Doing Business
Costa Rica
I. Main Economic Variables
I. Main Economic Variables

GDP 2019: $62 billion

Position in the world: 79/189

<table>
<thead>
<tr>
<th>GDP Growth</th>
<th>(Annual percentage change, original figures)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>2.7</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: D.Econosignal

Macroeconomic Context (figures at the end of 2019)

<table>
<thead>
<tr>
<th>GDP per capita</th>
<th>Reference rate</th>
<th>Inflation</th>
<th>Unemployment rate</th>
<th>Exchange rate</th>
<th>Population</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,171 Dollars</td>
<td>2.75 Percent</td>
<td>1.5 Annual percentage variation</td>
<td>12.4 Percent</td>
<td>573 CRC/USD</td>
<td>5.1 Millions of people</td>
<td>2.24 Millions of dollars</td>
</tr>
</tbody>
</table>

Source: Central Bank of Costa Rica

Macroeconomic Context (figures at the end of 2019)

<table>
<thead>
<tr>
<th>Fiscal balance, percentage of GDP</th>
<th>Primary balance, percentage of GDP</th>
<th>Public debt, percentage of GDP</th>
<th>Current account, percentage of GDP</th>
<th>Trade balance, percentage of GDP</th>
<th>Reserves, percentage of GDP</th>
<th>Reserves, percentage of debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>-7.0 Balance,%</td>
<td>-2.8 Balance,%</td>
<td>58.5 Balance,%</td>
<td>-2.5 Balance,%</td>
<td>-7.5 Balance,%</td>
<td>14.5 Percent</td>
<td>24.7 Reserves / public debt</td>
</tr>
</tbody>
</table>

Source: Central Bank of Costa Rica and Costa Rican Ministry of Finance
Competitiveness

Position in the world: 62/ 141 (WEF, 2019)

Ease of Doing Business

Position in the world: 74/ 190 (Doing Business, 2020)

Corruption Perception Index

Position in the world: 44/ 180 (TI, 2019)

Source: World Economic Forum (WEF), World Bank, Transparency International

Foreign Trade (Main Sectors)

<table>
<thead>
<tr>
<th>Product</th>
<th>Value (mdd)</th>
<th>Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical instruments</td>
<td>3,278</td>
<td>28.6%</td>
</tr>
<tr>
<td>Banana</td>
<td>998</td>
<td>8.7%</td>
</tr>
<tr>
<td>Pineapple</td>
<td>977</td>
<td>8.5%</td>
</tr>
<tr>
<td>Prepared meals</td>
<td>616</td>
<td>5.4%</td>
</tr>
<tr>
<td>Fruits, pulses, and vegetables</td>
<td>462</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Imports

<table>
<thead>
<tr>
<th>Product</th>
<th>Value (mdd)</th>
<th>Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials and intermediate products, various</td>
<td>2,041</td>
<td>12.7%</td>
</tr>
<tr>
<td>Fuels</td>
<td>1,540</td>
<td>9.6%</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>1,074</td>
<td>6.7%</td>
</tr>
<tr>
<td>Food products</td>
<td>925</td>
<td>5.7%</td>
</tr>
<tr>
<td>Raw materials and intermediate products, Metallurgical Industry</td>
<td>703</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Source: Central Bank of Costa Rica

Foreign Trade (Main Trading Partners)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (mdd)</th>
<th>Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S</td>
<td>4,724</td>
<td>41.3%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>721</td>
<td>6.3%</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>706</td>
<td>6.2%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>595</td>
<td>5.2%</td>
</tr>
<tr>
<td>Panama</td>
<td>592</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (mdd)</th>
<th>Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S</td>
<td>6,165</td>
<td>38.3%</td>
</tr>
<tr>
<td>China-Taiwan</td>
<td>2,242</td>
<td>13.9%</td>
</tr>
<tr>
<td>Mexico</td>
<td>1,088</td>
<td>6.8%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>399</td>
<td>2.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>385</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

Source: World Economic Forum (WEF), World Bank, Transparency International
II. Doing Business in Costa Rica
II. Doing Business in Costa Rica

a) General profile

Costa Rica has built a success story in terms of development. This development is explained, in part, by its growth strategy oriented abroad and its openness to Foreign Direct Investment (FDI). Another aspect to highlight is that Costa Rica has positioned its green brand worldwide, through payment for environmental services. Costa Rica recently joined the Organization for Economic Cooperation and Development (OECD) as the first Central American country to do so.

In economic terms, the Gross Domestic Product (GDP) is the third most important in Central America, only after Guatemala and Panama. However, the same indicator, measured in per capita terms, places Costa Rica in second place in the region with $12,171 per capita, just behind Panama.

The total population of Costa Rica estimated by 2019 was 5 million people divided into seven provinces: San José (33%), Alajuela (20%), Cartago (11%), Heredia (10%), Puntarenas (10%), Limón (9%), and Guanacaste (8%). The population is relatively young since 47% of the population is under the age of 30, while only 13% of the population is over the age of 60. One of the country’s competitive advantages is the level of education, since more than 60% of the population over the age of 15 has at least a partial secondary education and 21% has higher education. As a result, illiteracy among the population over 15 years of age is less than 2%.

Since 2000, Costa Rica has managed to diversify its economy, traditionally dependent on agricultural activities, growing in advanced manufacturing and business services sectors, supported by the free trade agreement with the United States (CAFTA), which allowed a greater flow of FDI. Additionally, free zone tax incentives in the country have managed to attract investment from multinationals and have fueled the growth of the professional services sector.

