



# DOING BUSINESS IN COSTA RICA



# FOREWORD

This guide has been prepared with the purpose of providing basic information to people interested in investing and doing business in Costa Rica. It does not cover in detail all the requirements and subjects to be considered, but instead it is intended to provide an overall idea of the benefits of doing business in Costa Rica and the basic taxation requirements.

The guide is intended to be used for informational purposes only and therefore, you should consult a professional tax and business advisor to acquire more information.

The material contained in this guide is based on information and regulations in effect as of May 2020.





# ABOUT H&CO

Since 1992, H&CO has been providing international tax and business advisory services to multinational companies, global families and local companies that seek to invest or expand their operations in multiple jurisdictions in Latin America.

By working together with our affiliates in the region, we offer integrated solutions to help companies with all of their cross-border requirements and reporting obligations, from opening a new company abroad, and manage your operations, to helping you create an international tax strategy and repatriation plan.

With 3 offices throughout South Florida and partner firms in more than 15 countries in South and Central America, H&CO's primary goal is to be the most trusted service provider of accounting, tax and consulting services for the global community.





# COUNTRY ESSENTIALS

Capital City	San José
Area and population	51,100 km <sup>2</sup> and a population of 5,097,988 people (July 2020 est.)
Language	Spanish (official), English
Currency	Colón (CRC)
International calling code	+506
GDP	\$60.5 billion USD (2018 est.)
GDP per capita (PPP)	\$12,054 USD (2018 est.)
Exports	\$11.3 billion USD (2018 est.)
Imports	\$16.6 billion USD (2018 est.)
Inflation rate	2.0 % (2018 est.)
Government structure	Costa Rica is a democratic, free, and independent Executive power. Its political system consists of three supreme powers which are distinct and independent of each other, the Executive Power, the Legislative Power and the Judicial Power. The Costa Rican State has also a Supreme Elections Tribunal with the same rank and independence as the other powers. The president is both the Chief of state and Head of government.

# WHY YOU SHOULD DO BUSINESS IN COSTA RICA







## **STRATEGIC GEOGRAPHIC LOCATION**

Costa Rica is geographically situated in the middle of the Americas between Nicaragua and Panama, bordering both the Caribbean Sea and the North Pacific Ocean. This central location near the United States and the Americas makes the country an important near shore location for American and European companies seeking to do business in the region.

Costa Rica's proximity to the different countries in the region allows a reduced delivery time for exported goods, as there are over 24 world-class cargo shipping companies with regular departures to the Pacific Ocean and Caribbean Sea, and air cargo with worldwide destinations through 15 daily express delivery flights carried out by major express service companies.

## **TAX-FREE ZONES**

Costa Rica has a variety of free trade zones that provide a set of incentives and benefits to companies that make new investments in the country, including: manufacturing companies, commercial companies, service companies and companies or organizations dedicated to scientific investigation.

These free trade zones, apart from being rich in infrastructure, also benefit company investments by offering exemptions on raw material, parts, and capital goods. In addition, they offer a variety of tax benefits that grant exemption from corporate income taxes, export taxes, local sales, excise taxes, and capital taxes.

## **QUALIFIED WORKFORCE**

Costa Rica has a labor force of 2.21 million people and an unemployment rate of 9.5%. After the abolishment of the armed forces in 1948, Costa Rica has invested a significant part of its resources in education, achieving one the highest literacy rates in the American Continent (96.2%). The World Economic Forum's Global Competitiveness Report 2018-2019 has placed the educational system of Costa Rica in one of the first places among 140 economies, being the highest in Central America.

There is a total of 128 technical schools and 60 universities in Costa Rica that prepare professionals with the highest international standards. In addition, and as a result of foreign language teaching in primary schools and the prevalence of English-speaking tourists, a large amount of people has knowledge of the English language. Also, 95% of the employees of multinational companies are local.



## **EXCELLENT BUSINESS CLIMATE**

With more than 120 years of democracy, Costa Rica remains one of the most stable and attractive countries for foreign investment in Latin America. The country ranked 7th in terms of value system, quality of life, and business aptitude according to the Country Brand Report Latin America 2019-2020.

Costa Rica ranks 4th place with the highest Foreign Direct Investment (FDI) in Latin America, according to the United Nations report. Also, Bertelsmann, a German foundation that publishes a Transformation Index (BTI) every two years, placed Costa Rica in 2nd place with a high development status among the countries of Latin America and the Caribbean in 2018.

## **ECONOMIC GROWTH**

For decades, trade liberalization has been one of the pillars of Costa Rica's economic development. This has led to a series of structural changes which have resulted in a productive transformation, a higher level of investment, and diversification of the economy.

