Doing Business

A guide for Costa Rica

January 2017

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Building trust in society and solving important problems

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Locations

157
Countries

More than
223,000
Professional

PwC Interaméricas

At PwC our purpose is to build trust in the Society and solve important problems. PwC is a Network of firms in 157 countries with more than 223,000 people committed to providing quality through our ***audit, tax y consulting services.***

In the Central american region, PwC Interamericas Is made up of: PwC Costa Rica, PwC Panamá, PwC El Salvador, PwC Guatemala, PwC Honduras, PwC Nicaragua and PwC República Dominicana.

The information conteined in this Business Guide has been updated to December 2016.

Preface

Ángel Dapena Lambridge
Territory Senior Partner

Despite the slowdown registered in the region during 2016, the economy in Central America and Dominican Republic continues to benefit from the US economic recovery, given the strong links through exports and remittances. This positive effect is likely to counterbalance the tightening of financial conditions that will result from the normalization of monetary policy in the US. However, the region is expecting a change of government in the US, since an immigration repression would threaten remittance flows in the region, which would impact this important source of growth.

Doing Business in Central America and Dominican Republic 2017 is designed to introduce the investment's fundament in this territory. Prepared by the professionals of PwC Interamericas, this completed guide is not only ideal for enterprises that look to get into Central America's market, but for other enterprises that already have their presence here and want to keep up with most recent and relevant changes in tax, legal forms and accounting practices and business. In addition, this guide provides a brief description of each country of Interamerica.

Due to this guide cannot answer all the specific questions you may have, our multidisciplinary professionals' team is qualified to assist in all matters related to this publication and advise investors on the best way to do business.

On behalf of PwC Interamericas, we hope this guide to be the first step that will help you make the decision to invest and do successful business in our territory.

Foreword

Ramón Ortega
Regional Leader Partner

We are pleased to provide the third edition of the 2017 Doing Business Guide for Central America, Panama and Dominican Republic (InterAmericas). This Guide offers information on the culture, investment climate and tax system for the InterAmericas, including practical responses to frequently asked questions on legal, regulatory and tax compliance matters. The information provided is based on the applicable laws, our knowledge and experience in each of these countries.

InterAmericas has implemented norms and tax reforms aligned with internationally accepted principles, including the business models adopted by the Organization for Economic Co-operation and Development, which represents significant progress and advancement. As a result, the tax authorities in InterAmericas have more skillful, qualified and experienced personnel to attend these matters with the objective of improving tax compliance, and therefore, increasing the revenues for the national budgets. It is important for both local and foreign investors to be up to date on these changes and their practical implications for the future of their businesses.

We hope to be your trusted business advisor as you navigate the changing InterAmericas commercial, legal, fiscal and regulatory landscape, and be able to provide you with our knowledge from what to do, where to go and how to best conduct business in each of these territories while considering each country's unique culture.

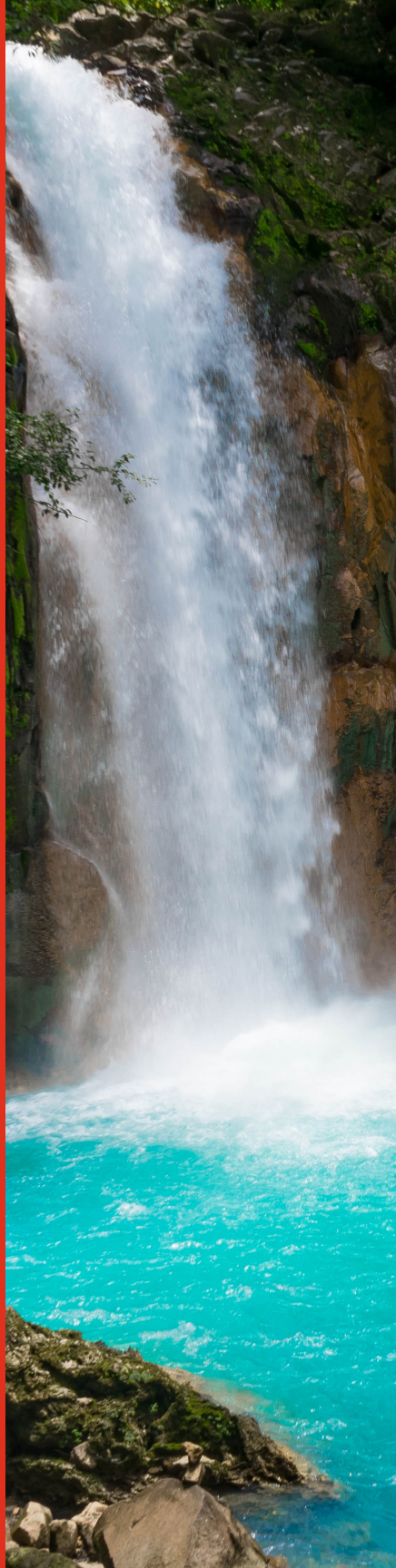
Our tailored approach to service delivery combines our extensive experience working with the legal, regulatory and tax frameworks across the region, our deep knowledge of local business practices and global trends and our uncompromising commitment to confidentiality, independence and our code of conduct. All of which places us in a preferential position within the market.

Your business is our business, and with continued enthusiasm we strive to provide unparalleled tax, legal and regulatory services based on the best local and international practices, always striving to exceed your expectations.

This guide is not intended to be exhaustive and does not constitute advice or legal opinion.
For professional advice do not hesitate to contact one of our consultants.

The culture of CR is in many ways a reflection of its ethnic diversity, with a predominantly European and North American influence, along with traces of creole and indigenous affinity.

CR was discovered by the Europeans around the year 1500, and subsequently became part of the greater Spanish Empire. In 1821, CR obtained its independence from Spain, and after some attempts to conform to the rest of Central America in a union called “Federación Centroamericana”, it declared itself as a sovereign and independent republic under the mandate of its first president Jose Maria Castro Madriz in 1848.



Costa Rica

Costa Rica is located in América Central. It is limited to the North by Nicaragua, to the South by Panama, to this for the sea Caribbean, and to the West by the Ocean Pacific.

