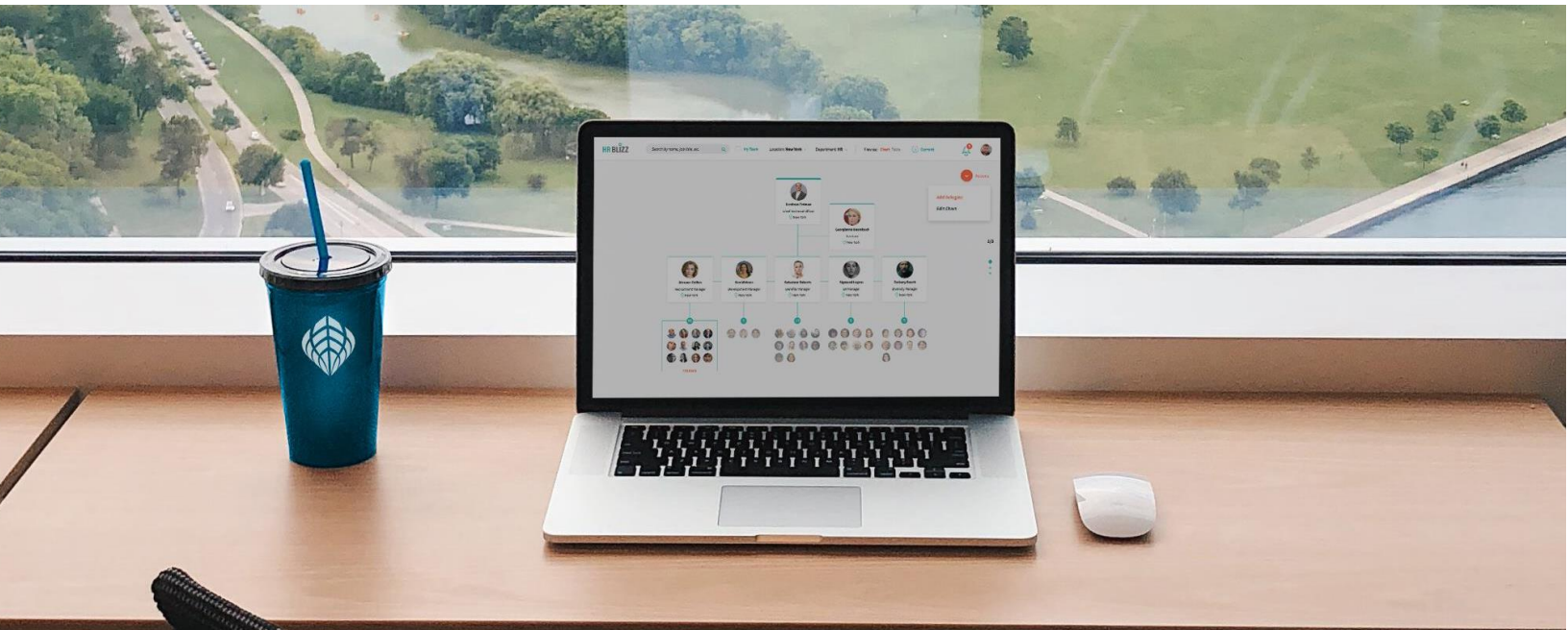




Simplifying Employment
Tasks Worldwide

Payroll & Tax Highlights

2022 Global Payroll Country Guide for Costa Rica



COSTA RICA



28 January 2022



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A reliable Professional Employer Organization (PEO), Mercans is your trusted employer of record to globally select, engage, and manage highly qualified personnel on your behalf, through integrated Global Employment Outsourcing (GEO).



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Mercans at a Glance

160+

Countries

20

Years of Success

850+

Payroll and HR Specialists

8k+

Clients Worldwide

97%

Client Retention Rate

1.5X

Annual Revenue Growth

45k+

Largest Single Country
Payroll

9M+

Pay Slips per Annum

0

Security Breaches

Number one for outsourced payroll services, we are endorsed by international authorities.



Mercans has the highest industry quality and IT security certificate





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Costa Rica – Economic Recovery Expected in 2022.

According to the IMF, Costa Rica's GDP grew an estimated 2.1% in 2019, slightly less than the previous year (2.7%). The deceleration of the growth rate was largely attributed to a difficult fiscal situation in the country, as well as the political turmoil in Nicaragua, a key trade partner and transit zone for exports to Central America. According to the updated IMF forecasts from 14th April 2020, due to the outbreak of the COVID-19, GDP growth is expected to fall to -3.3% in 2020 and pick up to 3% in 2021, subject to the post-pandemic global economic recovery. Costa Rica's fiscal deficit has been constantly declining and reached 6% in 2019. That rate is expected to continue to decrease in 2020 and 2021, to 5.5% and 5.1%.

Thanks to the establishment of a welfare state 60 years ago, the country has managed to greatly reduce poverty and has some of the best social indicators in its region. The poverty rate is low and remained stable at 21% in 2019. The unemployment rate increased from 12% in 2018 to 12.4% in 2019; the IMF expects this trend to remain stable in 2020 and decrease to 10.5% in 2021, despite the negative economic impact of the COVID-19 pandemic. Unemployment is the government's main economic concern, and even though rates aren't particularly high, 46.3% of those who are employed work informally, and underemployment increased to 11.6%. Immigration from Nicaragua has increasingly become a concern for the government.

