding US\$10,000, there are no restrictions or reporting requirements related to business transactions with nationals, residents or non-residents.

B. Investment Controls

Except for transactions related to the ownership of certain coastal properties and natural resources concessions, there are no restrictions on foreign direct or indirect investment in the country.

C. Money Transfers

The current foreign currency exchange allows free possession and conversion of foreign currency into local currency (the "Colon") and vice versa. However, currency exchange transactions are only permitted through banks and other authorized entities. Also, an organized currency exchange operates in the country administered by the Central Bank (MONEX)..

U.S. dollars are widely available and are also an accepted currency in the country in almost every place. It is also possible to buy U.S. dollars at a broad variety of financial institutions, as there are no practical or legal restrictions for payments from Costa Rican entities destined to foreign counterparties.

According to our income tax rules, payments remitted abroad to individuals or corporations from a Costa Rican source, constitute taxable income subject to applicable withholding taxes. The withholding rate varies from 5% to 30%, depending on the nature of the payment remitted.

VI. IMPORT/EXPORT REGULATIONS

A. Customs Regulations

Costa Rica is a member of GATT (later succeeded by WTO) since 1990, and a party to the following free trade agreements: free trade agreements with the United States, the Central American countries and the Dominican Republic (CAFTA-DR), countries of the Caribbean Community, Canada, Peru, Chile, Mexico, China and the European Union.

As a member of CAFTA, Costa Rican products are entitled to enter El Salvador, Guatemala, Honduras, Nicaragua, the United States and Dominican Republic either completely or partially on a duty free basis. As a member of the European Union-Central America Association Agreement, products to Europe are also exempted of import and customs taxes.

The National Customs Service is in charge of valuing the goods. In order to clear customs, our General Customs Law requires importers to file an affidavit with full and detailed

information regarding the merchandise brought into the country and, to the extent needed, allows for the inspection of such merchandise. Based on this filing and any inspection conducted, there are customs tariffs to be paid depending on the type of merchandise being imported in accordance with international and national product classifications.

Customs brokers are usually in charge of these customs clearing procedures, although individual importers may process this on their own vis-à-vis the local authorities.

In the past few years, Costa Rica has gradually reduced or even abolished its customs tariffs as a consequence of implementing international trade agreements. Nevertheless, there are important taxes that still apply to imports, such as:

- Value added tax (previously sales tax), which is generally 13% on the net sale price,
- Selective consumption tax, ranging between 5% and 75%, which is charged on certain merchandise, either imported or produced locally (tariffs to be set vary according to each product.)
- 1% special tax imposed on all imports except for medicines.

B. Exports

Our Consumer Protection Law promotes the elimination of restrictions on trade by removing all unnecessary procedures, regulations and controls on economic activities for the sake of protecting transactions in both the national and international markets. Under this legislation, the government must revise, analyze and eliminate all those requirements that are unnecessary, in order to foster free trade and productivity. However, there are limitations to this, especially pertaining to the protection of public health (human, animal or plant), security, the environment, and compliance with applicable quality standards.

The Consumer Protection Law (art. 6) allows the government to establish export or import licenses by means of an administrative decree, after an approval or recommendation by the Consumer Protection Commission. This measure seeks to restrict trade of specific products only under justified situations, and the government must provide the basis for the enforceability of these restrictions.

In recent years Costa Rica has focused on the attraction of new investments by foreign-based companies with the intent to increase Costa Rican exports. Three major clusters are officially promoted by the Foreign Trade Promotion Agency: (i) high-tech industries, (ii) medical devices and (iii) outsourced services (such as call centers and back office activities for companies located abroad).

C. Foreign Trade Regulations

Foreign trade regulations are currently governed, for the most part, by WTO rules, as well as existing free trade agreements entered into around the world (see Section VI.1 above.)

D. Imports

Import of most products is allowed (except for petroleum fuels and alcohol). For the vast majority of products, there is no specific requirement of an import license. However, certain products such as medicines, cosmetics, chemical products, processed foods and beverages do require an import permit from the Costa Rican Ministry of Public Health and/or the Ministry of Agriculture and Farming. Arms and ammunition imports require a permit from the Costa Rican Ministry of Security.

There are import quotas especially in the agricultural and agro-industrial sector and mostly applicable in the multilateral relations of the different free trade agreements Costa Rica is a member of. Examples of these are poultry, coffee, rice, beans, sugar, banana, potatoes, onions and meat, which are subject to import quotas.

There are still tariff and non-tariff barriers in our country, but its increasing participation in free trade agreements is tending to eliminate these barriers in order to have a more open market for imports and exports.

E. Manufacturing Requirements

Import of component parts is permitted, whether they are to be sold separately, or incorporated into a final product.

Generally, there are no manufacturing requirements but only those applicable as part of the engineering science on the relevant industries.

F. Product Labeling

According to our Consumer Protection Law, products offered to the public must comply with certain labeling requirements. Labels must contain the nature, composition, content, weight (when applicable), and other relevant characteristics. Measures must be expressed in the metric system and labeling must be in the Spanish language. When the original label is not written in Spanish, instead of placing a new label, a supplementary label containing the mandatory information in Spanish may be used.

VII. STRUCTURES FOR DOING BUSINESS

A. Business organization

Costa Rican law recognizes the following forms of business organizations:

- Anonymous corporation (*sociedad anónima*);
- Limited liability company (*sociedad de responsabilidad limitada*);
- Limited and General Partnership (*sociedad en comandita* and *sociedad colectiva*).

Corporations are the most common entities given their structural flexibility. Incorporation costs include stamp costs plus legal fees and the corporate tax prorated at the time of incorporation. Other than notary fees, stamp and registration costs are less than US\$500. They must be incorporated by at least two incorporators by means of a notarial instrument, and recorded with the Mercantile Registry, provided a notice of incorporation is published in the Official Gazette. The registration of a corporation may take 1 week, although recently we have managed to have them recorded in 24-48 hours.

Once incorporated, one person, whether an entity or an individual, may hold all of the stock of a local corporation. Foreign nationals may be shareholders and/or serve as board members or officers without limitation. No share ownership is required to be appointed as a director. When the company has no legal representative with domicile in the country, a registered agent (a Costa Rican licensed attorney) must

be appointed for purposes of receiving notices only. There is no requirement to the effect that a national has to participate in any capacity.

Under Costa Rican civil, commercial and administrative laws, corporations are separate legal entities regardless of ownership of stock or other forms of relationship. The so-called “corporate veil” applies in Costa Rica. Responsibility or liabilities of a corporation do not reach its shareholders, the parent company or other related entities unless very qualified exceptions, such as fraud. The Code of Commerce provides that a shareholder’s liability is limited to the capital contributions.

With regards to capitalization, there is no minimum required. However, whenever capitalization causes an increase in the capital stock of a company, the shareholder resolution to increase the capital stock must be documented through a public instrument, published in the official Gazette and registered with the Mercantile Registry.

B. Limited Liability Companies

Limited Liability Companies (LLC) are permitted and are very common entities. They must be formed by at least two partners in a procedure similar to that of corporations. Basic rules and procedures for the creation and operation of corporations also apply to LLC companies, except that no board of directors exist (a manager or management committee must be appointed instead), and shares are substituted by capital “quotas” with more strict and personalized assignment rules.

C. Limited Partnerships and General Partnerships

There are two forms of liability companies: *sociedad colectiva* and *sociedad en comandita*. Although the relevant provisions in the Code of Commerce are still in effect, these entities are no longer in use nowadays.

E. Branches/Subsidiaries

Investors may conduct business in Costa Rica through branches or subsidiaries of the parent company.

