International Tax
Costa Rica Highlights 2017

Investment basics:

Currency – Costa Rican Colon (CRC)

Foreign exchange control – None, repatriation payments may be made in any currency. Both residents and nonresidents may hold bank accounts in any currency.

Accounting principles/financial statements – IAS/IFRS. Financial statements must be prepared annually. “Major” taxpayers must submit audited financial statements to the local tax authorities within six months after the fiscal year end.

Principal business entities – These are the corporation, limited liability company, limited partnership, general partnership and branch of a foreign company.

Corporate taxation:

Residence – A corporation is resident if it is incorporated in or has a fixed place of business in Costa Rica.

Basis – Costa Rica operates a territorial tax system, under which both residents and nonresidents are taxed on their Costa Rica-source income. Residents are subject to profit tax, and nonresidents are subject to withholding tax. Branches and permanent establishments of foreign companies are taxed in the same way as subsidiaries.

Taxable income – Income tax is imposed on net income (i.e. profits or economic benefits resulting from services provided, goods located or investments made in Costa Rica) of a company. Unrealized gains are not part of gross income (including capital gains in specific cases). Expenses that are considered relevant and necessary for generating taxable income may be deducted in computing taxable income.

Taxation of dividends – Dividends received by a Costa Rica entity from another domestic entity are exempt from corporate income tax.

Capital gains – Capital gains generally are not subject to taxation in Costa Rica, except when (1) the activity that generates the income is “habitual” (i.e. from the operation of a normal trade or business); or (2) the gain is generated as a result of the transfer of assets subject to depreciation/amortization for corporate income tax purposes. Such gains are taxed at a 30% rate.

Losses – Industrial losses may be carried forward for three years (five years for agricultural losses). The carryback of losses is not permitted.

Rate – The standard rate is 30%, with lower rates of 10% and 20% applying to companies that earn income below certain thresholds.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – There are no formal participation exemption rules in the tax law, but Costa Rica operates a territorial system of taxation, under which certain foreign income (such as dividends and royalties obtained abroad) is tax-exempt.

Holding company regime – See under “Taxation of dividends” and “Participation exemption.”

Incentives – Industrial, processing and service companies located in free trade zones are entitled to tax holidays, such as a 100% exemption from corporate income tax for the first eight years of operation and a

50% exemption for the next four years. Other tax holidays are available, as are forest sustainability and tourism incentives.

Withholding tax:

Dividends – A 15% withholding tax is levied on dividends paid to a nonresident or a resident individual. The rate is 5% for dividends paid by stock corporations whose shares are registered on a local, officially recognized stock exchange.

Interest – The general withholding tax on interest is 15%. Payments made to a bilateral or multilateral organization are exempt from withholding tax.

Royalties – Royalties paid to a nonresident are subject to a 25% withholding tax.

Technical service fees – Technical service fees are subject to a 25% withholding tax.

Branch remittance tax – Remittances by a branch to its nonresident head office are taxed in the same way as a dividend distribution (meaning a 15% withholding tax will be imposed).

Other – All Costa Rica-source income paid abroad is subject to withholding tax at varying rates (e.g. 5.5% on insurance income, 8.5% on transportation and communication income and 15% on lease payments and professional fees, such as management fees (non-technical advice)). Services provided entirely abroad (i.e. marketing services) may be exempt from withholding tax.

Other taxes on corporations:

Capital duty – No

Payroll tax – The employer acts as a withholding agent for its employees. The withholding rate ranges from 0% to 15% of gross wages, and tax is paid to the tax authorities on a monthly basis.

Real property tax – The municipal authorities levy an annual 0.25% tax on the value of real property (land plus any buildings).

Social security – The employer must contribute 26.33% of the gross wages paid to its employees, and the employees contribute 9.34%.

Stamp duty – Stamp duty is levied on agreements and contracts, at a rate of 0.5% calculated on the economic value of the document.

A culture and education stamp tax is payable annually on the net capital of entities. The amount ranges from USD 1.50 to USD 18.

Transfer tax – A 2.5% transfer tax applies to the transfer of movable property subject to registration; the rate on the transfer of immovable property is 1.5%.