Costa Rica

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Overview of the country

Brief history

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Climate

CR has a tropical climate with an average temperature of 22°C that increases considerably in the coastal areas; in San José (the capital city), it goes from 14 to 24°C in December, and 17 to 27°C in May. The Caribbean coast averages 21°C at night and over 30°C during the day. The Pacific coast is hotter than the Caribbean but less humid.

Population, form of government, language, currency:

Area
51,100 km²

Population
4.890.379 millions of inhabitants (June 30th, 2014)

Population per km2
93 hab. /km²

Population growth
1,4% (est. 2015)

Urban population
52.7% (total population of the country)

Political system
Democratic Republic

Form of government
Presidential

Language
Spanish

Currency
Colon (¢)

Administrative division
7 provinces

Religion
Roman Catholic

Capital city
San José

Source: INEC (National Bureau of Statistics and Census).

Education

Costa Ricans are a highly literate people: the country boasts of 95% literacy in those 10 years or over, the most literate population in Central America. Many of the country's early fathers like the first president, Jose Maria Castro, were former teachers who were concerned about the education in Costa Rica. In 1869, the country became one of the first in the world to make primary school education both free and compulsory, funded by the State's share of the great coffee wealth. In those days only one in ten Costa Ricans could read and write. By 1920 50% of the population was literate and by 1970 89% were able to read and write.

The last 20 years have seen a significant boost to educational standards. Since the 70's the country has invested more than 28% of the national budget on primary and secondary education. President Figueres, elected in 1994, advocates a computer in each of the nation's 4,000 schools, plus mandatory English classes, following the technological and tourist industries' boom of recent years.

Elementary and High schools are to be found in every community. Students are not required to pay for assistance to school; a nominal voluntary charge of around $20 per year applies. Elementary school has 6 grades or levels; whereas high school has 5 grades or levels. Each is divided in two cycles, and upon completion of each cycle, students are required to pass tests on all subjects studied during those years.

The most notorious of these tests are the "high school" ones which are known as "bachelor's tests". The aforementioned tests are required to get the high school diploma needed for admission to Universities.

Although the country lacked a university until 1940, Costa Rica now boasts four state-funded universities and a score of small private ones, the number of which has increased dramatically in the last decade, due to the difficulty of being admitted to state-funded, more prestigious universities. Opportunities abound for adults to earn primary or secondary school diplomas and to have access to higher education.

The University of Costa Rica (UCR), the largest, oldest, and most prestegious university, enrolls some 39,000 students, mostly on scholarships, but even paying full tuition is not hard as it rarely surpasses $200 per semester. The main campus is in the northeastern San Jose community of San Pedro, but the UCR also has regional centers in Alajuela, Turrialba, Puntarenas and Cartago.

The National University in Heredia, offers a variety of liberal arts, sciences, and professional studies to 18,200 students. Cartago's Technical Institute of Costa Rica (ITCR) specializes in science and technology, and seeks to train people for agriculture, industry and mining. The State Correspondence University, founded in 1978, is modeled after the United Kingdom's Open University and has 32 regional centers offering 15 degree courses in health, education, business administration, and the liberal arts.

Also, in Costa Rica it is located in INCAE Business School Costa Rica, which has been considered as the best business school of Latin America, it ranks at the 27th global position and it is considered among the best business schools of the world.

In addition there are many private institutions like, the Autonomous University of Central America, the University for Peace, sponsored by the United Nations offering a master's degree in communications for Peace.

Political and Legal System

Legal Framework

The political and legal structure of Costa Rica is comprised of three main branches: Legislative, Executive and Judicial; which are composed and exercised as follows:

Political and Legal Framework			
	Executive	**Legislative**	**Judicial**
Exercised by the:	The President and the Ministers	Unicameral Congress	Supreme Court of Justice
Composed of:	The President and the Ministers	*57 Congressmen*	The Supreme Court of Justice is composed by 22 magistrates.
Elected or appointed by:	Elected by direct vote every 4 years.	Elected by direct vote every 4 years.	The magistrates are appointed by the Congress for a renewable for 8-years term.

The Costa Rican legal system is based on the Civil Law and derives mainly from the Napoleonic Code.

In the 2013 Worldwide Governance Indicators from the World Bank, Costa Rica was first among Latin American countries for Political Stability and Absence of Violence/Terrorism.

The Regional Human Development Report (HDI) 2013-2014: "Citizen Security with a Human Face: Evidence of Proposals for Latin America" states that Costa Rica is among the six countries that show the best indicators of Citizen Security in Latin America.

Main political parties

- National Liberation Party (Partido Liberación Nacional - PLN).
- Citizen Action Party (Partido Acción Ciudadana - PAC).
- Libertarian Movement Party (Partido Movimiento Libertario - PML).
- Social Christian Unity Party (Partido Unidad Social Cristiana - PUSC).
- Frente Amplio (FA).

During 2014, Costa Rica held national elections. In this process, for the first time in its history, the Citizen Action Party (Partido Acción Ciudadana) reaches the presidency. The presidential elections are carried out in Costa Rica each four years.

The Economy

One of the pillars of the Costa Rican economic development has been trade liberalization, which has allowed exports to surpass its 30% ratio of GDP in 1990 to a current rate of 38.8% rate for 2015 (includes exports of goods and services).

This trade liberalization has been followed by a series of structural changes resulting in productivity growth, diversification of the economy and a higher level of investment. The real GDP has been increasing at a compound annual growth rate of 5.3% since 1991. All these changes have translated into important social achievements. In the last 20 years poverty was reduced from 40% to less than 20%.

	2013	2014	2015
PIB			
GDP at market prices	49,236.70	49,552.6	51.11 millions
Real GDP growth (%)	8.70%	0.60%	2.8%
Prices and financial indicators			
Exchange rate Colón: US$ (end-period)	499.8	538.3	531.94
Lending interest rate (avg. %) Jan 1st Estimate. Industry loans in national currency	14.39%	16.00%	17.01%
Lending interest rate (avg. %) Jan 1st Estimate. Industry loans in USD currency	10.36%	10.37%	9.85%
Current account (US$ millions)			
Exports	11.531.08	11.304.42	9,649,625.5
Imports	18.001.78	17.186.2	15,154.2
Trade Balance	-6470.7	-5881.78	-5946.40
(Unemployment (avg. %)	8.50%	9.60%	9.60%

Sources: Costa Rican Central Bank. Costa Rican Foreign Commerce Ministry, CIA Factbook.

