

How to Save Money With Municipality Taxes in Costa Rica

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Costa Rica has 81 Municipalities plus three District Councils functioning as Municipalities located in the districts of Cobano, Paquera and Lepanto. They usually provide different services for their jurisdiction such as potable water or garbage collection. They are also in charge to collect the *Impuesto Territorial* or *Property Tax*, which constitutes as one of their main sources of income along with commercial licenses, depending on the area. Normally, they collect all taxes every quarter during the year. When people fail to pay on time, municipalities can apply interests and fines over the set due amounts, which in some cases can increase the debt substantially over the years.

From time to time, municipalities request congress to approve a law that allows them to forgive past due interest and fines during a specific period of time. Each Municipality requires a specific law approved to be able to apply for this benefit. However, on October 9th it appeared in the official Gazette a law #9578 named Autorizacion Para La Condonacion Tributaria en el Regimen Municipal. It allows **ALL MUNICIPALITIES** in the country to proceed forgiving all due interest, fines and similar charges over unpaid taxes, as long as the full amount of pending taxes is paid in full during the time granted, which can have a maximum extension of six months.

It's up to each Municipality to proceed approving this exemption or not. Any logic will conclude that it will be a smart move, since many land or business owners with pending debts might find it as a nice incentive to pay out the standing debts with idea of saving interest and other penalties that they could not be able to cover including every single charge for delayed payment. The authorization includes the District Councils as well. As mentioned each Municipality needs to have a plan approved to implement this exemption no later than January 9th, 2019. It is important to check with your local Municipality or District Council if they intend to take advantage of this opportunity or not.

Talking about Territorial or Property Taxes, Municipalities tax all properties in Costa Rica. The yearly tax rate is equivalent to 0.25% of the properties registered value in the municipality. Is there a way to save money for an individual owning property? The answer is yes. This is because the law says those individuals owning only one property in their personal name can apply for an exemption over the property value up to an amount equal to 45 base salaries or less (19,395,000 colones is 45 base salary). If the property has a higher value, this amount can be deducted from the total and tax paid only on the balance. The time to request this exemption is usually between the months of January and March every year.

If the property owned is classified as producing agricultural land it is possible to get a certificate from the Cattle and Agricultural Ministry stating that the land is being used in accordance with approved environmental standards, and then apply for a 40% yearly

exemption from the Territorial Tax. A large farm owner can save a very significant amount of money. However, operating the farm according to proper environmental procedures is essential. Keep in mind that municipalities can legally adjust the value of a property where a mortgage is registered against it for an amount higher than the current registered value. Other ways the Municipality can use to adjust the value of a property are: **A.** When on a public transfer deed, the parties declare a transfer price higher than the recorded value, **B.** When the owner of a property classified as a Luxury House declares on the Luxury Home Tax form a higher value than the one recorded at the local Municipality and **C.** When the construction of a better road takes place or when important new infrastructure -like a new Mall- benefits the value of the surrounding properties. The Tax Ministry and the National Registry are now collaborating in providing Municipalities with information from their data bases that could help raising the registered values.

All property owners are supposed to file a value declaration in front of the local Municipality at least once every five years. Failing on doing this allows the Municipality to perform an evaluation with their own staff -which usually tends to be high- as well as to proceed imposing a fine for not complying with this obligation. Some well organized Municipalities proceed delivering fliers or communications on each house requesting to proceed submitting the required declaration. Some other Municipalities are very disorganized and lack proper procedures to enforce the law. The area where property is located can make a big difference on the efficiency of this.

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 external legal consultant to Congress. He has been the author of more than 100 published English Language articles and can be reached at [\[email protected\]](#)