Crazy New Tax Laws in Costa Rica That you Need to Know About

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It's no surprise that Costa Rica isn't in the best financial shape. Costa Rican Congress approved a new tax package called "Law of Strengthening of Public Finances number 9635". Guess what this means……more taxes. Within the new taxes commencing July 2019 Hacienda will expand the number of products and services that will be taxed with IVA or "Value Added Tax", which is essentially a sales tax on steroids. Capital gain taxes are also coming when selling real estate property plus a "surprise" for inactive companies holding assets in them.

Starting July 1st, many professional services will be taxed with VAT. So now the lawyers, engineers, consultants and all kinds of independent professionals will be obliged to include an additional 13% onto the invoices they issue. As for insurance policies, most of the general insurance premiums are already taxed with VAT, so they will not suffer much change. Personal insurances will have an increase of 2% and Occupational Risk insurance and insurance that covers homes with a value of less than 58 million colons -approximately US $100K- will be exempt.

All commercial property rentals will suffer an increase of 13%. As for housing rents, only those whose amount exceeds 670,000 colons – approximately US $ 1,145 – will have to pay an additional 13% VAT. Airlines tickets whose origin or destination is Costa Rica, as well as private health services will pay an additional 4%. The tariff of 13% for water consumption will apply when the consumption exceeds 30 cubic meters per month and the electricity VAT will be charged where consumption rates are greater than 280 kilowatts/hour.
As for the capital gains tax, if a real estate property is sold after July 1, the tax must be paid and there will be two options to calculate it: 15% on the profit or 2.25% on the total sale value. According to the tax authorities, to be able to apply 15% on the profit (difference between the acquisition value and the sale value), the seller must demonstrate the purchase value. This means more paperwork and work. Once the acquisition value is reached, it must be updated with the consumer price index of the INEC (Institute of Statistics and Census) and the improvements and investments made can be deducted.

If seller prefers to skip the paperwork required to demonstrate the purchase value they can choose a flat rate of 2.25% over the total sale value to proceed paying immediately. This new tax is added to the current costs generated by the sale of a real estate property, which are usually transfer taxes for approximate 2.5%, real estate agent's commission usually 5% and lawyer fees that vary between 1% and 2%. Once the first sale happens after this amendment, that purchase price will now have a record kept to calculate the tax and property tax in the future.

Now to the change that can take the owners of inactive companies by surprise. The new law establishes that both active and inactive corporations must submit income tax returns. Although for the case of the inactive, the income tax payable would be zero, here is the catch: if the amount of capital stock differs from the value of the assets that it has in its name, the company is at risk of an unjustified capital increase. This empowers the Ministry of Finance to consider that it generates an increase in the taxpayer's income, which generates an increase in gross income.

For the tax authorities there are two types of unjustified capital increases: internal and external. The internal is when there is a difference in value between assets and equity, or the existence of nonexistent liabilities. The external ones are those that a taxpayer does not declare and are discovered later, as a society that has assets in another country. Therefore, it would be advisable to at least make an adjustment in the amount of capital stock so that there is no large difference in relation to the assets it has as inactive company. And check the possibility to find records of the origin of the funds.

Certainly, there are many inactive corporations that have a stock capital of less than US $200 but have assets with a value of hundreds of thousands or millions of dollars, and this may become a real problem in the future. It is better to take precautionsand avoid charges, fines, interest along with many headaches. It is time to learn how Costa Rica is changing and to take precautions accordingly.

About the Author: Allan Garro was incorporated as a lawyer and public notary in 1996. He specializes in Litigation, Corporate, and Real Estate Law. He has also acted as an external legal consultant to Congress. He has been the author of more than 100 published English Language articles and can be reached at