Inflation

Last year Costa Rica accrued an inflation of -0.81% slightly over the official target projected of a maximum of 4%.

The national Institute of Statistics and Censes of Costa Rica (INEC as per the acronym in Spanish) informed that Costa Rica, during the first quarter of 2016, registered a deflation of -0.86% with the inter-annual inflation fallen to the 0.88%. It is envisaged that the Gross Domestic Product will grow in a 4.5% in 2017; the expected growth is related to the expansion of the internal and external demand, this last one linked to the acceleration of the economic activity of the main commercial partners of the country.

Doing Business in Costa Rica

Government attitude towards foreign investment

CR's economic, political and social stability is one characteristic that has distinguished the country throughout its entire contemporary history and is one of the most important strengths that has enabled it to reach great success in alluring foreign investors.

The Government created Free Trade Zones under law No. 7210 (known as the "Free Trade Zone Law"). Fiscal incentives, including 100% exemption from virtually all taxes and Government finance for the training of employees, are available to companies which comply with the investment and employment requirements stated in the Law.

In addition, there are other specific sectors, such as tourism and forestry, that are promoted by the government through tax incentive laws. These sectors are briefly defined in the Tax System epigraph.

Free trade agreement and other agreements

Costa Rica is a member of the World Trade Organization and has some preferred treatments. The country has access to United States through the Caribbean Basin Trade Partnership Act (CBTPA) which was an extension of the Caribbean Basin Initiative (CBI) and the Preferred Generalized System GSP.

Costa Rica has bilateral free trade agreements with the following countries and blocs which took effect on (see date): Canada (November 1, 2002), Chile (February 15, 2002), Caribbean Community (CARICOM), (November 15, 2002), Dominican Republic (March 7, 2002), El Salvador Customs union, (1963, re-launched on October 29, 1993), Guatemala Customs union, (1963, re-launched on October 29, 1993), Honduras Customs union, (1963, re-launched on October 29, 1993), Mexico (January 1, 1995), Nicaragua Customs union, (1963, re-launched on October 29, 1993), Panama (July 31, 1973, renegotiated and expanded for (January 1, 2009), United States (January 1, 2009), China under negotiation, Singapore under negotiation, European Union under negotiation, Perú (June 1st, 2013), Central America, United States and Dominican Republic Free Trade Agreement (CAFTA-DR) January 1st, 2009.

The main agriculture products are bananas, pineapples, coffee, melons, ornamental plants, sugar, corn, rice, beans, potatoes; beef, poultry, dairy; timber.
The main industries are: microprocessors, food processing, medical equipment, textiles and clothing, construction materials, fertilizer, plastic products.

Foreign investment

Foreign investment, which is welcomed in Costa Rica, is concentrated in manufacturing (45%) and agriculture (25%, mainly banana and coffee interests). Other investments are placed in the railways, tobacco, communications, airlines, government bonds, and real estate. The US, Costa Rica's major foreign investor, has interests in computer chip manufacturing, agriculture, petroleum refining, distribution, utilities, cement, and fertilizers. The continued high level of trade with the US has been conducive to private foreign investment, especially in export industries. Investment incentives include constitutional equal treatment guarantees and free trade zones. Foreign direct investment in Costa Rica in 2015 was $51.11 billion, or 2.8% of GDP .

[1] Source: Web Page of the World Bank.

Liberalization of Costa Rica's trade and investment regimes, have resolved the internal debt problem, and passage of legislation expanding private sector investment in energy, telecommunications, roads, ports, and airports have boosted opportunities for foreign and local investors and increase Costa Rica's prosperity. The Public Concessions Law defines the ways in which foreigners could invest in Costa Rica's public sector. The Costa Rican government has introduced a wide variety of incentives in an effort to encourage foreign investment. To support this effort, CINDE (Costa Rican Investment Promotion Agency), a private non-profit organization, was set up to assist and guide investors and companies in the set up for operations in Costa Rica.

A further step on this effort was the promulgation of legislation providing operational incentives to companies in export related activities. These sets of incentives are: the export contract, the free zone and the temporary admission system, all of which include total or partial tax exemptions and expedite customs clearance services among other simplified operational aspects.

Costa Rican laws, regulations and practices foster competition and do not discriminate between locals and foreigners, for the conduction of business. The only exceptions to this are the entities that are constitutionally precluded from total foreign ownership such as telecommunications, energy generation and insurance. Tax, labor, health and safety laws do not inhibit the flow of investment.

Foreign investment incentives

The Costa Rican government has introduced a wide variety of incentives to encourage foreign investment. Among the most important are:

- The 'Drawback' law No 5162 of 1972 encouraged the establishment in Costa Rica of "screw driver" assembly plants. Enterprises which wish to assemble products in Costa Rica and re-export the finished products to other markets can import all their capital machinery and raw materials including the parts to be re-assembled free of all import duties.
- Free Zones, known as Export Processing Zones - see above.
- Zonas Francas, conocidas como Zonas Procesadoras de Exportación.

Establishing business in Costa Rica

Costa Rican corporations are regulated by the Code of Commerce, Law N° 3284, enacted on April 30th, 1964 (henceforth "C.C.").

Commercial corporations

- General Partnership (Sociedad en Nombre Colectivo).
- Ordinary Limited Partnership (Sociedad en Comandita Simple).
- Limited Liability Company (Sociedad de Responsabilidad Limitada -S.R.L.-).
- Corporation (Sociedad Anónima – S.A.).

Formation procedure

In general terms, the formation of any type of commercial entity follows the steps described below. However, it is important to bear in mind that each have specific requirements that must be complied with in order to duly incorporate the desired entity, and that further consultation must be carried out with the particular legal specialist in each case.

- The founders acquire the services of a Public Notary and draft an incorporation deed, containing the new company´s by-laws and the appointment of the administrators.
- Issue shares in accordance with the shareholder´s contributions.
- Pay the registrations fees (based in the company´s capital) and submit the incorporation deed to the Public Registry.
- Upon registration of the incorporation deed the company is assigned with a corporate identification number.

Closing procedure

According to the C.C., a corporation is closed by either of the following reasons: - Shareholder´s agreement. – Completion of the corporate term. – Impossibility of achieving the corporate object. – Definitive loss of more than 50% of its capital (unless replenished by the shareholders or proportionally decreased).

