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**CORDERO & CORDERO ABOGADOS
ESTABLISHING A BUSINESS ENTITY IN COSTA RICA**



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ESTABLISHING A BUSINESS ENTITY IN COSTA RICA



“Establishing a Business Entity in Costa Rica”

Lawyers at
Cordero & Cordero Abogados– San Jose

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This firm established in 1940, with offices in San José and Guanacaste, has earned its reputation as a top tier law firm preferred by local and international clients doing business in Costa Rica. *Cordero & Cordero Abogados* has been ranked by international directories such as Chambers & Partners as well as other regional bar associations.

The firm's staff is made up of high level, experienced and multilingual attorneys capable of dealing with complex matters and transactions in all of the following practice areas: Corporate and Contract Law; Foreign Investment & Free Trade Zone Law; Information Technologies & Telecommunications; Real Estate; Mergers & Acquisitions; Banking, Project Finance & Insurance Law; Civil Litigation Practice; Intellectual Property; Labor & Immigration, Energy & Infrastructure Law.

1. Types of Business Entities in Costa Rica

The most common types of business entities in Costa Rica are Corporations, known as Sociedades Anónimas (also referred to as “S.A.”), and Limited Liability Companies, known as Sociedades de Responsabilidad Limitada (also referred to as “Limitada” or “Ltda.”),

which are governed by the Costa Rican Code of Commerce.

The Costa Rican Code of Commerce also establishes three other business forms: Sole Proprietorship Companies, also known as “One Man Companies”; Partnerships; and Collective Name Companies. No additional reference will be made to these types of business forms, since they are less used in Costa Rican business practice.

The following summarizes general characteristics, basic steps and requirements and obligations for both corporations and limited liability companies in Costa Rica.

2. Corporations (Sociedades Anónimas)

2.1 Incorporation

All corporations must be incorporated before a Costa Rican Notary Public by a minimum of two natural persons, two corporations, or any combination thereof.

2.2 Capital Stock

The corporation is formed by the paid in capital contribution of the founding partners, in the form of Capital Shares, which will reflect the distribution of the paid capital amongst the partners. In order to increase (or reduce) the Share Capital, corporation must follow the guidelines and requirements established in the Costa Rican Code of Commerce.

- Minimum Capital Stock: There is no minimum authorized capital stock required for a corporation. Most corporations start up with a ₡10,000.00 capital stock (approximately. US\$20.00).
- Currency: The capital stock in a corporation can be established in a foreign monetary unit.



- Transfer: Shares are assigned by mere endorsement and by registering the assignment in the entity’s Shareholder’s Record Legal Book. The assignment of shares does not need acceptance by the assignee.

2.3 Responsibility

The shareholders’ legal responsibility in the Corporation is limited to the amount of capital shares belonging to each.

2.4 Administration

A Board of Directors composed of at least a President, Secretary and Treasurer shall administer the corporation. The legal representation, as well as typically a full power of attorney, are granted to the President, in accordance with the Commercial Code, but such powers of attorney may be limited in their amount and functions, as decided by the shareholders. Other powers of attorney may be granted to other members of the Board. The positions outlined above are the minimum necessary in order to establish the entity; nevertheless, this does not exclude the possibility of appointing vice presidents, vocal (member at large), etc.

2.5 Comptroller

It is required to appoint a Comptroller that will be in charge of supervising the actions of the Board of Directors. Thus, the Comptroller cannot be related to any of the members on the Board of Directors. Also, the Comptroller cannot be a shareholder and will have no power of attorney to act on behalf of the corporation.

2.6 Resident Agent

If none of the Directors that are vested with the legal representation of the Corporation are domiciled in Costa Rica, the Corporation must appoint a Resident Agent who must be a lawyer

with an open office in Costa Rica. This appointment is in order to receive legal notifications or notices on behalf of the company.

2.7 Shareholders’ Assemblies

The shareholders’ assembly is the maximum body of authority of the corporation and it is empowered to decide on all matters, including any amendments or modifications to the articles of incorporation, increasing or reducing the Corporation’s Share Capital, granting powers of attorney, appointing and revoking persons as members of the Board of Directors, etc.

2.8 Minority Rights

The protection of minority shareholders is stipulated in Title I, Third and Seventh Chapters of the Commercial Code. Said regulation establishes as “minority shareholders” those that own shares that equal to or less than ten percent (10%) of the share capital. Based on the above, the following details the rights of minority shareholders:

- Right to examine books, correspondence, and other documents of the corporation. Also, they may examine documents and contracts of those transactions that involve the acquisition, sale, mortgage, or pledge of assets of the company that represent a percentage equal or greater than 10% of the total asset. In this sense, minority shareholders representing at least 10% of the share capital can appear before a Judge to order an auditing of the company.
- Right to request information during shareholders' meetings, such as, but not limited to, reports and clarifications regarding topics that are on the agenda. If this information is requested by



Shareholders representing at least 10%, there will be no excuse for not providing the information on said grounds.

