

# SETTING UP BUSINESS IN COSTA RICA



## General Aspect

Costa Rica is a country in Central America, it borders the Caribbean Sea (to the east) and the Pacific Ocean (to the west), Because Costa Rica is located between 8 and 12 degrees north of the Equator, the climate is tropical year round. However, the country has many microclimates depending on elevation, rainfall, topography, and by the geography of each particular region. Costa Rica's location provides access to American markets as it has the same time zone as the central part of the United States and direct ocean access to Europe and Asia. The primary language spoken in Costa Rica is Spanish but many people, especially in business life, speak English as well.

## Legal Forms of Business Entities

Legal form	Feature	Remarks
<b>Sociedad Anónima or S. A. in Spanish</b>	<p>Must be formed before a notary public, by at least two physical individuals or two existing corporations, or a mix thereof, this is the most widely used corporate structure when organizing businesses in Costa Rica.</p> <p>A Sociedad Anónima may be formed by other business entities or individuals or a mix thereof and may be eventually owned by one single individual or other business entity.</p>	<p>Must be managed by a board of directors comprised of at least three members (President, Secretary and Treasurer) and must be supervised by a statutory examiner called the "Fiscal".</p> <p>There are no limitations for foreign nationals wishing to form these types of companies. In the event the Company does not have a representative residing in Costa Rica, the appointment of a resident agent is then required. Such an agent is necessarily an attorney-at-law.</p>
<b>Sociedad de Responsabilidad Limitada or SRL in Spanish</b>	<p>A minimum of two partners are required (physical individuals or business entities) to initiate its incorporation and its legal standing is not altered in the event a single partner subsequently becomes the sole owner of the capital contribution</p>	<p>Their capital is not represented in shares of stock but in quotas, that cannot be sold to third parties if not previously offered to and approved by the rest of the partners. The Company structure is not lead by a board of directors but by one or more manager.</p>
<b>Branch Offices of Foreign</b>	<p>Foreign companies are allowed to open and/or transfer their operations to Costa Rica through branches, subsidiaries and other applicable rules set forth in the local Code of Commerce</p>	
<b>The Trust</b>	<p>Costa Rican commercial entities and individuals have recently begun using trust to manage their commercial (and personal) interests, in local or international environments, with great success.</p>	<p>Its flexibility and numerous possibilities make it an ideal business vehicle a wide array of commercial (and personal) relationships. In fact, it may be used for many business purpose meant to provide assurance and speed in day-to-day business transactions.</p>

## Organizational Questions

Topic	Feature	Remarks
<b>Commercial Register</b>	When forming a Costa Rican Company its bylaws must be drafted before a Public Notary and thereafter incorporated with the Mercantile Section at the National Registry. Once the incorporation process has been completed, the Public Registry will issue a corporate identification number ("cédula de persona jurídica" in Spanish), assigning a number which becomes evidence that the company is ready to lawfully start operations.	If the company is going to start a business or open a checking account, it must be registered with the Dirección General de Tributación according to the type of business. For example, for: The Income Tax. It is paid and reported annually. The General Sales Tax. It is paid and reported monthly
<b>Trade Register Notification</b>	Every company under operation needs a business license or permit: <ol style="list-style-type: none"> <li>1. The type of the license required from the local government (the Municipality) will depend on the type of business (sales of products, rendering of services, administrative services, etcetera.)</li> <li>2. There is a license fee to be paid to the local government quarterly. For specific details on the license to be paid, it is necessary to know the exact place where the offices will be located.</li> </ol>	Municipalities will grant these licenses within a maximum term of 30 calendar days as of the date of the filing of the request. The Municipalities will then collect the applicable tax.
<b>Transfer of Goods and Machinery</b>	When performing any legal transaction whereby a piece of real estate is transferred, a transfer tax will apply whose rate is 1.5% of the value of the property according to the public registry.	The reference value shall be the market price. This agreement must be documented with a notary public by means of a public deed of transfer and thereafter recorded within the National Registry.
<b>Visa and Residence permit</b>	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 polices, international agreements, treaties, security reasons, convenience, and opportunity for the Costa Rican State.	Foreign nationals authorized to enter the country may request an extension, provided that the request is submitted by prior to the termination of the original authorization and under the condition the all extension requirements set forth by the General immigration and Foreign Nationals Office are duly complied with.