Among the challenges Costa Rica is facing is a fiscal deficit that reached 7.0% in 2019 which is a direct result of increasing government spending and the growth of public debt. It is also necessary to address inequality in the country, although it is the second country with the best Gini Index in Central America (43 in 2018), it presents important tasks to solve.

1. National Institute of Statistics and Censuses of Costa Rica (Acronym INEC), education statistics
3. World Bank
The Constitution (Constitución Política de la República de Costa Rica) is the supreme law in Costa Rica and it defines the country as a democratic, free, independent, multi-ethnic, and multicultural republic. The Constitution establishes that the Government of the Republic is popular, representative, participatory, alternative, and responsible; and is exercised by the people and three different and independent powers: Legislative, Executive, and Judicial.

Additionally, a Supreme Electoral Court, independent of the three branches of government, is exclusively and independently in charge of organizing, directing, and monitoring acts related to suffrage, as well as the other functions attributed to it by the Constitution and the laws.

Under the Constitution, the Army is banned as a permanent institution and only by continental agreement or for national defense may military forces be organized.

The Executive Power is exercised, on behalf of the people, by the President of the Republic and the government ministers as obligated collaborators and who are elected by direct vote for periods of four years.

The Legislative Power resides in the people, which delegates it to the Legislative Assembly through suffrage. The Legislative Assembly is made up of fifty-seven deputies elected by the people to carry out four-year charges without the possibility of being reelected in succession.

Finally, the Judicial Power is exercised by the Supreme Court of Justice and by the other courts established by law. The Supreme Court of Justice (highest court of said power) is made up of magistrates, who are elected by the Legislative Assembly.

It is the responsibility of the constitutional jurisdiction to guarantee, through habeas corpus and remedies of amparo, the rights and freedoms enshrined in the Political Constitution and the human rights recognized by International Law in force in Costa Rica. As there is a separation of powers, it is also responsible for resolving conflicts of jurisdiction between the Powers of the State, including the Supreme Electoral Court, and those of constitutional competence between them and the Office of the Comptroller General of the Republic, the municipalities, decentralized entities, and others related to Public Law.

Partial reforms to the Political Constitution require the support of two thirds of the members of the Legislative Assembly after a process of debate and discussion on the proposed reforms. Subsequently, constitutional reforms may be submitted to a referendum after being approved in one legislature and before the next, if two thirds of the total members of the Legislative Assembly agree.
c) Economic Structure

The GDP is the sum of all the goods and services that a country produces and the most important way of estimating the productive capacity of an economy. The three main economic sectors that make up Costa Rica’s GDP are:

- **Primary sector**: agricultural activity, livestock, forest exploitation, hunting, fishing, and mining.
- **Secondary sector**: industrial transformation, manufacturing and construction activity.
- **Tertiary sector**: miscellaneous services, wholesale and retail trade.

In Costa Rica, the tertiary sector contributes the most to GDP, with 69.6%, followed by the secondary sector (18.2%), lastly the primary sector with 4.5%. By the end of 2019, the labor force was estimated as 12% employed in agriculture, 17% in industry and 71% in the tertiary sector.4

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Sectoral Composition of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Billions of current dollars and percentage contribution)</td>
</tr>
<tr>
<td><strong>GDP 2019</strong></td>
<td><strong>Value</strong></td>
</tr>
<tr>
<td>Total</td>
<td>61.9</td>
</tr>
<tr>
<td>Primary</td>
<td>2.8</td>
</tr>
<tr>
<td>Secondary</td>
<td>11.3</td>
</tr>
<tr>
<td>Manufacture</td>
<td>7.1</td>
</tr>
<tr>
<td>Construction</td>
<td>2.5</td>
</tr>
<tr>
<td>Electricity, water, and sanitation services</td>
<td>1.7</td>
</tr>
<tr>
<td>Tertiary</td>
<td>43.1</td>
</tr>
<tr>
<td>Education, health, and social assistance services</td>
<td>9.2</td>
</tr>
<tr>
<td>Professional services</td>
<td>7.7</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>5.4</td>
</tr>
<tr>
<td>Real estate services</td>
<td>5.0</td>
</tr>
<tr>
<td>Financial and insurance services</td>
<td>3.2</td>
</tr>
<tr>
<td>Information and communications services</td>
<td>3.2</td>
</tr>
<tr>
<td>Transportation and storage services</td>
<td>2.7</td>
</tr>
<tr>
<td>Public administration</td>
<td>2.6</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>2.0</td>
</tr>
<tr>
<td>Other services</td>
<td>2.0</td>
</tr>
</tbody>
</table>

*Source: Central Bank of Costa Rica. Figures in current values with the exchange rate used by the BCCR. Taxes on products and imports are excluded.*

The Manufacturing Industry Represents a Relevant Component of the Exports

Costa Rica has become a major manufacturer of medical instruments and supplies worldwide, in addition to advanced electronic products.

The export sector is divided as follows:

• Medical instruments and supplies manufacture is the most relevant part, contributing 29% of exports in 2019. This industry cluster has had accelerated growth in the country's exports, from 5% in 2000 to 29% in 2019.

• The activities that continue in importance are agricultural exports, such as bananas, pineapple, and coffee, and represent 21% of the total. The food and beverage sector contributes 19%.

• In fourth place is the manufacture of advanced electrical and computer equipment such as chips and semiconductors, which represent 8%.

One of the competitive advantages of Costa Rica is its human capital. According to the 2019 Global Competitiveness Report, Costa Rica ranked 26th worldwide in the Skills of Current Workforce category that measures the performance of human capital in areas such as quality of vocational education, graduate skills, and digital skills of the working population, among others5.