If the shareholders agree to close and liquidate the corporation, they have to register such agreement in the National Registry, publish a notice in the Official Ledger and appoint a liquidator in order to pay the company debts and distribute the balance to the shareholders in accordance with their contributions.

Branch and/or mercantile establishment

Any foreign entity may register a branch in Costa Rica.

Registration procedure
The foreign entity must register a Shareholders agreement before the Costa Rican National Registry containing:

- Appointment of a Legal Representative in the country for the company´s businesses.
- Object, capital, and compete data of the main company´s directors.
- An express declaration of submission to the Costa Rican Law.

All documents are validated by the Consulate of the country of origin and registered in Costa Rica in order to acquire a local corporate identification.

Joint venture

Joint Venture is a contract between 2 or more persons who are classified as traders with an interest in one or various specific and transitional business operations, which shall be run by one of them at his sole name and under his personal credit, with the responsibility to account and divide with its stakeholders the gains or losses in the agreed proportion.

Joint Ventures are not expressly contained in the Costa Rican law, but are accepted as valid for the business association.

Banking system

Central bank

The Central Bank of Costa Rica, (Banco Central de Costa Rica BCCR as per the acronym in Spanish) was created on April 23, 1953, and currently it is governed by the Law No. 7558 dated November 3, 1995.

The Central Bank is a Government but autonomous institution responsible of the contribution to the development of the Costa Rican economy, security and price stability. Also, it is tasked with maintaining the internal and external stability of the national currency and to ensure its conversion to other currencies.

Commercial banks

The Superintendence of Financial Institutions (Superintendencia General de Entidades Financieras SUGEF), is the entity in charge of ensuring the stability, solidity and efficient operation of the national financial system, by following strictly legal and regulatory provisions and according to regulations, guidelines and rulings issued by the institution itself, safeguarding the general interest.

SUGEF supervises the operations and activities of the entities under its control and the operations of the entities authorized by the BCCR that are to participate in the exchange market. Within its powers are the faculty to issue general norms for establishing sound bank practices, to issue guidelines it deems necessary to promote stability, solvency and transparency of the operations of the supervised entities, and to establish categories of financial intermediaries in terms of the type, size and degree of the risk.

The legal framework applicable to this field is broad. Some of the laws regulating such activity are: Organic Law of the National Bank System, Law ofthe Banking System for the Development, Law of the Modernization of the Financial System of the Republic, Regulatory Law of Non-Banking Companies; Law of Narcotics, Psychotropic substances, Capital Legitimation and Terrorism Financing.

List of banks

Central bank

- Banco central de Costa Rica.

Government-owned banks

- Banco Crédito Agrícola de Cartago.
- Banco de Costa Rica.
- Banco Nacional de Costa Rica.

Banks created with special laws

- Banco Hipotecario de la Vivienda.
- Banco Popular y de Desarrollo Comunal.

Private banks

- Banco BAC San José S.A.
- Banco BCT S.A.
- Banco Cathay de Costa Rica S.A.
- Banco Citibank de Costa Rica S.A.
- Banco CMB (Costa Rica) S.A.
- Banco de Soluciones Bansol de Costa Rica S.A.
- Banco General (Costa Rica) S.A.
- Banco HSBC (Costa Rica) S.A.
- Banco Improsa S.A.
- Banco Lafise S.A.
- Banco Promérica de Costa Rica S.A.
- Scotiabank de Costa Rica S.A.
- Davivienda

Labor and social security

Labor supply

The Costa Rican labor force is distributed as follows:

- Agriculture: 14%
- Industry: 22%
- Services: 64%

Total as of 2015		Labor Force	
		Employed	Unemployed
Country total	2,242,919	2,027,518	215,401
Gender			
Male	1,487,000	1,380,000	107,000
Female	974,000	866,000	108,000

Source: Costa Rican National Institute of Statistics.

Labor law requirements and Social Security

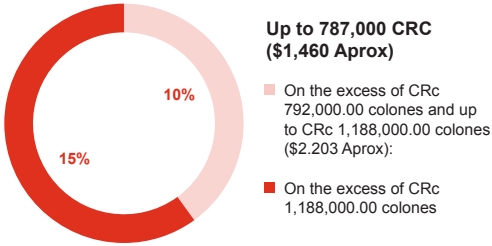
Social security charges/payroll taxes based on salary paid to the staff in Costa Rica.

A. Cost obligations of the employer as a temporary withholder:

1.Income Tax Law: According to Costa Rican Income Tax Law, the employer has the obligation to withhold from the employee salary a tax with a marginal rate not above than the 15%. The retained amount has to be declared and paid to the Tax Authorities within the first 15 calendar days of the month immediately following that in which the payment of salary was rendered.

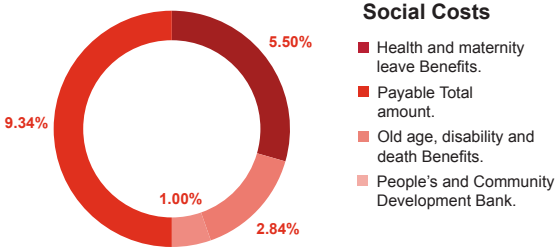
For the purposes of the company's year-end Income Tax Return, the amounts paid as salary can be treated as a deductible expense, as long as all salary income tax and social security contribution obligations have been duly carried out.

The percentage of the withheld tax varies according to the salary paid to the employee, in accordance with the following progressive scale:



2. Social Costs: Costa Rican labor law introduces the concept of Social Costs, commonly known in the local language as "cargas sociales" (social contributions) as a series of items that cover all the employee's social security needs, this costs are paid both by the employee and the employers. The amount paid by the employee is retained from his salary by the employer (in the same manner as the income tax described above) and then transferred to the Costa Rican Social Security Fund: "Caja Costarricense del Seguro Social" (C.C.S.S.).