Tax regime applicable to local companies:

Despite recent tax reforms, it is important to remember that Costa Rica is governed by the Principle of Territoriality for the determination of Income Tax, which means that, in accordance with Costa Rican legislation, the income tax generating event is the accrual of income in cash or in kind, continuous or occasional, from profitable activities of Costa Rican source, as well as any other income or benefit of Costa Rican source not exempted by law.

Income, revenues, or benefits of Costa Rican source are understood as those generated in the national territory from services rendered, sale of goods located in the country or capital used, which are obtained during the tax period, in accordance with the provisions of the local law. Therefore, if such income or capital is generated or used outside of Costa Rica, according to the definition of the law, the tax obligation does not arise in relation to such income produced by capital invested or generated abroad.

a. Branches

To register a branch of a foreign principal in Costa Rica a public instrument must be executed before a Costa Rican Notary Public or a Costa Rican Consul located at the principal's domicile. The incorporating instrument must include the following information: (i) the purpose of the branch and its capital; (ii) the purpose of the principal, its capital structure and corporate term; (iii) Full name and personal data of the principal's directors; (iv) the appointment of a local agent with full power of attorney to act on behalf of the Costa Rican branch. A subsequent deed must provide for an acceptance by the branch and the local officer of the laws of Costa Rica and the jurisdiction of its courts regarding acts and contracts to be executed and/or performed by the branch in Costa Rica.

The Consul or Costa Rican Notary Public must be presented with a certificate of good standing and legal representation of the principal by the officer appearing on its behalf. On the other hand, the local officer must accept its power of attorney by executing the additional public deed in Costa Rica before a Notary Public or abroad before a Costa Rican Consul.

Upon registration, the branch shall be entitled to operate. Prior to that, the agent would be jointly liable with the principal for any obligations contracted on behalf of the latter.

b. Subsidiaries

The subsidiary is a Costa Rican company that is owned or controlled by the foreign entity. The formation process of a subsidiary is as described above.

These entities need not have a Costa Rican participant, manager or director. Nevertheless, whenever the company has no legal representative with domicile in the country, a registered agent must be appointed as explained in Section VII.1.

F. Joint Ventures

Joint ventures are permitted even though there is no specific regulation about them. They are created and regulated through general contract regulations and usually result in the incorporation of a special purpose company.

G. Trusts and Other Fiduciary Entities

Trusts are fully recognized under Costa Rican laws. Through a trust, the grantor/trustor transfers to the trustee property over certain assets or rights, for the benefit of designated beneficiaries. The trustee acts under a fiduciary duty and is responsible for managing the assets and income of the trust based on the specific instructions provided in the trust agreement and default provisions. The trustee has a duty of care of the entrusted assets and may use them only as authorized in the trust agreement.

A trustee may not benefit from the management of the trust assets, save for the trustee's fees. New regulations recently adopted require that when managing financial resources the trustee be authorized by SUGEF (financial entity regulatory agency) for purposes of money laundering control regulations.

VIII. REQUIREMENTS FOR THE ESTABLISHMENT OF A BUSINESS

A. Antitrust Laws

The Competition Promotion and Consumer Protection Law prohibits public or private monopolies and monopolistic practices that prevent or restrain competition, access of competitors to the market or that tend to exclude competitors from the market.

the Law for the Strengthening of the Competition Authorities No. 9736 ("Law 9376") came into effect in November 2019. This law modifies the Law for the Promotion of Competition and Consumer Protection No.7472 and introduced a whole new merger control regime applicable for all markets, including telecommunications.

The Commission for Promotion of Competition ("COPROCOM") is in charge of reviewing and approving mergers and similar transactions. The General Superintendency of Telecommunications ("SUTEL") is the regulatory and competition authority for the telecommunications markets.

Regarding concentrations that involve one or more entities supervised by the financial system superintendencies, the National Council for Supervision of the Financial System (Conassif) will have powers, in exceptional cases where the rights of financial consumers may be violated, to resolve the authorization request.

B. Environmental Regulations

Environmental regulations apply to business as described in section II.D. above.

C. Government Approvals; Licenses/Permits

All companies must comply with various obligations and administrative procedures. Registration as an employer with the Costa Rican Social Security Office (CCSS) and the National Insurance Institute (INS), usually are pre-requisites to obtain a municipal business license.

The interested party must also register with the following governmental agencies:

- After registration, new companies have 20 days term to declare the ultimate beneficial owners (UBO) before the authorities.
- General Income Tax Office of the Ministry of Finance to register as an income and VAT taxpayer when applicable, to comply with the payments and other tax obligations. The registration takes approximately two hours.
- National Insurance Institute (INS), to purchase the mandatory labor risk insurance policy (workers' comp). This process takes approximately one hour to be completed.
- Registration as an employer with the Social Security Administration (CCSS), in connection with employment social security contributions. The estimate average duration is approximately eight days, which includes a visit to the employer's premises to inspect compliance with local employment regulations.
- All business activities require a municipal license (called "patente") from the municipal authority where the activity will be developed. The license involves the payment of a tax during the time of operations (Municipal Code, Law N° 7794), which varies from municipality and type of business. The forms and requirements to obtain a license may vary among municipalities, pursuant to their respective rules.
- Health Ministry Permit: prior to obtaining the municipal license a health permit is also required. The Provisions on Sanitary Permits for Ongoing Businesses Regulated by the Health Ministry (Decree No. 32161-S), provide for three categories depending on the risks introduced by each business into the market in terms of human health. Requirements for category "A" permits are the most rigid and are typically applied to the production of substances that are potentially dangerous to human health or the environment (such as chemicals, fertilizers, etc. or industries producing important amounts of waste). On the other hand, category "C" permits are those with the lowest risks in the industry, such as services. Category "B" applies to risks in between both categories.

D. Insurance

Until to 2008 the insurance industry was a state-owned monopoly operated by the Instituto Nacional de Seguros (INS). Today the market is open to private participation except for two insurance coverages: the labor risk insurance and the mandatory car accident insurance. All other insurance coverages may be offered by any insurance company properly registered with the regulatory authority *Superintendencia General de Seguros* (SUGESE).

Insurance with foreign companies is allowed, but only under certain limitations that may include the obligation to register such insurance coverage with SUGESE. Most foreign insurance companies avoid the problem by having INS as a co-insurer.

IX. OPERATION OF THE BUSINESS

A. Advertising

There are no restrictions on advertisement other than censorship policies that must be complied, particularly in regard to programming hours. There may be also restrictions established by the General Health Law, the Consumer Protection Law and related regulations designed to prevent misleading advertising. In general, advertising must not induce consumers to error with respect to the characteristics, conditions, weight, content, etc. of a given product or service.

B. Attorneys

It is strongly advised to have local counsel for entering into a business venture. Local counsel may be found through professional directories and other publicly available sources, although it is always good to make use of references, including those from other investors with previous experience in the country.

Attorneys are commonly notaries public as well and, as such, are able to provide the appropriate legal form of acts and contracts that require some form of registration. In fact, in Costa Rica one of the requirements to be a notary public is to be a licensed attorney. A general decree establishes the fixed rates for notary and attorney's fees, which correspond to a minimum fee that cannot be reduced without incurring in ethical and professional liabilities.

Attorney fees may vary depending on the consulting area. A common practice among Costa Rican law firms is to have an hourly fee for general or specialized attorney's work outside those areas where a fixed fee has been established. The minimum hourly rate is approximately US\$150, but depending on the expertise this hourly rate may increase.

C. Bookkeeping Requirements

Businesses must maintain accounting and corporate books (i.e., Journal, General Ledger, Inventory and Balance Sheet, Shareholders' Registry and Minute Books for both Shareholders and Board Meetings). They should be kept in Spanish, with all due clarity and in chronological order.

