



GLOBAL
EMPLOYER
GUIDE

COSTA RICA





Basic Country Facts

Full Name

- Republic of Costa Rica

Capital

- San José

Main Languages

- Spanish
- Maléku
- Cabécar
- Bribri
- Guaymí
- Buglere

Population

- 4.999 million

Monetary Unit

- Costa Rican colón

Internet Domain

- .cr

International Dialing Code

- +506

Currency

- Costa Rican colón



STATUTORY LABOR REQUIREMENTS

Probation Period

- The Costa Rican Labor Code has a specific provision that covers “Domestic Employees”.
- It provides a 30-day probationary period where either party may terminate the relationship without and severance responsibility.

Annual Leave

- Two weeks for every 50 weeks of work is the annual paid leave for all employees.
- An employee is entitled to one day's wages or earned leave which shall be compensated thus if the services of an employee are terminated before the completion of a year's work.

Public Holidays

- New Year's Day (1st January)
- Holy Week
- Maundy Thursday (9th April)
- Good Friday (10th April)
- Juan Santamaria Day (11th April)
- Labor Day (1st May)
- Annexation of Nicoya (25th July)
- Virgen de los Angeles (2nd August)
- Assumption of Mary (15th August)
- Independence Day (of Costa Rica) (15th September)
- Christmas Day (25th December)



Maternity Leave

- Pregnant employees are given 1 month of paid maternity leave before the birth of the child, and 3 months after birth.
- Employers are required to pay 50% of the salary for all four months of leave, and the Social Security Administration pays the remaining half.

Paternity Leave

- Fathers holding public sector jobs are entitled to eight days of paid paternity leave.

Sick Leave

- Employers must pay at least 50% of the employee's salary for the first three days of the employee's sick leave.
- The Social Security Administration pays the other 50%.
- From the fourth day of sick leave forward, Social Security pays 60% of the salary and the employer is not obligated to pay anything to the employee.

Work Hours

- In Costa Rica, there are Normal Working Days (Jornadas Ordinarias Normales) and Special Working Days (Jornadas Especiales o de Excepcion).
- Both types of work days can be subdivided into day and nightshifts. The maximum hours one may work per week is 48.
 - Normal daytime working hours are between 5 a.m. and 7 p.m.
 - Night time jobs are those that take place between 7 p.m. and 5 a.m.
 - Night time employees may not work more than 36 hours per week.
 - The maximum number of hours allowed for mixed shifts of day and night time work is 42 hours per week.

Overtime

- Overtime is paid at time and a half, or the hourly wage plus an additional 50%
- Employers may require no more than four hours of overtime, for a total of twelve working hours per day.

Notice Period

- The law requires 30 days' advance notice to be given of impending termination.
- If no advance notice is given, 30 days' pay is due to the employee.
- If the required number of days of advance notice is given regular pay continues for 30 days, but the employee has the right of one paid day per week to look for another job.





Severance

- If an employee is terminated without cause by the employer or if the employee quits for cause, they are entitled to severance pay.
 - If the employee has worked with the employer for more than three months but less than six months, then they are entitled to the equivalent of seven days' wages.
 - If the employee has worked from six months to one year they are entitled to fourteen days of wages.
 - If the employee has worked for more than one year then the following schedule applies for each year worked:

Years Worked	Days Paid
1	19.5
2	20
3	20
4	21
5	21.24
6	21.5
7	22

13th Month

- Employees in Costa Rica are entitled to a 13-month salary called 'Aguinaldo', which is based on one month of an employee's salary and must be paid within the first 20 days of December each year.