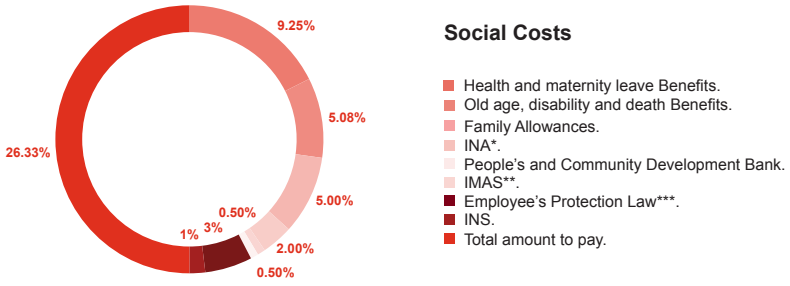
The percentage of this cost that has to be paid by the employee and retained by the employer is 9.34% of the employee's salary and contains the following category:



As of June 1st, 2017 the total quote of the workers to the entity of Security Social (the Costa Rican Social Security Fund) on their monthly salary, would change from 9.34% to a 10,34%, while the total contribution of the employers remains in 26,33%.

B. Direct cost obligations of the employer:

1. Social Costs: As mentioned before, the social costs are paid by both the employer and the employee. Different from the employee´s portion, where the employer acts strictly as a withholder, the portion corresponding to the employer has to be paid directly by it in any state owned bank (there are four of them) and adds 26.33% of the worker's salary and contains the following items:



* *INA, IMAS, and INS are government institutions.*
** *Changes depending on the sector*
*** *This law has been in effect since March 2001.*

2. Mandatory Labor Risks insurance cost:
An insurance policy called "Labor Risks Insurance" is set as mandatory by the Costa Rican Labor Code. The employer is obligated to pay this insurance to the National Insurance Institute (an insurance entity run by the Governmentof) according to different rates set by the employee's status or position. (The rates increase according to the risk level of the line of work, for example the rate of a common office clerk is set in a low 1% of the salary).

C. Other costs

1. Vacations: Costa Rican labor code describes a benefit set as two weeks paid vacations for every fifty weeks worked for the same employer.
When the employment relation ends before fifty weeks, the employee has the right of one paid vacation day for every month worked, before leaving the company.

Also when the labor relation ends by any cause (including justified termination) the worker has the right of receiving in cash his or hers vacation benefit. This is calculated based in the average salary of the last fifty weeks worked.

2. "Aguinaldo", "Thirteenth Month" or "Christmas Bonus": This is a specific Costa Rican benefit that consists on paying and extra entire month's salary every December. The amount is calculated adding the last twelve salaries received (from December of the previous year to November of the current year) and dividing it by twelve. This amount is not taxed at the income tax, but what exceeds its calculation, will be taxable.

This benefit has to be paid during the first 20 days of December. If the work relation ends before December, the employee has the right of receiving a proportional "Aguinaldo" calculated by adding the salaries received in the current year and dividing it by twelve.

Note: Both the vacations and the "Aguinaldo" are constitutional labor rights, and, in Costa Rican law, every worker has the right of receiving them even if the employment relationship is terminated by causes attributable to the employee.

3. Notice: When either the employee or the employer decide to terminate the employment relationship, the responsible party has to give notice to the other party in the following terms:

If the relationship lasted less than 3 months.	No notice required.
If the relationship lasted more than 3 months but less than 6 months.	One week notice required.
If the relationship lasted more than 6 months but less than one year.	Fifteen days notice required.
If the relationship lasted more than one year.	One month notice required.

This benefit can be converted in cash if one party pays the other one, the amount of one salary day for each day contained in the terms listed in the table above.
EThe employer has the obligation of granting one day off every week during the terms listed above so the employee can find another job.

4. Unemployment Aid or Severance: Known in Costa Rican law as "auxilio de cesantía", this benefit is paid only when the employment relationship is terminated by causes not attributed to the employee. This is why it is known as an "expected right" or "not consolidated right" of the worker.

The unemployment Aid is paid according to the following terms:

If the relationship lasted less than 3 months.	No payment required.
If the relationship lasted more than 3 months but less than 6 months.	Seven days of salary payment.
If the relationship lasted more than 6 months but less than one year.	Fourteen days of salary payment.
If the relationship lasted more than one year.	An average of 20 days payment for every year worked.

Accounting and audit requirements and practices

Accounting

The Costa Rican Public Accountant Association has adopted the International Financial Reporting Standards for the recording of financial information, standards for attestation works, and standards for related services and statements.

Any modification to the Standards in force, as well as new Standards that in the future are to be issued by the International Federation of Accountants, will be deemed to be automatically incorporated for mandatory application in CR, without the prejudice that the Commission of Auditing and Accounting Standards of the Costa Rican Public Accountant Association performs an evaluation and recommendation, totally or partially, for its specific application in the country, without the impairment of possible changes.

Books and records

- Accounting records should be kept in Spanish and are specifically required by the Commercial Code.

- The accounting records should include: Daily Ledger, General Ledger, Inventories and Balances Ledger; in addition, business corporations must keep a Shareholder's Assembly Minutes Ledger and a Shareholder's Registry Ledger. These books must also be kept by limited liability corporations.
- The books must be written in Spanish language, in a clear way, in a progressive order by date, with no blank spaces and no scratching or interlineations.

Accounting profession

In CR, the authorized public accountant must have the degree of Licenciatura en Contaduría Pública or its equivalent degree, in a university whose curriculum is duly guaranteed by the CONESUP or the CONARE, as appropriate.

The Public Accountant Association was created with Law No. 1038 of August 19, 1947.

Due to the academic education of Public Accounting professionals and the continuous professional update which Authorized Public Accountants are obliged to have, they are able to develop in one or several professional areas, such as financial audits, compliance audits, Internal Control system assessments, and act as internal auditors, among others.

Rules for listed filings

IFRS is required for consolidated and standalone/separate financial statements for listed companies.

As published by the IASB, subsidiaries of foreign companies, or foreign companies listed on local exchanges, are not subject to different rules.

Rules for statutory filings

Are IFRS or IFRS for SMEs required, permitted or prohibited for statutory filings? Since 2001, IFRS was adopted as the mandatory accounting framework for preparation of financial statements for public and private companies (with the exception of banks and financial institutions and government entities).

The taxpayer, regardless of the regime to which they belong to (large national taxpayers, large territorial companies or subject exempt from the tax on the income) must supply the financial statements when the Tax Administration request them in their normal audit processes.

Tax System

The Costa Rican Constitution states that the Congress is empowered to levy taxes. Such taxes will be collected and administrated by the Costa Rican Government through the Tax General Directorate which is an entity that belongs to the Ministry of Treasury.