The country has experienced a compound annual GDP growth rate of 10.4% since 2002 and a reduced poverty rate (46%) in the last 25 years. In addition, the country has experienced a growth in Foreign Direct Investment (FDI) from Mexico, Brazil, Germany, and Portugal.

Costa Rica is ranked 62nd in the 2019 World Competitiveness ranking among 141 countries analyzed, published by the World Economic Forum. This analysis measures the national competitiveness, defined as the set of institutions, policies and factors that determine the level of productivity of a country.

Similarly, the 2019 Legatum Prosperity Index ranked Costa Rica as one of the best places to live in Latin America, ranking the country 38th out of 167 countries worldwide and ranking 2nd in Latin America and the Caribbean, ahead of Uruguay, Panama and Peru. The classification is based on multiple factors, including the economy, personal freedom, health, and security, and covers 96% of the world population and 99% of the world's GDP.

## **EXTENSIVE NETWORK OF FREE TRADE AGREEMENTS**

For the last 20 years, Costa Rica's trade policy has gone from having a high level of protection, to promoting openness and active international trade negotiations.

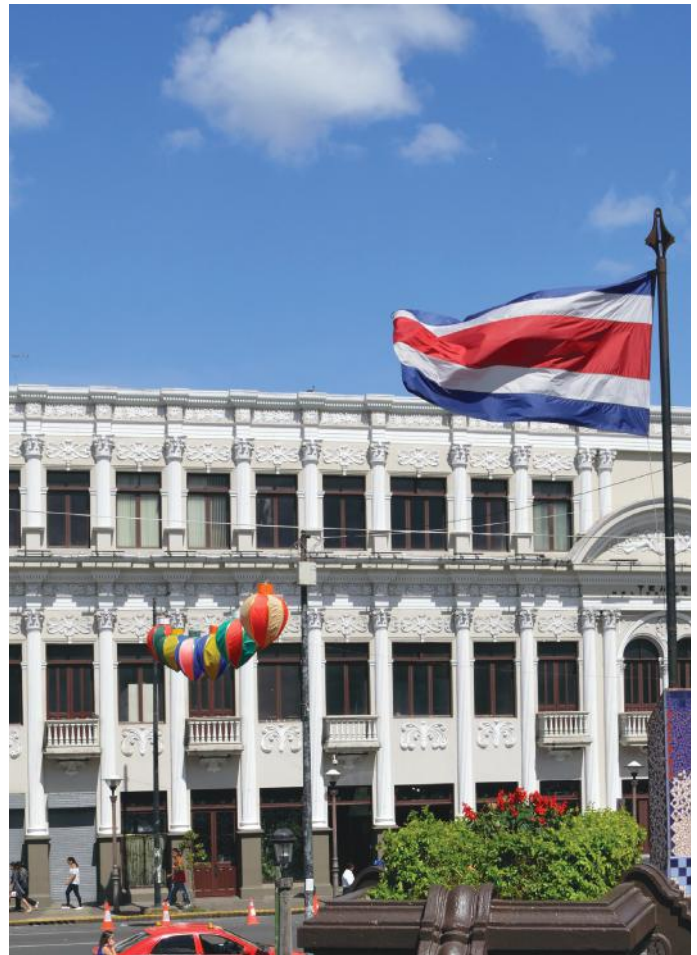
It is estimated that 87% of Costa Rica's exports of goods are covered by Free Trade Agreements, resulting in the reduction of costs for companies that engage in global production networks, as well as being a key element for the integration of Costa Rica into world markets.

Currently, Costa Rica has agreements with Argentina, Peru, Central America, Colombia, Chile, Paraguay, Canada, China, Singapore, Taiwan, and the European Union. In addition, the country is a member of the World Trade Organization (WTO), part of the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR), and the Caribbean Community (CARICOM) treaties.

## **QUALITY INFRASTRUCTURE**

Costa Rica benefits from a solid and secure telecommunications infrastructure. The country offers three redundant fiber optic submarine cable connections, as well as satellite and terrestrial microwave networks. Private networks, internet and mobile phone services are entering the market as a result of new multinational suppliers.

The country also has a reliable electric system, where 93% of electricity is generated from renewable resources, such as hydroelectric, geothermal, biomass and wind energy.