Income Tax

- Resident and nonresident individuals, regardless of their nationality, are taxed on their income earned in Costa Rica. Foreign-source income is not taxed.
- For individuals domiciled in Costa Rica, any income obtained within the boundaries of Costa Rica is considered as Costa Rican-source income and is taxable. Costa Rican-source income is understood to be any income derived from assets used, goods located, or services rendered within Costa Rican territory.
- Non-residents are liable only for the applicable withholding taxes (WHTs), depending on the nature of the local income.
- Monthly income in excess of CRC799,000 is taxable, including salary, pensions, bonuses, premiums, commissions and allowances (for example, housing and educational allowances).
- Income derived from self-employment or from a trade or business is subject to taxation.
- Tax rates for self-employed individuals for tax year 2019, based on annual taxable income, are as follows:





Annual taxable income (CRC)		Tax on excess (%)
Over	Not over	
0	3,732,000	0
3,732,000	5,573,000	10
5,573,000	9,296,000	15
9,296,000	18,631,000	20
18,631,000		25

- Tax rates for employed individuals, based on monthly salary, are shown in the table below. Individuals who are both self-employed and employees may not take the full CRC 3,549,000 deduction.
- Instead, they will only be able to take advantage of the spread of this amount and the resulting amounts from the exempt brackets of income from personal dependent work services.

Annual taxable income (CRC)		Tax on excess (%)
Over	Not over	
0	840,000	0
840,000	1,233,000	10
1,233,000	2,163,000	15
2,163,000	4,325,000	20
4,325,000		25



Social Security

- Social Security in Costa Rica is the responsibility of the Caja Costarricense de Seguro Social (CCSS or Caja).
- Eligibility for social security does not depend on a person's country of origin.
- It is mandatory for all citizens, residents and temporary permit holders.
- Applicants for a pensionado, rentista or inversionista permit must join the Costa Rican Social Security system and proof of this must be provided before the residence registration card is issued.
- Social security contributions are levied on salaries, at a rate of 26.33% for the employer and 10.34% (effective from 1 January 2018) for the employee.
- Contributions are computed based on an employee's gross compensation, with no deductions allowed.
- A self-employed individual's contribution to the social security regime can range from 10.5% to 18.62% depending on one's classification and income reference.



Contribution	Employer	Employee	Self-employed
Social Security Contribution	26.3%	10.34%	10.5% to 18.62%*
*depending on one's classification and income reference			



Deductible Expenses

Employment Expenses

- A domiciled individual, whether or not a national, whose only source of income is a salary for personal services cannot deduct business expenses.

Personal Deductions

- Self-employed individuals whose source of income is from professional services (i.e. non-dependent work relationship), insurance brokerage, commissions (sales), fees, etc. may deduct up to 25% of the gross income as a deduction without itemizing the expenses or may elect to itemize the expenses incurred in producing the income.

Personal Allowances and Deductions

- Annual tax credits are allowed in the amounts of CRC18,000 for each dependent child and CRC26,880 for a spouse.
- The spouse tax credit may be taken by either the husband or the wife, but not by both.



Deductible Expenses

Employment Expenses

- A domiciled individual, whether or not a national, whose only source of income is a salary for personal services cannot deduct business expenses.

Business Deductions

- Self-employed individuals whose source of income is from professional services (i.e. non-dependent work relationship), insurance brokerage, commissions (sales), fees, etc. may deduct up to 25% of the gross income as a deduction without itemizing the expenses or may elect to itemize the expenses incurred in producing the income.

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Immigration

- Depending on their country of citizenship, individuals may be required to apply for and obtain an entry visa before traveling to Costa Rica.
- A Costa Rican consulate overseas grants the visa.
- Even though Costa Rica offers temporary residence permits for foreigners wanting to live in the country for longer than three months, they do not automatically allow the holder to work.
- Only Costa Rican citizens or Permanent Residence holders are allowed to work in Costa Rica without prior authorization.
- Thus, once you are in Costa Rica, you have to apply for a work permit at Costa Rica's Immigration Department.
- A Costa Rica work permit falls under the "Special Category" of immigration permits, along with a student permit.
- This means that it will allow the holder to work and remain in the country under the conditions set by the Ministry of Labor and Social Security.
- The government of Costa Rica grants a work authorization to foreign employees who have special knowledge or experience in a certain field.
- The granting of a work authorization is subject to certain rules that must be checked on a case-by-case basis because the rules may vary.
- The main criterion applied by the Ministry of Labor is that persons in the local work force cannot be displaced by the hiring of foreigners.
- Consequently, it may not be possible to obtain a work permit for foreigners in certain occupations unless the employer is a company registered and recognized by the immigration authorities.