- Tax on corporate income.
- The current income tax rate is 30%.

However, the law establishes special regulations for small companies whose gross income does not exceed CRC 105,241,000. For this category, the following tariffs will be applied:

for companies with gross income up to CRC 52.634,000

for companies with gross income up to CRC 105.874.000

Please note that these income tax brackets are adjusted yearly, effective as of October 1 to September 30. The tax brackets listed are for the 2015-2016 fiscal year.

Tax on corporations

In 2012, the Tax Authorities began applying the Tax on Companies. This tax is an annual tax for all mercantile companies, branch or representative and individual enterprises of limited liability registered or to be registered to the National Registry. On January 28th, 2015 the IV Chamber of our Constitutional Court declared as

unconstitutional this tax. According to the magistrates the lawlessness occurred during the processing of the draft bill since a Project of Law Bill was published and then through a substitute text that was never published, essential matters of the tax regarding the tax payers and rates were varied. With a text, identical to the one annulled, the Congress pretends to revive the charge. The text, with the file number 19.818 is under study by the Congress standing committee on Fiscal Affairs.

According to the project, the companies that are registered before the National Register but that are not taxpayers of the income tax, will pay an amount equivalent to 15% of a base salary. The companies that have declared in the previous fiscal period in the range among 120 base salaries and less than 280 base salaries will pay a tax equivalent to a 30% of a base salary. The companies that have declared an amount less than the 280 base salaries in the previous fiscal period, will pay a tax of a 50% of a base salary.

The date of payment of the tax is set to the first 30 calendar days following January first of each year.

The Superior Council of the Judicial Branch establishes the salary base applicable for each period, through a circular that is published in the Judicial Bulletin of the official journal La Gaceta. Currently the Newsletter No. 2230-2016is in force, issued in the session 113-16 CSJ, with date of publication December 20th, 2016, which indicates that the approved salary will be effective from January 1st, 2017 until December 31st, 2017, and that the amount is ¢ 426,200 colones.

So, for the period annual 2017 the base salary is located set in the sum of ¢ 426,200 colones (four hundred twenty-six thousand two hundred colones). In this way, it is possible to establish the amounts payable for this tax, both for the existing companies as for the new corporations that are filed for its corresponding registration during the current year.

Corporate residence

In most cases, the place where a company is incorporated is regarded by Costa Rican authorities as the corporate residence. However, any business that carries on industrial, agricultural or commercial activity in CR is subject to income taxation on local income in the same way as a registered business, irrespective of the place of incorporation. Such corporations doing business in CR are subject to the permanent establishment (PE) rules.

On the other hand, under the Costa Rican income tax law, income from transactions carried out completely abroad may be regarded as non-Costa Rican-source income and, therefore, are not subject to income tax in Costa Rica.

Franchise tax

The payment made abroad for the use of a franchise will be subject to a 25% withholding on the tax on remittances abroad.

Capital gains tax

Currently, there is not a tax on capital gains for the sale of real estate or securities when such sales are not a normal activity. There is a tax on capital gains, at the regular rate of 30% in the sale of any depreciable asset when its sales price is superior than its adjustable base (accounting value).

Transfer Pricing

On September 13, 2013, through Executive Decree No. 37898-H "Provisions on transfer pricing", transfer pricing was regulated at regulatory level in CR, which until then had governed based only on an interpretative guideline.

With the issuance of this Decree, the taxpayers are forced to evaluate the prices agreed in operations of goods or services sold to companies locally and abroad, whereas the prices that will be agreed between independent parties, according to the Principle of Free Competition and Economic Reality.

This Decree establishes the obligation of filing an annual disclosure statement is established for taxpayers performing transactions with related parties and for large taxpayers, large territorial taxpayers and companies in Free Zone. It also allows the application of Advance Pricing Agreements (APA). Recently, the Tax Administration published a project resolution, in which it was established that the referred declaration must be presented no later than June of each year. This resolution must be approved in the coming days, and it will be apply for fiscal years 2015 and 2016 onwards, the statement must be presented by the taxpayer before the 30th of June, 2017.

Sales Tax

A fixed sales tax rate of 13% is applied at all stages of the sale of merchandise and in the invoicing of certain limited services expressly indicated by the Law. The tax is levied on (i) sales of merchandise within the national territory (except sales of land, buildings, exports, and certain basic necessity items, such as basic foodstuff, certain medicines and veterinary products); (ii) the value of services performed by restaurants, bars, motels, printing companies, social and recreational clubs, and painting and repair shops, and others; and (iii) import consisting of merchandise for personal use or consumption or to satisfy commercial needs.

Excise tax

The selective consumption tax may be applied at a rate of up to 100% and is levied on goods that are considered non-essential. The tax base is the cost, insurance or freight (CIF) price plus imports duties for imported items or the sale value for items produced in CR. The tax is levied at only one stage in the sale of merchandise. Payment of the tax is required at the time of importation or, for articles produced in CR, within 15 days of the month of the sale.

Property tax

Each local municipal government is in charge of real estate appraisal. The property tax to be applied throughout Costa Rican territory is 0.25% of the appraised value, registered in the respective municipality when the tax liability originates. Depending on the municipality and the region, the local government can apply an exemption from the property tax if the taxpayer is an individual who owns only one piece of property within the country.

Real property transfer tax

Real estate transfer is calculated as the 1.5% of the selling price of the real estate or it tax value, whichever is greater. The indirect transfer of real property was levied in the year 2012 through the Enforced Law of Tax Management No. 9069 and it was created a tax on the indirect transfer of real property understanding for it all legal business that implies the transfer of the control power on a corporation holder of the real property.

Tax on branch income

Branch income is subject to income tax at the rates applicable for corporate income taxes. Additionally, there is a withholding tax of 15% on dividends distributed within the country to legal entities and on the profits transferred abroad.

Income Determination and Corporate deduction

Inventory valuation

Inventories are generally stated at cost and can be valued at the compound average cost method, FIFO, LIFO, retailer method, or specific identification method. Since all entities must keep legal records, any adjustment resulting from different methods of inventory valuation for tax purposes and financial purposes should be recorded.

Capital gains

Capital gains and losses on the disposition of non-depreciable fixed assets or shares of other companies are excluded for income tax purposes as long as such dispositions are not a habitual activity.