- Right to receive a report on the results of the company's annual fiscal year (approval of the financial statements) presented by the directors at the ordinary (annual) shareholders meeting.
- In those cases, in which the Shareholders' meeting has agreed to pay dividends the partners will have the right to collect the dividends agreed upon, within a maximum period of three months after the meeting in which said dividends were agreed.
- The Board of Directors or must approve prior to the sale, acquisition, mortgage or pledge of assets of a company that represent a percentage equal to or greater than 10% of its total assets. Likewise, the obligation is regulated that any transaction of the company that involves the acquisition, sale, mortgage or pledge of assets of this company with the general manager, with some of the members of the Board of Directors or with related parties must be previously reported to the Board by whoever is involved in the transaction, providing all the relevant information about the interest is of the parties to the transaction.
- Right to Recess, which consists of a technical resource that gives protection to minority shareholders, without requiring any minimum percentage to exercise it. This entails, that every member may withdraw from the company before any substantial modification or any resolution that generates an increase in their liability and may obtain reimbursement of the

real value of their shares. In accordance with article 32 bis, there are five cases in which the Right to Recess could be applied, namely: (i) Extension of the Social Term; (ii) Transfer of the Social Domicile to the Foreigner; (iii) Transformation or Fusion; (iv) non-distribution of profits in two consecutive periods in which there have been profits; and / or (v) Change of turn or object. Although this is a little known and applied right in practice, it is an important tool for minority shareholders should they request it.

3. Limited Liability Company (Sociedad de Responsabilidad Limitada)

3.1 Constitution

This type of business organization is a hybrid between a Partnership and a Corporation and it is known as "Sociedades de Responsabilidad Limitada" or "S.R.L.", or limited liability companies.

3.2 Ownership

The capital stock in a Limited Liability Company unlike Corporations, is not represented by shares but by what are known as "quotas".

- Minimum Capital Stock: The quotes on a Limited Liability Company are required to have a value each of at least 100 Colones, Costa Rican legal currency.
- Currency: The capital stock in a Limited Liability Company cannot be established in a foreign monetary unit.
- Transfer: Unlike the shares of a corporation that can typically be easily transferred, the transfer of ownership of a quota holder is limited by the following rules:
 - Quotas may only be transferred with the unanimous consent of



the remaining quota holders. This limitation can be lowered to a maximum consent of seventy-five per cent of the quota holders;

- Quota holders may oppose a transfer and thus a right of first refusal would be constituted for the other quota holders to acquire the quotas under the same conditions as they were offered to third parties. If the quota holders do not exercise this option during the subsequent fifteen days, the transfer may be carried out to the third party;
- In order to be effective, all transfers of quotas must be granted in a private or public document, registered in the Company's quota holder Registry Book.

3.3 Responsibility

The personal liability of a quota holder is limited to his or her paid-in capital contribution to the company.

3.4 Administration

The management of a Limited Liability Company is much simpler than that of a Corporation, since it only requires a minimum of one Manager to oversee the Company's administration. The Manager will be the legal representative of the representation of the Company and his powers of attorney can be limited as is desired by the quota holders in the quota-holders assembly. The positions outlined above are the minimum necessary in order to establish the entity; nevertheless, this does not exclude the possibility of appointing other Managers of Sub-Managers.

3.5 Quota holders Assembly

The Quota Holders Assembly is the maximum body of authority, and in the same manner as Shareholders Assembly in corporations, it is empowered to decide on all matters. Nonetheless, since Limited Liability Companies are not required to appoint a Comptroller, the Quota Holders Assembly will be in charge of this function.

3.6 Minority Rights

Minority Rights in Limited Liability Companies are the same as in Corporations, as stated in section 2.8.

3.7 Resident Agent

A Limited Liability Company must also appoint a Resident Agent, if none of the Managers that represent the Company are domiciled in Costa Rica.

3.8 Steps and requirements to establish a Corporation

Firstly, all Corporations and Limited Liability Companies must be constituted before a Notary Public by a minimum of two natural persons or two corporations, or any combination thereof. Secondly, the Notary Public must proceed to submit the following information required to register the company through an online platform, namely:

- Name of the corporation: Also referred to "razón social" or "denominación social": The name can be in any language, nonetheless the name may not be identical to any registered entity in the Public Registry. Also, the name of the corporation may be the corporate identification number assigned by the online platform. The same must be preceded by the words "Sociedad Anónima" or its abbreviation "S. A. " or



“Sociedad de Responsabilidad Limitada” or its abbreviation “Limitada”.