D. Business Ethics/Codes

Most trades have their own ethic codes, although they are not necessarily written.

The General Law for Prevention of Illicit Enrichment provides for criminal, civil and administrative sanctions in connection with the conduct of public officers and private companies and individuals (as accomplices) when breaching ethical provisions of public office, including fraud against the government. A Prosecutor on Ethics from the Attorney General's Office (*Procuraduría General de la República*) has jurisdiction to prosecute parties for any infractions or breaches.

There is an important number of felonies in the Criminal Code sanctioning fraud, misrepresentation, false pretenses, malpractice, and other illegal acts committed by private individuals and public officers. Economic and administrative liabilities are also applicable in these cases.

It is common to find business ethics provisions in private as well as public procurement contracts.

E. Consumer Protection Laws

The Competition Promotion and Consumer Protection Law and its Regulations were enacted to protect the legitimate rights and interests of the consumer and are also aimed at promoting free competition.

F. Construction

Construction is one of the many industries flourishing in Costa Rica. Regulations about construction originate at the national and municipal level. National construction rules are reflected in the Urban Planning Law No. 4240 and the Construction Law No. 833, which require the issuance of permits for construction plans after full compliance is demonstrated by the developer to each of the entities involved in approving such permits: (i) the Architectural and Engineering Association; (ii) the Environmental

Secretariat (SETENA); (iii) the Ministry of Health; and (iv) the Urban Planning Institute (INVU).

At the local level, the Costa Rican Constitution provides that municipalities are responsible for the administration of the local interests and services of those communities under their respective jurisdictions. The Constitutional Chamber of the Supreme Court has ruled that these administrative powers include full authority regarding urban planning matters as long as they do not contradict the provisions set forth in the Urban Planning Law and the Construction Law applicable nationwide. In this regard, the municipalities are responsible for granting their joint approval to construction permits and collecting the 1% tax imposed on the value of constructions and residential developments carried out in their jurisdiction.

As to restrictions, no construction is allowed in protected areas such as reserves, mangroves and coastline properties. The Costa Rican Maritime Zone Law No. 6043 provides that the Costa Rican Tourism Institute (ICT) and the municipalities are responsible for the supervision of all development projects (plans and constructions) within maritime areas declared of public interest.

G. Contracts

There are no restrictions for foreign entities or persons to enter into contracts in Costa Rica.

In general, the law makes no distinction between local and foreign citizens in business matters. However, important consideration must be made by foreign entities contracting with local distributors, agents and manufacturers since there are special regulations protecting the local contracting party, although they have been restricted by legislation resulting from CAFTA-DR.

Choice of law provisions are enforceable provided there is no violation of Costa Rica public policy laws since these cannot be waived.

H. Price Controls

With very limited exceptions, there are no price controls in Costa Rica. The only exceptions to the above are as follows:

(i) The government structures a "basic consumption basket" composed of certain commonly consumed products and services in order to satisfy the needs of Costa Ricans whose income is less or equal to the minimum wage. Prices of these particular products and services may be subject to price controls by the Ministry of Economy and Industry.

(ii) There are regulations governing transfer pricing, applicable to transactions among related parties.

I. Product Registration

Importers must comply with certain pre-requirements depending on the product to be imported. Specifically, some products require registration with the Ministry of Health or the Ministry of Agriculture. Registration time and costs vary depending on the type of product involved.

J. Reductions or Return on Capital

There are no restrictions on repatriation of capital while the corporation is still ongoing. Some requirements and procedures apply with respect to reduction of capital of commercial corporations, intended for the protection of creditors.

K. Sale of Goods

There are no restrictions on the manner, time or place of sale of goods, but there are certain goods for which a permit is required prior to make available to the public, such as guns and ammunition.

L. Trade Associations

There are several trade associations the investor can join in Costa Rica. The most important ones are: the Chamber of Commerce, Chamber of Exporters, Chamber of Industries, Costa Rican-American Chamber of Commerce, and the International Chamber of Commerce (ICC).

Other specialized chambers depend on the type of product or service being produced or offered by their members.

There are fees associated with belonging to a chamber, but membership is not mandatory.

X. CESSATION OR TERMINATION OF BUSINESS

A. Termination

A business may be terminated at any time by the parties involved with minimum interference from the local authorities, provided liabilities are first settled with existing creditors. In this regard, any company, joint venture, trust or business association may be dissolved and wound up if the parties choose to do so. Generally speaking, liabilities must be established and paid as part of the process, and any remaining assets may be thereafter distributed among its partners, shareholders, investors, etc. according to their respective percentages of ownership or in a manner agreed upon between them.

Tax Considerations

Our Income Tax Law establishes the obligation to give written notice to the tax authorities when closing of a business and to submit a final income tax return and a final balance sheet within the next thirty days following the termination of the business, date in which the company must pay any applicable taxes. Also worth mentioning is the procedure of de-registration with the Tax Administration to discontinue the obligation to file monthly VAT declarations, when applicable according to our Value Added Tax Law.

It is important to mention that if the company operates under a special status such as Free Zone (*Zona Franca*), it must give written notice to the relevant authorities to complete the corresponding deregistration process. The process will include settlement of tax matters, particularly in connection with any inventories, equipment, raw materials and other assets imported duty-free into Costa Rica or produced tax-exempt as part of the free zone benefits.

Labor Issues

The company must also give notice of the cessation of business –within the month following the closure– to CCSS by reporting such cessation in the *planilla* (payroll report), with indication about the termination of all its workers. Terminated employees are entitled to severance pay.

Other Issues

Other notices may be required depending on the industry in which the closing business has operated.

B. Insolvency/Bankruptcy

Under local civil, commercial and administrative rules, corporations and limited liability companies (the two most widely used business vehicles in Costa Rica) are separate legal entities from their owners. As previously explained, the *corporate veil* is enforced and the liabilities of an entity, even in the case of insolvency, do not affect its owners, whether individuals, a parent company or any other related entity.

An exception to the above is related to criminal offenses, mainly fraud, whereby a criminal court may disregard the entity in order to establish legal relationships for purposes of prosecution (including criminal and civil liabilities). Recent case law has also opened avenues for piercing the corporate veil in situations of so called *abuse of legal personhood* but they remain rather exceptional.

For the most part, under Costa Rican laws a company's liability for insolvency or breach of contract will not reach its shareholders or parent company in the absence of (i) a formal guarantee, or (ii) a criminal offense.

Even though bankruptcy is always a legal possibility Costa Rican law also offers the alternative of financial restructuring, by means of: (i) a creditors' agreement; and (ii) the management of the business through judicial intervention (similar to a Chapter 11 intervention).

A court may vary the procedure from insolvency or bankruptcy to reorganization if the company presents a plan to its creditors for these purposes and this plan is accepted.

When a bankruptcy procedure is initiated, the court *ex-officio* submits a notice to the Criminal Court to investigate the possibility of fraud behind the bankruptcy. Further procedures will depend on the findings of the Criminal Court about any eventual criminal behaviour involved.

XI. LABOR LEGISLATION, RELATION, AND SUPPLY

A. Employer/Employee Relations

Costa Rica's Labor Code, Law No. 2 of August 26, 1943, as amended, is the primary legal source and reference for employment and labor issues. Costa Rica is also a party to several international labor organizations. Besides the Labor Code, there are specific laws and regulations in the following employment related areas: anti-discrimination and harassment; child and youth labor; statutory cash bonus; workplace safety; social security and insurance; taxes; pensions; immigration; association and union; confidentiality/non-disclosure of information.

In general, there are no obligations to train employees, except for the training required for completing particularly hazardous employment tasks or handling of foods.