After many previous attempts, a much-contested initial tax reform was approved in December 2018. The new law introduced a 13% VAT to replace the sales tax of the same amount, along with a lower rate for basic necessities. Additionally, a reform of capital taxation, eliminating exemptions, and caps on wage increases for civil servants were also introduced. Under the new fiscal rule, increases in current expenditure will be linked to changes in the debt-to-GDP ratio, and no project will be approved without financing. The business environment will continue to be affected by infrastructure deficiencies (transport and telecommunications in particular) and relatively high energy costs (electricity).

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Doing Business in Costa Rica

For companies seeking to invest in Central America, doing business in Costa Rica is an excellent choice. Over the last several decades the Costa Rican government has taken measures that have made this nation of just under five million inhabitants' fertile ground for foreign direct investment (FDI).

As a result of efforts to make doing business in Costa Rica attractive to foreign firms, the country has positioned itself as one of the leading homes in Latin America for companies in industries such as advanced manufacturing, aerospace, electronics, light manufacturing, medical devices, and pharmaceuticals. One of the main factors that make doing business in Costa Rica advantageous is that the country is home to a literate and trained workforce. With a 98% literacy rate, workers in Costa Rica are well prepared to engage in high precision and innovative manufacturing, as well as in high-quality services. Costa Rica earmarks 8% of its national budget for education with the goal of educating its citizens to hold positions of high technical skill requirements that are in high demand.

Doing business in Costa Rica enables firms to produce products for the global marketplace. Today the country's industries export more than 4300 products to over 150 nations worldwide. The government of Costa Rica has been successful in transforming the country into a global export platform by entering into free trade agreements that give Costa Rican products access to two billion potential customers as well as to 66% of the world's GDP.

Costa Rica has one of the strongest educational systems in the region. A free and compulsory system guarantees access to basic education for the entire population. This allows all people to have better academic preparation and to become a skilled workforce for several areas of job development.

Costa Rican students also have access to technical studies and diplomas from the best educational institutions. Some examples are the National Institute of Apprenticeship, the Technical Universities and Higher Study Centers. In these institutions, Costa Ricans can become professionals and qualified labor for the various industries. This is why the strengthened Educational System of Costa Rica is a competitive advantage for US companies doing business in Costa Rica.

The excellent geographical location of Costa Rica translates into a competitive advantage for US companies doing business in Costa Rica. This is due to the number of flights that connect San José and Liberia with the most important cities in the world on short and direct flights.

In addition, Costa Rica is a land bridge that unites Central America, South America and North America. Moreover, Costa Rica has access to both Pacific and Caribbean sides, where it has first-class ports that help provide logistics solutions and international maritime connectivity.



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Furthermore, Costa Rica also has very stable internet connections and communications. Additionally, a highly competitive level that has allowed multinational information technology companies to establish their operations in the country.

In Costa Rica, foreign companies can choose to be part of the free zone regimes that will allow them to get more out of their investments due to the associated incentives. You can find 'industrial parks' under the free zone regime. There you can expand your business or choose the free zone regime outside these industrial parks. Investors can also choose a rural area where they could provide development and where investment amounts can be much smaller.

There are more than 200 multinational companies doing business in Costa Rica. According to the Presidency of the Republic in 2019, more than 16,000 jobs were generated by multinational companies.

The key reasons to invest in Costa Rica are:

- There are more than 200 multinational companies operating in Costa Rica
- The country has a young, talented, and bilingual workforce
- 95% of multinational companies' employees are local
- Costa Rica is a platform of preferential access to 1/3 of the world population, and 2/3 of global GDP. 90% of goods are exported through Free Trade Agreements
- The country has an excellent business climate based on a recognized tradition of democracy, economic and political stability
- Solid infrastructure: 93% of the energy is renewable
- The quality of life in Costa Rica is high. It is the safest country in Latin America and one of the 5 countries with the best environmental performance worldwide
- The country does not impose limitations on transfers of capital funds associated with an investment, regardless of the currency
- No restrictions apply to the reinvestment or repatriation of profits, royalties or capital
- There is no requirement to register investments with any of the government authorities
- Costa Rica has achieved international standards for the protection of intellectual property rights.



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Basic Facts

Official State Name	Republic of Costa Rica
Population	5 million (2018 est.)
Capital	San José
Official Language	Spanish
Currency	Costa Rican colón (CRC)
Main Industries & Export Articles	Agriculture, industry and services
GDP Growth	-3.3% (2020)
Internet Domain	.cr
International Dialing Code	+506
Date & Number Format	dd-mm-yyyy 999.999.999,99



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Entity Registration & Incorporation Requirements

Type of Business

The three common legal entity structure in Costa Rica are:

1. Sociedad Anonima (SA) - Corporation/Joint Stock Company
2. Sociedad de Responsabilidad Limitada (SRL) - Limited Liability Structure
3. Branch

Sociedad Anonima (SA) - Corporation/Joint Stock Company

The S.A. is the most common legal entity structure in Costa Rica. See below some of its key characteristics:

- A Public Document must be drafted with the bylaws and signed by the Public Notary and company shareholders.
- A minimum of (2) shareholders are required.
- There is no established minimum capital.
- A board needs to be appointed, consisting of three board members and a controlling agent.
- The availability for the company name needs to be checked with the National Registry Database.

Sociedad Anonima commonly referred to as a S.A and can normally identified by its name containing S.A. at the end of the name and its corporate identification number will contain 101 in the second bracket, for example 3-101-XXXXXX.

