



Frequently Asked Questions about tax matters in Costa Rica



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1. For income tax purposes, when is the fiscal year in Costa Rica? Can a special period be requested?

Answer

The fiscal year for income tax is one year, beginning on October 1st of each year and ending on September 30th of the following year.

The Income Tax law establishes that special periods may be requested when they can be generally justified – tax periods that begin and close differently, by branch of activity, and without detriment to the fiscal interests.

Legal basis: Article 4 of the Income Tax law.

2. What are the requisites to have recourse to a special fiscal period?

Answer

Special fiscal periods have been established for the following activities:

- Institutions or companies of the Public Sector (mandated to fix the budget period from January 1st to December 31st).
- The national airline or related company.
- Political parties and religious institutions.
- Union organizations, foundations, associations declared of public interest and cooperative associations with a closing date on the natural year.
- Mutual funds authorized by the Housing Mortgage Bank to operate within the National Housing Financial System.
- Entities dedicated to the financial and stock exchange market, savings and loan cooperatives (regulated by SUGEF).
- Companies dedicated to banana cultivation.
- Companies dedicated to planting or industrialization of rice with hulls.
- Subsidiary companies.

For planting or industrialization activities related to rice, the fiscal period shall be July 1st of one year to June 30th of the following; for the subsidiaries, according to that of the headquarters, and for the remaining activities it shall be one natural year, from January 1st to December 31st; for insurance marketers the period by natural year.

The change in the fiscal period must be carried out before the beginning of the fiscal period, using form D. 140, distributed freely by the Tax Administration Service.

Legal basis: Article 4 of the Income Tax law, N° 7092 of April 21st of 1988 and its amendments, resolution N° 16-97 of August 12th of 1997, published in La Gaceta N° 171 of September 5th of 1997.

3. What must a company do to change its fiscal period?

Answer

If the company does any of the activities authorized to opt for a different fiscal period, it may request the change of period using form D-140, prior to the beginning of the fiscal period.

Legal basis: Resolution 16-97 dated August 12th of 1997.

4. What books must be legalized by an artificial person?

Answer

The following must be legalized: Journal, General Ledger, Inventories and Balances and minutes books.

5. What books must be legalized by a natural person?

Answer

Journal, General Ledger, Inventories and Balances

Legal basis: Resolution 09-2010

6. What is the fine applied for late presentation of a declaration?

Answer

Half of the base salary.

Legal basis: Art 79 of the Code of Norms and Tax Procedures.

7. What is the fine applied for late presentation of an informative declaration?

Answer

Two base salaries

Legal basis: Art. 83 of the Code of Norms and Tax Procedures.

8. What is the fine for the late payment of a declaration?

Answer

Arrears of 1% per month or fraction of a month.

Legal basis: Art. 80 Tax Code.

9. Which form is used to settle the sanctions?

Answer

The sanctions are settled and paid with form D-116 "Settlement of sanctions for administrative offenses".

10. Can invoices be prepared in dollars?

Answer

Invoices must be prepared in colones; on the margin it may indicate its equivalent in foreign currency.

Legal basis: Official paper N° DGT-1 106 of May 31st of 2004.

11. What are the requirements to register a foreign corporation?

Answer

The form D-140 "Request for registration, data modification and deregistration from the Record of Taxpayers" must be presented before the local Tax Authorities with the original passport, residence identity card, identity card or temporary card, diplomatic identity card or valid international mission card. If the process is carried out by a third party, a Notary Public should authenticate the signature of the interested party in the D-140 form; in this case, the original identification or photocopy should be sent so it is assigned a special tax identification number.

12. What is the statute of limitation?

Answer

The statute of limitation to determine tax liability is three years. This term is extended to five years for taxpayers or unregistered responsible persons before the Tax Authorities and for those who are registered but have submitted declarations qualified as fraudulent or if they have not presented the affidavits.

Legal basis: Article 51 of the Code of Norms and Tax Procedures, amended by Law N° 7900 of August 3^d of 1999.