B. Employment Regulations

If a foreign employee desires to work in Costa Rica and to be hired by a Costa Rican Company, the Company should request a work permit unless the employee is a permanent resident of Costa Rica which grants a non restricted employment status. Work permits are only issued when the Immigration Authorities determine that the foreign employee has special skills that are unable to find in local employees.

There are minimum wages for every labor activity. The minimum wage for each occupation is published in the official gazette. Such minimum wage rates are set according to job descriptions that are classified following generic categories.

The National Wage Council, constituted by a representation of the government, employers and employees, determines basic minimum wages for the next year.

Working hours are classified in three (3) standard shifts (day, night and mixed) in addition to a specific shift for employees holding positions of trust:

Day Shift (5 a.m.-7 p.m.):

- 48 hours per week.
- 8 hours per day.
- 10 hours per day if work is not dangerous or unhealthy and does not exceed 48 hours per week.

Night Shift (7 p.m.-5 a.m.):

- 36 hours per week.
- 6 hours per shift.

Split or Mixed Shift (includes day and night shifts):

- If more than 3.5 hours are worked after 7 p.m., the entire shift is regarded as a night shift.
- 42 hours per week.
- 7 hours per day.
- 8 hours per shift if work is not dangerous or unhealthy and does not exceed 48 hours per week.

Shifts for “Exempt” Employees:

- 12-hour ordinary shifts with a paid break (meal and/or rest time) of 1.5 hours.

It is possible, for example, to work 4 days for 12 continuous hours and rest for 3 consecutive days. This system is possible only on low risk industries, such as services. It is not possible in high intensive labor, such as handling machinery or in the chemistry industry, based on the potential negative impact on worker’s health and well-being.

Vacation rights:

- At least 2 weeks of paid vacation is mandated after 50 weeks of continuous employment.
- Paid vacation time must be awarded during the 15 weeks following the completion of the 50 week term.

C. [Hiring and Firing Requirements](#)

There are no minimum employments requirements in Costa Rica. However, companies operating under a free zone tax regime that committed to a certain number of employees in their free zone application must comply with the quota within the committed date. Also, there are no minimum numbers of Costa Rican nationals that must be employed, nor requirements as to certain positions they must hold in a company. However, to obtain work permits for foreign employees, the employer must

prove that there are no Costa Ricans with the required expertise for the same job (and thus will not be competing for the same job). Trust positions and general managerial positions are not subject to this limitation.

Employment discrimination based on union membership, race, color, creed, citizenship, physical handicap, age, sexual orientation and gender is strictly prohibited.

Dismissal may take place for "just cause" or simply without cause (in the latter case assuming the employer's severance liability to the employee since employment agreements are to be deemed of indefinite term).

If dismissal is based on just cause, no severance payment and no prior notice of termination is required. Other labor benefits, such as vacation and thirteenth month bonus rights must be paid to the extent accrued to the moment of termination.

Employers may also dismiss their employees based on business restructuring reasons, having the objective reasons for it, or performance. Such dismissal, however, would be considered without cause and would require payment of all severance indemnities.

It is important for the investor to take into consideration that the dismissal, even with just cause, of any special legally protected employees (pregnant employees and employees under maternity, paternity, special care leave, sexual harassment claimant) must be authorized by the Ministry of Labor following a special procedure.

Dismissal without cause entails payment to the employee of the following indemnities:

(i) Pre-termination Notice Requirement:

Prior to a dismissal, the employer has the obligation to notify the worker of this decision. The employer is required to give notice under the following guidelines, based on the length of employment at the time of termination:

- More than 3 months but less than 6 months of service: 7 day notice;
- More than 6 months of service but less than 1 year: 15 day notice;
- More than 1 year of service: 30 day notice.

In lieu of a notice, the employer may compensate the employee with an amount equivalent to the salary that the employee would have earned during the notice period.

(ii) Severance:

Employees are entitled to receive severance indemnities on the following cases:

- Termination without cause,
- Retirement,
- Employer's bankruptcy,

- Force majeure,
- Death (payable to surviving spouse or dependents)

According to Article 29 of the labor Code, severance pay is calculated considering the employee's continuous length of employment and the average salary of this employee during the past 6 months (the definition of salary used includes most components of compensation, including any in-kind benefits). Under this severance model, the indemnity will increase with the employee's seniority, although such progression is capped to at 8 years of employment.

Employment's length is categorized as follows:

- Employees who have been with an employer less than one year are entitled to receive a one-time indemnity payment according to the table below:

Length of Services	Severance Indemnity
Less than 3 months (trial period)	0
More than 3,months but less than 6 months	7 days of average salary
More than 6 months, but less than 1 year	14 days or average salary

- Employees who initiated work after March 2001 (date the new *Worker's Protection Act* came in effect) and have remained with an employer more than a year, are entitled to a one-time indemnity payment as follows:

Term considered	Severance Indemnity
Year One	19.5 days of salary per year served or semester fraction thereof
Year Two	20 days of salary per year served or semester fraction thereof
Year Three	20.5 days of salary per year served or semester fraction thereof
Year Four	21 days of salary per year served or semester fraction thereof
Year Five	21.24 2days of salary per year served or semester fraction thereof
Year Six	21.5 days of salary per year served or semester fraction thereof
Year Seven	22 days of salary per year served or semester fraction thereof
Year Eight	22 days of salary per year served or semester fraction thereof
Year Nine	22 days of salary per year served or semester fraction thereof

Year Ten	21.5 days of salary per year served or semester fraction thereof
Year Eleven	21 days of salary per year served or semester fraction thereof
Year Twelve	20.5 days of salary per year served or semester fraction thereof
Year Thirteen	20 days of salary per year served or semester fraction thereof

In order to calculate the severance benefit, the severance allotment that corresponds to the employee's years of service must be multiplied times the number of years employed (capped at 8 years).

(iii) 13th MONTH OR "CHRISTMAS" BONUS:

Every December employees are entitled to one-twelfth of the year's salary as a mandatory bonus. In case of termination before the end of the corresponding term, the Christmas bonus must be paid pro rata, upon termination, regardless of the cause of termination.

(iv) UNUSED/ACCRUED VACATIONS:

Any unused vacation time accrued by the employee must also be paid upon termination, regardless of cause.

Finally, it is important to note that the employer does not have a continuing obligation towards dismissed employees.

D. Labor Availability

The Costa Rican labor force is highly educated and adapts easy to most work challenges. Generally there is adequate skilled labor available for most types of business.

E. Labor Permits

Labor permits are not necessary, except for those required by foreign employees as immigration control.

F. Safety Standards

Employers must comply with legal provisions regarding the training of employees in occupational health and safety matters. It is also the employer's responsibility to provide personal protection equipment and clothing for all employees.

Every workplace with 10 or more employees is required to have a Commission of Occupational Health and Safety, in charge of determining any causes for occupational risks and hazards and propose means to resolve them. Additionally, employers with more than 50 employees are required to form a Department of Occupational Health and Safety, whose main objective is to achieve a safe and healthy environment in order to prevent labor accidents and other hazards.

The Labor Code provides for worker's compensation insurance to protect all employees in case of accidents occurred during working hours. It is the employer's obligation to pay for such insurance, under the umbrella of INS.

G. Unions

Unions are recognized in Costa Rica. Employees have the right to join unions of their choosing without previous authorization, but they are not common in the private sector. Unions are typically formed within the government's labor force

Employees must register within 30 days of forming or joining a union (a union must be comprised of at least 12 employees to be formed). Copies of documents stating the number of members and their names, addresses, and job titles are required, and must be delivered to the office of the Ministry of Labor and Social Security for registration purposes. Registration should take no more than 15 days.

