GLOBAL TAX SERIES

Global Individual Tax Handbook 2021

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Why this book?
Covering 101 tax jurisdictions worldwide, these books provide the largest most authoritative survey of tax systems throughout the world. The Global Individual Tax Handbook and the Global Corporate Tax Handbook are designed to be used as a set – buy these two books as a set. The titles complement each other to provide the reader with a complete overview of the tax system in each country.

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Preface

IBFD is pleased to present the 2021 edition of the *Global Individual Tax Handbook*. Together with the *Global Corporate Tax Handbook*, these titles provide the reader with a complete overview of the tax systems in 101 countries throughout the world.

All of the country surveys have been compiled to contain the most up-to-date information possible. In addition to the country level surveys, descriptions of the seven most important Swiss cantons are included.

The chapters of this book are also available in the online collection Country Surveys of the IBFD Tax Research Platform, which contains descriptions of the tax systems of over 200 countries and, in addition, descriptions of the tax systems of all Swiss cantons, US states and Canadian provinces, and selected Mexican states. The online titles are *Global Tax Surveys* and *Global Tax Explorer*. The latter includes the texts of income tax treaties concluded by all countries worldwide.

More comprehensive coverage of the majority of the jurisdictions can be found in the online collection Country Analyses. A combination of Country Surveys, Country Analyses and the texts of income tax treaties concluded by countries worldwide is offered via the online title *Global Tax Explorer Plus* and regional subsets of this title on Africa, Asia-Pacific, Europe, Latin America and the Caribbean, and the Middle East. Countries in North America can easily be ordered via the online title *Tax Explorer – Country Select*, which enables you to choose the exact countries for which you need coverage on the essentials on international tax. It also offers the possibility to extend this with the very detailed Country Analyses on major economies like Canada and the United States.

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The Editors

April 2021

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Costa Rica

This chapter is based on information available up to 1 January 2021.

Introduction

The income tax is governed by the Income Tax Law (*Ley del Impuesto sobre la Renta*, ITL) and Income Tax Regulations (*Reglamento de la Ley del Impuesto sobre la Renta*, ITR). The General Tax Code (*Código de Normas y Procedimientos Tributarios*, GTC) and the Tax Procedure Regulations (*Reglamento de Procedimiento Tributario*, TPR) provide general taxation rules but do not refer to particular taxes. The main provisions of the Code and Regulations refer to general tax principles, administration, penalties, procedures and collection.

Individuals are subject to income taxation on their Costa Rica-source income at progressive rates. Non-resident individuals are subject to a final withholding tax on Costa Rica-source income. The rules for assessing individuals to tax on their income are contained in title II of the Income Tax Law (Law 7,092 of 1988). Trustees and partners of a partnership are not taxed at the individual level but rather at the entity level.

Employers and employees must make social security contributions. Self-employed individuals are also subject to social security contributions.

Income tax and other taxes are administered by the *Dirección General de Tributación*.

VAT applies to individuals in the same way as for companies. For VAT *see* Corporate Taxation section 8.

The Legislative Assembly (*Asamblea Legislativa*) may impose taxes. Municipalities may levy taxes in the relevant regions, but must obtain the approval of the Legislative Assembly and the President of the Republic.

There are no ring-fencing regimes applicable to individuals in Costa Rica.

The currency is the Costa Rica colón (CRC).

The provisions governing the income tax in Costa Rica have been amended with the enactment of the Law to Strengthen Public Finances (*Ley de Fortalecimiento de las Finanzas Públicas*), published in the Official Gazette of 4 December 2018. The provisions of the Law to Strengthen Public Finances related to income tax entered into force on 1 July 2019. The main amendments concerning individual income tax was the increase of the income tax rate on employment income up to 25% and the introduction of new taxable brackets for employment income (*see* section 1.9.2.).

1. Individual Income Tax

Resident individuals are subject to the general income tax on Costa Rican-source income. Non-resident individuals are subject to a final withholding tax on Costa Rican-source income.

The Law to Strengthen Public Finances established a new taxable period, running from 1 January to 31 December.

Tax rates for individuals deriving income from a profitable activity (usually the self-employed rendering of professional services) and income from employment range from 0% to 25% on a progressive basis. Only self-employed individuals are required to file income tax returns. *See* section 1.9.

No expatriate regime exists in Costa Rica.

In addition, with the enactment of the Law to Strengthen Public Finances, a capital gains tax was introduced. Dividends are considered capital gains and taxed at 15% final capital gains tax for resident and non-resident individuals.

