



GARCIA & BODAN
Attorneys & Counselors at Law

DOING BUSINESS

Costa Rica





Costa Rica

Costa Rica is located in Central America, borders with Nicaragua to the north, Panama to the south, the Caribbean to the east and the Pacific Ocean to the west. Its official currency is the Colón, its capital is the city of San José, and its official language is Spanish. The country has a total surface area of 51,100 km² and a total population of 5,000,000.

In 2017, the reported GDP per capita was USD 11,630.00. Costa Ricans invested 7.6% of the Gross Domestic Product (GDP) in education, and 6.7% in health services, thus becoming the leading country in education investment for Latin America.

Regarding exports, Costa Rica has reached an amount of USD 16,600 million, and its main exports include medical instruments, plantain, tropical fruits, orthopedic devices and semiconductor devices, primarily exported to the United States of America, Belgium-Luxembourg, Guatemala, the Netherlands and Panama.

Costa Rica borders with Nicaragua and Panama by land, and with Colombia and Ecuador by sea.

Reasons to invest in Costa Rica

- Costa Rica offers an important aggregate value to investors, including:
 - ✓ Labor force: high education level and bilingual population.
 - ✓ Geographic location: strategically located, connects with the entire continent. The Juan Santamaria International Airport received 5,092,060 visitors in 2018 and receives approximately 450 direct flights per week from America and Europe. The other international airport is located in Liberia, Guanacaste, the Daniel Oduber International Airport, located at the north of the Pacific coast, the principal tourist destination in the country, received 552,589 visitors in 2018.

- ✓ Proven expertise: hundreds of companies already located and operating in the country. The Direct Foreign Investment in Costa Rica in 2018 was USD 2,997 million.
- ✓ Stability: second most consolidated and stable democracy in Latin America. Costa Rica offers political stability and peace.
- ✓ Legal certainty and agile incorporation, product registry and immigration procedures.
- ✓ Installed capacity: large number of business centers located throughout the country.
- ✓ Supplier base: multiple companies dedicated to assist exporters.
- ✓ Commercial access to the world: 52 negotiated Free Trade Agreements.
- ✓ Institutional collaboration: education programs in place adjusted to industry requirements.
- ✓ Among the best tax incentives in Latin America.
- ✓ No legal or practical restrictions for foreign investment.
- Additionally, there are clear legal incentives to promote national and foreign investment in the country, which include:

Free Trade Zone Regime

- The free trade zone regime was created by law 7210 with the purpose of promoting Direct Foreign Investment, commercial exchange and job opportunities. Costa Rica offers a Free Trade Zone Regime to national and foreign companies that intend to start operations in the country.
- This regime offers 100% exemption on:
 - ✓ Income tax. For small manufacturing businesses there is a preferential tax rate of 6% (normal rate is 30%).
 - ✓ Import and export fees.
 - ✓ Fee and royalties retention at the source.
 - ✓ Passive income tax (interests).
 - ✓ Sales tax for local purchases.
 - ✓ Property tax.
 - ✓ Property transfer tax.
 - ✓ Municipal permits.
- These benefits are granted for an 8-12 year term and may be renewed. The term varies depending on the location of the operation facilities, the initial investment and the amount of jobs created.



Procedure Simplification Law

- The Law to Protect Citizens from Excess Requirements and Administrative Procedures, enacted on March 11, 2002, intends to simplify and streamline procedures before government entities.
- It guarantees, among other things:
 - ✓ Single filing of documents: The information provided by a person to a Public Administration entity, office or employee, cannot be requested a second time for the same or different procedure before such entity or office. Likewise, no public entity, office or employee may request any information that any of its own offices either issues or has already received.
 - ✓ Independent capacities: The Public Administration cannot question or review any permits or authorizations issued by other entities or offices, except regarding the nullity regime. The interested party is only required to file a certified copy of the final decision regarding a particular procedure. The Public Administration may not request any conditions or information regarding other procedures that at the time are being studied or pending resolution by another administrative entity or office; at most, the interested party must file a certification stating that the procedure is pending resolution.
 - ✓ Procedure publicity: All procedures or requirements, regardless of their nature, must be established by law, executive decree or regulation, duly published in the official newspaper La Gaceta, along with the respective procedure, instructions, manuals, forms and other related documents, and be visibly located within the entity.
 - ✓ Information obligation: All public employees, entities and offices must provide interested parties with all information regarding the procedures and requirements before such administrative entity or office. For such purposes, the interested party is not required to appear in person, except if expressly established by law.
- The law also regulates the respective response terms and applies the tacit acceptance procedure, as well as any liability of the administration and its employees who breach such provisions.



