

Free Trade Zone Regime in Costa Rica

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Free zones are primary areas for offshore tax and customs operations. They are restricted zones with no resident population, authorized to serve as such by the Government's Executive Branch. These facilities are intended to accommodate operations engaging in input and raw material imports, manufacturing and assembly or marketing of export goods and provision of export-related services.

Ease of operation, tax incentives, first-rate communications, electric power, utilities, and highly-qualified labor are the elements underlying the dynamic development of free-zone companies.

Beneficiary companies under the System can engage in park management as well as in handling, processing, production, repair, and maintenance of export / re-export goods and services.

Basic requirements to join the System include new initial investment on fixed assets of at least US\$ 150,000 for companies inside industrial parks, and US\$ 2,000,000 for those outside.

Companies meeting the following requirements can apply for Free Trade Zone status:

- Export processing industries engaged in processing or assembling raw materials to produce export / re-export finished goods.
- Export trade companies (not producers) engaged in handling, repacking, or redistributing non-traditional export / re-export products and merchandise.
- Service industries or companies exporting to natural or artificial persons abroad or serving to Free Zone companies, as long as these services are directly linked to those companies' production processes.
- Banking, financial, or insurance companies inside Free Zones will not be allowed to benefit from the System.
- Park-managing companies engaging in installing companies under the Free Zone System and to park management and maintenance.
- Companies or organizations engaged in scientific research to enhance technology levels of industry or agribusiness activities and Costa Rica's foreign trade.
- Companies operating shipyards and dry docks to build, repair, or service ships.

Benefits of the Free Trade Zone Regime

The companies operating under the Free Zone Regime shall enjoy the following incentives, with some exceptions detailed below:

- a) 100% exemption from payment of all taxes and consular duties on imports of raw materials, manufactured or semi-manufactured products, components and parts, packaging and container materials, as well as other merchandises and goods required for their operation.

When there are national raw materials available, the company shall use them as a priority, if the General Directorate of Industry objectively determines that they provide the same conditions with regard to price, quality and timely delivery required for them. This evaluation shall be conducted if the local producer of the raw materials makes the respective request to the General Directorate of Industry and, after the grant of the Free Zone Regime benefits to the company in question.

- b) 100% exemption from all taxes and consular duties affecting the imports of machinery and equipment, as well as those of their accessories and spare parts, and on imports of motor vehicles required for their operation, production, management and transportation.

The vehicles and parts of vehicles that can be exempted include:

- ✓ Chassis with cabin, having a loading capacity of one to two tons.
- ✓ Trucks or chassis for trucks.
- ✓ Pick-up truck, with a loading capacity of one to two tons.
- ✓ Vehicles with capacity for at least fifteen passengers.

These exemptions shall be conditioned to full compliance with the Executive Resolution granting the respective exemption.

Five years after its importation with an exemption, any machinery or equipment can be transferred, regardless of the destination, or enter the National Customs Territory freely, with no need to pay any taxes.

The vehicles acquired by companies operating under the Free Zone Regime can move throughout the national territory, for which they shall obtain the appropriate authorizations from the respective authorities. If persons operating within the National Customs Territory acquire these vehicles, they shall pay the appropriate

transfer and nationalization taxes, not being exempted from payment thereof, in accordance with the foregoing paragraph, upon the lapse of time.

It must be understood that if the person that acquires a vehicle from a company operating under the Free Zone Regime enjoys exemptions for such acquisition, he/it may use them.