Additionally, approximately 33% of the population with some level of university studies speaks English, which is equivalent to 13% of the workforce6.

Graph 1
Goods Exports Composition
(Contribution to FOB export value, percentage)

Source: Central Bank of Costa Rica, preliminary figures by the end of 2019

6. Costa Rican Coalition for Development Initiatives (CINDE)
Foreign Currency Entering the Country

In addition to goods exports, which includes the cluster of medical instruments and other more traditional agricultural products, Costa Rica has other important sources of income, such as tourism, business services, and foreign direct investment (FDI).

Historically, Costa Rica has been a world tourist destination and has enjoyed the highest tourist arrivals in the last decade, going from 1.9 million tourists in 2009 to 3.1 million in 2019. The inflow of foreign currency from tourism in 2019 was of 3,977 million dollars, which represented 42% of foreign exchange earnings from the services sector in the same period.

The business services sector generated $3,347 million in 2019 (35% of the foreign exchange earnings of the services sector). This sector has enjoyed remarkable growth, similar to the medical instrument manufacturing sector and evidences the success of the Costa Rican Coalition for Development Initiatives (CINDE) and other investment promotion agencies.

Hand in hand with the growth of these sectors, foreign direct investment (FDI) is a relevant source of foreign exchange, both for the immediate impact and for future generated income. In recent years, the majority of FDI has been under the free zone regime, which considers the majority of exporting companies, and which represented 60% of FDI in 2019.

Graph 2
Main Dollar Sources in Costa Rica
(Billions of dollars)

Source: Central Bank of Costa Rica

**Investment and Foreign Trade**

Most of the income from Foreign Direct Investment (FDI) comes from:

- USA - contributes 55% of the total
- Holland - contributes 9% of the total
- Colombia - contributes 4% of the total
- Mexico - contributes 4% of the total

Thanks to the robust manufacturing industry, most investments are concentrated in this sector, followed by real estate, telecommunications and the financial sector. Meanwhile, the professional services sector, which represents a significant portion of service exports, represented 5% of the accumulated FDI between 2015-19.

**Table 2**
**Main Countries of Origin of FDI**
(Millions of dollars, accumulated 2015 - 2019)

<table>
<thead>
<tr>
<th>Total</th>
<th>U.S.</th>
<th>Netherlands</th>
<th>Colombia</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,470</td>
<td>$6,919</td>
<td>$1,179</td>
<td>$546</td>
<td>$485</td>
</tr>
<tr>
<td>% of the total</td>
<td>55%</td>
<td>9%</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Source:** Central Bank of Costa Rica

**Table 3**
**Main Investment Sectors**
(Millions of dollars, accumulated 2015 - 2019)

<table>
<thead>
<tr>
<th>Manufacture</th>
<th>Real Estate Activities</th>
<th>Telecommunication</th>
<th>Financial and Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,519</td>
<td>$1,598</td>
<td>$845</td>
<td>$835</td>
</tr>
<tr>
<td>44%</td>
<td>13%</td>
<td>7%</td>
<td>7%</td>
</tr>
</tbody>
</table>

**Source:** Central Bank of Costa Rica
**Monetary Policy**

The Central Bank of Costa Rica (BCCR) is an autonomous institution whose main objective is to control inflation. It is also responsible for promoting the efficiency of the payment system and maintaining its normal operation. Additionally, it seeks to maintain the stability of the national currency, among other tasks.

To achieve its objectives, the BCCR draws up economic programming that allows it, through a current national and international diagnosis, to make economic projections and thereby establish annual inflation targets. It also sets out the monetary policy guidelines that must be followed to achieve the objectives.8

In accordance with said programming and the situation of the Costa Rican economy (deflationary pressures, anchored inflation, and slower global growth), the BCCR expanded the space for a countercyclical monetary policy.

Regarding the exchange policy, in 2015 the BCCR opted to migrate from an exchange band regime to one of managed float. Under this new scheme, the exchange rate is determined by market forces, but the BCCR may intervene in the foreign exchange market to avoid violent fluctuations in the exchange rate.9

**Ease of Doing Business**

The Doing Business Report prepared by the World Bank measures the ease with which business can be done in 190 countries of the world, through various variables. Currently, Costa Rica is in position 74 (graph 3) out of the 190 countries evaluated in the 2020 edition, having a rating of 68.9 points. Within Latin America, the country is in fourth place, after Colombia and before Peru.

**Graph 3**

Costa Rica is the Fourth Best Business Environment in Latin America
(Positions of various economies in the World Bank Doing Business Report)

*The ranking classifies where each of these countries is located with respect to 190 economies (the closer to 1 the better and vice versa).

**Source:** Doing Business, World Bank, 2020.

9. Central Bank of Costa Rica
As can be seen in the following graph, the item in which the country is best rated is that of access to electricity. The second best evaluated item is obtaining credit, which measures the strength of debtor and creditor rights, access to credit information, as well as the coverage of individuals and companies by credit regulatory entities. On the other hand, the items in which it is worst evaluated are insolvency resolution and investor protection.

*The ranking classifies where Costa Rica is located compared to 190 other countries (the closer to 1 the better and vice versa). The score is a score between 1 and 100 points, where the ease of each of the variables is measured (the closer to 100 the better and vice versa).

**Source:** Doing Business, World Bank, 2020.
Current Economy

Graph 5
GDP Growth and Contribution of the Components of Aggregate Demand
(Contribution to the variation rate)

Note: The figures include real values based on 2012, preliminary figures 2017, 2018, 2019 reported by the BCCR are used.
Inventories refers to the ratio of changes in inventories to GDP.