A Sociedad Anónima is governed by a board of directors which must have at least three members. The three members must be a President, Secretary and Treasurer. There is also usually two other members known as the auditor (fiscal) and a resident agent that are initially appointed by the constituents. Other positions may be created by the shareholders as deemed necessary through Share Holder Assemblies recorded on the Share Holder Assembly Log.

The representation of the corporation is defined by the shareholders and may be as broad or specific as determined by the shareholders. The board of directors may or may not be shareholders of the corporation depending on the circumstances. Even though a minimum of two individuals or legal entities are required to set up a Sociedad, after the incorporation has been completed, all shares may be transferred to one single person.

The liabilities of a Sociedad Anónima's are limited to the corporation's assets and its shareholders' equity.



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All Sociedades Anónimas must have six legal books including: three administration books and three accounting books. The administration books are Board of Directors Log, Shareholder Assembly Log and Shareholder Registry Book. The accounting books are Balances, Mayor and Diario.

Stock of a Sociedad Anónima are called shares. The shares represent the capital stock of the corporation. Share Certificates are considered securities paper and therefore subject to the laws regarding securities in Costa Rica. Shares Certificates represent the capital stock of the corporation. Shares are transferred through endorsement of Share Certificates and recordation of transfer in the Shareholder Registry Book. Share Certificates may be negotiated according to the Securities Laws of Costa Rica. Shareholders may transfer their interest to third parties freely unless stated otherwise in the articles of Incorporation or Pacto Social.

Sociedad Anónima is a taxable corporation and must register at the Tax Administration in order to pay taxes in Costa Rica. The Sociedad Anónima must file a yearly declaration for income tax. If income is under USD 50,000, the corporation will be considered small enterprise and it is subject to 10% tax on its taxable income. If the corporation's income exceeds USD 50,000 it is subject to 30% tax on its taxable income.

Sociedad de Responsabilidad Limitada (SRL) - Limited Liability Structure

This form of legal entity structure is similar like the corporation or joint stock company, exception one being the administration and the shareholders need to appoint General Manager. Shares are named as quotas and this type of legal entity doesn't require any minimum capital, but the amount must be divisible by 100.

Sociedad de Responsabilidad Limitada commonly referred to as a S.R.L. and within its ten-digit corporate identification number includes 102; for example, 3-102-XXXXXX.

A Sociedad de Responsabilidad Limitada is governed by at least one manager and must have an auditor and a resident agent. Its manager(s) is initially appointed by the constituents and may be later removed and appointed by the Quota Holders through a Quota Holder Assembly. There is no limit to the number of managers allowed.

The representation of the corporation is defined by the quota holders and may be as broad or specific as determined by the quota holders.

The stock of a Sociedad de Responsabilidad Limitada is called quotas. The quotas represent the capital stock of the corporation. Quota Certificates are not considered securities. Quota Certificates do not have any real value, only serves informative purposes and do not accurately represent the capital stock of the corporation necessarily. Quotas are transferred through Quota Assignment Agreements and recordation on the Quota Holder Registry Book. Quota holders have by law a right of first refusal provision for the sale of quotas. This means that quota holders are



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not free to transfer their interest without offering their interest to the rest of the quota holders first. The acceptance of said transfer by the quota holders must be performed through a quota holder meeting recorded on the Quota Holder Assembly Log.

A S.R.L. is a taxable corporation and must register at the Tax Administration in order to pay taxes in Costa Rica. The Sociedad de Responsabilidad Limitada must file a yearly declaration for income tax. If income is under USD 50,000, the corporation will be considered small enterprise and it is subject to 10% tax on its taxable income. If the corporation's income exceeds USD 50,000 it is subject to 30% tax on its taxable income.

Branch

Any foreign entity may register a branch in Costa Rica.

The foreign entity must register a Shareholders agreement in the Costa Rican National Registry containing:

- Appointment of a Legal Representative in the country for the company's businesses.
- Object, capital, and complete data of the main company's directors.
- An express declaration of submission to the Costa Rican Law.

All documents are validated by the country-of-origin Consulate and registered in Costa Rica in order to acquire a local corporate identification. The foreign companies can establish their branch offices in Costa Rica by a public deed incorporation and this deed must be signed by the Public Notary and the power of attorney of the foreign company.

Joint-Venture (Sociedades de Hecho)

Joint Venture is a contract between two or more persons who are classified as traders with an interest in one or various specific and transitional business operations, which shall be run by one of them at his sole name and under his personal credit, with the responsibility to account and divide with its stakeholders the gains or losses in the agreed proportion.

Joint Ventures are not expressly contained in the Costa Rican law but are accepted as a valid form of business association.