13. When a company is established, what are the obligations with the Treasury?

Answer:

It must comply with the formal and material duties, among which the following are required:

- Register as taxpayer in the applicable taxes, submit declarations of these taxes and pay within the established terms.
- Issue the authorized vouchers.
- Keep the corresponding books and special records.
- Submit the corresponding informative declarations.

- Keep data updated in the Tax Administration records.

Legal basis: Articles 8 of the Law of the General Sales Tax and 11 of the Regulations of the Income Tax law y 128 of the Code of Norms and Tax Procedures

14. What happens if the taxpayers do not inform of a change of legal address if they moved from their premises or house?

Answer

They would be committing an administrative offense, which is sanctioned with 50% of a base salary for each month or fraction of a month, up to a maximum of three base salaries.

Legal basis: articles 78 and 128 of the Code of Norms and Tax Procedures.

15. Are taxes deductible?

Answer

The taxes and duties affecting goods, services and negotiations of the company's ordinary course of business are deductible; or the activities carried out by natural persons, except for income and sales taxes, the excise tax on consumption and the specific consumption tax and special duties established on them, when the natural or artificial persons are the taxpayers responsible for these taxes.

Legal basis: Articles 8 and 9 of the Income Tax law.

16. If I have activities outside of Costa Rica, do I have to declare that income in Costa Rica?

Answer

The taxable event of the tax on profits is the receipt of earnings derived from any Costa Rican source and earnings are understood to include income revenues or benefits from a Costa Rican source, those derived from services rendered, goods located or capital used inside the national territory; consequently, if the income is generated by activities performed outside the country, that do not represent income from a Costa Rican source, there is no obligation to declare it. However, if when indicating "activities outside of Costa Rica" it refers to exports sales, these earnings are taxable with the income tax.

Legal basis: Art. 1 of the Income Tax law N^o 7092 of April 21st of 1988 and its amends.

17. Can taxpayers request an extension of the term to present declarations?

Answer

The terms for presenting declarations are defined by law and only the law may modify them; so it's not possible to grant an extension.

18. Can taxpayers consult with the General Tax Office on any matter and what are the requirements?

Answer

Tax Authorities have areas for Taxpayer Service, where taxpayers and citizens in general can query information on fiscal matters. In case the information is confidential –as in a current account – it must be done personally and with the corresponding identification if the person is a natural person, or is the legal representative of a company.

Likewise, the Code of Norms and Tax Procedures in the article 119, establishes the possibility that taxpayers query the Tax Authorities on the application of the norms, in a specific, real situation.

The requirements to carry out this query are:

- a. Present the situation of a specific and real event, with exact data
- b. Clearly and accurately expound all the elements that constitute the situation that justified the query.
- c. Indicate the name of the names of the interested parties of the case
- d. Indicate the affected tax or taxes, with their respective fiscal periods
- e. Express the consultant's informed opinion
- f. The writ formulating the query should be presented with a true copy of the original; the officer of the Tax Administration that receives it, must issue a receipt of the same by stamping the office seal on it, indicating the presentation date, his/her name, both in the copy returned to the interested party as well as on the original.

Legal basis: Article 119 of the Code of Norms and Tax Procedures, and articles 122 to 130 of the General Regulation for Management, Investigation and Tax Collection.

19. Who signs the tax return?

Answer

It must be signed by the taxpayer or his or her legal representative of the companies, or in its absence a proxy with legal power to sign.

20. Can I use the credit cards' vouchers as valid receipts for deduction?

Answer

No, the purchase vouchers should be duly authorized receipts from the Tax Authorities.

Legal basis: Article 8 of the Income Tax law, Resolutions DGT-13-97, DGT 22-97, DGT 02-09.

21. How can I find out about my pending balances with the Treasury?

Answer

You must appear in person with an identification document before any Tax Authority and request a statement of account, or else authorize somebody to request it on your behalf; this authorization shall be authenticated by an attorney.