At the end of 2019, private consumption represented around two thirds of GDP and around 73% of the country's aggregate demand. For their part, exports represented about 38% of demand, although imports had a greater contribution (40% of aggregate demand), so the net balance of foreign trade was negative. On the other hand, gross fixed capital investment contributed 19% and government consumption represented 18% of aggregate demand. Business inventories, measured through changes in inventories, comprised around 3% of demand. GDP growth shows a downward trend since 2016 in part due to increasing public spending and the uncertainty produced, generating an increase in interest rates, which led to a slowdown in consumption and investment. Derived from the global pandemic, it is estimated that GDP will drop by -3.6%, with a recovery of 3.0% in 2021.

Graph 6
Deficit and Total Debt as a Percentage of GDP (2012-2019)

Source: Central Bank of Costa Rica and Costa Rican Ministry of Finance
Graph 7
Central Bank of Costa Rica Begins Cycle of Rate Cuts due to Lower Inflation and Complex Economic Outlook
(Inflation and reference rate)

Graph 8
Local Currency Maintains 2019 Levels
(USD/CRC)

Inflation was in negative territory in 2016, thanks to the low prices of raw materials in the international market. In the following years, inflation marked an upward trend driven by higher raw material prices, a rebound in inflation in the main trading partners, and a devaluation of the local currency (the Colon), which placed inflation within the target range of the BCCR. In accordance with its mandate to keep inflation low and stable, the BCCR began a restrictive monetary policy cycle, increasing the monetary policy rate by 350 basis points (bps) between December 2016 and December 2018.

Uncertainty about the country’s fiscal situation peaked in 2018 when a considerable gap was identified in the 2018 National Budget and the government struggled to harness the required resources. This uncertainty was exacerbated by a strike by the public sector unions protesting the tax reform bill. Finally, the Public Finance Strengthening Law was approved at the end of that year. However, uncertainty remained regarding the incidence and impact of the new law on companies and individuals.

The period of political and social tension at the end of 2018 had a significant impact on the financial and exchange markets. Likewise, fiscal uncertainty resulted in a deterioration in the country’s credit rating and increased risk perception, which impacted the country’s growth, particularly in the first half of 2019. Given this scenario, the BCCR began a cycle of monetary policy against this to stimulate the economy, lowering the monetary policy rate by 250bps to place it at 2.75% by the end of 2019.

This helped to restore confidence in financial markets and stabilize the exchange market. Likewise, there was an improvement in consumer confidence and a rebound in economic activity that registered growth of 1.6% and 2.5% in the first and second half of 2019, respectively. However, in annual terms, in 2019 the economy continued to decelerate, growing 2.1% against 2.7% in 2018.

III. Legal System
III. Legal System

a) Legal Persons

PRIVATE BUSINESS STRUCTURES

a. Separate liability

In general, business structures are separate legal entities, regardless of capital ownership or other forms of relationships. Commercial liability does not extend to the owners, partners or shareholders, parent company or other related entities, but is limited to paid-in capital and commercial assets.

b. Type of commercial entities

Costa Rican law recognizes the following forms of private commercial structures:

<table>
<thead>
<tr>
<th>Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Liability Company</td>
</tr>
<tr>
<td>Limited Partnership Company</td>
</tr>
<tr>
<td>General Partnership Company</td>
</tr>
<tr>
<td>Branch</td>
</tr>
<tr>
<td>Subsidiary</td>
</tr>
<tr>
<td>Consortium</td>
</tr>
<tr>
<td>Trust/Escrow</td>
</tr>
<tr>
<td>Association</td>
</tr>
<tr>
<td>Foundation</td>
</tr>
</tbody>
</table>

c. Capital ownership

Foreign citizens can own a business or serve as officers or board members. There is no requirement for a national to participate in any capacity. A resident agent must be appointed where there is no legal representative in Costa Rica.

Joint ventures are allowed, although they are not specifically regulated. Investors can also conduct business through branches or subsidiaries of the foreign company. Trusts are also recognized for a variety of business purposes.

d. Non-profit entities

Associations and foundations can be established for specific purposes, with the understanding that they are non-profit entities.
Main Commercial Companies

e. Stock corporations and limited liability companies

Corporations and limited liability companies are the most common entities given their structural flexibility. Corporations (Sociedad Anónima) are similar to a closed US corporation, while limited liability companies (Sociedad de Responsabilidad Limitada) are similar to a US LLC.

This is how they compare:

<table>
<thead>
<tr>
<th></th>
<th>Corporations</th>
<th>Limited Liability Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conformation</strong></td>
<td>Both require public conformation before a local notary public and registration of at least 2 original parties (shareholders / partners). After registration, the capital may belong to a single shareholder / partner.</td>
<td></td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>There is no minimum capital, but there must be a nominal value. Capital can be reflected in any currency, whether local or foreign. The original capital must be deposited in a local bank while the company is being registered. Capital can also be contributed in kind.</td>
<td>Capital shares are not allowed. Capital quotas define the participation of the partners in the company. Quotas can be transferred with the consent of the remaining partners or according to the previously agreed procedure. In case of non-consent, other remaining partners must purchase capital shares put up for sale.</td>
</tr>
<tr>
<td><strong>Capital participation</strong></td>
<td>Capital shares must be common and registered with a nominal value. It can be freely transferred unless the constitutive act establishes otherwise. Preferred shares may also exist in addition to common shares.</td>
<td>At least one manager must have full powers to represent the company. Other company managers / employees may have powers of attorney subject to limitations determined by the partners.</td>
</tr>
<tr>
<td><strong>Administration</strong></td>
<td>A board of directors made up of at least three members: president, secretary, and treasurer.</td>
<td>Without board of directors. The company is managed by one or more employees.</td>
</tr>
<tr>
<td><strong>Legal representation</strong></td>
<td>The chairman of the board has full legal representation of the company. Other members of the board or other employees of the company may have powers of attorney subject to limitations determined by the shareholders.</td>
<td>At least one manager must have full powers to represent the company. Other company managers / employees may have powers of attorney subject to limitations determined by partners.</td>
</tr>
</tbody>
</table>
| **Mandatory corporate records**           | 3 legal books:  
   (i) Shareholders meetings  
   (ii) Board of Directors Meetings  
   (iii) Register of shareholders | 2 legal books:  
   (i) Partner meetings  
   (ii) Registration of partners |
| **Shareholder / Partner Meeting Requirements** | 3 accounting books:  
   (i) Journal  
   (ii) Ledger  
   (iii) Inventories and balance |                                                                 |
| **Board of Directors Meetings**           | Written consents are not allowed. The members of the Board cannot delegate the appointment to a third party. | N/A |
a. Banking system
The financial system is made up of the Central Bank, two state commercial banks (Banco Nacional de Costa Rica and Banco de Costa Rica), two service banks (Banco Hipotecario de la Vivienda - National Mortgage Housing Bank - and Banco Popular), several private banks (over twenty) and various other private financial institutions.

The General Superintendency of Financial Entities (SUGEF) supervises all financial institutions. SUGEF and other regulatory agencies are subject to the National Council for the Supervision of the Financial System (CONASSIF).

It is not mandatory but it is highly recommended that investors maintain local bank accounts. The requirements to open a bank account are usually the same in all banks. In general, “know your customer” information should be presented to banks.

Only banks registered with SUGEF can participate in financial intermediation, including receiving deposits from the public and granting loans. Investors, whether local or foreign, can receive bank loans.

b. Stock market
There is a stock exchange (Bolsa Nacional de Valores). The General Securities Superintendence or SUGEVAL, also subject to CONASSIF, regulates the local stock market.

c. Exchange controls
There are no reporting restrictions or requirements for doing business with nationals, residents or non-residents. Investors can participate in financial transactions with nationals, residents and non-residents.

Foreign currency exchange rules allow free possession and conversion of foreign currency to local currency (the “Colon”) and vice versa. The exchange rate is determined by a system of managed floating bands and the Central Bank of Costa Rica intervenes in the market to maintain stability.

US Dollars and Euros are widely available and can be accepted as currency in local transactions. There are no practical or legal restrictions for payments agreed by Costa Rican entities in favor of local or foreign counterparts. There are no other requirements or limitations on the transfer of funds, but transactions in excess of $10,000 must be reported to SUGEF as part of international regulations to control money laundering and terrorist financing.

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Infrastructure

Public infrastructure projects can be financed by public debt and, in qualified cases, by private investment. Public procurement procedures and financial requirements must be strictly followed. Public bidding is generally required, although in qualified cases private bidding may be conducted under strict scrutiny by regulatory agencies.

The main policies governing public procurement and public works are the General Law on Public Procurement and its regulations.

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Foreign Corporate Investments

Most of the above entities can serve as means to structure a capital investment in Costa Rica. There are no restrictions on direct or indirect investment in the country, except in qualified cases. The restricted activities for foreign investments, whether carried out only by the Government of Costa Rica or by a concessionaire / third party, are the following:

- Exploration and extraction of minerals, carbon, and fossil fuel.
- Electric power supply
- Public domain hydraulic power supply
- Wireless services
- Currency issuance
- Train, seaport and airport services
- Air passenger transport, tourism and land cargo
- Property in maritime areas
Costa Rica has a strong network of international agreements that have served as a solid platform for its trade and investment policies.

**a. International trade agreements:** Costa Rica’s current free trade agreements cover more than 80% of the country’s international trade activities:

<table>
<thead>
<tr>
<th>Multilateral Agreements</th>
<th>Counterparties</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Trade Organization (WTO)</td>
<td>WTO Members</td>
</tr>
<tr>
<td>Central American Economic Integration</td>
<td>Guatemala, El Salvador, Honduras, Nicaragua</td>
</tr>
<tr>
<td>CAFTA - Central American Free Trade Agreement</td>
<td>U.S., Dominican Republic, Guatemala, El Salvador, Honduras, Nicaragua</td>
</tr>
<tr>
<td>FTA of Central America</td>
<td>Guatemala, El Salvador, Honduras, Nicaragua</td>
</tr>
<tr>
<td>TLC CARICOM (Caribbean countries)</td>
<td>Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago</td>
</tr>
<tr>
<td>Association agreement or FTA with the European Union</td>
<td>Members of the European Union</td>
</tr>
</tbody>
</table>

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**Bilateral Agreements**

Colombia  
Canada  
Chile  
China  
Dominican Republic  
Mexico  
Panama  
Peru  
Republic of Korea  
Singapore

The above countries represent 66.6% of the Gross National Product (GNP) of the world and cover 35.5% of the world population. The following trade agreements are being negotiated:

<table>
<thead>
<tr>
<th>Multilateral Agreements</th>
<th>Counterparties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pacific Alliance</td>
<td>Chile, Colombia, Mexico, Peru</td>
</tr>
<tr>
<td>WTO Environmental Goods Agreement (EGA)</td>
<td>Australia, Canada, China, European Union, Hong Kong, Iceland, Israel, Japan, Liechtenstein, New Zealand, Norway, Republic of Korea, Singapore, Switzerland, Chinese Taipei, Turkey, U.S.</td>
</tr>
<tr>
<td>WTO Trade in Services Agreement (TiSA)</td>
<td>Australia, Canada, Chile, Colombia, European Union, Hong Kong, Iceland, Israel, Japan, Liechtenstein, Mauritius, Mexico, New Zealand, Norway, Pakistan, Panama, Peru, Republic of Korea, Switzerland, Taiwan, Turkey, U.S.</td>
</tr>
</tbody>
</table>
b. International Investment Agreements. Costa Rica has 14 reciprocal investment promotion and protection agreements with the following countries:

<table>
<thead>
<tr>
<th>Counterparties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
</tr>
<tr>
<td>Canada</td>
</tr>
<tr>
<td>Chile</td>
</tr>
<tr>
<td>Czech Republic</td>
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<tr>
<td>France</td>
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<tr>
<td>Germany</td>
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<tr>
<td>Qatar</td>
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<tr>
<td>Netherlands</td>
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<tr>
<td>Paraguay</td>
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<tr>
<td>Republic of Korea</td>
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<tr>
<td>Spain</td>
</tr>
<tr>
<td>Switzerland</td>
</tr>
<tr>
<td>Taiwan</td>
</tr>
<tr>
<td>Venezuela</td>
</tr>
</tbody>
</table>

The foregoing investment treaties offer foreign investors adequate guarantees for their investments under the principles of Costa Rica’s rule of law: fair and equal treatment, non-discrimination, national treatment, most-favored-nation, compensation for expropriation and access to arbitration.
IV. Fiscal Aspects
IV. Fiscal Aspects

1. General Aspects

In Costa Rica there are tax regimes under the Ministry of Finance which, in general, are governed by the provisions of the following entities:

- The General Taxation Directorate (DGT) is in charge of:
  • income tax and related taxes
  • added value tax
  • selective consumption tax
  • other minor taxes

- The General Directorate of Customs collects:
  • customs taxes
  • other import taxes

- The General Directorate of Finance regulates:
  • tax exemptions
  • coercive collection of tax obligations

- Local governments (municipalities) manage:
  • real estate tax
  • municipal license taxes
  • taxes on public shows
  • licenses to sell alcoholic beverages
  • public concession fee in the Maritime-Terrestrial Zone

In addition, there are other government offices responsible for collecting special taxes or other similar contributions. For example, the Costa Rican Social Security Fund (CCSS) collects funds to finance the public health and retirement system, from the salary of employees and from the contribution of employers.

On the other hand, Costa Rica has an extensive system of tax incentives for those companies that decide to operate under the Free Trade Zone Regime, with export processing companies, trading companies, service exporters, park administrators, scientific research companies eligible for these benefits, companies that operate shipyards and docks, construction, repair or maintenance of vessels (dry or floating), and processors regardless of whether they export or not.

Also, Costa Rica recently joined the Organization for Economic Cooperation and Development (OECD). As a result, to prevent the erosion of the tax bases of the countries and to avoid the transfer of profits between jurisdictions (BEPS), Costa Rican legislation has incorporated various provisions in order to prevent tax evasion and the abusive use of tax treaties.

2. Fiscal Residents

The Regulation to the Income Tax Law, article 5, considers tax residents in Costa Rica the following:

- Legal persons:
  • Legal entities constituted in accordance with Costa Rican law and de facto companies operating in the country.
  • The permanent establishments of persons not domiciled in Costa Rica that operate in the country.
  • Trusts or trust orders established under Costa Rican law.
  • Successions opened in accordance with Costa Rican legislation, regardless of the nationality and domicile of the deceased, unless the successors in title are not domiciled in Costa Rica.
  • Individual limited liability companies and other individual companies, where the entrepreneur is domiciled.

- Physical persons:
  • That they remain continuously or discontinuously in the country for more than 183 days during the respective fiscal period.
  • That they carry out official representations or positions abroad, paid by the Costa Rican State.

3. Tax Base and Rates

Income tax is applied to net profits from the exercise of profitable activities of any kind, with the exception of activities that have a specific tax treatment through other exemptions established by law.

Taxpayers are all public and private companies that carry out business activities and profitable transactions in the country, regardless of nationality, domicile, place of incorporation of the entities, the meeting place of the board of directors and the place where they carry out the contracts.

However, for those legal entities, whose gross income does not exceed the sum of €106,000,000.00, during the fiscal period, the following rate scale may apply:

- 5% on the first €5,000,000.00 of annual net income.
- 10% on the excess of €5,000,000.00 and up to €7,500,000.00 of annual net income.
- 15% on the excess of €7,500,000.00 and €10,000,000.00 of annual net income.
- 20% on the excess of €10,000,000.00 of annual net income.
3.1 Deductions. The costs, expenses, and investments will be deductible if they meet certain requirements. Among others, they must be duly recorded in the accounting, be strictly necessary for the operations of the company, and be backed by digital electronic invoices that comply with the formalities and requirements that mark the tax provisions in this regard.

It should be considered that the tax reform includes a limit to the deduction of non-bank interests. This establishes a maximum deductibility for net interest expenses of twenty percent (20%) of the profit before interest, taxes, depreciations, and amortizations (UAIDA) for each tax period. This rule will come into force for the fiscal period 2022 with a cap of 30% and will decrease 2 percentage points each year until it reaches the indicated 20%.