1.1. *Taxable persons*

According to article 2 of the ITL and article 5 of the ITR, the following individuals are treated as residents of Costa Rica:
- individuals that are physically present in the country for a continuous or non-continuous term of more than 183 days in a tax year, including the days on which they enter and exit the country;
- Costa Rican nationals representing Costa Rica abroad through official appointments, when paid by the government or municipalities; and
- individuals not mentioned above who are engaged in profit-making activities in the country.

For tax purposes, partnerships and trusts are taxed as separate taxable entities and are therefore subject to corporate income tax.

1.2. *Taxable income*

1.2.1. General

Article 1 of the ITL establishes that income tax is levied on Costa Rican-source income, permanent or incidental, collected by or accrued to individuals resident in Costa Rica and any other income or profit originating from Costa Rican sources, unless specifically excluded by law.

Certain items received by the taxpayer are not included in gross income (e.g. inheritances, gifts and dividends).

Dividends paid to individuals are considered a capital gain and subject to a final withholding tax.

Capital gains and rental income are subject to a 15% capital gains tax (*see* section 1.6.).

Individual income tax is assessed on total income (other than employment income) reduced by applicable expenses and deductions. Some rules described in Section A apply where relevant to individuals.

1.2.2. Exempt income

The following items are excluded from gross income:
– capital gains from the alienation of movable and immovable property, provided that they are not derived from habitual transactions, and that they are derived from depreciable assets;
– inheritances, bequests and marital property received by individuals;
– prizes from national lotteries;
– capital contributions, either in cash or in kind;
– income derived from revaluation of fixed assets;
– dividend distributions;
– income derived from contracts, agreements or negotiations of goods or capital located abroad, even if concluded or executed wholly or partly in the country;
– the Christmas or 13th-month bonus, limited to an amount not exceeding one twelfth of the annual employment income;
– compensation received as a lump sum or in instalments by reason of death or disability caused by accident or illness;
– remuneration paid by foreign governments to their diplomatic representatives, consular agents and officials accredited in the country, subject to reciprocity; and
– according to Law 9,324 of 2015, all pension benefits derived from the voluntary and mandatory complementary pension regime established in the Worker's Protection Law.

Exempt income is regulated by article 6 of the ITL.

1.3. *Employment income*

1.3.1. Salary

Employment income of resident individuals is subject to final withholding tax. Employees are not entitled to any deductions, except for family credits mentioned in section 1.7.3.

Final withholding tax on employment income specifically applies to:
– wages, extra wages, salaries, gratuities, commission fees, and payments for extra work made to employees for services rendered;
– fees and profit sharing received by executives, directors and members of advisory and other boards of Costa Rican stock corporations and other legal entities, irrespective of the meeting place;
– other employment income not mentioned above, including benefits in kind, *see* section 1.3.2.; and
– pensions and annuities of any kind.

This matter is regulated by article 23 of the ITL.

1.3.2. Benefits in kind

Benefits in kind received by employees and directors are considered taxable employment income and are subject to the progressive rates established for employment income. Benefits in kind include the provision of a motor vehicle, provision of accommodation (unless essential to the performance of the employment), interest forgone on loans and expense payments not relevant to the employee's duties.

Expenses incurred by the employer for certain items provided to the employee are deductible for the employer and are not considered taxable employment income, provided they are considered to be ordinary and necessary for the relevant business and for the employee's work. Some examples of these items are means of transport, mobile phone and corporate credit card.

This matter is regulated by articles 32 and 33 of the ITL.

1.3.3. Pension income

Article 23 of the ITL establishes that pensions are treated as employment income and are subject to final withholding tax at the progressive rates shown in section 1.9. Pension and social security contributions are not deductible. Payments made to non-resident pension funds and insurance companies are also not deductible.

See also sections 3. and 6.1.1.

1.3.4. Directors' remuneration

Directors' remuneration and similar amounts paid to executives or members of a legal entity are treated as employment income and subject to the progressive rates established for employment income (articles 32 and 33 of the ITL).

1.4. *Business and professional income*

Income from independent personal services is included in the total income of individuals and is taxed at the rates shown in section 1.9.

Professionals and technicians rendering independent personal services and sales, commission and insurance agents may choose to deduct either expenses necessary to produce taxable income under general rules or a lump sum of 25% of gross receipts or commission fees, as the case may be (article 8 of the ITL).

The tax administration may fully or partially disallow the deduction of an expense if the payments are deemed to be excessive or unnecessary to obtain or maintain taxable income. Deductions are regulated by articles 8 and 9 of the ITL.