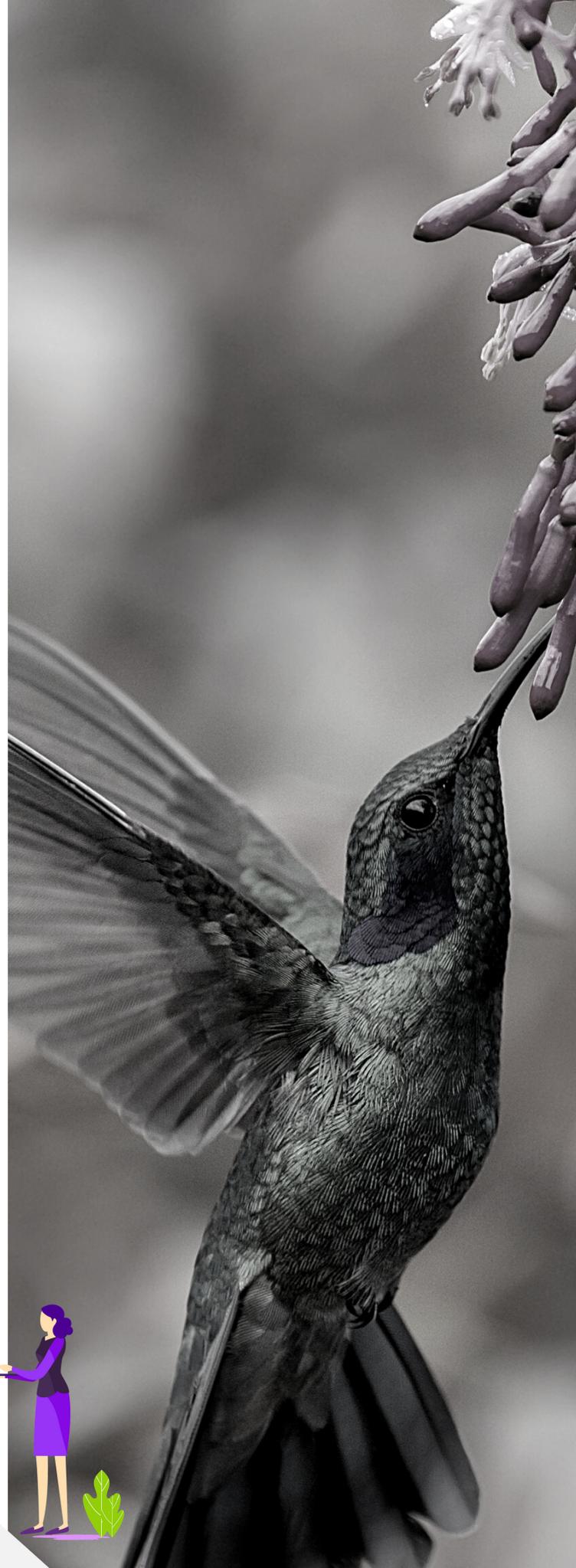
Type of Visa	Documentation	Validity	Eligibility
<p>Costa Rica Work Permit</p>	<ul style="list-style-type: none"> • Work permit application form • A letter of application, including: <ul style="list-style-type: none"> ◦ The reason you're applying ◦ Your full name, nationality, birth place and birth date ◦ Passport number ◦ Place and date of arrival in Costa Rica ◦ Exact address in Costa Rica ◦ Your occupation/profession ◦ Your contact information • A Statement from your employer • Registration Documents and the Legal Constitution of the hiring company • Proof the company hiring you is registered. • Proof that the worker insurance has been paid (Statement of Insurance Company) • Proof of income/sufficient financial means. • Certificate of police clearance from your country. • Proof of registration with a Costa Rican consulate. 	<ul style="list-style-type: none"> • Varies (depends on a case by case bases) 	<ul style="list-style-type: none"> • The government of Costa Rica grants a work authorization to foreign employees who have special knowledge or experience in a certain field. • The main criterion applied by the Ministry of Labor is that persons in the local work force cannot be displaced by the hiring of foreigners.