The standard legal entity incorporation steps for Costa Rica have been summarized below:

No.	Procedures	Time to Complete
1	Check the availability of the proposed company name	1 day



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No.	Procedures	Time to Complete
	<p>Agency: National Registry (Registro de Personas Jurídicas)</p> <p>In order to register a company, the availability of the company name must be verified first. The proposed company name can be verified online (https://www.rnpdigital.com) free of cost. Companies can also be registered by number; in which case the name would not have to be verified.</p>	
2	Draft and notarize public deeds of the incorporation charter for registration before the Public Registry online	1 day
	<p>Agency: Notary Public</p> <p>The founding shareholders, as well as the members of the Board of Directors, must sign the public deed of incorporation drafted and authorized by the notary public, who will then submit it for registration to the National Registry. A minimum of two founding shareholders is required, as well as designation of a President, Secretary, Treasurer and Comptroller. The same person cannot occupy two different positions.</p>	
3	Deposit capital in the bank account, pay registration fees and stamp duties	1 day
	<p>Agency: Bank</p> <p>As a prerequisite for registering the company, 25% of the capital stock indicated in the incorporation charter (if paid in cash) must be deposited in a national bank. The amount deposited may be withdrawn once the company has been duly recorded. If founders chose to sign a promissory note, there is no enforceable obligation to deposit capital in a bank account later.</p>	
4	Register the incorporation charter in the National Registry and obtain authorization to legalize the company books; send the notice of constitution of the company (edicto)	2 days
	<p>Agency: Crear Empresa (National Registry)</p> <p>The founders must register the incorporation charter at the National Registry, obtain authorization to legalize the company books and send a notice of constitution of the company. This can be done online electronically.</p>	
5	File Form D-140 with the Tax Department to register as a taxpayer	1 day



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No.	Procedures	Time to Complete
	<p>Agency: Public fund (Colpensiones) or one of the private funds</p> <p>Costa Rican citizens or corporations with a Costa Rican legal representative can register electronically as taxpayer.</p>	
6	Pay the Legal Entities Tax	1 day
	<p>Agency: Bank</p> <p>Companies must pay the legal entities tax within the first thirty calendar days following registration with the National Registry. The tax is paid from the website of any Costa Rican bank.</p>	
7	Register for labor risk insurance with the National Insurance Institute (Instituto Nacional de Seguros)	1 day
	<p>Agency: National Insurance Institute (Instituto Nacional de Seguros)</p> <p>All employers are required to obtain labor insurance through the National Insurance Institute.</p>	
8	Register the company as an employer with Caja Costarricense de Seguro Social (CCSS, Social Security Institute)	1 day
	<p>Agency: Social Security Institute (Caja Costarricense de Seguro Social)</p> <p>After submitting the documents required, the CCSS issues a registration form (inscripción ante CCSS de persona jurídica) that allows the company to start operations. Within 15 days after registration with the CCSS, the company will receive an ex-post inspection from an officer, which consists of a simple verification of the information provided by the company about the business activity and the employees.</p>	
9	Apply for sanitary permit	1 day
	<p>Agency: Health Department (Ministerio de Salud)</p> <p>The cost for applying for a sanitary permit depends on the degree of environmental risk of the company and varies from USD 30 to USD 100 (USD 30 for low environmental risk, USD 50 for moderate environmental risk, USD 100 for high environmental risk).</p>	
10	Apply for the business license (patente municipal) from the municipality	15 days



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No.	Procedures	Time to Complete
	Agency: Local Municipality	
	All new businesses must apply for the business license (patente municipal) from the municipality.	

Financial Statements

The Costa Rican Public Accountant Association has adopted the International Financial Reporting Standards (IFRS) for the recording of financial information, standards for attestation works, and standards for related services and statements.

Accounting records should be kept in Spanish and are specifically required by the Commercial Code. The accounting records should include: Daily Ledger, General Ledger, Inventories and Balances Ledger; in addition, business corporations must keep a Shareholder's Assembly Minutes Ledger and a Shareholder's Registry Ledger.

These books must also be kept by limited liability corporations. The books must be written in Spanish, in a clear way, in a progressive order by date, with no blank spaces and no scratching or interlineations.

The local Accounting Supervisory Board has approved use of IFRS for SMEs based upon the version published by the IASB and defined as criteria for SMEs the same definition used by Tax Regulators for a Small Contributors.

Audit Requirement

Financial statements must be prepared annually. "Major" taxpayers must submit audited financial statements to the tax authorities within six months after the fiscal year-end.



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Banking

The Central Bank of Costa Rica (Banco Central de Costa Rica [BCCR]) was created on April 23, 1953, through the enactment of Law No. 1552, called the Constitutional Law of the Central Bank of Costa Rica, which was substituted by Law No. 7558 of November 3, 1995.

The Central Bank is an autonomous institution responsible for the contribution to the development of the Costa Rican economy, securing and price stability. Also, it is tasked with maintaining the internal and external stability of the national currency and to ensure its conversion to other currencies.

The Superintendence of Financial Institutions (Superintendencia General de Entidades Financieras [SUGEF]), is the entity in charge of ensuring the stability, solidity and efficient operation of the national financial system, by following strictly legal and regulatory provisions and according to regulations, guidelines and rulings issued by the institution itself, safeguarding the general interest.

The normal banking hours for commercial bank in Costa Rica are Monday through Friday from 8:30 or 9 a.m. to 3:30 p.m.

Labor Law

The Labor Code of Costa Rica (LC) was enacted in 1943, and its provisions are binding for all employers.

In an employment relationship, both worker and employer are subject to a series of obligations that are derived from both the law and from what the two parties agreed upon at the beginning of the employment relationship.