1.5. *Investment income*

Investment income, i.e. dividends, interests and royalties, is considered capital gains and as such subject to a 15% final capital gains tax (article 27 bis and 27 ter of the

ITL). Income from immovable property is also considered capital gains (*see* section 1.6.).

Government entities and financial institutions in the National Banking System (*Sistema Bancario Nacional*) have the obligation to withhold the capital gains tax when paying out interests (article 31 quater of the ITL).

For foreign-source investment income, *see* section 6.1.1.

1.6. *Capital gains*

Capital gains in Costa Rica are not considered ordinary income but are taxed separately, unless the gains and losses from the capital assets are obtained in the habitual course of the taxpayer's business (article 3 of the ITR).

Generally, capital gains are taxed at a rate of 15% on the gain. However, income from securities issued by the Popular and Development Bank (*Banco Popular y de Desarrollo Comunal*) is subject to 7% capital gains tax (article 31 ter of the ITL).

Individuals in Costa Rica cannot elect to revalue the capital gains on a regular basis. Tax is levied only on disposal of capital assets.

The following are considered capital assets (article 27 ter of the ITL):
- lease, sublease and transfer of rights (use or enjoyment) of real estate property;
- cash or in-kind income obtained from transferring funds to third parties, e.g. repurchase of securities in one or several operations;
- lease, sublease and transfer of rights (use or enjoyment) of movable property and assets such as goodwill, royalties, intellectual property rights and intangibles;
- interest income;
- currency exchange differences, provided that these are not subject to the general income tax; and
- dividend distributions.

Gains resulting from these capital assets are subject to a capital gains tax.

For exempt capital gains, *see* Corporate Taxation section 1.7.5.

Capital losses can offset the capital gains tax payed in the 12 months preceding the loss. The taxpayer will have to file a capital gains tax return requesting the compensation of the loss from the capital gains paid. If the loss is greater that the capital gains tax paid in the previous 12 months or if there is no gain in this period, the taxpayer is entitled to carry forward the losses to offset the capital gains tax in the next 3 consecutive years (article 31 bis of the ITL).

Neither indexation relief nor rollover relief is available in Costa Rica.

1.7. *Personal deductions, allowances and credits*

This section is not applicable to non-residents, *see* section 6.3.1.

1.7.1. Deductions

No personal deductions are available.

Expenses incurred in producing business or professional income are deductible under the general criteria.

1.7.2. Allowances

No personal allowances are available.

1.7.3. Credits

According to article 15 of the ITL, individuals deriving income (both self-employed individuals and employees), receive the following family-related annual tax credits (2021 amounts):
- CRC 18,840 (monthly CRC 1,570) for each dependent child, provided he is under 18 years old, and for dependants who are disabled or perform advanced studies and are under 25 years old; and
- CRC 28,440 (monthly CRC 2,370) for the spouse (if they are not legally separated); if both spouses are taxpayers, the credit may only be claimed by one of them.

In order to be eligible for the credits, individuals must provide to the employer evidence to substantiate the circumstances described above, *see* section 1.9.2.

Also creditable are:
- advance payments; and
- taxes withheld at source, unless final.

1.8. *Losses*

Please refer to Corporate Taxation section 1.5. for losses derived from a trade or business.

1.9. *Rates*

1.9.1. Income and capital gains

For tax year 2021, the tax rates applicable to individuals deriving independent lucrative activities are as follows:

Taxable income (CRC)	Tax rate (%)
Up to 3,742,000	0
3,742,001 – 5,589,000	10
5,589,001 – 9,322,000	15
9,322,001 – 18,683,000	20
Over 18,683,000	25

Each rate is to be applied on that part of income exceeding the lower limit.

The tax brackets are adjusted annually by the Executive Branch in accordance with changes in the price indexes prepared by the Costa Rica Central Bank, or in accordance with cost of living increases.

Applicable income tax rates for individuals with independent lucrative activities are regulated by article 15 of the ITL.

1.9.2. Withholding taxes

Employment income is subject to withholding tax.

For tax year 2021, wages and other employment income are taxed at progressive rates as follows:

Monthly income (CRC)	Tax rate (%)
Up to 842,000	0
842,001 – 1,236,000	10
1,236,001 – 2,169,000	15
2,169,001 – 4,337,000	20
Over 4,337,000	25

Each rate is to be applied to that part of income exceeding the lower limit.

The tax brackets are adjusted each tax year in accordance with changes in the cost of living shown in indexes prepared by the Costa Rica Central Bank.