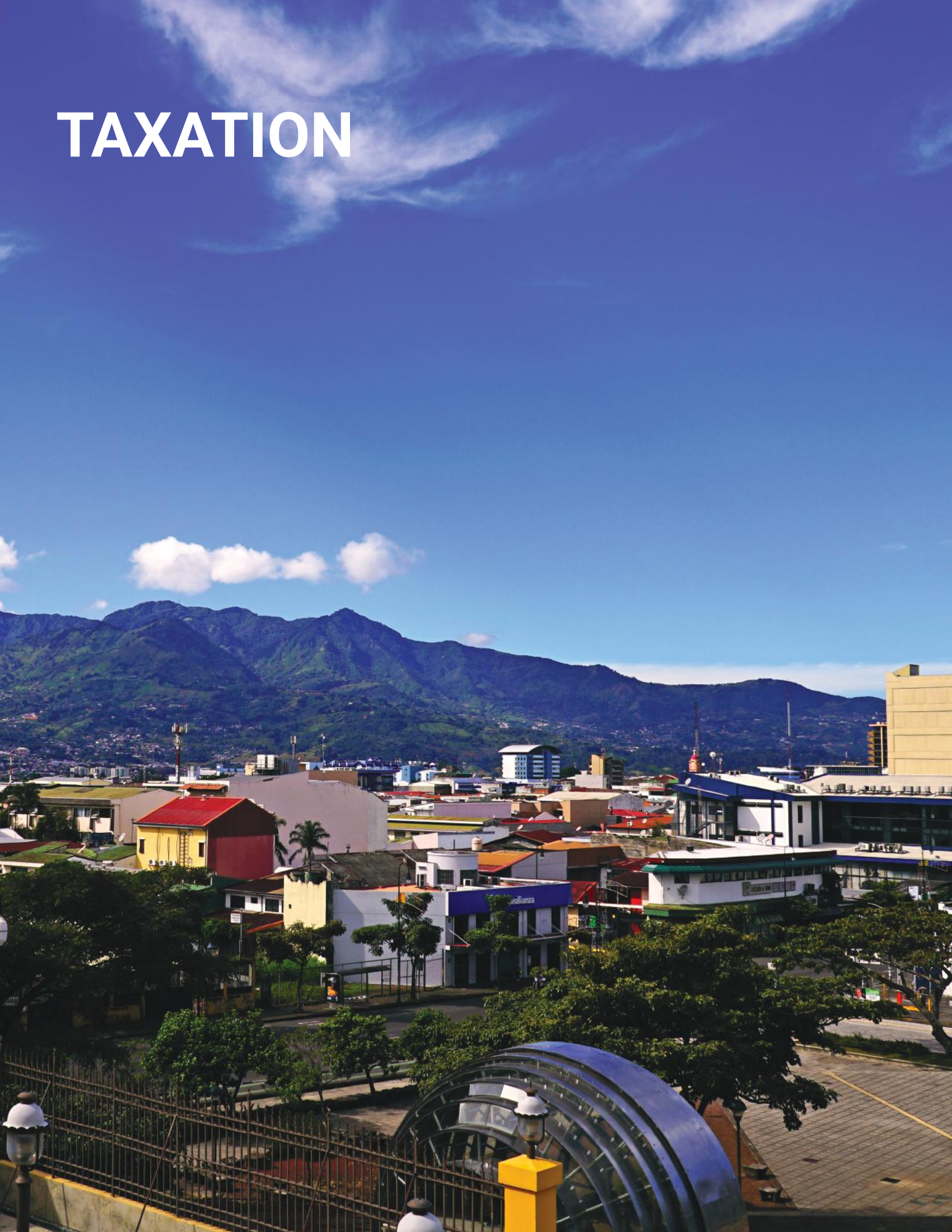
In terms of transportation, Costa Rica has an extensive highway system, two major international airports and three seaports.

## **INTELLECTUAL PROPERTY PROTECTION**

In Costa Rica, the protection of intellectual property is a priority guaranteed by the National Constitution. The country adheres to modern protection mechanisms, including multilateral conventions and treaties to enforce and protect trademarks, patents, copyrights, and other intellectual property rights under international standards.



# TAXATION







## CORPORATE TAXES

Costa Rica operates under a territorial tax system in which both residents and non-resident corporations are only taxed on their Costa Rica source income. Companies are taxed on their net income at a standard rate of 30%.

## TAXES ON CAPITAL GAINS AND DIVIDENDS

In general, capital gains are not subject to tax in Costa Rica, except when arising from normal trade or business, or if it is the result of a transfer of assets that is subject to depreciation / tax amortization of companies. In this case, profits are taxed at a maximum rate of 15%.

Dividends received by a Costa Rican entity from another national entity are exempt from corporation tax. Dividends paid to a non-resident or resident individual are subject to a withholding tax rate of 15%.

## ESTATE AND GIFT TAXES

Costa Rica does not levy estate or inheritance tax.