Employers are obliged to comply with various duties related to their workers. An employer must:

- Send basic information about the employee to the Costa Rican Ministry of Labor
- Maintain equal conditions for all workers
- Provide the necessary tools and resources so that employees can do the job that has been agreed upon
- Pay workers' salaries in a timely manner
- Deduct duly authorized fees of any applicable union or association
- Allow time for the employee to exercise his or her democratic right to vote

According to the Costa Rican labor law, workers are required to:



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- Comply with the direction of their employers in the manner, time, and place that were agreed upon
- Exercise the necessary care and effort that is required to perform the appointed task(s)
- Keep employers' supplies, equipment, and materials in good condition
- Keep technical, commercial, or manufacturing secrets
- Abide by hygiene and other measures that have been taken to ensure workplace safety
- Undergo a medical examination either when applying for a position or during designated working hours. Doing so is for the purpose of ascertaining whether or not the employee suffers from any occupational, incurable, or contagious disease

Employment Agreement

Section 18 of the Labor Code establishes the assumption of the existence of a contract, either written or oral, between the employer and the worker. The sole initiation of the working relationship is sufficient for the assumption of the existence of the contract and such contract compels the two parties to obey the obligations and rights established in the law.

Everything that is agreed upon the parties of the labor relationship, being agreed in writing or not, but being part of the current conditions of the work relationship, becomes part of it. This corresponds to a basic principle of local labor law (principle of "Contrato Realidad" – Reality Contract in English) which establishes that no matter what has been agreed in writing as the contractual relationship between an employer and employee or no matter what the prior contractual relationship contents were, what rules is the current and real contents of the employment relationship, even though they are different from the agreement, all in favor of the employee (i.e. real work schedules vs. contractually agreed work schedules; actually paid salaries and compensations vs. contractually agreed compensation; etc.).

Under Costa Rican Labor Law work contracts are needed in three circumstances:

- When personal service is being rendered. The agreed-upon service or services must be performed exclusively by the hired individual and not by another person.
- When there is a salary or remuneration.
- When the contracted worker is under the direction and supervision of an employer or the representative of an employer. This is referred to as legal subordination.

Under Costa Rican Labor Law, legal subordination is a situation in which a contracted individual is subordinate to the party that receives and pays for services rendered (the employer) in issues related to performing the duties that have been agreed upon. Legal subordination gives the employer a general power of management over the contracted individual for everything related to the applicable work and business. Legal subordination takes things like skills, strengths, and worker status into account. The employer has the power of command as regards work orders and instruction, the worker has the duty of compliance, that is, he or she is obliged to comply with orders and instructions. If he or she refuses to comply, employers have the right to apply



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corresponding sanctions. The sanction applied will be commensurate with the offense committed. Under Costa Rican Labor Law, this is referred to as the employer's disciplinary power.

Under Costa Rican Labor Law, a written contract is not a necessity. The law allows for oral contracts that have the same effects on the rights and obligations of the parties.

Labor contracts that are not written are verified by testimonial evidence. In the case of witnesses in the service of the same employer, it is required that three individuals are fully aware of the essential points of the contract. However, if the employer employs four or fewer workers, it is sufficient that only two give testimony as regards the existence of a labor contract.

The work contract can be classified according to different criteria or factors. If a single worker is hired, it is called an individual contract. The most important classification for contracts, however, concerns its duration. Contracts can be:

- A fixed-term contract. This is an agreement that has specified a termination date in advance.
- A contract of indefinite or indeterminate time.

Another agreement that an employer may extend to a worker under Costa Rican Labor Law is one in which services are contracted for the performance of specific work or tasks.

Policies

An internal labor regulation is a document that has been duly authorized by the Costa Rican Ministry of Labor prepared by the employer in order to specify the conditions to which the employer and employee must subject themselves to in order to execute the contract. Internal labor regulations in Costa Rican Labor Law also establishes the general rules for working conditions, technical measures, and disciplinary action.

Working Hours

The standard work week in Costa Rica may not exceed 48 hours per week. If the employee works more than that it shall be considered overtime. The typical work schedule in Costa Rica is 8 hours a day 5 days a week for professional employees and for laborers it is generally 8 hours a day for Monday-Friday and ½ day on Saturday.

As part of employment agreements with their employees, the employer should establish the work schedule and hours since any hours worked above the standard work week fall into the "extraordinary" pay schedule which means overtime payment to employees.

There are three kinds of shifts:



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- Day Shift: work performed between 05:00 and 19:00
- Night Shift: work performed between 19:00 and 05:00
- Mixed Shift: work that includes periods of time comprising both day shift and night shift.

According to Section 136 of the Labor Code, the ordinary day shift cannot exceed eight hours; the night shift six hours; and the mixed shift seven hours.

A mixed shift that exceeds three hours thirty minutes in night shift, is considered night shift for all legal effects.

The same Section additionally establishes that, weekly, ordinary work time cannot exceed forty-eight hours for day shifts, forty-two hours for mixed shifts and thirty-six hours for night shifts.

Overtime

Overtime is compensated at a rate of 150% of the regular salary.

In addition, 6 hours of night shift should be paid in an amount equivalent to 8 hours of day shift.

Ordinary and extraordinary work cannot exceed twelve hours per day (with the exception of force majeure cases).

Managerial positions, discontinuous or intermittent tasks, and work that by its nature cannot be performed at regular hours (like the cases of work performed by agents and of work by commission), are excluded from the maximum hour limitations. However, no individual can be required to work for more than twelve hours per day against his will, unless special circumstances occur.

Holidays

There are eleven legal holidays. However, other days are also usually given by the companies (for example, the day of the city's patron), although they are not required by the law. A holiday falling on a Sunday is not moved to the next workday.

If by agreement, a person works on a legal holiday or on the seventh day of the week -Sunday-, such person must be paid double the wages due for regular work.

