Costa Rica revised draft bill would reform income tax and sales tax

A new draft bill presented to Costa Rica's congress on 12 August 2015 proposes substantial changes to Costa Rica's income tax rules, as well as the introduction of a value added tax (VAT) to replace the existing sales tax. The draft is similar to the proposals presented by the government in March for consultation, but it does contain some changes (for prior coverage, see the World Tax Advisor article dated 27 March 2015).

Income tax

- Introduction of the worldwide system of taxation to replace the current territorial system;
- Introduction of a general 15% tax on capital gains derived by Costa Rica residents (although gains on the disposal of securities issued by the National Financial System would be taxed at a rate of 8%). Gains derived from the sale of an individual taxpayer's primary residence would be exempt and a 3% withholding tax would apply to gains derived by nonresidents from the sale of immovable assets;
- Introduction of "BEPS"-type rules that would disallow a deduction for expenses paid to a resident of a tax haven jurisdiction;
- Introduction of the arm's length principle for transfer pricing issues (more detailed rules on transfer pricing would be introduced as part of a separate project);
- Taxation of foreign passive income repatriated to Costa Rica at a rate of 15%;
- Introduction of new progressive individual income tax rates (0%-25% for employees and 10%-25% for self-employed individuals); and
- Change of the tax year from a fiscal year to the calendar year.

Sales tax

As proposed in March, the sales tax would be replaced by a VAT levied at a standard rate of 15% on the sale of most goods and the provision of services (services currently are not subject to sales tax). A reduced rate of 5% would apply to certain supplies, such as raw materials used for the production of basic goods and services required for the production of agricultural goods. The following would be exempt from VAT: commissions and interest paid to regulated financial institutions, the transfer of movable and immovable property that is subject to transfer tax, the leasing of residential property and the supply of private health care. The main change from the March draft is that basic necessities would not be exempt from VAT; instead, a refund system would be implemented for the poorest sector of the Costa Rican society.

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