# Employment

Topic	Feature
<b>Entry Visa Categories</b>	<p>First Group: Foreign nationals of the countries placed in this group may enter Costa Rica without consular visas and will have the right to stay for maximum term of 90 calendar days.</p> <p>Second Group: Foreign nationals from countries placed in this group may enter Costa Rica without consular visas and will have the right to stay for maximum term of 30 calendar days.</p> <p>Third group: Foreign nationals placed in this group must request a consular entry visa from the Costa Rica Consular Office abroad and will have the right to stay for maximum term of 30 calendar days, unless they hold residence or a visa from certain regions determined by the Immigrations Authorities. They do not need a consular entry visa if they comply with those specific rules.</p> <p>Fourth group: Foreign nationals placed in this group must request a restricted consular visa and a previous consultation from the Director General of the Immigrations and Foreign Nationals Office.</p>
<b>Labour law</b>	<p>Costa Rican labor regulations are mainly laid out in the Labor Code that has been in force since 1943. However, in past years important amendments have been implemented on certain subject matters so as to comply with the demands of the new global market, as well as recent tendencies in labor laws.</p> <p>In addition to the Labor Code, there are numerous legal norms and jurisprudence that set regulations for things like the “the thirteenth month” bonus, social security, ad sexual harassment provisions, among others.</p> <p>Additionally, companies may implement their own sets of rules by performing certain relevant issues. This also includes agreements with their labor force and unions.</p>
<b>Social system</b>	<p>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 dependent employment relations are as follows: An employer must contribute 26.33% above the employee’s gross salary and withhold 10.34% from the employee’s salary. Both contributions are reported and paid on a monthly basis to the Social Security system.</p> <p>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.</p>

# Taxation

There are 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 is in charge of: income tax and related, general sales tax, selective consumptions tax, and other minor taxes. The seconds collects customs taxes and other taxes from import operations.

Tax	Feature	Remarks
<b>Income Tax on Business Entities</b>	The income tax 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 a specific tax treatment by means of other enlisted exemptions established by Law.	Income taxes are applicable to net income and highest rate is 30%
<b>Taxes on Remittances</b>	The foreign remittances tax is levied all incomer or benefits of Costa Rican source that are sent abroad. The tax is generated when an income or benefit of Costa Rican source is settled, credited, or in any other way made available to persons domiciled abroad.	The tax must be withheld at the time is settled, credited, or made available to the non-domiciled person. It must be settled within the first 15 calendar days of the immediately following month. Jurisprudence understands that this payment refers to the physical remittance of the funds. The lowest rate is 8.5% and highest rate is 50%
<b>The general sales tax</b>	The general sales tax is levied on the value added in the sale of goods and the provision of some services specifically listed in Act 6826 of November 8, 1982 and its amendments.	Taxpayers of this tax are all natural persons and legal entities, whether of fact or duly formed, state-owned and private ones, which sell goods or provide services on a regular basis. In addition, all persons of any nature that import goods or pay custom duties for imported goods (Section 13 of the General Sales Tax Act, Ley del Impuesto General sobre las Ventas) and all exporters, whether or not they are taxpayers for this tax, are required to file a reporting form.
<b>Taxes on Dividends</b>	This withholding is made on dividends of any kind, ownership interests, and other kinds of profits equivalent to dividends paid or credited to the company's shareholders or members . This withholding does not apply where dividends are distributed as registered shares or as ownership interests of the same company or where the shareholder is another corporation based in Costa Rica and subject to this tax. In this case, the taxpayers are the shareholders or members of these entities , except where these entities are entities whose contributions to capital are monetary, are based in Costa Rica and are subject to this tax, and the withholding agents are entities whose contributions to capital are monetary and pay that kind of profit.  Regulation provide that taxes to be withheld and paid are 5% and 15% of the total to be distributed, depending on the taxpayer.	