3.2. Currency Exchange Differentials. The general income tax law establishes that all taxpayers obliged to pay taxes as a result of carrying out operations or who, otherwise, receive income in foreign currency that affects the determination of their taxable liquid income, must convert such currency into the national currency at the exchange rate of sale established by the Central Bank of Costa Rica (applicable at the time of the operation or at the time the income is received).

4. Capital Gains

The Tax on Capital Income and Capital Gains and Losses (RCGPC) is applied on income from a Costa Rican source in money or in kind, derived from capital and capital gains or losses, from assets or rights of the taxpayer, as well as the exchange differences originated in assets or liabilities that result between the time of carrying out the operation and the time of receipt of income or payment of the liability, and that are not subject by the owner to obtaining income taxed in the tax to profits.

Regarding the amounts, a rate of 15% is applied to capital income and capital gains. However, in the goods and rights acquired prior to July 1, 2019, the taxpayer may choose on the first sale to apply a rate of 2.25% on the sale price.

Likewise, a 2.5% fee applies to the transfer of goods and rights owned by a non-domiciled person, on the sale value that applies as retention by the buyer.

5. Dividends:

The disposable income tax is established on the remainder that may be disposed of and that results from deducting from the taxable income the profit tax. For the purposes of this tax, by virtue of the companies subject to the payment of this tax, they are classified as capital companies and companies of persons.

Capital companies, when they pay or accredit their partners natural persons, in money or in kind, dividends of all kinds or any kind of benefits assimilable to them, from their disposable income, defined in article 27 ter number 2) subsection a) subsection iv) of the Law. In these cases, the withholding will be fifteen percent (15%) on the gross amount of the benefits that have been obtained by the taxpayer.

The withholding of this tax will not correspond when the partner who obtains them is another capital company domiciled in Costa Rica, as long as it develops a lucrative activity and is subject to the profit tax, the provisions of the Regulations regarding the compliance with these conditions.

6. Remittances Abroad

The tax on remittances abroad is applied to profits or benefits from a Costa Rican source paid to non-domiciled persons. The tax is generated when the profit or benefit is determined, credited, or made available to persons domiciled abroad.

Taxpayers are individuals and corporations domiciled abroad and receiving a profit from a Costa Rican source. However, persons domiciled in Costa Rica who send remittances or credit taxable profit or benefits and who act as withholding agents are jointly responsible for compliance with this tax obligation.

The tax must be withheld when it is paid, credited, or made available to non-domiciled persons. It must be paid within the first 15 calendar days of the immediately following month.

The concept and the rates that apply are the following:

<table>
<thead>
<tr>
<th>Concept</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation and communications.</td>
<td>8.5%</td>
</tr>
<tr>
<td>Pensions, retirement, wages, and any other remuneration in relation to dependency</td>
<td>10%</td>
</tr>
<tr>
<td>Fees, commissions, allowances, and others without dependency relationship</td>
<td>25%</td>
</tr>
<tr>
<td>Reinsurance, refinancing, and insurance premiums of any kind</td>
<td>5.5%</td>
</tr>
<tr>
<td>Cinematographic films, television films, recordings, phonograph records, comics and, in general, any similar means of diffusion of images or sounds, as well as by the use of international news</td>
<td>20%</td>
</tr>
<tr>
<td>By radio soap operas and soap operas</td>
<td>50%</td>
</tr>
<tr>
<td>Interest, commissions, and other financial expenses, as well as for the leases of capital goods paid by individuals or legal entities domiciled in Costa Rica, or entities or individuals from abroad</td>
<td>15%</td>
</tr>
<tr>
<td>For any other payment based on interest, commissions, and other financial expenses not included in the statement</td>
<td>15%</td>
</tr>
<tr>
<td>Technical - financial advice, patents, formula supplies, brand names, privileges, franchises, and royalties</td>
<td>25%</td>
</tr>
<tr>
<td>Other remittances of income from a Costa Rican source</td>
<td>30%</td>
</tr>
<tr>
<td>For payments to non-domiciled, on the occasion of public shows that are occasionally performed in the country</td>
<td>15%</td>
</tr>
</tbody>
</table>
7. International conventions

The network of agreements to avoid double taxation in Costa Rica consists of four tax conventions, of which three are in force and one is in the process of legislative ratification.

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Law</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>9345</td>
<td>08/10/2016</td>
</tr>
<tr>
<td>Spain</td>
<td>8888</td>
<td>01/01/2011</td>
</tr>
<tr>
<td>Mexico</td>
<td>9644</td>
<td>04/21/2019</td>
</tr>
</tbody>
</table>

Agreements in force

Agreements in process of entry into force

Approval of the Multilateral Convention to apply measures related to tax treaties to prevent the erosion of tax bases and the transfer of benefits

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Project</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arab Emirates</td>
<td>20779</td>
<td>N/A</td>
</tr>
</tbody>
</table>

8. Indirect taxes

The Value Added Tax (VAT) applies to the sale of goods, the provision of services, as well as the import of goods or services, and lease transactions. The general VAT rate is 15% and there are a series of reduced rates, namely:

1% for the following goods or services:
- Sales, as well as imports or internment, of the goods included in the basic basket.
- Veterinary products, agricultural and fishing supplies, with the exception of sport fishing, which are defined by common agreement, between the Ministry of Agriculture and Livestock and the Ministry of Finance.

Companies can credit VAT payments they make against VAT at their expense; if the excess cannot be fully credited, the taxpayer can request a refund.