## SALES / VAT TAXES

Sales tax applies to the sale of goods in the country, the provision of services and all imports. The general rate is 13%.

Sales tax is paid monthly, and all businesses must register with the corresponding tax authority.

## EMPLOYMENT TAXES

Payroll taxes are withheld by the employer and paid on a monthly basis. The employer is responsible to contribute to social security and a year-end bonus. See table below for contribution rates:

	Employee	Employer
<b>Payroll Taxes</b>	10% - 15% / 20% / 25%	–
<b>Social Security</b>	10.34%	26.33%
<b>Year-End Bonus</b>	–	8.33%



## PERSONAL TAXES

All individuals, whether or not residents, are subject to taxation on their Costa Rica source income. Residents are subject to profit tax, while non-residents are subject to withholding tax.

For tax purposes, an individual is considered a resident if he or she has been in the country for six months or more during a tax year (October 1st to September 30th).

Individual income is taxed according to the progressive rate scale shown below:

### Net income taxable:

Over:	But no more than:	Income tax rate:
0	3,372,000	Exento
3,372,001	5,573,000	10%
5,573,001	9,296,000	15%
9,296,001	18,631,000	20%
18,631,001	and over	25%

*All values are in Costa Rican Colones (CRC).*





# ESTABLISHING A BUSINESS





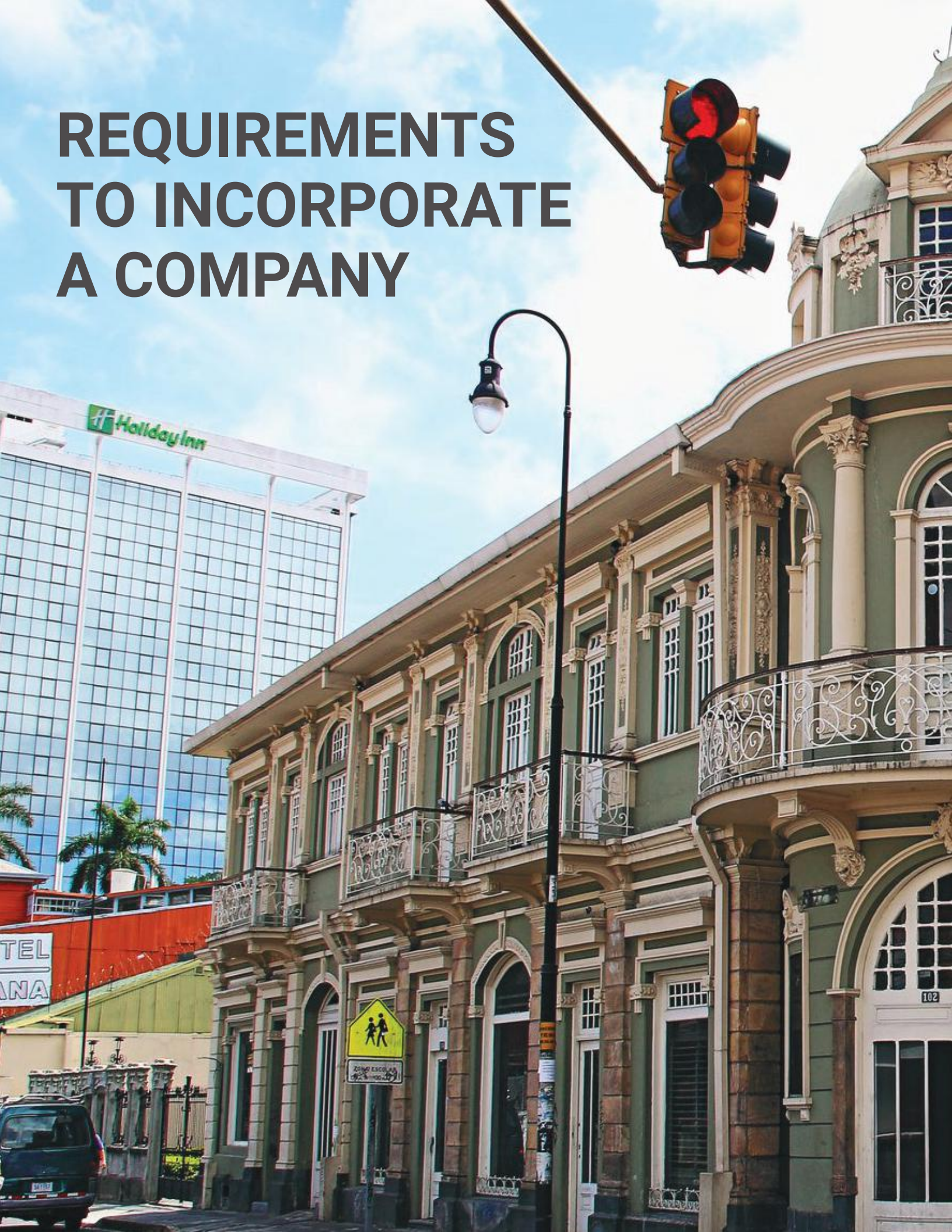
## PROCESS TO INCORPORATE A COMPANY

An investor aiming to establishing a business entity in Costa Rica requires 10 procedures to be performed in an average of 23 days, making it the 5th country in the region in terms of regulatory favorability to start a business.