<p><b>Transfer pricing information</b></p>	<p>Under Resolution DGT-R-044-2016, certain types of Costa Rican taxpayers (e.g., large taxpayers and large territorial taxpayers as defined in Resolutions DGT-003-2008 and DGT-09-2008, and companies operating under a free trade zone regime) must file a transfer pricing information return, which requires disclosure of information regarding transactions with related parties, such as the name of the related party, the type and amount of the transaction, the transfer pricing method used in the analysis and the price or margin earned by the local taxpayer.</p>	<p>Resolution DGT-R-28-2017 temporarily suspends the obligation to file the information return. Transfer pricing information returns for fiscal years 2015 and 2016 would have been due on 30 June 2017. This due date is now suspended until further notice. However, taxpayers should maintain the information that would be included on those information returns for when the Tax Administration requests the information.</p> <p>Resolution DGT-R-28-2017 only applies to the transfer pricing information return, and has no effect on the obligation to document transactions between related parties on an annual basis, which is effective as of 13 September 2013, per Executive Decree N° 37898-H published in Official Gazette No. 176 and applicable to all taxpayers in Costa Rica.</p>
<p><b>Electronic vouchers</b></p>	<p>The Costa Rican tax authorities announced the dates on which taxpayers must begin complying with the mandatory use of electronic vouchers.</p> <p>Background On 14 October 2016, the Costa Rican tax authorities published in the Official Gazette a resolution<sup>3</sup> on electronic vouchers. Another resolution<sup>4</sup> on the mandatory use of electronic vouchers followed on 3 November 2016. On 20 December 2016, Costa Rica enacted the Law Against Tax Fraud, which requires all taxpayers to book transactions digitally and issue electronic vouchers.</p> <p>The first resolution, Electronic Vouchers, authorizes the use of electronic invoices, debit notes and credit notes as receipts to support revenues and expenses. It sets out the technical and format-related specifications of the electronic voucher system to be implemented.</p> <p>The second resolution, Mandatory Use of Electronic Vouchers, establishes which taxpayers must use electronic vouchers. This resolution requires tax authorities to communicate in the Official Gazette the dates taxpayers must start complying with its requirements and the requirements of the first resolution.</p>	<p>Complying with the obligation established in the second resolution, the tax authorities published in the Official Gazette a notice indicating the dates upon which taxpayers, according to their business activity, must begin complying with the mandatory use of electronic vouchers. For each sector, the notice also includes a list of activity codes and a description of the business activity to which that code refers. The dates are as follows:</p> <p>Sector Date Health care, 15 January 2018</p> <p>Finance, accounting and administrative, 1 February 2018</p> <p>Legal, 1 March 2018</p> <p>Engineering, architecture and informatics, 2 April 2018</p> <p>Other sectors, 1 May 2018</p>

# Foreign Investment

The Costa Rican Foreign commerce policy seeks the promotion, the facilitation, and the consolidation of international insertion, with an aim towards enhancing the growth of the economy and, as a consequence, to improve the living conditions of Costa Ricans.

Likewise, Costa Rica maintains a policy to actively negotiate and implement preferential agreements. In additions to its participation in the CACM, Costa Rica has a series of free trade agreements in effects with Canada, the Caribbean countries, Chile, Mexico, China, The United States, Central America, The Dominican Republic, Peru, Singapore and Panama.

Tax	Feature	Remarks
<b>World Trade Organization</b>	Costa Rica signed the GATT in 1990 and it is a founding member of the WTO. Cost Rica grants the Most Favored Nation (MFN) status to it all partners. The Marrakech Agreement of the WTO was ratified by the Legislative Assembly on December 26, 1994.	Costa Rica has used the transition periods available to developing countries; currently, it is using the term extension until 2015 for the granting of subventions to exports as provided for in the Free Trade Zone programs and the Active Improvement System.
<b>Free Trade Agreements Currently in Effect</b>	Since 1963, Costa Rica has formed part of the General Treaty for Central American Economic Integration which established the Central American Common Market (MCCA for initials in Spanish). The MCCA is made up by Nicaragua, Honduras, El Salvador, Guatemala, Costa Rica and Panamá, which joined in 2013.	Central America today has a common external tariff and modern commercial norms. It has successfully achieved a free trade zone with the liberalization of trade of agricultural and industrial goods; exceptions are roasted and raw coffee, cane sugar, ethyl alcohol and alcoholic drinks, and petroleum products (although proposals exist to create a bilateral system incorporating these products in the free trade category).
<b>Foreign Investment System</b>	Costa Rica has a generally open foreign investment system, although there are some relevant exceptions. The State holds exclusive rights in regard to the importation, refining, and distribution of petroleum oil and its derivatives; insurance services; railroads, maritime ports, and air ports; some postal services; and single concessions in some power and telecommunications services. Some of these activities may be subject to concessions pursuant to applicable laws. The Telecommunications General Law number 8653 were published in June and July of 2008, respectively.	There is no special law in Costa Rica in terms of foreign investment, although several laws and regulations seek to promote these activities, including Tax Exemption Regimes and faster Immigration Procedures. The set of international treaties explained before are also intended to promote foreign investment and activity in our country. The most favored nation treatment is guaranteed to foreign investors in sections set forth in bilateral investment treaties, free trade agreements, or under the General Trade Services Accord. Foreign investors are entitled to the same incentives and benefits granted to Costa Rican companies.
<b>Tourism Incentives</b>	Costa Rica grants incentives to tourism activities in a number of ways. Such incentives were created upon the Incentives Law for the Development of Tourism number 6990 (ILDT). Incentives set forth in the ILDT may be fully or partially granted, depending on the applicant company and the Tourism Agreement signed between the Company and the Costa Rican Institute of Tourism (ICT in Spanish). Pursuant to Article 29 of the ILDT, benefits may also be subject to certain requirements and conditions. The Agreement clarifies which incentives may or may not be granted to the requesting companies according to their characteristics, the company must show evidence that it has previously qualified as a tourism company with the ICT.	

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