Intercompany dividends

Dividends between domestic subsidiaries and other domestic corporations are not subject to any taxes. There are no ownership requirements to qualify for this exclusion.

Foreign income

Foreign-source income is not taxable.

Stock dividends

Stock dividends are subject to income tax at 15%. A reduced rate of; 5% applies if the stock is registered at an approved Costa Rican stock market.

Dividends from the distributor paid in form of stock are allowed and exempt from taxes.

Deductions

Depreciation and depletion / The straight-line and sum-of-the-years-digits methods of depreciation are allowed.

Class	Years
Buildings	50
Machinery and equipments	10
Furniture and fixtures	10
Vehicles	10
Agricultural plantation	2 to 10

The Tax Administration, at the request of the taxpayer, could adopt technically acceptable special depreciation methods in cases duly justified by the taxpayer. In addition, the tax administration could authorize, through general resolution, accelerated depreciation method on new assets, acquired by corporations with monetary activities requiring constant technological update, higher installed production capacity and productive reconversion processes, in order to maintain and strengthen their competitive advantage.

Payments to foreign affiliates

Corporations can claim deductions for royalties, technical and management service fees, and interest charges paid to foreign affiliates, provided that a tax of 25% for royalties, franchising's and other services, and 15% for interest is withheld. However, the deductions for technical/ financial advisory, use of patents, supply of formulae, trademarks, privileges, franchises, royalties and the like cannot exceed 10% of gross sales in the aggregate if paid to the parent company.

Taxes

With the exception of sales tax, selective consumption tax, specific taxes over consumption and special duties over them established by law, penalties and interest paid over any tax obligation, and the income tax itself, all other taxes are deductible expenses when determining taxable income.

Net operating losses

Losses incurred by industrial and agricultural enterprises may be carried forward and deducted from the taxable profits for the following three and five years, respectively. Loss carry backs are not allowed.

Group taxation

There is no group taxation in CR.

Withholding tax (WHT)

Regarding payments to non-domiciled foreigner's corporation or individuals, taxes are withheld as follows:

1. Dividends – 15%

Withholding depends on the origin or source of the retained earnings.

2. For the interests, commissions and other financial expenses; as well as, for the lease of capital assets, it will be paid a rate of fifteen percent (15%) of the amount paid or accredited.

The interest, the commissions and other financial expenses paid by foreign banks that are part of a Costa Rican Financial Group or Conglomerate regulated by the National Counsel of Supervision of the Financial System will pay a rate of five coma five percent (5,5%) during the first year of validity of this law (from 27th of November 2014 to the 27th of November 2015),; during the second year (from 27th of November 2015 to 27th of November 2016) will pay nine percent (9%); during the third year (from 27th of November 2016 to 27th of November 2017), will pay thirteen percent (13%) and, as of the fourth year,(starts the 27th of November 2017) will pay a fifteen percent (15%) of the amount paid or accredited.
For the interests, Commissions and other financial expenses paid or accredited by entities subject to the supervision and inspection of the General Superintendence of Financial Entities to foreign entities subject to the supervision and inspection in its corresponding jurisdiction, it will be paid a rate of five comma five percent (5,5 %).

There are exempted of the payment of the tax stated in this subsection the interests and commissions, and other financial expenses that come from credits granted by multilateral banks of development and multilateral or bilateral entities of development; as well as, the non-profit organizations that are exempted of the tax or that are not subject to the tax according to the legislation in force.

3. *For the technical and financial advice or other service, as well as payments for the use of patents, formula supplies, trademarks, privileges, franchises and royalties, a fee of twenty five percent (25%) will be paid.*
4. *For the pensions, the retirement, the wages and any other remuneration to be paid for personal work performed as an employee, a WTH of 10% will be applicable.*
5. *For the fees, commissions, allowances and other provisions of personal service performed without a relationship of dependency, a WTH of 15% will be applicable.*
6. *Transportation and communication services are subject to a 8.6% withholding.*

Tax incentives

Entities established in Free Trade Zone, may enjoy tax exemption on export of goods, income tax in various forms (ranging from 0% to 15% depending on the activity, location within the national territory and the amount of years in which he has enjoyed the benefit), sales tax, selective consumption tax, real estate transfer tax, and WHT on payments abroad, Also they may enjoy of the discretionary use of foreign currency related to local operations. However, these incentives for export manufacturing activities have been affected by the rules established by the World Trade Organization, in force since 2015, such that these benefits will be made available for certain qualifying manufacturing operations in accordance with the Free Trade Zone Law as amended. The requirements and benefits of the Free Trade Zone for services sector companies did not suffer any changes.
Other draw back tax regimes, apply for industries that import semi-finished materials for assembly in Costa Rica and import and export of finished products. Benefits consist of duty-free imports of raw materials for subsequent export as manufactured products. Machinery for these industries may also be imported duty-free.

Tourism development

The Incentive Law for Tourism Development grants several tax benefits, such as exemption from import duties on certain tourism service-related goods and from property tax for companies dedicated to tourism, but only for those with a signed tourism agreement.

Costa Rica -United States: The only tax treaty in force between CR and the United States, effective since 12th of February, 1991 is a Tax Information Exchange Agreement, whereby both countries agree to exchange information, from and/or in relation to public and private entities and individuals, at the request of the party's corresponding authority, in relation to any tax relevant issue.acuerdo entre la República de Costa Rica y la República Federal de Alemania, para así poder evitar la doble imposición de impuestos sobre la renta y sobre el patrimonio.

Double Taxation Treaties

Costa Rica -Spain: This agreement was approved with law number 8888 to avoid the double taxation and tax evasion on income and assets.

Costa Rica -Germany: This agreement was approved with law number 9345, in "La Gaceta", our official newspaper No. 59 of Wednesday, April 20th, 2016. Similar to the one with Spain, its main purpose is to avoid double taxation on the income tax and the tax on capital.