Unions are practically non-existent in the private sector; however, there are no restrictions on the right of private sector workers to strike. Pursuant to the law, there are various requisites to fulfill for the union to be recognized as such.

Government unions tend to affiliate with left-wing political parties; on the other hand, private sector unions, on the other hand, being so rare, have no political influence whatsoever.

Employers have no obligation to organize a union. However, under local law employees have the right to join or form unions without restriction.

Collective bargaining agreements are not mandatory, although the right exists to have them. In accordance with article 58 of the Labor Code, "When the complaint is made by the employees, they must represent at least sixty percent of the total number of members of the union or unions that have entered into it; and when it is made by the employers, the latter must have at that time at least the same percentage of those affected by the agreement working".

H. Solidarity Associations:

The predominant form of association in the private sector is the so called "Asociaciones Solidaristas" (associations of employees seeking common objectives). These forms of organization have served dissuade employees from organizing as unions.

These associations are not created with the idea of negotiating or changing the employment conditions, but to collaborate with the employer in developing the business and improving the financial conditions of all employees that have elected to join it. This includes the creation of a fund for the benefit of its members, which is usually used to grant loans for residential purposes at subsidized rates.

At the end of a fiscal year, the association's net income ("excedentes") may be distributed to employees as an additional benefit.

XII. CORPORATE TAXES

Costa Rican Income Tax Law is based on the principle of territoriality and therefore applies only to income generated in Costa Rica. Article 1 of the ITL establishes that income from services rendered, goods located, or capital used in the national territory constitutes Costa Rican source income.

Legal entities in Costa Rica such as branches, agencies, permanent establishments of non-domiciled entities, and domiciled companies with lucrative activity (business activity) are subject to Income Tax and must pay their taxes due on net income; net income is understood as the difference between gross income and allowable tax deductions.

A. Allowances

As a rule of thumb, all legal entities in Costa Rica that are subject to the income corporate tax can deduct from their gross income all costs and expenses that are necessary to produce taxable income. Expenses incurred to obtain exempted income are not deductible.

Our Income Tax Law lists the major expenses that may not be deducted, which include, inter alia: income taxes, sales taxes, excise taxes, profits or dividends paid to shareholders, expenses, and taxes incurred abroad, among others. However special provision applies to tax deductions, such as:

- Deductibility of bank and non-bank interest.

Income Tax Law limits financial expenses from debts with non-banking entities. The annual interest deduction cannot exceed 20% of the company's EBITDA (i.e., earnings before interest, taxes, depreciation, and amortization). Interests paid on

loans with local financial institutions supervised by SUGEF or foreign financial institutions supervised in their country, will not be subject to this limitation.

Interest expenses that exceed this threshold should be considered nondeductible for income tax purposes and could be taken as a deductible expense in the following tax periods, provided the interest expenses in each year do not exceed 20% of the company's EBITDA.

- Pre-operational expenses.

The Income Tax Law, Section 8, Subsection n) defines organizational expenses as "all costs and expenses necessary to initiate the production of taxable income that, by this Law, are deductible from gross income". In this sense, it establishes that these expenses may be deducted in the Fiscal Year in which they are paid or credited (if in the first Fiscal Year, there is sufficient taxable income against which to charge such expenses) or accumulated and deducted in the five consecutive fiscal years, as from the date of the beginning of its productive activity, until the balance is exhausted.

- Depreciation of assets.

Companies subject to Income Tax can consider tax depreciation as an expense. Depreciation may be computed using either method: the straight-line or the sum-of-years' digits method. Tax authorities may allow a special accelerated depreciation method in certain cases and may authorize other methods based on the type of asset or business activity. The method chosen must be applied consistently and take into account that depreciation is computed based on the useful life of the asset as specified in the Income Tax Regulations. The following are some of the most used, straight-line rates.

Asset	Rate (%)
Buildings	2/4/6
Plant and machinery	7/10/15
Vehicles	10/15/34
Furniture and office equipment	10
Tools	10

- Foreign tax relief.

The current position of the tax authorities is that Costa Rican taxpayers cannot deduct foreign taxes paid abroad in calculating their taxable income.

B. Calculation of Taxes

The traditional Income Tax Regime states that any natural person or company domiciliated in Costa Rica who carries out lucrative activities within the national territory must pay taxes due on net income, described by the difference between gross income and allowable tax deductions.

The company's taxable income is taxed as per a schedule provided by the Income Tax Law that establishes bracket rates, which increase gradually according to the amount of income generated through lucrative activities. The corporate income tax rate is 30%. However, for companies with an annual gross income of up to USD 204 352 (which may change due exchange rate), the following progressive rates are applicable:

- 5% for annual net income (taxable income) up to USD 9,638,3.
- 10% for annual net income between USD 9,638,3 and USD 14 460
- 15% for annual net income between USD 14 460 and USD 19 280
- 20% for annual net income between USD 19 280 and USD 204 352

C. Capital Gains

The Capital Gain regime corresponds to a variation in the value of the taxpayer's patrimony that comes into effect because of any alteration in the composition of its assets, for example, when selling stocks. Capital Gains tax applies only to "capital assets" like stocks, bonds, and real estate that are not in the service of an income-producing activity related to corporate income taxes.

The tax base for this Capital Gain Tax is determined by the difference between the acquisition and transfer values of the assets or rights. As a rule of thumb, the tax rate applicable to the capital gains amount is 15%. However, for assets acquired before July 1st, 2019, the taxpayer has the option to pay either 15% over capital gains or 2.25% over the total sales price of the asset, whichever is more beneficial for the taxpayer.

For non-domiciled persons holding assets in Costa Rica, the sale of such assets generates a capital gains tax of 2.5% of the transaction value, which should be withheld by the buyer of such asset, and then paid to the local tax authorities.

The payment to the Tax Authorities should be done within the first fifteen days of the next month after the sum was credited, paid, or in any way made available to the taxpayer.

When the asset is in the service of an income-producing activity related to corporate income taxes, the tax rate that should apply ranges from 5% to 30%, depending on the year profit in the case of companies. For individuals, the tax rate goes from 0% to 25%, depending on the year's profit.

D. Filing and Payment Requirements

The statutory tax year runs from January 1st through December 31st. Companies must file annual Corporate Income Tax returns and pay any tax due within 2 months and 15 days after the end of the tax year, so the deadline for taxpayers that report under the statutory tax year is March 15th. Tax authorities may authorize a different tax year in special circumstances, and upon request.

Each year, the tax liability must be paid in quarterly installment payments, which are based on the preceding years' income tax paid or the average of the last three years' tax liability, whichever is higher. If a company did not file a return for the last three years, the installment payments are calculated based on the last year a return was filed.

New companies or legal entities must make quarterly payments based on their first-year projected income, which must be reported to the tax authorities before the last day of January. If no projected income is reported, the tax authorities determine the quarterly tax payments based on an imputed gross income amount.

E. Miscellaneous Taxes Due

- Municipal or local government taxes

All profitable activities within the jurisdiction of a specific local government or Municipality must apply for an operation permit or municipal license. However, there is no general business license required if services are provided by individuals without a physical venue, notwithstanding the obligation to be registered before the Tax Authority. At a local or municipal level, corporations with lucrative activities are subject to a mandatory operating license (*patente*) tax associated with local profits or certain payment categories previously determined by the corresponding municipality.

- Real Estate Rental Income

Income from leasing, subleasing, as well as from the constitution or assignment of rights or faculties of use or enjoyment of real estate constitute income from real estate capital and is subject to a special, simplified tax regime.