However, with the exception of what corresponds to the 1% rate, companies can only credit what corresponds to the reduced rate that applies to them.

9. Specific and selective consumption taxes

In Costa Rica there is this tax that is applied to products classified as "non-essential", and which are included in an official list. The rate ranges from 1% to 95% and it is calculated based on the price of production or import as part of the cost and is not carried over to the next stages of commercialization.

The other taxes are specific, extraordinary, and based on the consumption of certain merchandise which tariffs or rates are established in different laws. Such tax burdens mainly fall on alcoholic beverages, beer, and cigarettes.

There are also taxes on fuels, casinos, gaming tables, cars, some bottled soft drinks, and hand soaps.

2% for the following goods or services:
- Medicines, raw materials, supplies, machinery, equipment and reagents necessary for their production, authorized by the Ministry of Finance.
- Private education services.
- Personal insurance premiums.
- The purchase and sale of goods and services by state higher education institutions, their foundations, state institutions, the National Council of Rectors, and the National Accreditation System for Higher Education, as long as they are necessary for the realization of its ends.

4% for the following goods or services:
- The purchase of air tickets for trips in the national territory.
- In the case of international air transport, the tax will be charged on the basis of 10% of the value of the ticket.
- The services provided by authorized health centers or professionals in health sciences authorized by the respective professional association.
10. Other taxes

1. Tax on legal persons
The event generating the tax would be carried out if the respective person subject to the tax is registered in the National Registry by January 1 of each year, or with the presentation of the registration before the National Registry of one of them.

The tax rate for commercial companies, as well as any branch of a foreign company or its representative and individual limited liability companies are as follows:

- 15% of a monthly base salary, for legal entities registered in the National Registry, who are not filers or taxpayers in the General Directorate of Taxation.
- 25% of a monthly base salary, for legal entities with gross income less than 120 base salaries.
- 30% of a monthly base salary, for legal entities that have declared gross income in the immediately preceding fiscal period of 120 to 280 base salaries.
- 50% of a base salary, for legal taxpayers who have declared gross income in the immediately preceding fiscal period equivalent to 280 base or more.

2. Real estate tax
Parcels or portions of land, buildings, or fixed and permanent constructions are subject to the Real Estate Tax, which is calculated based on the value of the property registered in the general tax administration, as of January 1 of the corresponding year. Nationwide, the applicable tax is 0.25% of the tax base. The tax is applied on an annual basis, and is collected every year, every two years or in four quarterly installments, as established by each municipality.

3. Real estate transfer tax
All transfer of real estate is taxed with 1.5% of the value of the property according to the public registry. The reference value will be the market price. The seller and the buyer are equal taxpayers, and for tax purposes they are jointly and severally liable. Payment of the tax must be made in a single act, within the month following the transfer.

4. Municipal taxes
Every company that does business in the country must apply to the municipality for licenses related to operating activities. This includes, for example, applications for permits related to construction works, sanitation, water, electricity, urban planning, land use, authorization of plans, and patents which are filed with the local governments. Taxes, rates, and special contributions, as well as the procedures to follow, vary according to each municipality.

11. Fiscal incentives
The Free Zone Regime is a liberatory regime of import taxes; it also grants beneficiaries exemption from income tax. Depending on the category you enter, the company can obtain the benefits of exemption from this tax for periods ranging from 8 to 12 years, or pay a percentage of 6%. Entering the scheme requires the minimum investment that is determined according to the geographical location in which the activities will be carried out and whether they would be carried out in an industrial park or not.

The incentives granted by the Costa Rican government to companies that benefit from the Free Trade Zone regime are defined by the World Trade Organization (WTO) as prohibited subsidies, since such incentives are subject to export results, as a condition for enjoying tax benefits, especially regarding income tax.

The companies that can apply for the free zone regime are classified as follows:

- Industrial companies that process and assemble export or re-export products to third markets outside Central America.
- Marketing companies - who repackage or redistribute non-traditional export or non-export products.
- Companies that provide services, for which they must be in a strategic investment sector and meet the strategic eligibility index.
- Service companies that operate and provide shipyard, reconstruction, repair and maintenance services to cargo ships carrying exports.
- Public limited companies and people who carry out scientific research to improve technological and agro-industrial activities.
First Steps - *(Soft Landing in Costa Rica)*

There is a more in-depth brochure on these activities produced by Deloitte Costa Rica. However, for those companies looking to invest in Costa Rica, the most relevant steps to consider are the following:

**Legal**
- Analysis of the characteristics of the investment, this for the elaboration of a strategy and the definition of the appropriate legal form.
- Preparation of the powers that will be granted to resident foreigners or local people for the constitution of the company, or opening the branch.
- Elaboration of the bylaws.

**Fiscal**
- Analysis of the consequences of the activity in the country and the fiscal consequences (income tax, VAT).
- Define the consequences of payments abroad for service providers and the payment of royalties and interests (if any).
- The correct use of the tax benefits that the legislation offers.
Accounting, Payroll, and Tax Compliance

- Prepare accounting records and financial statements following the standards (IFRS).
- Prepare monthly tax returns and pay them on the dates stipulated for this purpose (income tax, VAT).
- Annual informative declarations.
- Municipal taxes.

Expat Employees

- Address the fiscal and migratory implications derived from employing foreigners in Costa Rica.
References

- Instituto Costarricense de Turismo.
- Banco Central de Costa Rica, https://www.bccr.fi.cr/seccion-politica-cambiaria/pol%C3%ADtica-cambiaria
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