Individuals deriving employment income may claim the following family-related credits against their liability to the final withholding tax (*see* section 1.7.3.).

For withholding tax rates on payments to non-residents refer to section 6.3.

The tax on employment income is withheld by the employer and must be paid to the Tax Administration within the first 15 working days of the month following payment of such income. If an employee derives income from several employers, he must request that one of them assesses and withholds the tax on total employment income.

Taxpayers who obtain income both from independent and from dependent services may take advantage only once of the exempt amount in the tax brackets.

Applicable tax rates for employment income are regulated by article 33 of the ITL.

1.10. *Administration*

Taxpayers are required to file a self-assessment return filed within 2 months and 15 days after the end of the tax year. Employment income is subject to final withholding tax.

1.10.1. Taxable period

Article 4 of the ITL and article 7 of the ITR regulate the taxable period. The Law to Strengthen Public Finances established that the tax year runs from 1 January to 31 December. Previously, the tax period was from 1 October to 30 September of the subsequent year. The tax administration may authorize other tax periods for specific activities.

1.10.2. Tax returns and assessment

The annual income tax return must be filed within 2 months and 15 days after the end of the tax year. The deadline for taxpayers following the regular tax period is 15 March (article 19 of the ITR).

Employees do not need to file a tax return as employment income is subject to a final withholding tax, unless they are earning other income through a different for-profit activity. Taxpayers who obtain other kinds of income must file an annual return under ordinary rules without including employment income.

There is no pre-assessment regime in Costa Rica.

This matter is regulated by article 20 of the ITL.

1.10.3. Payment of tax

Taxes must be paid simultaneously with the filing of the tax return (2 months and 15 days after the end of the tax period – article 19 of the ITR). The income tax and related surcharges, interest or fines must be paid to an agency recognized by the tax administration, e.g. a bank falling under the National Banking System.

Individual income tax is payable on a self-assessment basis. An individual must make three advance payments during each tax year, on account of the income tax that will ultimately be due on that year's results. The payments are due in the last working day of March, June and September and must total 75% of the income tax paid for the previous tax year or 75% of the average income tax paid for the previous 3 tax years, whichever is greater. Advance payments are calculated by the tax administration, except in the following cases, which must be calculated by the taxpayer:
– the first tax period of a taxpayer; and
– when the taxpayer foresees a greater tax than in previous tax periods.

Interest is levied on late or unpaid advance payments.

As a response to the COVID-19 pandemic, the advance payment due in June 2020 has been waived.

Any tax paid in advance in excess of the final annual tax liability will, upon request of the taxpayer, be refunded or credited against the advance payment in the current year. The quarters are correspondingly adapted depending on the specific taxable years authorized to certain taxpayers.

Any income tax withheld from income received by the individual, which is not considered final, e.g. withholding taxes and employment income, is credited against the individual tax due.

This matter is regulated by article 20 of the ITL.

1.10.4. Rulings

The tax administration is authorized to grant administrative interpretations (*consultas*) through private rulings addressed to a taxpayer. Rulings must be issued within a 45-day period from filing the request. If by the end of this 45-day period there is no response from the tax administration, the taxpayer's interpretation will be considered to be approved (article 119 of the GTC).

The ruling has an informative and non-binding effect, unless it is published by the tax administration. In that case, it will be binding upon the tax administration for all taxpayers.

See also Corporate Taxation section 1.8.4.

2. Other Taxes on Income

There are no local income taxes or business taxes on individuals.

3. Social Security Contributions

See also Corporate Taxation section 4.2.

3.1. *Employed*

The employee social security contribution is 10.50% of the gross salary. The contribution of the employer for social security is 26.50% of the gross salary.

Employees' social security contributions are not deductible for income tax purposes. Social security contributions are regulated by the Costa Rican Social Security Law.

Individuals deriving pension income must make social security contributions at the rate of 5% on the gross pension income.

Social security contributions are not deductible by the employee.

3.2. *Self-employed*

Self-employed individuals are also required to pay social security contributions. The rate depends on the income reported by the individual and it ranges from 11.5% to 18.75% of the gross income. Calculations are made using past tax returns as well as proof of real income provided by the self-employed individuals. In the event no past tax returns or proof are available, the contributions are calculated using the base salary. For 2021, the base salary is CRC 462,200. It is applicable from 1 January to 31 December and indexed annually.

4. Taxes on Capital

4.1. *Net wealth tax*

Costa Rica does not levy wealth tax on individuals.

