

LABOR, SOCIAL SECURITY AND PAYROLL LIABILITIES IN COSTA RICA

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Given the impact that employer labor liabilities have on the cost of doing business, such liabilities are of fundamental importance when making decisions about investing in Costa Rica. Costa Rica's social security system is a modern system where beneficiaries receive high quality medical services financed through a three-tiered system: State, employer and employee contributions. Furthermore, all Costa Rican workers are covered under workers compensation insurance, which is mandatory. The following is a summary of the most important aspects of these

labor, social security and payroll liabilities in Costa Rica.

I. Social security withholdings and payroll charges

Social security withholdings and payroll charges are payments or charges that employers and employees must pay to various State agencies. These payments are based on constitutional and legal precepts that create the obligation to contribute to the financing of the social security system. Social insurance by way of social security is the responsibility of the Costa Rican Social Security Administration ("Caja Costarricense de Seguro Social" or CCSS, by its acronym in Spanish).

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Article 3 of the law that created the Costa Rican Social Security Administration provides that social security coverage is mandatory for all workers and that the amount of the contributions is be calculated on the basis of the entire compensation paid to employees, which includes salary in cash, salary in kind, overtime, salary bonuses and any other item that may be deemed to be salary.

The amount of the social security contributions and payroll charges that employers must make is subdivided as follows:

For compliance purposes, employers must register as such with the

Costa Rican Social Security Administration by way of a relatively simple filing. The registration process then consumes approximately one month for completion.

II. Workers compensation insurance

In Costa Rica there is a legal obligation to provide workers compensation insurance coverage for all employees. This obligation exists regardless of the position or level of the employee and the type of work in which he or she engages. No employee should begin working if he or she is not first included within the coverage of the workers compensation insurance policy.

Costa Rican Social Security Administration (CCSS) Table 1

Health insurance	9.25%
Pensions	4.75% (1)
Banco Popular y de Desarrollo Comunal (worker-owned development bank)	0.5%
National Training Institute (INA)	1.5%
Social Welfare Institute (IMAS)	0.5%
Family Welfare Programs (ASFA)	5.0%
Worker Capitalization Fund	3%
Supplementary Retirement Fund	1.5%
TOTAL	26% (2)

Employees are required to contribute as follows Table 2

Health and maternity coverage	5.5%
Pensions	2.5% (3)
Supplementary Retirement Fund	1%
Total	9% (4)

(1) As of January, 2010 it increases to 4.92%

(2) As of January, 2010 it increases to 26.17%

(3) As of January, 2010 it increases to 2.67%

(4) As of January, 2010 it increases to 9.17%

Tax schedule for employees

Table 2

Breakdown of taxable income

From (¢/month)	To (¢/month)	Applicable rate
0	619.000	0%
619.001	929,000	10%
929,001 & above		15%

Workers compensation insurance covers employees for work-related accidents and for illnesses that arise in connection with or as a consequence of the employment, as well as the deterioration of the employee’s health resulting as a direct, immediate and certain consequence of those accidents or illnesses.

The cost of workers compensation insurance varies according to the activities in which employees engage.

Obtaining workers compensation insurance and registering employees as insureds is a relatively simple proceeding that usually consumes only a few days.

III. Income tax on salaries

In accordance with Costa Rican tax laws, employees are required to pay taxes on any income earned as a result of an employment contract. The employer is required to apply the appropriate tax withholdings on a monthly basis and report the taxes to the Tax Authority.

The following items are among some of the earnings subject to this tax: extra salary payments, rewards, bonuses, gratuities, commis-

sions, overtime pay, royalties, additional payments for increased responsibilities, zoning allotments, subsidies, vacation pay (where vacation time is not actually taken), and any part of the Christmas bonus that exceeds the legal minimum. Furthermore, the employee must pay tax on any other income received from the employer. Salary in kind, expenses, confidential expenses, company car for personal use, fuel allotments, housing, professional association membership fees for the employee or his family members, payment of private club dues or fees, or payment of credit card annual fees would all be examples of items that would fall into this category.

In order to calculate the withholding tax, Tables 1 and 2 show the progressive tax rate schedule applicable.

In Costa Rica employees are not required to report their income and taxes; reporting is the responsibility the employer. The employer must report taxes withheld on salaries and other remuneration on a monthly basis to the Tax Authority.

IV. Severance reserves

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In order to comply with Costa Rican labor laws, the employer must make an accounting provision or reserve for severance payments. Employers should make this provision for severance pay proper, vacation time, and Christmas bonus.

- **Severance pay proper:** In accordance with article 29 of the Costa Rican Labor Code, employers are required to pay severance where the employment terminates for reasons not attributable to the employee. The employer must make a monthly provision of 5.33% of the employee's salary in order to be able to face severance payments, where applicable. In accordance with local labor laws, employers are required to pay severance at a rate of approximately 21 days of salary for each year of service, with an upper limit of eight (8) years.
- **Vacation:** the Costa Rican Labor Code provides that employees are entitled to two (2) weeks of paid vacation for each fifty continuous weeks of employment with the same employer. Furthermore, the law provides that where employment terminates before this fifty-

week term, the employee must be paid for vacation time at a rate of one day of vacation for each month of service. The employer should make provision for this payment by reserving 4.16% of the employee's monthly salary.

- **Statutory Christmas bonus:** Costa Rican law provides that all employees shall receive, during the first days of December, the equivalent of one month's salary as a Christmas bonus. This benefit is calculated on the basis of the average salary earned by the employee during the twelve months preceding December 1st of the relevant year. The employer should make provision for this payment by reserving 8.33% of the employee's monthly salary.

In general terms, this summary lists the most relevant aspects of labor, social security and payroll liabilities in Costa Rica from the standpoint of companies doing business in Costa Rica. The summary allows one to conclude that Costa Rican labor laws are very protective of the employee and are somewhat inflexible.

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