



GARCIA & BODAN
Attorneys & Counselors at Law

DOING BUSINESS

Costa Rica





Costa Rica

Costa Rica is located in Central America, bordered to the north by Nicaragua, to the south by Panama, to the east by the Caribbean Sea, and to the west by the Pacific Ocean. It borders Nicaragua and Panama by land and Colombia and Ecuador by sea. Its official currency is the Colón, the capital is the city of San José, and the official language is Spanish. It has an area of 51,100 km² and a population of 5,044,197 as of 2022. In 2022, it reported a GDP per capita of USD 13,365.40.

The country has experienced consistent economic growth over the past 25 years, a global leader for its environmental policies and achievements, which have helped it create its green brand.

Reasons to invest in Costa Rica

- Costa Rica offers added value and importance to investors. This added value includes:
 - ✓ Human Capital: High levels of education and a bilingual population.
 - ✓ Geographic location: Strategic location, connecting the continent. Costa Rica consolidated its success as a tourist destination during 2023. The country experienced historic growth in the number of tourists who visited the country in 2023 via air. There was a growth in air tourist arrivals from January to December 2023 of 16.7% compared to the same period in 2022.
 - ✓ Proven Experience: Hundreds of companies already installed and operating in the country. Costa Rica reached a historic milestone at the end of 2023 with record figures in foreign direct investment (FDI), registering an inflow of USD 3.921 million, achieving 131% of the estimated goal for that year, which was USD 3.000 million. The breakdown by regime shows that 61% of this investment corresponds to the free zone, followed by 19% in the definitive regime, 7% in the real estate sector, 7% in tourism, and 2% both in the financial sector and in active improvement.

- ✓ Stability: Second best consolidated and stable democracy in Latin America. Costa Rica offers stability and political peace.
- ✓ Legal security and agile procedures for incorporation, product registration, and migration matters.
- ✓ Installed capacity: A large number of business centers distributed throughout the country.
- ✓ Supplier base: Multiple companies dedicated to supporting exporters.
- Additionally, there are clear legal regulations aimed at encouraging national and foreign investment in the country, including:
 - ✓ Commercial access to the world: 52 negotiated Free Trade Agreements.
 - ✓ Institutional collaboration: Educational programs are being prepared to meet industry needs.
 - ✓ Attractive Tax Incentives: Among the most attractive in Latin America.
 - ✓ No legal or De Facto Restrictions for foreign investment.