4.2. *Real estate tax*

See Corporate Taxation section 5.2.

4.3. *Other taxes*

Tax on vehicles, boats and planes

See Corporate Taxation section 5.3.

5. Inheritance and Gift Taxes

Costa Rica does not levy inheritance (estate) or gift tax.

5.1. *Taxable persons*

Not applicable.

5.2. *Taxable base*

Not applicable.

5.3. *Personal allowances*

Not applicable.

5.4. *Rates*

Not applicable.

5.5. *Double taxation relief*

Not applicable.

6. International Aspects

6.1. *Resident individuals*

For the concept of residence, *see* section 1.1.

6.1.1. Foreign income and capital gains

Income tax is levied on Costa Rican-source income only. Income, receipts and profits from Costa Rican sources are defined as amounts arising from services rendered, goods located or capital used in the territory of Costa Rica. Income from foreign sources is not taxed.

Income tax is applicable on all income originating within Costa Rica, regardless of the nationality, domicile or residence of the recipient.

There are no specific rules for residents seconded abroad. The general rules will apply.

6.1.2. Foreign capital

Capital located abroad is not subject to taxation in Costa Rica.

6.1.3. Double taxation relief

The Costa Rican tax system is based on the territoriality principle. There is no double taxation relief for foreign taxes. Foreign income taxes are not deductible for income tax purpose.

For a list of tax treaties in force, *see* the withholding tax rates chart in the Appendix.

6.2. *Expatriate individuals*

Costa Rican law does not include a specific regime for inward or outward expatriates.

6.3. *Non-resident individuals*

There is no definition of non-resident.

For the concept of residence, *see* section 6.1.

6.3.1. Taxes on income and capital gains

In general, non-residents are subject to the same rules as those applicable to resident taxpayers, as both are taxed only on Costa Rican-source income.

Costa Rican-source income or profits paid or credited to or put in any form at the disposal of non-residents is subject to a final withholding tax on the gross amount (*impuesto sobre las remesas al exterior*) and regulated through article 59 of the ITL.

Capital gains derived by non-resident individuals are subject to the general tax principles (*see* section 1.6.).

When a specific type of income is mentioned as "remittances abroad" under article 50 of the ITL, this income will not be considered capital gains, e.g. dividends, interests and royalties. In practice, there is no difference between treating dividends or interest income as a capital gain, as in both cases it is subject to a final 15% withholding tax. However, this is not the case for royalties, where article 50 of the ITL establishes a 25% withholding tax on the remittance of the royalty paid to a non-resident.

The taxable base is the total amount of income remitted, credited, transferred, compensated or put at the disposal of the beneficiary abroad.

6.3.1.1. Employment income

Employment income derived by non-resident individuals is subject to a 10% final withholding tax. Under certain case law the applicable rate is 15%, based on Art. 26 of the ITL. This matter is regulated by articles 54, 55 and 59 of the ITL.

6.3.1.2. Business and professional income

As from 1 July 2019, professional services rendered by non-residents are normally subject to a final withholding tax levied at a rate of 25% on the gross income. This matter is regulated by articles 54, 55 and 59 of the ITL.

6.3.1.3. Investment income

The general rule is that dividends paid by resident companies to non-resident individuals are subject to withholding tax at the rate of 15%. Costa Rican-source interest, commission fees and other financial income paid or credited to non-residents are subject to a final withholding tax at the rate of 15% on the gross amount.

Costa Rican-source royalties paid or credited to non-residents for the use of patents, formulas, trademarks, privileges or franchises are subject to final withholding tax at the rate of 25% on the gross amounts.

Other payments are subject to final withholding tax at various rates, e.g. insurance premiums, 5.5% plus the 4% tax destined to finance the Fire Rescue Department.

This matter is regulated by articles 54, 55 and 59 of the ITL.

6.3.1.4. Capital gains

Capital gains derived by non-resident individuals are subject to the general tax principles (*see* section 1.6.).

6.3.1.5. Other

Article 23 of the ITL establishes that pensions paid to non-residents are treated as employment income and are subject to final withholding tax at the rate of 10% (*see* section 6.3.1.1.).

6.3.2. Taxes on capital

No taxes on capital are imposed in Costa Rica.

6.3.3. Inheritance and gift taxes

Costa Rica exempts from income tax inheritances (estate) or gifts received by non-residents.

6.3.4. Administration

There are no special rules for non-resident individuals. The same rules as for resident individuals apply, *see* section 1.10.

For withholding taxes applicable to non-residents, *see* section 6.3.1.

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