Minimum Salary

Minimum wage is established by the National Council on Wages and is revised every six months and published in the official newspaper "La Gaceta" and known as "Decreto de Salario Minimo" Wages can be paid by the hour, day, biweekly or monthly as agreed upon between the parties.



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In most cases the wages you will pay an employee are set by the market and are most are above the minimum wage scale. Employers who pay employees above the minimum wage scale are not obligated to provide their employees with a percentage wage increase when the government publishes its mandatory wage increase resolution since this is only applicable if the employee is being paid the minimum wage.



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Tax & Social Security

Corporate Income Tax (CIT)

The Costa Rican tax system is based on the principle of territoriality, according to which any business activity in Costa Rica is subject to income taxation on local income in the same way as a registered business, irrespective of the place of incorporation. Such corporations doing business in Costa Rica are subject to the permanent establishment (PE) rules.

Under the Costa Rican Income Tax Law, income from transactions carried out abroad may be regarded as non-Costa Rican-source income and then not subject to income taxes.

Corporate income is taxed at a 30% rate. However, the law establishes special regulations for small companies whose gross income does not exceed 112,070,000 Costa Rican colones (CRC).

For legal persons whose gross income does not exceed the sum of CRC 112,070,000 during the fiscal period:

- 5% on the first CRC 5,286,000 of annual net income.
- 10% on the excess of CRC 5,286,000 and up to CRC 7,930,000 of annual net income.
- 15% on the excess of CRC 7,930,000 and up to CRC 10,573,000 of annual net income.
- 20% on the excess of CRC 10,573,000 of annual net income.

There are no provincial income taxes in Costa Rica; however, there is a municipal tax. The rate depends on the municipality in which the company is located, but the most regular method of calculation is to apply a percentage over net income or sales.

Personal Income Tax

Tax Residency

For purposes of the application of the Income Tax Law, individuals who stay in Costa Rica, continuously or discontinuously, for more than 183 days, including departures and arrivals to the country, during the same fiscal period are considered tax resident in Costa Rica.

To determine the period of staying in the national territory, the Tax Administration will count the sporadic absences, unless the taxpayer demonstrates, with a residency tax certificate, its condition of tax residence in another country.



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Employment Income

Individuals domiciled in Costa Rica are taxed on salaries, commissions, fees, royalties, and other forms of remuneration for services rendered. Any income earned abroad while tax resident in Costa Rica is not taxable if not related to the economic structure of the country. Salary income operates exclusively on a withholding basis. In this regard, according to the Income Tax Law, all elements paid to the employee related to the labor relationship are considered taxable. All elements considered 'salary in kind' must be included in the salary reported in the payroll, and that amount will be the taxable base for both the salary income tax and the social security contributions, with certain exceptions.

Under Costa Rican law, salaried employees have the right to a mandatory Christmas bonus. The amount of mandatory year-end bonus (Christmas bonus) that does not exceed one-twelfth of net salary (which is one-thirteenth of gross salary) is exempt from income tax and is deductible for income tax purposes for the employer.

The reimbursement of personal living expenses and travel expenses for individuals not formally domiciled may be subject to taxes. This would include the reimbursement of similar expenses for the taxpayer's family. Certain expense allowances at the discretion of the tax authorities are not subject to taxation, nor are they deductible for the taxpayer.

Income Tax Rate

According to Costa Rican Income Tax Law, employers are obliged to withhold salary income tax on employees' salaries as part of employer Income Tax Obligations. The retained amount has to be declared and handed over to the Tax Authorities within the first 15 calendar days of the month immediately following that in which the payment of salary was rendered.

Tax rates for employed individuals, based on monthly salary, are shown in the table below.

Monthly Taxable Income (CRC)		Marginal Tax Rate
More Than	Less Than	
0	863,000	0%
863,000	1,267,000	10
1,267,000	2,223,000	15
2,223,000	4,445,000	20
4,445,000	+	25



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Payment of Tax

Employees who receive salaries and other similar or complementary remunerations or benefits must pay a monthly income tax that is withheld by the employer from the monthly payroll. Individuals do not need to file an annual tax return for this type of income.

Self-employed individuals are required to make instalments of estimated taxes, which are computed on the average of the last three fiscal years, and a final payment two and a half months after the end of the fiscal year.

Social Security

The Costa Rican labor law includes the concept of Social Costs, commonly known as “Cargas sociales” or series of items that cover all the employee’s social security needs. These costs are paid both by the employee and the employers. The amount paid by the employee is retained from his salary by the employer (in the same manner as the income tax described above) and then transferred to the Costa Rican social security institution: “Caja Costarricense del Seguro Social” (C.C.S.S.).

The employee and employer social security costs have been summarized below:

Social Cost	Employee	Employer
Medical & Maternity	5.50%	9.25%
Old Age, Disability and Death Benefits	3.84%	5.08%
Family Welfare Programs	0.00%	5.00%
Workmen’s Savings Bank	1.00%	0.50%
INA - National Institute of Learning	0.00%	1.50%
IMAS - Institute of Social Welfare	0.00%	0.50%
Complementary Pension	0.00%	0.50%
Labor Capitalization Fund	0.00%	3.00%
INS- National Institute of Securities	0.00%	1.00%
Total	10.34%	26.33%



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Labor Risk Insurance

Labor Risks Insurance is mandatory in accordance with the Costa Rican Labor Code. Employer is obligated to pay this policy to the National Insurance Institute, a state-owned insurance provider, according to different rates set by the employee's status or position. The rates increase according to the risk level of the line of work, for example the rate of a common office clerk is set in a low 1% of the salary.