The tax base of this tax is determined by the difference between the gross income (which is the total price of the transaction) and a fixed-expense rate of fifteen percent (15%) of the gross income, without the need for any proof or the possibility

of any other deduction. Therefore, the effective tax rate results in 12.75% of the gross income.

The tax under this regime must be filed and paid within 15 calendar days of the month following the taxable event.

The Income Tax Law allows the taxpayer to “opt-out” of the simplified regime to pay taxes under the ordinary income tax regime if it hires at least one employee and pays his social security contributions. This choice depends on the reality of each taxpayer, and fundamentally, it is necessary to review the total deductible expenses that could be taken advantage of in each tax. Once the taxpayer decides to pay taxes under the income tax regime, the taxpayer must remain in this regime for at least five years.

- Movable rent income

Income in cash or in kind obtained from the transfer of assets to third parties, as well as income obtained from leasing, subleasing, as well as from the constitution or transfer of rights of use or enjoyment, whatever their denomination or nature, of movable property, and of rights such as key rights, royalties, and other intellectual and intangible property rights, shall constitute income from movable capital.

The tax base corresponds to the gross amount obtained by the taxpayer, without any possibility of deduction of expenses or other reductions. Thus, is subject to a 15% tax rate. The tax under this regime must be filed and paid within 15 calendar days of the month following the taxable event occurs.

- Excise Tax

The excise tax was created by Law No 6820 of 10 November 1982. This law levies a specific tax on the consumption of specific goods that are stated in lists approved by the Executive Power.

- Vehicle Tax

Law No 7088 of 30 November 1987, establishes a tax on the ownership of all vehicles registered in the Public Registry of Vehicles. Therefore, entities or individuals owning a vehicle are subject to the tax. The tax is paid every year according to the fair market value of the vehicle.

F. Registration Duties

Upon incorporation, the bylaws of the company must be filed with the Costa Rican Mercantile Registry for registration, subject to payment of certain duties and stamp taxes. The registration of acts and documents with the National Registry Office is subject to registration taxes that vary according to a scheduler classification.

Appointments of new directors and amendments to company charter or articles of incorporation, including capital increases, require registration of the corresponding corporate resolutions. Such registration is also subject to the payment of a stamp tax.

All commercial agreements, whether notarized or not, must also pay a stamp tax of 0.5% on the total value of the respective transaction.

- **Corporate Tax:**

Is paid annually every January on any active or dormant company. The tax for active entities is calculated by the last income tax statement, ranging the tax rate from \$214 to \$427 per year, while dormant companies pay US\$128 (the tax is updated every year). The corporate tax is paid upon registration of new entities and is prorated based on the date of incorporation.

- **Dormant entities tax return**

The Tax Administration Resolution number MH-DGT-RES-0007-2023 establishes that entities with ID and registered in the Costa Rican Public Registry shall file the "Informative Declaration of Inactive Legal Entities D-195 and the guide for filling it out", no later than April 30th of each calendar year through the Tax Digital Platform.

- **Real estate transfer tax:**

Transfers of real state property and certain personal property (mostly vehicles) must be recorded with the Public Registry and are subject to a transfer tax. Real estate transfer tax is 1.5% of the higher value between the sales price or the fiscal value of a property. The tax is generated at the time and date of the execution of the public deed in which the legal business of transfer of the real estate is recorded or on the date on which any legal business that has the effect of directly or indirectly transferring the real estate is documented.

Furthermore, the transfer deed is also subject to registration fees of nearly 0.9%, also calculated on the highest amount between the purchase price and the property's most recent tax value. If the property is acquired through a share transfer, registration fees will not be paid.

- **Transfer tax on property other than real estate**

The transfer tax occurs when real property is transferred, including indirect transfers, such as the sale of shares. The real estate transfer tax law is understood as an indirect transfer of any transaction that implies a modification in the control of the entity holding the real estate. The tax authorities understand the "transfer of the power of control over a legal entity", as the assignment or transfer of more than 50% of the shares of a company that owns real estate in favor of another individual or legal entity, and in such case, it is understood that the entire property was transferred.

- **Stamp Duty for Education and Culture**

The law for the Stamp Duty for Education and Culture establishes a duty payable by all local companies or subsidiaries of foreign companies registered in the Mercantile Section of the Public Registry. It is assessed in two ways:

(1) All acts that must be entered into the Registry, such as changes in the Board of Directors of a Company or changes in the corporate charter, are liable to a Stamp Duty of ₡750,00.

(2) All corporations must pay an annual fee in relation to their net capital in accordance with the following schedule:

(a) Companies with a net capital which does not exceed ₡500,000.00	₡5,000.00
(b) Companies with a net capital that ranges within ₡500,000.00 and ₡2,000,000.00	₡6,000.00.
(c) Companies with a net capital that ranges within ₡2,000,000.00 and ₡4,000,000.00	₡12,000.00.
(d) Companies with a net capital over ₡4,000,000.00	₡18,000.00.

The fee is payable until March of each year.

G. Sales Tax or Other Turnover Tax

Costa Rican value-added tax (VAT) is based on the territorial system, by which sales of goods or services rendered within the country are subject to the tax.

A VAT is levied on the sale or transfer of tangible and intangible goods, the transfer of rights, and services that are customary and consumed within the national territory. The rate is maintained at 13%, but for some specific cases (including health services,

education, and goods of basic consumption) rates are set at 4%, 2%, and 1% (respectively).

The tax is levied on the sale of all merchandise and all services rendered within the country and/or the import of merchandise into the country, except in those cases that are classified as exempt or non-taxable, in accordance with the provisions of articles 8 and 9 of VAT Law. The sale of goods is considered, among other cases, the transfer of ownership of goods, as well as any importation of goods in the country, on the other hand, the VAT Law states that the rendering of services is understood as any operation that does not constitute a transfer of merchandise or importation of merchandise.

Costa Rica does not refund VAT incurred by foreign or non-domiciled entities unless these are registered for sales tax purposes in Costa Rica.

H. Social Security and Welfare System Contributions

Health Insurance Regulations establish that employers must register with the Social Security and pay social security contributions within the first eight (8) working days following the beginning of the activity in Costa Rica or the acquisition of the company or business domiciliated in Costa Rica.

All salaried and self-employed workers are obligated to contribute to the social security regime. A social security assessment is levied on salaries paid to individuals working in Costa Rica: The employee pays 10.67% over his or her gross salary which is deducted from the individual's payroll payment, and the employer pays an additional 26.67% over the amount of the payroll.

I. Special Tax Schemes

There are none; taxes are applied equally to businesses promoted by local and/or foreign-based investors.

J. Tax on Profits

The general corporate income tax rate is 30%, but lower rates apply to businesses that qualify as "small enterprises". Municipal operating permits are also subject to taxes calculated on the basis of profits.