- Domicile: A registered office must be assigned, and an address must be specified.
- Term: The term may be an unlimited number of years.
- Object: The object can be specific or general.
- Capital Stock: Must be issued pursuant to section 2.2 for corporations and pursuant to section 3.2 for Limited Liability Companies.
- Board of Directors or Managers.
- Comptroller: Only for Corporations as stated in section 2.5.

Once registered, corporations will be assigned a corporate identification number, which will serve to identify the corporation in all its acts, known in local legislation as the “Cédula Jurídica” or Corporate Identification Number. This number will be issued by the online system upon registration.

4. Basic Tax Aspects

Entities shall only pay taxes over income generating activities located in Costa Rica. Corporate Tax rates shall apply. Before an entity begins any commercial operation, it shall be registered before the Tax Contributor Registry (*Registro de Contribuyentes*). Also, all inactive entities (not registered as income and/or sales taxpayers with the Tax Administration), must also be registered before the Tax Authority as inactive and must declare all its assets, liabilities and capital stock.

The income tax is regulated by the income tax law N° 7092 (“Ley del Impuesto sobre la renta”) and its regulation (“Reglamento a la Ley del Impuesto sobre la renta, Decreto Ejecutivo N° 18445-H”)

Additionally, there was a tax reform called “Ley de Fortalecimiento a las Finanzas Públicas” N° 9635 which entered into force last year (in July 2019); therefore, the income tax law must be read and analyzed in conjunction with the tax reform law.

A tax is established on the profits of natural persons, legal entities, and collective entities without legal personality, domiciled in the country, who develop lucrative activities of Costa Rican source.

The taxable event of the income tax is the receipt or accrual of revenues in cash or in kind, continuous or occasional, from lucrative activities of Costa Rican source, as well as any other income or benefit from a Costa Rican source non excepted by law.

After the enter into force of the new tax reform on July 1st, 2019, the tax period changed, now the tax period is according to the calendar year (it starts January 1st and ends December 31st of every year).

4.1 Corporate Tax

The Corporate tax shall be paid on an annual basis and shall be paid on or before January 31 of each year. The amount paid is related to the gross income of the entity. For 2021, the amounts to be paid were:

- Inactive entity: 69,330.00 colones (USD **\$112** approximate)
- Active Entity income less than 54 million colones: 115,550.00 colones (USD **\$186** approximate)
- Active Entity income between 54 million colones and 129 million colones: 138,660.00 (USD **\$223** approximate)
- Active Entity with income above 129 million colones: 231,100.00 (USD **\$372** approximate)

The Tax payment can be made in any of the



banks of the Costa Rican Banking System and can be paid through the Internet banking managed by any bank of preference. If the legal representatives or owners do not have Costa Rican bank account the payment can be arranged through a local contact (property manager, accountant and/or attorney). It is important to keep the receipt for your record.

4.2 Bookkeeping System

All tax contributing entities are required have a proper book-keeping system. All tax contributing entities will have 3 accounting books known as “*Diario*”, “*Mayor*” and “*Inventarios y Balances*”. The accountants are in charge of keep these books updated. Entities are not obligated to hire auditors or have an auditor in staff. This is a standard practice once the company is actually operating a business.

4.3 Annual Tax Declaration

All tax-contributing entities are required to file an annual tax declaration form (D.101) at the end of every fiscal year. The accountants are the persons in charge of preparing this form. However, a confirmation by the auditor is not a formal/legal requirement. The only formal requirement is to have the declaration form signed by the legal representative of the company. If the company is not actively operating and the income generated is “zero”, then this form may be completed and filed (with the legal representative’s signature) by anyone. Once the form is duly signed the accountant may pay the taxes and file the form on behalf of the entity. Inactive entities (not registered as income and/or sales taxpayers with the Tax Administration) are not required to file a declaration form, but such requirement is expected to change in the last quarter of 2021.

4.4 Transparency and Beneficial Ownership New Registry.

In accordance to By Laws of Registry and Transparency of Final Beneficiaries #410140-H of April 5th, 2018, , all entities, including legal persons and legal arrangements such as, but not limited to companies, trusts, foundations, partnerships, and others, must disclose and report to the Costa Rican authorities who are the natural persons that ultimately are the owners / controllers of the legal persons or legal arrangements, either through their ownership interests, through positions held in the legal persons or legal arrangements. This requires including the ownership chain all the way to natural persons, including disclosure of Holding Companies, Trusts, Institutions, or others involved. Certain formalisms must be fulfilled and could trigger and limit each entity on their future ability to operate. The purpose of this registry is to reach international standards on transparency.

5. Other considerations.

It is of the utmost importance to realize that becoming the owner and/or part of a foreign entity may have an impact on one’s tax responsibilities. Seeking proper advise at the home country becomes a must in these cross-border interactions.

