



Multisectoral Dialogue and
the Global Revenue System

Under the slogan that as a society we must discuss the direction our country should take in the aftershock caused by the COVID-19 pandemic, the Government of the Republic invited more than 70 organizations to participate in the so-called "Multisectoral Dialogue", which set a goal that under the figure of consensus, the guidelines for economic growth, job creation, and also seeking fiscal balance as determinants of poverty reduction and inequality, as well as for achieving social peace.

Thus, for more than three weeks more than 2301 proposals were known, approximately 259 were discussed and 58 agreements were reached under the consensus figure, interesting for our purposes, the agreement that established that Costa Rica would establish a global income system.

The agreement in particular literally states: *"We would be supporting a Global Income system, which contains the following elements:*

- a. Dual income, (does not globalize passive income)*
- b. Income based on the person, homologating the treatment of wage income and natural persons with lucrative activity.*
- c. Deductibility of expenses by individuals (credits, medical expenses, etc.)*
- d. Rate of companies with a ceiling of 27.5%.*
- e. Application not before 2023.*
- f. The agreement does not include the inclusion of global income or some kind of extended territoriality system.*
- g. The draft pre-submission bill will be reviewed by the sectors. "*

What implications will this agreement have, the first thing is that while it is clear that we must wait to have the draft bill to know more details, there are some elements that follow from it that we can analyze.

The first is precisely the migration from a cedular income system to a global income system, this will imply a change in the scheme in which we have been accustomed to taxing, where the different levies contemplated in the Income Tax Act (ISR), are organized independently, and with almost no communication with each other, to a system in which income will be integrated, and precisely the pillar of such integration will be the natural person, which in turn will allow, in the event of an improvement in formalization, to approve the treatment of income from work with the income of natural persons with lucrative activity, in addition to the possibility of deduction of expenses related to medical credits and expenses.

This proposal further implies that, by focusing income on the natural person, it generates an improvement in the tax rates that companies bear, in which case a consensus was generated that the rate should not exceed 27.5%, resulting in a reduction in the overall rate that companies now bear and that it reaches 30%.

Another important point that was defined in relation to the structure that this new model will present, is that passive income will not be globalized, which even reverses the change made in 2019 with the Law on strengthening public finances, which intended to introduce elements of globality to the current structure of the ISR.

Similarly, another element on which the proposal focuses is that the new law must maintain the existing territorial income system, rejecting from now on any attempt to generate a global income either complete or nuanced.

Finally, not least, it is the indication that even if the formality of the draft at the legislative level is expeditious, this new system should not govern by 2023.

The proposal, while the full scope still needs to be clarified, implies that when we had believed that the history of eternal tax reform was surpassed, we will face the discussion of a completely new income or income tax law, and that given the vision generated by the Multisectoral Dialogue, it should seek to eliminate distortions in the tax system and ensure that income generated by economic activity can be distributed more equitably.



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