Other – A business license tax is levied annually by the municipalities, at rates ranging from 0.15% to 0.35%.

Anti-avoidance rules:

Transfer pricing – The transfer pricing rules are based on the OECD guidelines. The following transfer pricing methods may be used: comparable uncontrolled price, resale price, cost plus, profit split and transactional net margin methods.

Taxpayers subject to the transfer pricing rules must maintain documentation to support the pricing of related-party transactions. Taxpayers engaged in domestic or cross-border transactions with related parties, or those defined as large taxpayers, must file an annual transfer pricing information return.

Advance pricing agreements (APAs) are available, under which the taxpayer and the tax authorities may agree to the price of related-party transactions in advance. An APA is valid for a three-year period.

Thin capitalization – There are no specific thin capitalization rules, but limits are imposed on the payment of interest by a domestic limited liability company to its head office (these rules do not apply to a corporation (i.e. an S.A.)).

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – The tax year is the 12-month period from 1 October to 30 September, although the taxpayer may request an alternative period that runs from 1 January to 31 December.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – A self-assessment regime applies. Advance corporate tax is payable in quarterly installments. The corporate income tax return must be filed and tax must be paid within two months and 15 days after the fiscal year end.

Penalties – A late payment penalty equal to 1% of the tax due is levied for each month the tax is outstanding, up to a maximum of 20%. The penalty for a tax deficiency varies, depending on the amount of tax due.

Rulings – A ruling may be obtained from the tax authorities, but it is not binding on the taxpayer (merely informative regarding the tax administration´s position).

Personal taxation:

Basis – Residents and nonresidents are taxed on their Costa Rica-source income. Residents are subject to income tax, while nonresidents are subject to withholding tax.

Residence – Costa Rican permanent residents and individuals who have been in the country for six months or more in a tax year are ordinarily resident.

Filing status – Each individual must file a return.

Taxable income – Income is taxed under a scheduler system. Gross employment income is taxable. Net profits from the carrying on of a trade or profession are taxed in the same way as profits derived by companies. Investment income in the form of dividends is subject to withholding tax.

Capital gains – Capital gains generally are not subject to taxation in Costa Rica, except when (i) the activity that generates the income is "habitual" (i.e. from the carrying on of a normal trade or business); or (ii) the gain is generated as a result of the transfer of assets subject to depreciation/amortization for corporate income tax purposes. Such gains are taxed at a 30% rate.

Deductions and allowances – No deductions are granted in respect of employment income, although personal allowances are granted for the taxpayer's spouse and children. A taxpayer carrying on a trade or business is entitled to the same deductions as a corporation.

Rates – Personal income tax rates are progressive up to 25%. Investment income in the form of dividends is subject to a 5% withholding tax.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – The municipal authorities levy an annual 0.25% tax on the value of real property (land plus building values). An annual "luxury house tax" also may apply, with the rate depending on the value of the property.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Employed individuals contribute 9.34% of wages, and the rate may range from 10.5% to 18.5% for the self-employed.

Compliance for individuals:

Tax year – The fiscal year is the 12-month period from 1 October to 30 September, although the taxpayer may request a different period.

Filing and payment – A self-assessment regime applies. Advance tax is payable in quarterly installments. The income tax return must be filed and tax must be paid within two months and 15 days after the end of the fiscal year. Payroll taxes are withheld by the employer on monthly basis.

Penalties – A late payment penalty equal to 1% of the tax due is levied for each month the tax is outstanding, up to a maximum of 20%. The penalty for a tax deficiency varies, depending on the amount of tax due.

Sales tax:

Taxable transactions – Sales tax is imposed on the sale of certain goods and the provision of a few services.

Rates – 13%

Registration – Registration is compulsory for businesses, but a simplified regime is available for small and medium-sized enterprises.

Filing and payment – Sales tax is payable on a monthly basis at the time the tax return is filed.

Source of tax law: Income Tax Law, VAT Law and Tax Norms and Procedures Code

Tax treaties: There are only two double taxation treaties in force, with Germany and Spain.

Tax authorities: General Tax Agency and General Customs Agency

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