The taxpayers presenting their declarations by Digital means, such as the large taxpayers and large territorial corporations, may consult their status directly in the system.

22. Can losses be carried over?

Answer

In the case of industrial and agricultural companies, if they experience losses these are accepted as deductions during the following three periods for the industrial, and in the following five periods for the agricultural ones.

Legal Basis: clause g) of article 8 of the Income Tax law.

23. What tax liabilities do I have if I enjoy an incentive under the free zone system?

Answer

In conformity to the Law of Free Zones N° 7210 of November 23^d of 1990, article 19 the following obligations are established:

- a. Keep and enter the company operations, in specific books and records authorized by the Corporation, relating to the goods with the tax exemption benefit authorized by the Ministry of the Treasury, which shall be subject to inspection by the Corporation and the fiscal authorities.
- b. Submit before the competent authorities, the reports when they are so requested on the use and destination of the articles imported under the Free Zones Law, as well as allow for the applicable verifications when deemed convenient by the authorities.
- c. Freely provide the official entity that requests it samples or lend them to said official the samples of the articles produced to be exhibited in the international exhibits where the country participates.

- a. Subscribe a Contract of Operations with the Corporation.
- b. Present the reports concerning the levels of employment, investment, national added value or others, indicated in the Executive Agreement granted by the System. Compliance with this obligation shall be an essential requirement to enjoy the incentives established in this law.
- c. Use the customs declarations, the premises and other required instruments, legally or by the regulation, for documentation or control of operations.
- d. Companies managing parks, companies operating under the Free Zone system outside the industrial park and satellite plants, shall establish the necessary controls as relates to the entry and exit of merchandise, contracts and the other norms established by the applicable laws and regulations.
- e. Comply with all other obligations and conditions imposed to the beneficiaries, in the Executive Agreement conferred by the Free Zone system, the regulations of the Law of Free Zones and the Contracts of Operation signed with the Corporation.
- f. When a company is granted the free zone system under various classifications foreseen by article 17 of the Law of Free Zones, the company shall keep separate accounts for each activity.

Legal basis: Art. 19 of the Law of Free Zones.

24. Are there norms or regulations that regulate transfer costs in Costa Rica?

Answer

In Costa Rica there are no specific norms or rules about the imposition on earnings that regulate transfer prices. Notwithstanding, there's a principle established by the Code of Norms and Tax Procedures in its article 8, authorizing the Tax Authorities to interpret the norm regulating the event generating the tax obligation in these cases. Likewise, there is the Interpretive Guideline N° 20-03.

Costa Rica has suggested a reform to the transfer prices following the OECD guidelines. Currently this reform is being reviewed by the Legislative Power.

25. With which countries are there agreements on double tax and exchange of information?

Answer

International Agreements on Exchange of Information on Tax Matters

Contracting State	Type of agreement	Status	Signature date	Estimated date of ratification in the Legislative Assembly
Central America	CCAT	Approved by AL (Law 8880): came into force Feb-11-11	Apr-25-06	NA
Spain	CDI (Art.26)	Approved by AL (Law 8888): came into force Jan-01-11	Mar-04-04	May 2011
United States	All	Approved by AL (Law 7194): came into force Feb-12-91	Mar-15-89	May 2011

Note:

CCAT: Tax Management Cooperation Agreement

CDI: Double Imposition Agreement

All: Exchange of Information Agreement

26. Can an extension of the term be requested if the declaration was not submitted on time?

Answer

No extension of the term may be requested to present the tax declaration. The term to present declarations is granted by the Law and the Administration cannot extend the terms.

27. Are there tax or monetary limits to send funds overseas?

Answer

For fiscal purposes there are no limits to send Money from Costa Rica. Nevertheless, you must bear in mind that in Costa Rica there is the Law 8204 denominated "Law on narcotics, psychotropic substances, drugs of non-authorized use, related activities, and legitimization of capitals and financing of terrorism". This implies obligations of information regarding transactions of certain amounts.