Tax Information Exchange Agreement (TIEAs)

Contracting State	Status	Entry into force
Argentina	Approved by the (Act 9007)	12/07/2012
Canadá	Approved by the (Act 9045)	14/08/2012
El Salvador	Approved by the (Act 8880)	31/10/2012
Spain	Approved by the (Act 8888)	01/01/2011
United States	Approved by the (Act 7194)	12/02/1991
Finland	Approved by the (Act 9197)	01/01/2015
France	Approved by the (Act 9012)	14/12/2011
Guatemala	Approved by the (Act 8880)	11/02/2011
The Netherlands	Approved by the (Act 9040)	01/07/2012
Honduras	Approved by the (Act 8880)	25/04/2006
Mexico	Approved by the (Act 9033)	26/06/2012
Nicaragua	Approved by the (Act 8880)	09/07/2011
Norway	Approved by the (Act 9201)	13/04/2014
Sweden	Approved by the (Act 9203)	08/08/2015
Convention on Mutual Assistance in Tax Matters	Approved by the (Act 9118)	28/01/2013

Corporate Tax compliance

Tax Returns

With certain exemptions, all corporations must file by December 15th their income tax return on the basis of a tax year started on October 1st and ending on the September 30th (regular fiscal period). Entities with an operating period of less than four months may file a return together with the following year´s tax return. Current legislation contemplates that other fiscal year-ends may be adopted with the prior approval of the tax authorities, in which case the year- end income tax return must be filed no later than 2 months and 15 calendar days after the end of the company's fiscal year, authorized by the Tax Administration.

Costa Rican Tax Administration, will only authorize the change to a calendar year period comprising January 1st to December 31st of each year, in the specific cases of the following taxpayers:

a) Entities or Companies of the Public Sector which are required to set the budget period between the January 1st and December 31st of each year.
b) A transportation company or international communication or a related company for management, possession of property or business relationship with other goods or services of this type.
c) An entity comprised in any of subparagraphs b), c), ch) and d) of Article 3rd of the Income Tax Act No. 7092 of April 21st, 1988 and its amendments, and that because of the laws governing should make economic year end in accordance with the calendar year.
d) That is a Mutual savings and loan authorized by the Housing Mortgage Bank to operate within the National Financial System for Housing.
e) Engaged in financial and securities (member of the National Banking System, savings and loan, nonbank financial company, but regulated by the Superintendent of Financial Entities).
f) Engaged in banana cultivation or its correlated activities.
g) Engaged in planting or industrialization of paddy.

h) It is a subsidiary of a foreign parent company, subsidiary of a parent company based in Costa Rica, parent company of a foreign subsidiary, branch or agency of a foreign domiciled company or a related company -in the terms set forth in subsection b) of this article- another, which (in either case) is subject to a different ordinarily established in the Law on Income tax or has previously hosted a special fiscal period.

Taxpayers benefiting from a special tax period must provide the sworn statement of their incomes and pay the tax within two months and fifteen days after the end of the tax period authorized. They also have the obligation to make partial payments of tax, in three quarterly, equal and successive installments, six months after the date of the special prosecutor authorized period.

The tax system is one of self-assessment with occasional auditing by the tax authorities.

Payment of tax

On the last day of March, June and September all corporations and taxpayers that will have an ordinary tax period, must prepay installments that amount 75% of the average income taxes paid in the past three fiscal years, or the amount paid in the prior year, whichever is greater.

The taxpayer may request the tax authorities to eliminate or modify partial payments or advances tax corresponding income in certain specific cases (for example if the company anticipates a loss that year, or if the average of the three previous tax years used to calculate partial payments of the current period was affected by some extraordinary income no longer be charged). Any amount owed in excess must be paid by the taxpayer the 15th of December, in the event that the companies have a regular tax period, or within two months and fifteen days after its tax year end.

Individual taxation summary

Costa Rica follows a territorial concept for the determination of taxable income. Costa Rican citizens are subject to income tax on their income from Costa Rican source, which is understood to be any income from assets used, goods located or services rendered within the Costa Rican territory.

Foreign citizens will be subject to income tax on their income from Costa Rican source, regardless of where these receive the payment for their work performed in C.R.

Resident individuals with independent lucrative activities (i.e. non- salaried) are levied at graduated rates ranging from 0% to 25%.

Individual tax compliance

Returns

Individual tax payers must file their tax returns at the same dates and schedule of the corporate tax payers, they are required to keep the same records, and are allowed to apply the same deductions, except for small to medium companies (which can apply to a Simplified Taxpayer's Regime) and the activities of certain taxpayers (such as non- professional services), which apply different income calculation methodologies and simplified documentation requirements.

Salary Tax

Employers are required to withhold income tax on salaries, wages and bonuses. The tax is levied using also progressive rates with defined brackets. Christmas bonus, Social Security contributions, severance and termination payments are not subject to income tax, according to Labor Code.

Current Individual Tax Rates

Income tax for individuals with independent lucrative activities:

Up to ¢3,496,000 annual	Exempt	
Above ¢3,496,000	Up to ¢5,220,000	10%
Above ¢5,220,000	Up to ¢8,708,000	15%
Above ¢8,708,000	Up to ¢17,451,000	20%
On the excess of ¢17,451,000		25%

Sections of wage tax:

Up to ¢787,000 monthly	Exempt	
Above ¢ 787,000	¢1,181.000	10%
Above ¢ 1,181,000		15%
Tax Credits		
For each child	¢1480	
For the spouse	¢2,210	

Our staff's knowledge and expertise

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During my 24 years in PwC, I have worked providing consulting services to companies on fiscal strategy and operational reorganization aspects, reviews of compliance with the income tax, general sales tax, and the selective consumption tax.

Assistance in the attention of officials of the Tax Administration in the tax updates, as well as in the preparation of the challenges of shipments of charges issued by the Tax Authorities.

I have an extensive experience that includes:

- Advice to companies on of fiscal strategy and operational reorganization aspects.
- Compliance reviews of the income tax
- General Sales Tax.
- Selective Comsumption Tax.
- Assistance in the attention of employees of the Tax Administration in the tax updates, as well as in the preparation of the final settlement resolution issued by the Tax Authorities.
- In charge of Due Diligence make in Costa Rica for the process of acquisition by other companies or for mergers.

Master´s Degree in Business Administration with an emphasis in Business Management. Universidad Latina de Costa Rica. Graduate in Business Administration with concentration on Finance and Banking, Universidad Latina de Costa Rica.Graduate in Public Accounting, Universidad Santa Lucía. Admitted in the Public Accountants Association of Costa Rica since 2005.

Allergan, Publicis Group, Vitec Group, Procter and Gamble, Four Seasons, Refinería Costarricense de Petróleo, among others.

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First class service