K. Tax Treaties

Currently, Costa Rica only has in force double tax treaties with Spain, Germany, Mexico, and the United Arab Emirates. The following are the withholding tax rates under Costa Rica's tax treaties with Germany, Spain, Mexico, and the United Arab Emirates:

Country	Dividends %	Interest %	Royalties %
Germany	5/15 (a)	5 (b)	10
Spain	5/12 (a)	5/10 (c)	10
Mexico	5/12 (a)	10 (d)	10
Arab Emirates	5/15 (a)	5/10(e)	12

- (a) The 5% rate applies if the beneficial owner of the dividends is a company that owns directly at least 20% of the capital of the entity paying the dividends.
- (b) Interest paid from Germany to the Costa Rican government is exempt from German taxes. Interest paid from Costa Rica under a loan guaranteed by Germany for exportation or foreign direct investment or paid to the German government, the Deutsche Bundesbank, the Kreditanstalt für Wiederaufbau or the Deutsche Investitions-und Entwicklungsgesellschaft is exempt from Costa Rican taxes. Interest can only be taxed in the contracting state of which the recipient is a resident if the interest is paid in connection with any of the following:
- The sale of commercial or scientific equipment on credit.
 - The sale of goods by an enterprise to another enterprise on credit.
 - A loan of any type made by a bank resident in one of the contracting states.
- (c) The 5% rate applies if the term of the loan agreement under which the interest is derived is five years or longer.
- (d) Interest derived from a contracting state and paid to a resident of the other contracting state can only be subject to taxation in the other state if the recipient of the interest is the beneficial owner and
- the beneficial owner is a Contracting State, one of its political subdivisions or one of its local entities; or the Central Bank of a Contracting State;
 - the interest is paid by a Contracting State, one of its political subdivisions or one of its local entities; or the Central Bank of a Contracting State;
 - the interest is derived from Costa Rica and is paid on a loan with, at least a three (3) year term granted by the Banco Nacional de Comercio Exterior, S. N. C., Nacional Financiera, S. N. C., the Banco Nacional de Obras y Servicios Públicos, S. N. C., or by any other institution agreed upon by the competent authorities.

- (e) The 5% rate applies if the term of the loan agreement under which the interest is derived is five years or longer. The 10% rate applies if the term of the loan agreement under which the interest is derived is under five years longer.

- Tax Information Exchange Agreements

The country also has Tax Information Exchange Agreements with: Argentina, Canada, South Korea, Denmark, Ecuador, The United States, Finland, France, Greenland, Guernsey, Holland, Iceland, Feroe Islands, Italy, Mexico, Nicaragua, Norway, South Africa, and Sweden.

FATCA

Costa Rica signed the Agreement with the Government of the United States of America to improve international tax compliance and to implement FATCA. In which, they committed to share financial information, with the objective of guaranteeing transparency in financial transactions that US citizens perform in Costa Rica, with the aim of justifying and supporting the application of the policy established in the FATCA Law.

Trade agreements such as CAFTA-DR, among others, provide exemptions on import taxes. Refer also to section III.D.

L. Territoriality Rules

In general, the Costa Rican income tax system is based on the territorial principle, whereby only income generated within the country or from a Costa Rican source is subject to income tax. Income obtained abroad or from foreign sources is not taxable in Costa Rica.

According to Article 1 of the Income Tax Law, a tax is imposed on occasional or continual revenues received by legal entities and individuals, obtained within the national territory, without regard for the recipient's nationality or domicile.

M. Treatment of Tax Losses

Only industrial and agricultural companies are allowed to carry forward net operating losses. In the case of agricultural companies, the carry forward period is five years. For industrial companies the carry forward period is three years.

N. Wealth Tax

There is only one type of wealth tax and it applies on luxury homes as further explained in section XIII.7.

O. Withholding Taxes

Payments remitted abroad to individuals or corporate entities from a Costa Rican income source are subject to applicable withholding taxes. The withholding tax on dividends, earnings and interests, and similar distributions of interests and other financial payments is 15%. Other rates, generally higher, apply to certain types of revenues depending on the activity from which they derive.

XIII. TAX ON INDIVIDUALS

A. Allowances

As is the case with corporate entities, individuals may deduct from gross income all costs and expenses that are necessary to produce taxable income as well as any depreciation of assets that produce taxable income. Only expenses incurred to obtain taxable income can be deducted.

B. Calculation of Taxes

The individual's taxable income is taxed as per a schedule provided by the Income Tax Law that establishes bracket rates, which increase gradually according to the amount of income generated through lucrative activities. The individual income tax rate is 25%. However, for companies with an annual gross income of up to USD 8 106 (which may change due exchange rate), the following progressive rates are applicable:

- 0% for annual net income (taxable income) up to USD 1 575
- 10% for annual net income between USD 1 575 and USD 2 310
- 15% for annual net income between USD 2 310 and USD 4 054
- 20% for annual net income between USD 4 054 and USD 8 106

The taxable base for individuals is his/her net income, which is the total income generated during the fiscal year less all costs and expenses that are necessary to produce such income.

C. Capital Gains Tax

There are capital gains. Refer to section XII. 3 above.

D. Filing and Payment Requirements

See section XII. 4 above. Notice, however, that individuals under an employment relationship do not have to file income tax returns since the employer already withholds their income tax.

E. Inheritance and Gift Tax

There is no inheritance or gift tax.

F. Miscellaneous Taxes Due

See section XII. 5 above.

G. Real Estate/Habitation Tax

- Yearly Real Estate Tax: In Costa Rica applies yearly real estate taxes. Titled property owners are required to pay yearly real estate property taxes, calculated on 0.25% of the property's declared value before the Municipality. The value for the property includes both the land and the constructions therein, and the owner must submit a declaration every five years. Property taxes are collected by the local government or Municipalities and may be paid annually or on a quarterly basis.
- Luxury home tax: In addition to property taxes, certain properties may be subject to Luxury Homes Tax. The Luxury Homes Tax for the Strengthening of Housing Programs was created in 2009 to help finance public housing programs, and families living in extreme poverty.

The Luxury Home Tax is levied on houses with a construction value exceeding \$215,500.00 (this figure is an approximation due to the exchange rate and is updated every December 1st). The threshold value is based on elements such as the materials, system, and age of the construction (it does not consider the value of the land).

However, if the construction value exceeds said threshold, the total value of the property (including the value of the land) will be subject to the tax based on the rates and brackets established by law. The applicable tax rate ranges from 0.25% to 0.55% of the construction and property value.

H. Sales Tax

Individuals must pay sales tax as well. This tax is paid on regular sales of merchandise or certain services rendered in Costa Rica. The tax is also paid when importing goods into the country. When acting on a regular basis, the taxpayer must register with the Tax Administration. This also applies to legal entities and *de facto* companies when engaged in similar transactions.

In general, this tax is transferred through the price of goods to the final consumer.

I. Social Security and Welfare System Contributions

See section XII.8 above.

J. Stock Option, Profit Sharing and Savings Plans

Stock options between employers and employees are subject to payment of withholding taxes (salary tax). Profits obtained from the exercise of said stock options are considered salary in kind and are therefore subject to a flat withholding tax with no deductions or credits allowed.

There is no taxation on savings plans.

K. Taxation of Benefits In Kind

According to the Income Tax Law, bonuses (except for the statutory 13th month bonus) and benefits in kind are subject to a flat 15% withholding tax with no deductions or credits allowed. Benefits in kind are also subject to social security contributions.

L. Taxes on Dividends

Dividends paid by companies to individuals (both local and foreign) or to foreign entities are subject to a withholding tax 15%. There is no withholding required when dividends are paid out to other local corporate entities with business, rents, or capital gains activities.

M. Tax on Income

For income tax purposes, a resident is defined as any person who has resided in Costa Rica for more than 183 days. The compute of the days doesn't have to be continuous. The person could leave the country for periods that go under 30 days without interrupting the compute.

The work permit from the Immigration Authorities do not grant the status of resident for income tax purposes.

Non-residents, either employed or self-employed are subject to a flat withholding tax 25% on all income derived from personal services performed in Costa Rica and are not required to file income tax returns in the country. However, to validly carry a business in the country, the proper immigration status is required.

N. Tax Treaties

See section XII. 11 above.

O. Territoriality Rules

Individuals with business activities are subject to the same regulations as corporate entities, except that they are subject to a progressive tax rate schedule. See section XII.12 above.

P. Wealth Tax

See section XIII.7 above.

Q. Withholding Tax on salary

Salary is subject to a withholding tax. See section XIII.13 above.