According to the Law 8204 cited above, every person, national or foreigner, is required to declare the cash or security investments in their possession; if the amount is equal or higher than ten thousand dollars in currency of the United States of America, or its equivalent in another currency.

28. What is the amount of the tax when paying dividends to home office?

Answer

When it refers to branches, agencies and other permanent establishments of persons not residing in the country but acting in it, one hundred per cent (100%) of the available income accredited or remitted to the home office will be subject to the payment of a fifteen per cent tax (15%) on the indicated credit or remittance, as applicable. In these cases, the representatives of branches, agencies or permanent establishments should retain and pay to the Treasury, to the account of home office, the above indicated tax.

In conformity to the Law 7210, Law of Free Zones System, in its article 20 clauses e) and g) the companies enjoying this System will have every tax exemption burdening the remittances and dividends abroad.

Legal basis: Article 19 of the Income Tax law.

29. Are there rules for undercapitalizing in Costa Rica?

Answer

There are no rules for undercapitalization in Costa Rica.

30. Are expenses abroad deductible in Costa Rica?

Answer

In conformity to the Income Tax Law, 7092 of April 21st of 1988 and its amends, specifically article 9, clause d) the expenses incurred abroad are not deductible, except in those cases expressly authorized by the Income Tax Law.

31. Can your declarations and payments be made electronically?

Answer

Indeed, you may declare and pay electronically, as is well indicated on the Ministry of the Treasury's web page, in the section corresponding specifically to the General Tax Office, to make the payment on line using the Virtual Office of Digital Tax or by TRIBUNET; you must previously authorize the Ministry of the Treasury so they can apply the debit orders to its customer numbers; to this effect they should be previously domiciled. Domiciliation is a process regulated by the Banco Central de Costa Rica; it consists of presenting a domiciliation or authorization for debits in the entity where you own a customer number, authorizing the company giving the service (electricity, water, taxes, etc.) to request deductions by their entities from your account. You may domicile from one to five accounts, but not exceed this number.

The direct debit to your account(s) must be done in conformity to the proceedings established by the Banco Central, specifically, the provisions of the National System for electronic Payments (SINPE- Sistema Nacional de Pagos Electrónicos) and the lender of the service (in this case the Ministry of the Treasury), being required to observe the financial entities where you own banking accounts.

For practical purposes, you may Access the Treasury's page and see an example of a direct debit order duly prepared.

This procedure is required in order to pay your tax obligations electronically; we highly recommend you do it before the taxpaying moment, to avoid the unexpected and unnecessary delays.

Once a direct debit is authorized, if it is a natural taxpayer, they shall address the Tax Authorities and present this document. If it refers to artificial taxpayers, that document should be scanned and presented to the Digital Tax from the section of the Taxpayers' Record, by means of the data modification declaration.

Electronic payment:

To pay online using the Digital Tax, you have two choices: simultaneous payment to the presentation of the declaration, in which the system opens up a dialogue box where you consult and press YES, the payment application will appear. Select the bank account and write down the amount you wish to pay.

The other option is with the official receipt of electronic payment D.110, available in the tab Payments/Official Receipt of Payments/ Solidarity tax. These forms of payment are also present on the TRIBUNET site.

Legal basis: Art. 26 of the Income Tax Law and Art. 56 of the Income Tax law.

32. Does Costa Rica tax “stock options”?

Answer

In the cases in which companies decide to assign their employees the ownership of the employing company's shares or its economic group, at a lesser price than the one offered in the market, that price difference that benefits the worker, must be taxed with the flat tax over the earnings received by the dependent's personal work, in conformity to the article 32 clause c) of the Income Tax law, when constituting a benefit given by the employer, incorporated to work bonuses. The retention to be applied corresponds to 15% on the gross income of earnings received, in this case, the sum or difference in the price of the share given. This retention must be applied without any deduction, in conformity to what is established by article 33 clause ch) of the Income Tax law.