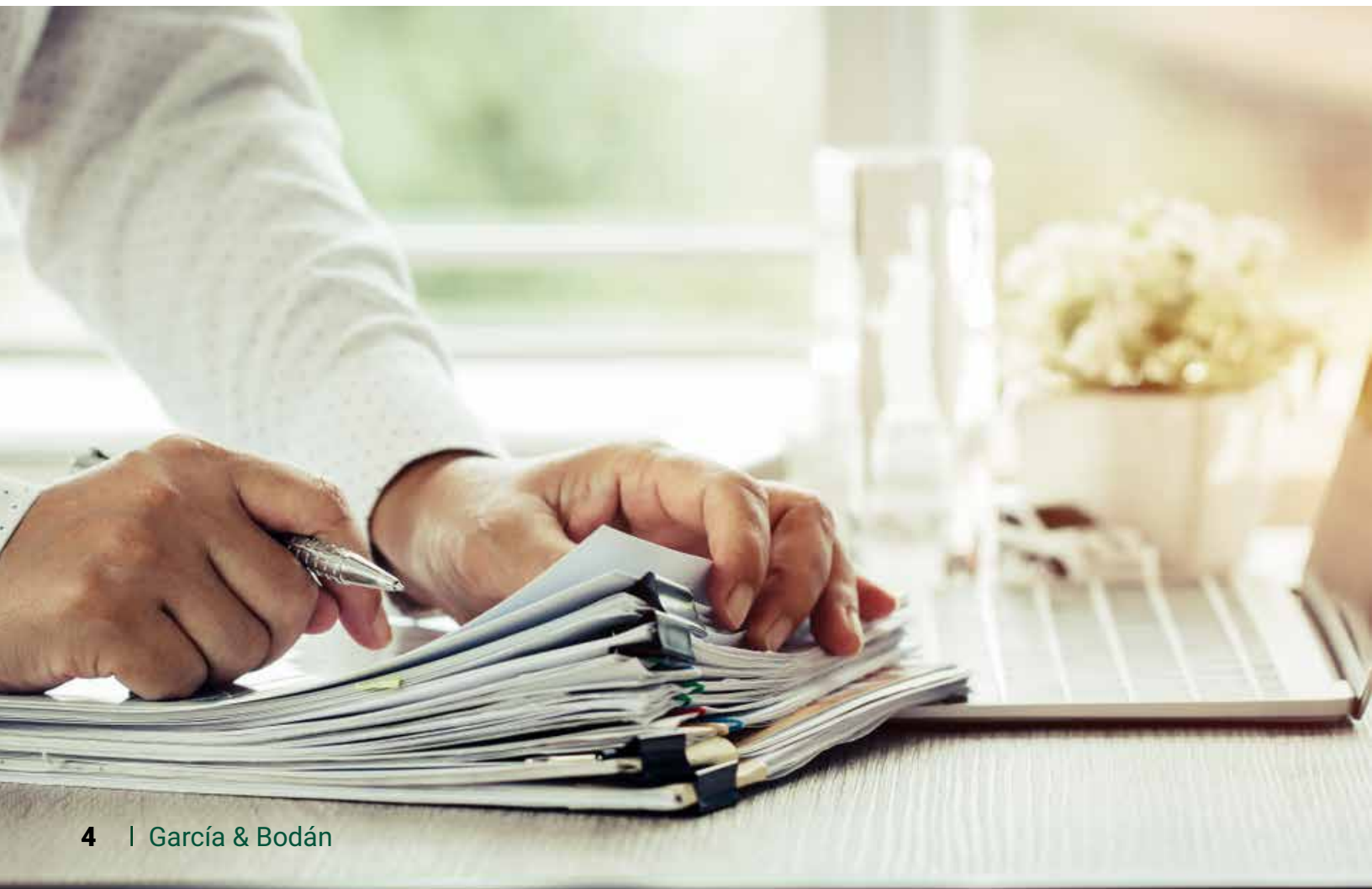
Free Zone Regime

- The free zone regime was created by Law No. 7210 with the objective of encouraging Foreign Direct Investment, trade exchange, and job creation. Costa Rica offers the Free Trade Zone Regime (FTZR) to national and foreign companies that wish to develop their operations in the country.
- This regime offers a 100% exemption on:
 - ✓ Income tax. For small manufacturing companies, a preferential tax rate of 6% applies (normal rate 30%).
 - ✓ Import and export duties. Withholding tax on fees and royalties. Passive income taxes (interest).
 - ✓ Sales tax on local purchases.
 - ✓ Property taxes.
 - ✓ Property transfer taxes.
 - ✓ Municipal license.
- Benefits are granted for a period of 8-12 years with the possibility of renewal. The terms vary according to the place of operation, the amount of initial investment, and the number of jobs created.



Law on Simplification of Procedures

- The Law on the Protection Citizens from Excess Requirements and Administrative Procedures, promulgated on March 11th, 2002, aims to facilitate the procedures that must be carried out before government institutions.
- This guarantees the citizen, among other things, the following:
 - ✓ Single filing of documents: Information submitted by an applicant to an entity, body, or official of the Public Administration cannot be required again for the same procedure or another within the same entity or body. Likewise, no entity, body, or public official may request information from the applicant that one or more of their own offices have issued or possess.
 - ✓ Respect for competencies: The Administration cannot question or review permits or authorizations issued by other entities and bodies, except regarding nullity regimes. Only a certified copy of the final resolution of a given procedure can be requested from the applicant. No requirements or information still being processed or resolved by another entity or administrative body can be requested. At most, the applicant must provide certification that the procedure is in process.
- ✓ Publicity of procedures: Every procedure or requirement, regardless of its normative source, must be included in a law, decree-executive order, or regulation and published in the official newspaper La Gaceta along with the corresponding documents and placed in a visible location within the institution.
- ✓ Obligation to inform about the procedure: Every official, entity, or public body is obliged to provide the applicant with information about the procedures and requirements in the respective administrative unit or office. To this end, the physical presence of the applicant cannot be required unless expressly required by law.
- Additionally, the law regulates response times and the application of positive silence, as well as the responsibilities that can be attributed to officials and the administration if they do not comply with legal provisions.



Digital Government

- Costa Rican Government initiative, which began in 2000, aims to be a leading country in Latin America concerning digital government through user-centered services, service transparency, and interconnection of government institutions; based on a favorable environment and the establishment of a fair and secure society.
- The effort to become a digital government has been constant and growing. This initiative has led in the implementation of the digital signature, the creation of websites to carry out procedures before various government institutions quickly and efficiently, and the implementation of digital invoicing, with the vision of facilitating business in Costa Rica and promoting competitiveness, business productivity, and the well-being of residents and those conducting business in Costa Rica.
- The current government's strategy consists of the following focuses:
 - ✓ People: The design of all services of the new digital government model will be centered on people and be inclusive, secure, focused on user experience and data protection.
 - ✓ Transparency: Digital government solutions that inherently support the work and development of open government will generate greater transparency in the management of state procedures.
 - ✓ Efficiency: The development of interoperability, technological neutrality, and simplification of procedures will enhance a state apparatus that generates quality results at increasingly lower costs.
 - ✓ Productivity: Services through the use of technological platforms will boost the productivity of private businesses and the competitiveness of our productive sector.
 - ✓ Global Leadership: The implementation of appropriate public policies and a government strategy focused on production and problem-solving will build a vision of global leadership in the face of the challenges of the fourth industrial revolution and the development of the knowledge economy.



