



Taxation of international executives: Costa Rica

November 2023



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Overview and Introduction

1 Overview and Introduction

Costa Rican Tax System is ruled by Territoriality Principle:

According to Costa Rican Income Tax Law, No. 7092, Article 1, establish the Territoriality Principle through which only income generated within the Costa Rican territory will be considered Costa Rican sourced income, hence, subject to taxation in Costa Rica.

An individual may be considered a tax resident in Costa Rica, as long as they comply with the provisions of article 10, paragraph a) of the Regulations to the Income Tax Law, Executive Decree No. 43189-H ("RITL" hereinafter).

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Income tax

2 Income Tax

2.1 Salary Tax

What are the salary tax compliance obligations?

As established in article 32 and 33 of the ITL, the withholding, tax return filing and payment of the Salary Tax to the Tax Administration is made by the Employer.

The employer is jointly and severally responsible for applying the withholding, filing the tax return, and paying the salary tax to the Tax Administration, therefore, the employees are not required to complete and fill any tax return. Employees shall not register before the Tax Administration.

The withholding must be filed in a monthly basis and the form D-103 must be submitted during the first 15 calendar days of the month following to the one in which the withholding was made.

This is the final obligation, there is no requirement to submit additional affidavits before the tax administration.

Tax Period

The employer will apply the withholding of the salary or wage tax monthly.

Taxable base

The Tax will be applied on gross income, no deductible expenses are allowed.

Taxable base

According to article 32 and 33 of the ITL The income or benefits obtained by **domiciled individuals providing services within Costa Rican territory under a labour relationship**, the income will be subject to salary or wage tax. The employer will apply the withholding of the salary or wage tax monthly. The Tax will be applied on gross income, no deductible expenses are allowed.

In accordance with article 33 of ITL, the Salary Tax should be calculated and withheld, in accordance with the following brackets (expressed in Costa Rican colones and applicable for 2023):

- a) Income of up to ₡ 941.000,00 (USD 1776.21 approximately) monthly will not be subject to tax.
- b) On the excess of ₡ 941.000,00 monthly and up to ₡ 1.381.000,00 (USD 2 606.74 approximately) monthly, ten percent (10%)
- c) On the excess of ₡ 1.381.000,00 monthly and up to ₡ 2.423.000,00 (USD 4 573.60 approximately) monthly, fifteen percent (15%)
- d) On the excess of ₡ 2.423.000,00 monthly, and up to ₡ 4.845.000,00 (USD 9 145.31approximately) monthly, twenty percent (20%)
- e) On the excess of ₡ 4.845.000,00 monthly, twenty-five percent (25%)

These tax brackets apply only concerning benefits paid in cash. Benefits paid in kind will be subject to flat rate of 15% will be applied to the total value of the benefit to be received, on which no deductions apply, this following article 33 paragraph h) of the ITL.

In the case of foreigners not domiciled in Costa Rica—natural persons who are not considered residents for tax purposes (that is, who do not comply with the provisions of article 10 of the RITL), for the income they receive from dependent personal work, the Payer of the income (if domiciled in Costa Rica) must apply a withholding corresponding to 15% of the gross income, without any deduction, in accordance with article 26 of the ITL.

2.2 Residency Rules

An individual may be considered a tax resident in Costa Rica, as long as they comply with the provisions of article 10, paragraph a) of the Regulations to the Income Tax Law, Executive Decree No. 43189-H ("RITL" hereinafter).

This rule states that individuals who remain continuously or discontinuously in Costa Rica for more than 183 days during the respective tax period are considered residents for tax purposes in Costa Rica. To define whether the natural person has completed those 183 days, the Tax Administration will count non-prolonged sporadic absences, that is, those who do not leave Costa Rican territory for more than 30 continuous calendar days.

When applying the Salary Tax, whose tax period is not annual, the term "respective fiscal period" will correspond to the twelve months prior to the moment in which the settlement of the tax in question occurs and it will be within this same period that it must be verified whether a natural person has remained in the country, continuously or discontinuously, for more than 183 three days.

However, the above must be taken into consideration that, as provided in Directive DGT-D-002-2019 and Resolution DGT-R-65-2018, amended on March 6, 2023 by resolution No.MH-DGT-Res-0003-2023, both issued by the General Directorate of Taxation and the Ministry of Finance, in the process to obtain the tax residence certificate, it is required to count whether within the year 2023 a natural person remains in Costa Rica for more than 183 days: if the answer is negative, the individual will not be considered a tax resident for the year 2023.

Now, considering the following years, this exercise must be repeated; the individual must remain within Costa Rican territory for more than 183 days, considering sporadic departures of no more than 30 days.

2.3 Tax Exempt income

According to article 35 of the ITL, the following are not subject to salary tax:

- Christmas Bonus is not subject to salary tax up to the amount not exceeding one-twelfth of the wages accrued during the year, or the proportion corresponding to the lesser period worked.
- Allowances received, in the form of single or periodic payments, for death or incapacity caused by accident or sickness, whether payments are made under the social security scheme, insurance contracts concluded with the National Insurance Institute or by a judgment; as well as other allowances paid under the provisions of the Labour Code.
- The remunerations that foreign governments pay to their diplomatic representatives, consular agents and officials accredited in the country, and, in general, all the income that these officials receive from their respective governments, provided that there is reciprocity in the remunerations that international organizations - to which Costa Rica is adhering - pay its foreign officials domiciled in the country, due to their functions.
- The total amount that workers receive as school salaries.
- Among others.

2.4 Taxation of investment income and capital gains

- 2.4.1** In Costa Rica is in force a Capital Gains Tax, which is applicable to any transaction involving goods or capitals located within the national territory (this is the territoriality criteria), regardless, whether executed by resident or non-domiciled entities or individuals. In this regard, subsection 3) of article 27 ter of the ITL, indicate that capital gains or losses consist in *“the variation of the taxpayer’s capital, realized due to any modification of its composition”*.