Value Added Tax (VAT)

- The standard rate for VAT is 13 percent, with reduced rates of 0, 5 and 10 percent.
- Excise taxes range typically between 10 and 50 percent.
- Reduced VAT rates are applicable on: wood - 10 percent; residential electricity - 5 percent; 'basic basket' of groceries and other basic goods - 0 percent; exports - 0 percent.

VAT	
Standard Rate	13%
Reduced Rate	10%
Reduced Rate	5%
Zero Rate	0%



Withholding Tax

Dividends

- A 15% withholding tax is levied on dividends paid to resident individuals and nonresidents
- The rate is 5% for dividends paid by stock corporations whose shares are registered on a local, officially recognized stock exchange
- No withholding tax applies on dividends paid to resident entities that carry on an economic activity

Interest

- A 15% withholding tax is levied on interest paid to a nonresident
- Payments made to a bilateral or multilateral entity/ organization are exempt from withholding tax

Royalties

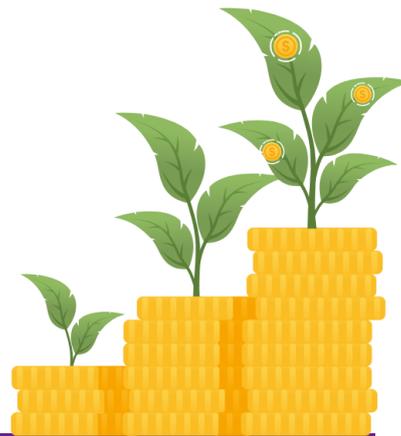
- Royalties paid to a nonresident are subject to a 25% withholding tax
- No withholding tax applies on royalties paid to residents

Fees for technical services

- Fees for technical services paid to a nonresident are subject to a 25% withholding tax
- No withholding tax applies on fees for technical services paid to residents

Other

- All Costa Rica-source income paid abroad is subject to withholding tax at varying rates (e.g., 5.5% on insurance income, 8.5% on transportation and communication income, and 15% on lease payments and professional fees, such as management fees (non-technical advice).



Type of Payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%/15%	15%	5%/15%	5%/ 15%
Interest	0%	15%	0%/ 15%	15%
Royalties	0%	0%	25%	25%
Technical Service Fee	0%	0%	25%	25%

Termination

- In Costa Rica, to terminate an employee for cause, the cause must be based on one of the grounds set forth in Article 81 of the Labor Code.
- The termination must be well substantiated as the employer carries the burden of proof that the termination was for cause.
- The employer will only be liable for the payment of wages, proportional vacation time and Christmas Bonus.
- Employees that are fired or laid off without cause are entitled to severance pay, which is paid on the last day of employment.
- If an employer terminates the employee without cause then the employee must be compensated with severance which is referred locally as "Prestaciones Laborales"
- The law requires 30 days' advance notice to be given of impending termination.
- If no advance notice is given, 30 days' pay is due to the employee.
- If the required number of days of advance notice is given regular pay continues for 30 days, but the employee has the right of one paid day per week to look for another job.

Statutory Benefits

- These are mandatory benefits as postulated by law
- These include probationary period, annual leave, public holidays, sick leave, maternity leave, paternity leave, overtime pay, notice period, severance pay and 13th month pay.
- Statutory benefits also include social security benefits

Statutory Benefits

Probationary Period

Annual Leave

Public Holidays

Maternity Leave

Paternity Leave

Sick Leave

Overtime Pay

Notice period

Severance pay

13th Month Pat

Social Security Benefits



Payments and Invoicing

- Employers are responsible for withholding income taxes and social security contributions from employees' salaries on a monthly basis.
- Employees are not required to file an annual income tax return if their only source of income is employment compensation.
- Nonresidents are not required to file tax returns if they are only subject to income tax withholding at source.
- The ordinary fiscal year runs from 1 October to 30 September. Returns must be filed, and any tax liabilities due must be paid, no later than 15 December.
- However, in certain specific circumstances, taxpayers may elect to file using a calendar tax year (1 January to 31 December).
- Self-employed individuals and individuals with a trade or business must make advance quarterly tax payments.

Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Costa Rica ranked 74th in the World in 2019 in terms of ease of doing business.



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