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Here is a summary of new tax law complexities

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Special to A.M. Costa Rica

The tax news coming out of the government for the last several months is complicated and confusing. Most people do not understand what is going on. Ticos do not comprehend the technical verbiage of the laws. Most expats cannot make sense of the gibberish because many of them do not read or speak the Spanish language.

Here is a concise summary focusing on the two tax policies in the news, Law 9416 and Law 9635.

“Ley para Mejorar la Lucha contra el Fraude Fiscal,” in English the law to better fight tax fraud, is the first one. It was approved two years ago on Dec. 14, 2016. It is pretty simple really. Every organization of any type or purpose must register with the government through the central bank every year so the powers that be know who has what and where it is. There are some exceptions to registration, mostly governmental and public institutions. It’s pretty obvious to figure out why. If the tax police think someone has too much and they did not pay tax on what they have, they will most probably take it away.

Last Friday was the starting date for registration. The government said its employees and systems were ready to allow everyone to sign up as required. Many were skeptical that this was true. Whatever the case, Sept. 1 is the new date. In a last-minute press conference, officials said “Business people are not happy with all the requirements, and some feel an extension may help them accept and prepare better for the new rules.”

The second, the legislation to strengthen public finances, referred to as “Ley 9635, Fortalecimiento de las Finanzas Públicas” or just the “plan fiscal” in



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Spanish, passed the legislature in December last year. It changed four significant items in the tax code:

- 1.) The law replaced sales taxes with a value-added tax. This begins July 1.
- 2.) Income tax filing requirements and dates changed beginning July 1.
- 3.) Payments to public employees become varied starting Dec. 4.
- 4.) Law 9635 mandates fiscal responsibility by the government, and this rule starts Jan. 1.

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Here are the highlights of each change directed toward expats and not the general public. In no way is this summary meant to be a complete review of this elaborate law.

1.) Before the changes, sales taxes had two targets: products and services. All products carried sale tax, except for the exceptions. All services did not, again, except for the exceptions. Under the new plan, everything will now be subject to a value-added tax, except for very few exclusions. The tax rate will remain at 13 percent for now. However, the International Monetary Fund is pushing the government to increase the tax to 15 percent.

2.) Most people are going to hate this one, especially expats happily living their retired lives in Costa Rica without paperwork. Income tax returns are now due for all organizations. Title II, Article 2, Section A of the law states active, inactive, non-profit, social and every entity considered to be doing some activity must file a tax return.

The tax year is changing to a calendar one, Jan. 1 to Dec. 31, instead of a fiscal year Oct. 1 to Sept. 30. Active companies will have to file two returns this year during the changeover. New tax rates and thresholds take effect this year too. Business people should consult their accountants for exact information.

3.) Law 9635's section on payments to public employees does not affect expats much. It has to do with payments to professionals. Special pay is authorized for individuals with a particular education or preparation who are hired by the government, and they are prohibited from working for the public. Some examples are attorneys, notaries, public accountants, topographers, and other licensed people. The money is paid to make up for lost opportunities.

4.) Section Four of the law affects everyone because it puts pressure on the government to run a better shop. Law 9635 gives the tax department until 2021 to put things into order, specifically to put together "the necessary technology" to control the "health" of public finances. The quoted items are direct translations from the law, and seems to be vague. Anyone living in Costa Rica for a long time knows that vagueness usually turns into bureaucratic bickering in the legislature and that nothing ever gets done.

There it is. The bottom-line to two intrusive tax laws that make many people unhappy, especially many expats who were living their retirement out in Costa Rica without too much to worry about, especially details.

To sum up the summary, Law 9416 takes the "anonima" (anonymous) out of "sociedad anonima" (anonymous society). The concept of which goes as far back as the 15th and 16th centuries to promote investment in transatlantic exploration. The term later became synonymous with a corporation where investors were allowed to remain secret.

Along the same concept, many of these corporations were set up by notaries over the years to allow foreigners to invest in Costa Rica. Those investments were crucial to Costa Rica's growth and success in the modern world over the past 50 years.

Those same investors are now talking about leaving and going home.

Law 9635 translates into more funds for the government that notoriously wastes money and less for everyone else. More taxes, more controls, and less to say about it.

The two pieces of legislation work together and complement each other. One mandates more money to be paid, and the other one gives the tax people ways to collect it, or else.

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