



Independent legal & accounting firms

Doing Business in Costa Rica

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MSI's guide on Doing Business in Costa Rica provides current information about the financial, regulatory and legal considerations that could affect business dealings within Costa Rica. For further assistance please contact our MSI member firms in Costa Rica.

Country overview

Population

Costa Rica has a total population of 4.906 million inhabitants (December 2018).

Government

Since its independence in 1821, Costa Rica has enjoyed a democratic government system based on free elections and the participation of multiple political parties. In the 1949 Political Constitution, Costa Rica was declared a democratic republic.

The current political system is represented through the Executive, Judicial and Legislative Branches. The three branches operate independently from each other, evidencing an organization and functionality similar to most mature democracies in the world. The Constitution has also many social, political, and legal guarantees such as human rights, equality under law, freedom of speech, press, religion and more.

Costa Rica has 7 provinces, each with its own local authorities.

Languages

The national language is Spanish. However, most people speak English as well, especially in San José and the tourist areas.

Currency

The national currency is the Colon.

Economic summary

GDP: **€57.43 billion**

Income per capita: **€16,141**

Inflation: **0.7%**

Main sectors of the economy

The country's perfect location and healthy financial policy have helped to ensure that Costa Rica has grown into an important import and export nation. Costa Rica largely depends on tourism and international trade.

Costa Rica has a proven track record of 120 years of solid democracy, economic and political stability, and is, thus far, unmatched as the top choice for investment in the Latin America region. The country is at the heart of the Americas, with ports in the Pacific and Atlantic coasts. Free Trade Agreements provide preferential access to over 57 trade partners and 2/3 of the global GDP. We offer the speed to market, to the world!

The country's most important sector activities include services, advanced manufacturing, life sciences, light manufacturing and food industry. Canada, United States, European Union and China are the markets with preferential access.

Non-EU and its impact on businesses and investors

Costa Rica is an attractive base for doing business and for investment. Its open and international outlook, well-educated work force and strategic location are contributors.

Costa Rica is a strategic destination for the operation of multinational enterprises in diverse sectors. At present, more than 250 world-leading enterprises have chosen Costa Rica as a place in which to expand their operations.

The country has become the preferred destination in Latin America for leading companies in the high tech industry.

Setting up a business

Under Costa Rican law, a foreign individual or company may operate in the country through an incorporated or unincorporated entity or branch. Costa Rica's corporate law provides a flexible and liberal framework for the organization of subsidiaries or branches. There are no special restrictions for a foreign entrepreneur to do business in the Costa Rica.

Business operations can be set up in Costa Rica with or without a legal personality. If a legal entity has legal personality, the entrepreneur cannot be held liable for more than the sum it contributed to the company's capital.

Legal types of business entities

1. Business Corporations (BC)
2. Limited Liability Company (LLC)
3. Limited Partnership
4. General Partnership
5. Branch of Foreign Company
6. Companies or Partnerships regulated by special laws

For international businesses, the Business Corporations and Limited Liability Companies are most commonly used. The BC is incorporated by two or more incorporators pursuant to the execution of a notarial deed of incorporation before a Public Notary.

The minimum share capital is **€10,000**. It is possible to choose another currency other than the Colon.

Many foreign companies make use of a subsidiary rather than a branch. The main legal reason to set up a subsidiary, instead of a branch, is limitation of liability.

As a shareholder of a subsidiary, the foreign company's liability is basically limited to the extent of its capital contribution; whereas, if the foreign company makes use of a branch, it is fully responsible for all the obligations and liabilities of the branch.

Process of how to set up a business

A Business Corporation (BC) or a Limited Liability Company (LLC) can only be incorporated by a Public Notary.

Financial year of taxes and financial accounts

The financial year is equal to the calendar year. The BC and Limited Liability Company (LLC) are subject to corporation income tax.

Accounting and auditing

You should only be audited if you are a regulated entity in the financial and banking sector.

Economic and fiscal incentives

The Costa Rican government offers a number of incentive schemes in various sectors to support companies in their business operations. Costa Rica has the most competitive tax incentives. The Free Trade Zone Regime is the mainstay of the country export and investment promotion strategy. It is a set of incentives and benefits granted by the government to companies making new investments in the country and it provides tax incentives.

Incentives foreign investors/ local investors

There are no limits to foreign capital invested in areas such as agriculture, industry, trade or loans to institutions and the law protect the established industries, propose sanctions, and stimulate their development by means of:

- Tax incentives, adequate credit policies administrated by the National Banking System, and the

exclusion of business practices that could affect new industries.

- The Costa Rican legal system favours foreign investment by guaranteeing equal opportunities.

Currently there are various available options for foreign investors such as the Temporary Admission System for passive perfection and the Free Trade Zone System.