Digital Government

- Costa Rican Government initiative from the year 2000, which intends to become a leading country in Latin America regarding a digital government that provides services focused on the user, based on service transparency and exchange of information between government entities; thus promoting a favorable environment and a fair and safe society.
- The efforts to become a digital government have been constant and ever-increasing. This initiative has resulted in the implementation of the digital signature, the creation of websites to complete various procedures before government entities in a fast and efficient manner, and the implementation of digital invoices, with the purpose of facilitating business in Costa Rica and promoting competition, company productivity and the wellness of its population and entrepreneurs.
- The current government strategy is focused on the following:
 - ✓ Users: The design of all services under the new digital government model will be focused on users, so it is inclusive, secure and centered on user experience and data protection.
 - ✓ Transparency: Digital government solutions intend to support the development of an open government, more transparent regarding government procedures.
 - ✓ Efficiency: The development of interoperability, technological neutrality and procedure simplification will promote a government system that yields quality results at reduced costs.
 - ✓ Productivity: Services provided by the use of technological platforms will increase private productivity and competition in the market.
 - ✓ World leadership: The implementation of adequate public policies and a government strategy focused on production and problem solving, constitutes a world leading vision before the challenges of a fourth industrial revolution and the development of the knowledge economy.



Business structure

- From a legal standpoint, the main options to operate a business in Costa Rica are:
 - ✓ Private Company (Sociedad Anónima).
 - ✓ Limited Liability Company (Sociedad de Responsabilidad Limitada).
 - ✓ Foreign Company Subsidiaries.
- Such instruments are easily created with the assistance of a Costa Rican Notary Public, and from a legal standpoint are efficient to operate.

Labor Law

Regulation

- Labor relationships are regulated by the Political Constitution and the Labor Code. A labor procedure reform was recently approved, which intends to accelerate judicial labor procedures, eliminate any discrimination based on gender, ethnicity, sexual preference, etc., and guarantee legal defense in judicial procedures.

Labor contract

- A labor contract exists when the following three elements are present in the relationship:
 - ✓ Personal provision of the services: this means that the work must be done only and exclusively by the employee and not by anyone else. The employee is always a person, not a company.
 - ✓ Salary or remuneration: the amount of money received by the employee from the employer, in exchange for the work provided; and
 - ✓ Subordination: relationship between the employee and its employer (person or company) who receives the services and pays for them.



Work hours

- There are several types of regular work hours. Depending on the amount of hours worked per day, some are defined as regular work hours, which are the most common, and others special or exceptional work hours. Additionally, depending if the employee works by day or night, work hours are defined as daytime, nighttime, or mixed.
- The regular daytime work hours correspond to services provided between 5:00 am and 7:00 pm. It is composed of eight (8) work hours per day and forty eight (48) hours per week. In jobs that are not dangerous or unhealthy, the daily work hours may be extended up to ten (10) hours per day, but never more than forty eight (48) hours per week, which is considered as the Accumulated Daytime Work Hours.
- The regular nighttime work hours correspond to services provided between 7:00 pm and 5:00 am on the following day. It is composed of six (6) work hours per day and thirty six (36) hours per week. Accumulated work hours are not allowed at nighttime.
- The regular mixed work hours correspond to services provided partly during daytime work hours and partly during nighttime work hours. For example, a work day starting at 2:00 pm and ending at 10:00 pm. It is composed of seven (7) hours per day and forty two (42) hours per week.
- Exceptional work hours refer to the time worked beyond the respective regular work hours, or beyond the reduced work hours agreed by the parties. They must be paid at an extra fifty percent of the regular work hour (time and a half) for the amount of additional hours worked. In case of holidays, each additional hour must be paid at twice the regular work hour.

Rest days

- After a work week, the employer must grant each employee one day of absolute rest per week (24 hours), after each week or six continuous days of work, which is only paid to employees at commercial establishments or if thus stipulated in the labor contract (biweekly or monthly pay). If the employee works during the rest day, it must be paid at twice the amount of a regular work hour, regardless of the weekly work hours.



Minimum wage

- Minimum wage is the minimum amount that must be paid to all employees depending on their occupation. According to the law, no employee in the country may receive a salary inferior to this amount. The minimum wage is established by Executive Decree of the National Wage Council, and is adjusted once a year (in January), with a possible revision mid-year.

Social Security Regime

- All employers and employees are required to contribute to the social security regime (Caja Costarricense del Seguro Social). Currently, the employer contribution is approximately 26% of the reported salary, and the employee contribution is approximately 10%. Additionally, the employer must obtain a labor risk insurance policy from the National Insurance Institute.

Vacations

- All employees are entitled to two weeks of vacation, equivalent to twelve days plus two rest days as a minimum, for every fifty weeks of continuous work for the same employer, regardless of its work hours (either eight-hour, six-hour, part-time or hourly service, one or several days per week).



We at García & Bodán, are ready to support you in all legal matters of interest to your company or business, we have highly qualified lawyers on investment issues.

For further information related to investment matters or any of the topics included on this document, please contact:



Terencio J. García Montenegro

Regional Managing Partner

terencio.garcia@garciabodan.com



Christian Díaz Barcia

**Managing Partner García & Bodán
Costa Rica**

**Regional Director of Litigation and Arbitration
practice**

christian.diaz@garciabodan.com

Last revised date: May 10th, 2019

The information presented is updated every 6 months and may be outdated. Said information is of general nature, it is not legal advice. In case of needing advice, please contact one of our offices.



GARCIA & BODAN
Attorneys & Counselors at Law