- c) 100% exemption from all taxes and consular duties on imports of fuels, oils and lubricants required for the operation of these companies. Such exemption shall be granted only when these goods are not produced within the country with the quality, in the quantity and within the time necessary. The Ministry of Economy, Industry and Commerce shall grant prior authorization for such importation and issue a reasoned resolution on the matter within no more than fifteen business days.
- d) 100% exemption from all taxes associated with the exportation or re-exportation of products. This exemption shall be granted for re-exportation of production machinery and equipment from the Zones that have entered under this Regimen.
- e) 100% exemption for a term of ten years counted from the start of the operations from payment of taxes on capital and net assets, from payment of property taxes and from payment of the tax on transfer of real estate.
- f) 100% exemption from sales and excise taxes on purchases of goods and services.
- g) 100% exemption from all taxes on remittances abroad.
- h) 100% exemption from all taxes on profits, as well as any other which taxable base is determined on the basis of the gross or net profits, the dividends paid to shareholders or income or sales, in accordance with the following differences:
 - ✓ For companies located in zones of “higher relative development”, the exemption shall be one hundred percent (100%) for a term of up to eight years and fifty percent (50%) for the following four years.
 - ✓ For companies located in zones of “lower relative development”, the exemption shall be one hundred percent (100%) for a term of up to twelve years and fifty percent (50%) for the following six years.

The terms shall be counted from the initial date of the productive operations of the beneficiary company, provided such term does not exceed two years from publication of the respective Executive Resolution.

The exemptions contemplated in this subsection shall not apply when the potential beneficiaries can discount in their country of origin the taxes exempted in Costa Rica.

In order to define a “zone of higher or lower relative development”, PROCOMER shall comply with the provisions established by the Ministry of National Planning and Economic Policy for the purpose.

- i) 100% exemption from all taxes on imports and exports of commercial or industrial samples, upon prior authorization of PROCOMER.
- j) For a better development of their operations, the companies operating under the Free Zone Regime can freely perform and enter into all kinds of acts and contracts in foreign currency. In this case, the respective amounts shall be necessarily paid in this currency in their international transactions or those conducted with other companies established under the Free Zone Regime.

The companies operating under the Free Zone Regime shall enjoy the free possession and management of foreign currency acquired as provided in the foregoing paragraph or derived from their regular activity, being exempted from the application of the exchange regulations. The Central Bank shall establish the regulations for this benefit and the activities derived from it. These Regulations shall be an essential requirement for the enjoyment of such benefit.

The needs of national currency of these companies shall be processed only through authorized commercial banks, converting the foreign currency they have available for such purpose into local currency.

- k) The export processing companies, beneficiaries of the Free Zone Regime, which after four years of operating under such Regime do reinvest in the country can receive an additional exemption from payment of income taxes, in accordance with the following parameters:
 - 1. If the reinvestment exceeds twenty-five percent (25%) of the original investment, the exemption shall be for one additional year.
 - 2. If the reinvestment exceeds fifty percent (50%) of the original investment, the exemption shall be for two additional years.
 - 3. If the reinvestment exceeds seventy-five percent (75%) of the original investment, the exemption shall be for three additional years.

4. If the reinvestment exceeds one hundred percent (100%) of the original investment, the exemption shall be for four additional years.

The additional exemptions shall be seventy-five percent (75%) of the income tax payable. Any additional exemptions herein granted shall apply after the eighth year of operations, without prejudice of the exemptions corresponding to the final term of four years originally granted, which shall apply once the additional exemption period hereby regulated expires. In the case of companies installed in zones of “lower relative development”, the additional exemption granted shall enter into force after their twelfth year of operations, without prejudice of the exemptions corresponding to the final period of six years originally granted, which shall enter into force after expiration of this period of the additional exemption. The reinvestment that results in the additional exemption shall be completed after the fourth year and before the start of the eighth year of operations under the Free Zone Regime.

The additional exemption can only be granted to companies which original initial investment in fixed assets has amounted to at least two million U.S. dollars (US\$2,000,000).

When any of the companies conducts commercialization activities, they shall suffer a reduction of the income tax exemption in the same proportion of such activities, as established in the Regulations to this Law. The performance of commercialization activities by non-commercialization companies operating under the Regime can only be complementary, not their main activities, and shall require the prior authorization of PROCOMER.

Source: PROCOMER