Personal Tax Credits

Individuals are permitted annual tax credits, as shown below:

Allowances	Annual Tax Credit (CRC)
Child	29,160
Child (each) (1)	19,320

(1) The child allowance is permissible only if the child is a minor, is unable to work, or is a university student under 25 years of age.

Christmas bonus, Social Security contributions, severance and termination payments are not subject to income tax in accordance with the Labor Code.



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Payroll

All employers have obligations before the Costa Rican Social Security Administration and the National Insurance Institute (INS) for Workman's Compensation.

The minimum wage is established by the National Council on Wages and is revised every six months and published in the official newspaper "La Gaceta" and known as "Decreto de Salario Minimo" Wages can be paid by the hour, day, biweekly or monthly as agreed upon between the parties. In most cases the wages paid to employee are set by the market and are most are above the minimum wage scale. Employees paid above the minimum wage scale are not eligible to a percentage wage increase when the government publishes its mandatory wage increase resolution.

Remuneration can be agreed either by unit of time (month, week, day or hours), by unit or work or even by participation in profits, in sales or in collections.

Irrespectively of the method, salary cannot be less than the minimum established by law. Payment of wages should be in legal tender, at the place of work. This is done generally by company checks or wire transfer.

The frequency of payment is freely established but cannot be more than fifteen days for blue collar workers or one month for white collar or household aide.

Thirteenth Month Salary

Aguinaldo or Thirteenth Month Salary is a specific Costa Rican benefit consisting in paying and entire month's salary every December. The amount is calculated adding the last twelve salaries received (from December of the previous year to November of the current year) and dividing it by twelve.

This benefit has to be paid during the first 20 days of December.

If the work relation ends before December, the employee has the right to receive a proportional "Aguinaldo" calculated by adding the salaries received in the current year and dividing it by twelve.

Severance

Known in Costa Rican law as "auxilio de cesantía", this benefit is paid only when the employment relationship is terminated by causes not attributed to the employee. This is why it is known as an "expected right" or "not consolidated right" of the worker.



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Severance is paid according to the following terms:

Employment Period	Severance Pay
Less than 3 months	Nil
More than 3 months and less than 6 months	7 days
More than 6 months less than 1 year	14 days
Year 1	19.5 days per year worked
Year 2	20 days per year worked
Year 3	20.5 days per year worked
Year 4	21 days per year worked
Year 5	21.24 days per year worked
Year 6	21.5 days per year worked
Year 7	22 days per year worked
Year 8	22 days per year worked

In no case, the severance pay will be compensated for more than the last eight years of the employment relationship.



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Annual Leave

The Costa Rican labor code describes a benefit set as two weeks paid vacations for every fifty weeks worked for the same employer.

When the employment relation ends before fifty weeks, the employee has the right of one paid vacation day for every month worked, before leaving the company.

Also, when the labor relation ends by any cause (including justified termination) the worker has the right to receive his or her vacation benefit. This is calculated based on the average salary of the last fifty weeks worked.

Sick Leave

The employer must pay to an employee who is on sick leave at least 50% of its salary for the first three days. From the fourth day on, the Social Security Administration (CCSS), pays 60% of the salary, provided that the employee has a medical certificate issued by a CCSS doctor. The employer is not required to pay salary after the third day, except for maternity leave (in this case, he pays half the salary for three months and CCSS pays the other half).

Maternity & Paternity Leave

Pregnant women in Costa Rica are eligible for benefits and job protection. An expectant mother should inform her employees of her pregnancy once she becomes aware of it. This is done by submitting a medical certificate issued either by a clinic affiliated with the Costa Rican Social Security Fund (Caja Costarricense de Seguro Social), or by a private medical institution.

Mothers are allowed 120 days paid maternity leave, the cost of which is split between the employer and the social security fund. The standard arrangement is to take 30 days before the birth and 90 days afterwards. The 90-day period is known as the Período de Lactancia, allowing the mother to be with the child for the whole of what is considered the minimum length of time that the infant should be breast-fed.

Employment Termination

The right to terminate the working relationship is given by Costa Rican law to both parties. The Labor Code establishes the events that will enable the employer or the employee to terminate the contract without responsibility.

The employer may terminate the working relationship without responsibility at his entire will in the first three months of work, or then after if serious faults are committed by the worker, some of which are:



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- Acts of the worker against morality, or if he attacks the employer during working hours, physically or by word.
- Same acts against any other worker, if such acts result in a serious interruption of the work or in disorder.
- Same acts against the employer or their representatives outside working hours, which make impossible the continuation of the working relationship.
- Criminal acts, acts against the property of the employer, or intentional damages to machinery, equipment, raw materials, or any other goods related to the operations of the company.
- Release of confidential information from the company.
- Acts endangering security and working conditions.
- Unjustified absence for two consecutive days, or for three or more nonconsecutive days within the same calendar month.
- Manifested rebellion to instructions or orders.

Employee also has the right to terminate the contract without incurring in responsibility if serious faults are committed by the employer, some of which are:

- Lack of payment of salary as agreed.
- Immoral acts of the employer, and physical attacks or attacks by word against the worker during working hours.
- Same acts committed by the employer's representatives or persons directly related to him.
- Damages to the tools of the worker committed by the employer or by his relatives or dependents.
- Contagious diseases on the part of the employer or relatives or dependents in the place of work.
- Dangers for the health or safety of the worker or his family in reason of working conditions.