6. Foreign Investment, Thin Capitalization, Residency Restrictions

6.1 Foreign Investment

Costa Rica encourages and enables domestic and foreign entities to establish businesses through various institutions such as the Foreign Trade Promotion Corporation (PROCOMER), Costa Rican Investment and Development Board (CINDE), Tourism Institute (ICT), and others. Nonetheless, there are some limitations, such as:



- There are several areas known as legal monopolies that belong to the public sector, for example public transportation services.
- In areas such as medical services, communication and insurance, state entities take over, though there is no limitation for private entities to compete.

6.2 Thin Capitalization Rules

Costa Rica does not have specific “thin capitalization rules”. However, there are limits on the payment of interest by a Costa Rican Limited Liability Company to its members and/or head office. These rules do not apply to a Corporations (Sociedad Anónima), only to Limited Liability Companies (Sociedades de Responsabilidad Limitada).

6.3 Remitting funds out of jurisdictions

Residents of Costa Rica as well as non-residents are taxed on their income only if it originates from a Costa Rican source. Consequently, income received from or generated from foreign sources is not taken into consideration when calculating the taxes to be paid either by individuals or corporations. All persons who carry out commercial activities and all corporations must register before the Costa Rican Tax Authority as taxpayers.

Notwithstanding the above, payment of dividends by local companies to foreign individuals or companies established abroad is subject to a 15% withholding tax.

6.4 Residency

6.4.1 Residency as an Investor

A foreigner can only apply for this type of residency if he/she has and may demonstrate investments in Costa Rica for at least USD\$ 200,000. If the investment is in specific areas such as tourism, reforestation, and/or

any other activity supported by the Costa Rican government the investment may be lowered to an amount between USD \$80,000.00 - USD \$100,000. Also, a foreigner may apply for this type of visa if he/she owns one or more properties in Costa Rica that sum up to a \$200,000 worth or more.

However, a new law passed for the Attraction of Investors, Rentiers and Pensioners, with special incentives for the next five years. This law requires the drafting and approval of an administrative regulation by the Executive Branch to develop the content of the law, and such regulation may be expected by the last quarter of 2021. The new law reduces the amount of required investment to apply for residency status from US\$200,000 to US\$150,000 in real estate, registrable assets, shares, securities and productive projects or projects of national interest. Furthermore, some additional incentives include duty free for household items, exoneration from import taxes, and exoneration from 20% of the total transfer tax of real estate.

6.4.2 Companies Accredited as a “Recognized Company”

Companies that require a constant migration flow in their plan of operation of active employees or executive level employees may be accredited before the General Direction of Immigration. To request this recognition a company must be registered before any of the following institutions:

- Companies that are operating under special plans to promote exportation, administered by the Ministry of Foreign Trade (COMEX) and the Promoter of Foreign Trade of Costa Rica (PROCOMER). If the company is registered under this institution it will be classified to request the application as Company under **Classification “A”**.



- That has the support of COMEX, by explicit references to organizations with proven track record, national or international level. If the company is registered under this institution it will be classified to request the application as Company under **Classification “B”**.
- That is acting with the statement issued by the tourist Costa Rican Tourism Institute (ICT). If the company is registered under this institution it will be classified to request the application as Company under **Classification “C”**.
- That are registered with one of the following agencies: the Superintendence of Financial Institutions (SUGEF), the Superintendence of Pension (SUPEN) and the Superintendence of Securities (SUGEVAL). If the company is registered under this institution it will be classified to request the application as Company under **Classification “D”**.
- Company under **Classification F**: The multinationals that do not belong to the classifications described above, characterized by having a name or brand whose history is known worldwide, in which the main corporate offices have decided the establishment of a subsidiary in Costa Rica, whose line of operation is developed in areas of production and marketing of goods and services.
- Company under **Classification G**: Those foreign or national companies that are operating or will start

operations in Costa Rica and were hired and duly awarded by the Costa Rican government through the processes of Government Contracts.

The requirements will vary and depend on the classifications stated above. Once registered the companies will be able to request residency permits for the employees before and if the General Direction of Immigration will accept or deny their applications through an expedite process that usually takes between 1-3 months.

Furthermore, a new law was passed to promote the attraction of workers and service providers that are carried out remotely, to promote long-stay visitation in Costa Rica and increase the expenditure of resources of foreign origin in the country. Therefore, a new migratory category of non-resident, subcategory of “estancia”, Worker or Remote Service Provider. The new law entered in effect in August 2021. But it is important to indicate this law requires the drafting and approval of an administrative regulation by the Executive Branch to develop the content of the law.

The new migratory category will be granted for one year, extendable for a single period of one additional year. To authorize said extension, the beneficiary must have stayed in the country for a minimum of 180 days during the year originally granted. Some incentives are total exemption from the income tax, exempt from paying all taxes on the importation of basic personal computer, validity of driver’s license from beneficiary’s country of origin, and may open savings accounts in the banks of the national banking system.