PROCEDURES	TIME TO COMPLETE
Check the availability of the proposed company name	Less than 1 day (online procedure)
A notary public drafts and notarizes public deeds of the incorporation documents for registration before the Public Registry online	Less than 1 day (online procedure)
Deposit initial capital in the bank account, pay registration fees and stamp duties	1 day
Register the incorporation documents in the mercantile section of the public registry and obtain authorization to legalize the company books; send the notice of constitution of the company ( <i>edicto</i> )	2 days
File Form D-140 with the Tax Department to register the firm as a taxpayer	Less than 1 day (online procedure)
Pay the Legal Entities Tax	Less than 1 day (online procedure)
* Register for labor risk insurance with the National Insurance Institute ( <i>Instituto Nacional de Seguros</i> )	1 day
* Register the company as an employer with <i>Caja Costarricense de Seguro Social</i> (CCSS, <i>Social Security Institution</i> )	1 day
Apply for sanitary permit	1 day
Apply for the business license ( <i>patente municipal</i> ) from the municipality	15 days
<b>Total number of days</b>	<b>23 days</b>

*Note: Steps marked with an asterisk (\*) may be completed simultaneously.*

# REQUIREMENTS TO INCORPORATE A COMPANY





The *Sociedad Anónima* (S.A.), similar to a Limited Liability Company, is the most common form of incorporation in Costa Rica. Shareholders in a S.A. are liable only to the value of their shareholding.

## **COMPANY NAME**

Costa Rican regulations require company names to be unique and approved by the registry. Company names in English must be accompanied by their corresponding Spanish translation. Additionally, company names must end with the suffix '*Sociedad Anónima*' or S.A..

## **REGISTERED OFFICE**

Under Costa Rican regulations, all companies are required to have a registered office in Costa Rica, where documents can be legally served.

## **DIRECTORS**

A Limited Liability Company registered in Costa Rica must have a minimum of three directors, and there are no restrictions on the nationality or residency for any of them.

## **SHAREHOLDERS**

A Limited Liability Company registered in Costa Rica must have at least two shareholders, who can also be directors. Additionally, corporate shareholders are allowed. A single shareholder is permitted once the company has been incorporated. Annual general meetings are required but may be held anywhere in the world and can be attended via electronic means. There are no restrictions on the nationality or residence of shareholders.

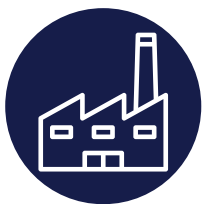




# MARKET OPPORTUNITIES AND COMMERCIAL SECTORS







## **MANUFACTURING**

Costa Rica remains a leader in Latin America in terms of production process sophistication, including project development from advanced electronic technology to rocket plasma propulsion. Currently, the Costa Rican industry has companies focused on metallurgy, automotive products, electronics, and aerospace.



## **FOOD INDUSTRY**

Costa Rica has fertile land and a variety of climates that provide a diverse range of production opportunities in the country. Coffee, pineapple, cocoa, melon and mini vegetables are among the most demanded foods in Costa Rica; however, the Costa Rican industry has taken the sector to an advanced level.

Today, Costa Rica exports to more than 130 countries including Germany, China, Italy, the United States and Japan. The country is home to 9 of the 40 food companies with the highest international reputation, since Costa Rica provides them with easy access to high quality raw materials produced naturally, as well as a dynamic logistics in their transportation from the Pacific and the Atlantic coasts



## **MEDICAL TECHNOLOGY**

Being a country focused on education and innovation, Costa Rica is one of the leading countries in the investment of medical technology worldwide and the second largest exporter of medical devices in Latin America, ranking 7th as a supplier in the U.S. market.

The sector has been transforming and evolving according to demand and has now positioned Costa Rica as a key headquarters for multinational companies in the production and distribution of medical and pharmaceutical devices, as well as scientific research.



OFFICES:

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Coral Gables, FL 33134

**Brickell**

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Miami, FL 33131

**Ft. Lauderdale**

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Ft. Lauderdale, FL 33301

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