XIV. TAX ON OTHER LEGAL BODIES

Off-shore offices of local banks or financial entities are subject to applicable withholding taxes according to our Income Tax Law (territorial principle application).

Also, the net income of individuals or corporate entities deriving from the operation of casinos or other legally authorized gaming rooms is subject to certain specific taxes.

Finally, motels, nightclubs, unlicensed hotels and massage houses, must pay a welfare specific tax in favor of the Instituto Mixto de Ayuda Social (IMAS.) The tax is established at 30% of the rate value charged for each room.

XV. GENERAL TAX CONSIDERATIONS

A. Taxes Generally

Tax planning by proper specialists in tax and accounting is common and recommended since it will depend on the type of activity involved, investor citizenship, if there are tax treaties avoiding double taxation available, among others.

Our Tax Code has a procedure that allows taxpayers to request a formal interpretation of tax rules in the form of a prior consultation that will be binding afterwards for the company and the Tax Administration. Recent changes to our law make such ruling binding only with regards to the matter being consulted and on the parties involved therewith.

Finally, there is no general anti-tax avoidance system.

XVI. IMMIGRATION REQUIREMENTS

A. Immigration Controls

Costa Rica does not have any immigration quotas. Immigrants from certain countries are required to show medical and/or vaccine certificates (malaria, etc.).

An exit visa (tax) is also required. The Immigration Law mandates that foreigners residing temporarily or permanently in the country must obtain an exit visa to travel outside the country, just as nationals do.

Costa Rican and resident minors must obtain an exit permit issued by the National Children Welfare Institution, based on the parents' authorization. This must be done at Immigration.

Some nationalities don't need to request a tourist visa, like USA, Canada, Europe, Mexico, Brazil, Argentina, etc. The immigration officer can stamp up to a 180 days visa as long as a person meet certain basic requirements: to have an exit ticket, vaccines (if necessary), a credit card and a hotel booking.

Some nationalities must request visa at the Costa Rican consulates abroad like Colombia, Cuba, Venezuela, Pakistan, India, China. etc.

To be able to legally stay in Costa Rica, for more than the tourist visa allows, an application for a residency must be filed. For such extent, the main residencies that foreign people apply for are the following:

1. Retirement Residency: This residency is given to retired people that can demonstrate that they receive a monthly income, from their pension fund, of more than US\$1,000.00 per month. The request for the letter may be done here: <https://cr.usembassy.gov/es/u-s-citizen-services-es/fbu-inquiry-form-es/> This residency application can be done digitally and takes about 6-9 months for approval.
2. Investor Residency: This residency is given to foreign investors that have executed a formal investment in Costa Rica (such as a purchase of a property) for an amount equal or higher than US\$150,000.00 under personal name, not thru a company. One spouse must be the owner of the investment and other spouse and the children under 25 years, can apply as dependents. This residency

application takes about a year for approval. It's important to know that immigration request the payment of the luxury home tax, so if a property qualifies, a receipt must be shown. If in doubt, an appraisal to proof the property doesn't qualify must be shown. To apply as an investor who bought a property thru a company, the investment in shares or the capital contribution to be performed by the stockholders, must be demonstrated and the capital stock of the corporation must reflect such investment. Also, the company must be registered with the Tax Authorities and comply with a series of formalities. This means that some changes must be done to the company.

3. Rentista Residency: This residency is granted to foreign people that prove that a bank guarantees an income of US\$2,500.00 per month, for a period of no less than 24 months, in a consecutive, stable and irrevocable manner. This residency application can be done digitally and takes about 9-12 months for approval.

The mentioned residencies will give a restricted residency in the country, meaning that the person will not be able to work in their personal condition, since they have a restricted condition linked to the specific residency. However, this doesn't mean that it will not be possible to execute and/or open a business through a Costa Rican corporation, since it will be the entity the one that owns and executes the business. Once a person has been a temporary resident in Costa Rica for more than 3 continuous years, they can apply to be a permanent resident, which eliminates the previous restrictions.

You will need to bring the following documents from your country:

1. Birth Certificate must come with parents' names. Long form *
2. Marriage Certificate if applies *
3. Federal Police record with fingerprints check * (if USA FBI <https://www.fbi.gov/services/cjis/identity-history-summary-checks>)

All documents from abroad need the Hague Apostille stamp (United States of America, Europe, etc) or legalization thru the Costa Rican Consulate to be valid in Costa Rica. Also, it is very important to consider that every document is valid only for 6 months after the issue date. for example, if the document is issued April 6th, it is valid until October 6th. The Hague Apostille is 'the authentication of a document for use in another country'. The Apostille certificate confirms the signature, seal or stamp on a document to be genuine so that it will be accepted when presented in another jurisdiction.

B. Visas

A visa is required to travel and stay in the country for certain nationalities.

XVII. EXPATRIATE EMPLOYEES

A. Cost of Living and Immigration

By international standards, the cost of living in Costa Rica is moderate/high although the quality of life is rather high. According to the United Nations' Human Development Index (HDI) for 2023, Costa Rica has an HDI of 0.809.

The inflation rate for 2023 was 0.66%

B. Drivers' Licenses

Tourists can only legally drive for 90 days.

You must be a resident and have the DIMEX to homologate the driver's license.

C. Education

Costa Rica is considered to have one of the best educational systems in Latin America, with even the smallest of towns having their own public school. There are public and private schools operating within the country and the Ministry of Education oversees them all. Bilingual education is common around the country.

D. Housing

Any type of housing is available, who may own or lease property without limitation. It is not necessary but advisable to have made housing arrangements before getting established in the country. We recommend that counsel prior to entering into any agreement with seller/landlord as the case may be review the sales/lease agreement.

E. Importing Personal Possessions

There are tax exceptions for new residents that applied as rentists, investors and retirees. The new residents could bring up to 2 cars and household goods tax free.

Every traveler entering the country must submit the Traveler's Customs Declaration at Customs, filled out and signed, prior to the importation of the merchandise. Travelers must specify all goods brought other than their personal baggage. Baggage is defined as "all the new or used articles that a person may reasonably need for his or her personal use or for the practice of his or her professional or occupational activities during the trip" (Article 114 of the General Customs Law).

There is a random selective system in place that determines whether the merchandise that the traveler is bringing requires a physical inspection. Regardless of the type of inspection made, the declaration form must be presented to the customs authorities. No live-products or unsealed food products may be introduced to the country.

F. Medical Care

It is mandatory for costaricans and legal residents to enroll at our National Social Security. Costa Rica offers high quality medical care services. There is a government-sponsored network of approximately 29 hospitals, 10 major clinics and more than 890 regional health clinics throughout the country administered mainly by the Caja Costarricense del Seguro Social (CCSS).

G. Moving Costs

See section XVII.5. above.

Only Costa Ricans that have resided abroad during the 24 months prior to their arrival into the country have the right to a partial exemption from taxes on household goods.

H. Tax Liability

See section XIII.

I. Work Contracts

As a general rule, the Labor Code requires the use of written employment agreements. However, this is a practice that is not always followed by local employers except for high ranking or skilled employees.

The law provides that (i) written and no written contracts are just as valid; (ii) reality of the employment relationship will prevail over any written provisions in a contract between the parties; and (iii) in case of doubt, the employee's position will be favored (*in dubbio pro operario* principle.)

J. Work Permits

It is mandatory for Expatriates, defined as foreign nationals (non-Costa Ricans) temporarily assigned to work in Costa Rica to apply for a temporary work permit or residency with the Costa Rican Immigration Authorities.

Certain companies due to its importance in the CR economy can register at Immigration to the "Company Visa Program." Such as telecommunications, banking, Hotels, Free Trade Zone, etc.