For instance, the sale of real estate properties, intangible assets, shares of local entities, among others.

In principle, article 31 ter of the ITL, indicates that, Capital Gains Tax rate will be the 15% on the profit obtained, unless the goods or rights belonged to its owner before July 1, 2019, in which case may apply the rate of 2.25% on the sale price.

INCOME FROM MOVABLE PROPERTY: Income in cash or in kind obtained from the cession of funds to third parties (interests), and distributions of disposable income, in the form of dividends and others comparable, are subject to 15% tax. Interests on investments abroad obtained by individuals are not subject to taxation.

- 2.4.2** Dividends distributed by Costa Rican incorporated companies to individuals (regardless of its tax residency status) will be subject to a withholding tax of 15%.

- 2.4.3** Interest payments derived from investments (paid by authorized stock exchanges, banks, among others) are subject to a 15% withholding tax

2.5 Relief for foreign taxes

Costa Rica does not have a relief mechanism for foreign taxes concerning to individuals.

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Special considerations for short term assignments

3 Special considerations for short-term assignments

For the purposes of this publication, a short-term assignment is defined as an assignment that lasts for less than 1 year.

3.1 Residency rules

Are there special residency considerations for short-term assignments?

No. Costa Rican Legislation does not provide any specific regulation concerning short-term assignments. The general rules indicated in the ITL and its Regulation applies to all cases.

3.2 Payroll considerations

Are there special payroll considerations for short-term assignments?

No. The Costa Rican Legislation does not provide any specific regulation on this matter. It is relevant to consider that, according to the local business practice, on many occasions, once the employee is included in the local payroll, the salary tax brackets is applied, this despite the fact the employee has not reach its tax residency status.

3.3 Taxable income

What income will be taxed during short-term assignments?

The income or benefits obtained by individuals providing services within Costa Rican territory under a labour relationship, will be subject to salary or wage tax (salaries, bonuses, any other payment of the same nature, regardless it is paid in cash or in kind).

As mentioned, according to the local business practice, on many occasions, once the employee is included in the local payroll, the salary tax brackets is applied, this despite the fact the employee has not reach its tax residency status, hence, benefits paid in cash subject to a tiered rate capped at 25%, on the contrary benefits in kind will be subject to flat rate of 15% will be applied to the total value of the benefit to be received.

3.4 Additional considerations

Are there any additional considerations that should be considered before initiating a short-term assignment in Costa Rica?

No. there are not.

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Other taxes and levies

4 Other taxes and levies

4.1 Social security tax

Are there social security taxes in Costa Rica?

In addition to the Salary Tax, employment benefits are subject to Social Security Charges, according to the Constitutive Law of the Costa Rican Social Security Fund (whose acronym in Spanish is CCSS):

“Article 3.- Social Security coverage -and entry into it- are mandatory for all manual and intellectual workers who receive a wage or salary. The amount of the fees that must be paid by this law will be calculated on the total of the remunerations that under any denomination are paid, due to or derived from the worker-employer relationship.”

By virtue of the above, Social Security Charges must be paid according to the following rates: 26,67% by the Employer and a 10,67% must be covered by the Employee. The employer is the sole responsible for applying the social security charges withholding and payment to the Social Security Fund.

Costa Rican Social Security Fund Deductions Year 2023			
Concept		Employer	Employee
Sickness and Maternity Insurance		9.25%	5.50%
Disability, Old Age, and Death Benefits		5.42%	4.17%
Total Amount Costa Rican Social Security Fund		14.67%	9.67%
Other Institutions			
Concept		Employer	Employee
Banco Popular Employer Fee		0.25%	-
Family's Assignations		5.00%	-
Joint Institute of Social Aid		0.50%	-
National Learning Institute		1.50%	-
Total Amount Other Institutions		7.25%	-
Worker's Protection Law			
Concept		Employer	Employee
Banco Popular Patron Contribution		0.25%	-
Labor Capitalization Fund		1.50%	-
Supplementary Pension Fund		2.00%	-
Banco Popular Worker Contribution		-	1.00%
National Insurance Institute		1.00%	-
Total Amount Workers' Protection Law		4.75%	1.00%
Total Percentage of Social Contribution Year 2023			
		Employer	Employee
		26,67%	10,67%

Gift, wealth, estate, and/or inheritance tax

There is wealth, estate, and/or inheritance tax

No. There is not. However, shall be duly documented to not represent an unjustified increase of the patrimony or wealth.

4.2 Real estate tax

Are there real estate tax in Costa Rica?

Correct. According to Law No. 7505 of Real Estate Property, a real estate tax is established, which is paid in the municipality where the property is located. The tax base for calculating the tax will be the value of the property registered with the Tax Administration, as of January 1 of the corresponding year.

Tax percentage. Throughout the country, the tax percentage will be one quarter percent (0.25%) and will be applied to the value of the property registered by the Tax Administration.

4.3 Sales/VAT tax

There is a sales or VAT tax in Costa Rica?

Correct. Established in Law No. 6826 of the Value Added Tax, a value-added tax is established on the sale of goods and the provision of services, regardless of the means by which they are provided, carried out in the territory of Costa Rica.

The tax rate is thirteen percent (13%) for all operations subject to payment of the tax. Nonetheless, there are some reduced rates and exemptions to specific products and services (0%, 0.5%, 1%, 4%)

4.4 Unemployment tax

Is there an unemployment tax in Costa Rica?

No. There is not.

4.5 Other taxes

Are there other taxes to consider in Costa Rica?

No. There are not.

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Immigration

5 Immigration

KPMG Costa Rica does not provide Immigration services.

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