Business Structuring

- Legally, the main options for operating a business in Costa Rica are through:
 - ✓ Private Company.
 - ✓ Limited Liability Company.
 - ✓ Foreign Company Subsidiaries.
- These entities are easily constituted with a Costa Rican public notary and are legally efficient when it comes to operating.

Formal and Material Obligations of a Commercial Company

Informative declaration of Income Tax

- Inactive companies, despite not having profits, must submit an informative declaration of simplified income tax, in accordance with the changes introduced by Law 10160 "Simplification of Tax Procedures for Legal Entities in Non-Business Activity", in which the summary information of their assets, liabilities, and capital must be included.

Accounting and information custody

- The company is obligated to keep the business accounting in order and preserve the accounting books from their start until five years after the business closes. It must also keep correspondence, invoices, and other supporting documents for a period of not less than five years.

Corporate Tax

- The company must pay the Corporate Tax, which applies to commercial companies registered in the Register of Legal Entities of the National Registry.

Register of Transparency and Final Beneficiaries

- The company must also comply annually with the presentation of the declaration of the Registry of Transparency and Final Beneficiaries.

Education and Culture Stamp

- The company, being a commercial company registered in the Public Registry, must pay annually the Education and Culture Stamp, which is calculated based on the net capital of the company, with a cap of 18,000.00 colones.



Capital Gains Tax

- In the event that the company generates any income from the sale of an asset, royalties, among others, it is considered a capital gain and should be applied as stipulated by the Income Tax Law on capital gains.

Labor Law

Regulation

- Labor relations are governed by the Political Constitution and the Labor Code. A recent labor procedural reform has been approved, whose main objective is to expedite labor processes in the judicial system, as well as eliminate discrimination based on gender, ethnicity, sexual preference, etc., and guarantee access to defense in the judicial headquarters.
- In support of organizational modernization processes, increased productivity, improved service quality, cost reduction, social inclusion, work-life balance, staff mobility, urban mobility, and environmental protection, Law No. 9738, regulating Telework, was approved.
- ✓ Salary or remuneration: It is the sum of money that the employed person receives from the employer in exchange for the work performed.
- ✓ Subordination: It is the situation in which the employed person is in relation to the employer (individual or legal entity) who receives the services and pays for them.

Working Hours

- There are various types of ordinary working hours. Depending on the number of hours worked per day, some can be called regular ordinary hours, and generally, those that are fewer, can be called special or exceptional ordinary hours. Additionally, depending on whether the work is done during the day or night, the ordinary hours are called daytime, nighttime, and mixed.
- Daytime ordinary hours, is the period worked between five in the morning and seven in the evening. It consists of eight (8) hours per day and forty-eight (48) hours per week. In jobs that are not dangerous or unhealthy, it can be up to ten (10) hours per day, but no more than forty-eight (48)

Employment Contract

- An employment contract exists when the following three elements are present:
- ✓ Personal provision of the services: This means that the work must be performed solely and exclusively by the employed and not by another person. The employed person will always be a physical person.



hours per week, thus known as Cumulative Daytime Hours.

- Nighttime ordinary hours, is the period worked between seven in the evening and five in the morning of the following day. It is six (6) hours per day and thirty-six (36) hours per week. Cumulative nighttime hours are not permitted.
- Mixed ordinary hours, is the period that is partly worked during the period between five in the morning and seven in the evening and partly between seven in the evening and five in the morning; for example, it starts at two in the afternoon and ends at ten in the evening. It is seven hours per day (7) and forty-two (42) hours per week.
- Overtime hours, is the time worked beyond the corresponding ordinary hours, or on a lower day than the work schedule. It should be paid at fifty percent more than the agreed hourly rate for the ordinary hours worked. In the case of holidays, each overtime hour worked should be paid double.

Rest days

- After the weekly work schedule, the employer must grant the worker a full weekly rest day (24 hours) after each week or every six continuous days of work, which will only be paid if the worker provides services in commercial establishments or in other cases as stipulated (bi-weekly or monthly payment). If the rest day is worked, it must be paid double, regardless of the weekly work schedule.

Minimum wage

- The minimum wage is designated as the minimum amount that must be paid to every worker according to their occupation. Legally, no worker in the country should earn a salary lower than this. This wage is set by the National Wage Council and established through Executive Decree, and it is adjusted once a year (January), with the possibility of a mid-year review.

Social Security Regime

- All employers and employees are required to contribute to the social security regime (Caja Costarricense del Seguro Social). The employer's contribution is approximately 26% of the reported salary, and the employee's contribution is around 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 the work schedule, whether it is eight hours, six hours, part-time or hourly, one hour, or one day 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 more information related to investment issues or any of the topics included on this document, please contact:



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