Taxation

The tax system in any given country is invariably an extremely important criterion when it comes to companies finding a country of incorporation.

The view taken by the Costa Rican government is that the tax system may under no circumstances form an impediment for companies wishing to incorporate in the country.

In that framework, it is possible to obtain advance certainty regarding the fiscal qualification of international corporate structures in the form of so-called Advance Tax Rulings.

In addition, Costa Rica has also signed tax treaties with many other countries to prevent the occurrence of double taxation. The Costa Rican tax system can be divided into taxes based on income, profit and assets, and cost price increasing taxes.

VAT

The general VAT rate is 13%. On food 1% and medicines the rate is 4%.

Income tax

There are a number of tax systems applicable in Costa Rica which, in general terms, are managed by the General Tax Administration and the General Customs Administration, both under the authority of the Ministry of Revenue, the first administrative body in charge of:

1. Income taxes and related
2. General sales tax
3. Selective consumption tax
4. Other minor taxes

Each has a different tax rate.

Corporate income tax

Tax income is applicable to commercial entities established in the country, as well as to branches of foreign entities.

This tax applies to earnings received as a result of the development of profitable activities of any type, excepting those activities assigned with specific tax treatment by means of other enlisted exemptions established by law.

Registration procedures

Private persons and companies are registered with the tax authorities and are given a fiscal registration numbers. Communication with the tax authorities by way of tax returns and tax assessments is largely done in an electronic way.

Participation exemption

Participation exemption or substantial holding exemption is one of the main pillars of corporate income tax. The scheme was introduced to prevent double taxation. Profit distribution between group companies is exempted from tax.

Participation refers to a situation where a company (the parent company) is the owner of at least 5% of the nominal paid-in capital of a company that is based either in Costa Rica or abroad (the subsidiary).

A cooperative membership qualifies as well regardless its share in the cooperatives capital. Under the participation exemption, all benefits derived from the participation are tax exempt.

Wage tax

The basis and rates of wage tax is similar to the income tax for individuals. Wage tax is a withholding tax and as such it is an advance payment on income tax.

Withholding taxes

The withholding tax is dividend tax with a rate of 5%-15%, interest from 0%-15% and royalties 25%.

HR/ Labour Law

Employment law

Costa Rican labour regulations are mainly laid out in the Labour Code that has been in force since 1943. Important amendments have been implemented to comply with the demands of the new global market.

In addition to the Labour Code, there are numerous legal norms and jurisprudence that set regulations for things like the “thirteenth month” bonus, social security, sexual harassment provisions, among others.

Additionally, companies may implement their own set of rules by performing certain internal policies and issuing manuals specifying and dealing with certain relevant issues. This also includes agreements with their labour force and unions.

Social security

Costa Rica has a mandatory social security system providing health insurance for medical attention and disability, old age, and death pensions.

Contributions to the Social Security System for dependant employment relations are as follows: an employer must contribute 26.33% above the employee's gross salary and withhold 9.34% from the employee's salary. Both contributions are reported and paid on a monthly basis to the Social Security.

Additionally, the Social Security System offers plans for voluntary and mandatory contributions for independent contractors applicable to:

1. Individuals not earning income but who receive a rent linked to Costa Rica –for example, housewives and students-; and
2. Independent professionals or other individuals generating their own income with no associated employer.

Pension

The age the pension start varies depending on the future mortality rates, but will be at least 65 years for women and 67 years for men.

Payroll

When starting a business and employing staff, the company must register with the social security and tax authorities. Wage tax and social security is paid monthly to the “Caja Costarricense del Seguro Social –CCSS-” and tax authorities. The process of registration in both institutions takes less than a week.

Visa and work permits

The General Immigration and Foreign Nationals Office is the agency responsible for issuing general directions on entry visas and residence permits to foreign nationals. These directions are based on local immigration policies, international agreements, treaties, security reasons, convenience, and opportunity for the Costa Rica State.

A visa is required when four of the following criteria are met:

- Foreign nationals that can enter Costa Rica without a consular visa and stay a maximum term of 90 days.
- Foreign nationals that can enter Costa Rica without a consular visa and stay a maximum term of 30 days.
- Foreign nationals that placed in this group must request consular visa for a maximum stay of 30 days, unless they hold residence or visa from certain regions determined by the Immigration Authorities.
- Foreign nationals that placed in this group must request restricted consular visa and a previous consultation from the Director of the Immigration and Foreign Nationals Office. Foreign nationals in this group will have the right to stay a maximum of 30 calendar days

Also there are six residence permits that need to be mentioned: Temporary residence for labour purpose, temporary residence under investor status, temporary residence for retired individuals –income through pension-, temporary residence as “rentista” – income through investments- permanent residence and a temporary work permit.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Costa Rica should seek professional advice before making any business or investment decision.

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