Section 28 of the Labor Code states that any of the parties in the labor contract can terminate it, without just cause, by making a prior notice (in Spanish "preaviso") to the other party. After three months of employment, an employee has the right to receive notice of termination of employment, if notice is not given, he must be paid one month's salary, or a fraction if he has been employed for less than one year. This month or fraction can thus be given as time or, as a valid alternative, as an indemnification in money.

If the prior notice is to be given as time, it must always be made in writing, and during this term the employer is obliged to grant one day off to the employee, per week, in order for such worker to find a new job.

If the option of the indemnification in money is to be chosen instead, the amount to be paid shall be calculated taking as a basis the average of salaries received by the employee during the last



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six months of the work relationship (last six months of existence of the contract). For the calculation of the average salaries, the parameters stated in Section 3 above must be taken into account.

In all cases, the employee being terminated has the right to receive a written document indicating the termination and the reasons for such.

An employee must also give notice. If he does not, a deduction may be made from his settlement payment. Nevertheless, the above right is rarely exercised by companies.

If the worker is fired without justification after at least three months of service, the employer has to pay a severance payment whose amount increases in accordance with the time served and could be up to twenty-two days per year worked, with a maximum calculated on the basis of eight years, all according to a specific calculation table indicated by the Labor Code.



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Immigration

There are two main types of Costa Rica residence permits: permanent and temporary.

A Permanent Costa Rica Residence Permit is issued for the following reasons:

- If the applicant has a Costa Rican family member that's related by blood (parent, sibling, or child)
- After the applicant has lived in Costa Rica with a temporary residence permit for at least three years.

A Temporary Costa Rica Residence Permit, on the other hand, is issued for a more extensive list of purposes. The subcategories of Costa Rica residence permits offered to foreign nationals include:

- Costa Rica Temporary Residence Permit for retirees (Pensionado)
- Costa Rica Temporary Residence Permit for rentiers (Rentista)
- Costa Rica Temporary Residence Permit for investors (Inversionista)
- Costa Rica Temporary Residence Permit for spouses of a Costa Rican citizen
- Costa Rica Temporary Residence Permit for foreign workers:
 - Specialized independent workers
 - Workers in relation of dependency
 - Scientists, professionals or interns
 - Specialized technicians
 - Athletes
 - Correspondents and news agencies
 - Religious workers or missionaries

The difference between the permanent and temporary Costa Rica residence permits is:

- A permanent residence permit is indefinite while a temporary residence permit is issued for a maximum of two years and is renewable.
- Depending on the type, a temporary residence permit does not automatically grant the holder rights to work – the applicant would need to obtain a work permit as well.
- A permanent residence permit allows the holder similar rights as a Costa Rican citizen, including employment rights.
- The applicant can only apply for a permanent residence permit from the start if they have blood relations with a Costa Rican. Otherwise, they may apply for permanent residence after spending three years with a temporary residence permit.



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Residency Permit Requirements

The documents the applicant has to submit when they apply for a Costa Rica residence permit (as well as the provisional visa at the consulate) are:

When applying for a provisional visa at the Consulate of Costa Rica

- A letter of application, addressed to the Consul of Costa Rica, clearly requesting a Residency Provisional Visa. The letter must contain applicant's full name, nationality, birthplace and date, passport number, place and date of arrival in Costa Rica, exact address in Costa Rica, applicant's occupation/profession, and contact information. It must also state the reason why the applicant wants a Costa Rica residence permit.
- Applicant's birth certificate.
- Certificate of police clearance from the applicant's home country.
- Applicant's valid passport and copies of all the pages on their passport, even blank ones.
- If the applicant has a Costa Rican relative: Birth/marriage certificate proving the family relationship from the Civil Registry of Costa Rica. The document cannot be older than two months.
- Three recent passport-size pictures.
- Proof of sufficient financial means.

When applying for a Residence Permit at the Immigration Department:

- Application Form (Formulario de Filiación)
- A letter of application addressed to the head of immigration, containing all the information as your letter of application to the Consulate. Do not sign the letter. The applicant must sign it in front of the Migracion official at the time of application.
- Proof of registration with the Costa Rica consulate.
- The applicant's birth certificate.
- Certificate of police clearance from the applicant's home country.
- Applicant's valid passport and copies of all the pages on their passport, even blank ones. After they arrive in Costa Rica, and before they apply at the immigration department, the applicant must notarize the pages in their passport by a Costa Rican notary public.
- If the applicant has a Costa Rican relative: Birth/marriage certificate proving the family relationship from the Civil Registry of Costa Rica. No older than two months.
- Three recent passport-size pictures.
- Proof of sufficient financial means.
- Proof of paid residence permit application fee.
- Any additional documents related to your purpose of travel, such as proof of investment/retirement, employment contract, etc.



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However, as per Costa Rican immigration law, it is very difficult to obtain a work permit. That's because Costa Rican authorities prioritize Costa Rican citizens in regard to employment. An immigrant may only get a work permit if the position they are applying for is in considerable shortage and there was no Costa Rican who was suited for the position.

With a Temporary Residence Permit for retirees, rentiers, or investors, the immigrant may own a business from which they can get income, but you must hire employees – they cannot actually work yourself.



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