

Free
Zones

PROCOMER

PROMOTORA DEL COMERCIO EXTERIOR DE COSTA RICA





¿What is the regime of free zones?

The Free Zone Regime is “a set of incentives and benefits that the State grants to companies that are making new investments in the country, as long as they meet the other requirements and obligations established by law and its regulations”.

¿Who could be beneficiaries of the Regime?



Processing industries



Suppliers



Export trading companies



Services companies



Park Management Companies



Companies engaged in scientific research

Types of classifications



Export processing industries

" a) Export processing industries, which produce, process or assembly for exportation or re-exportation."

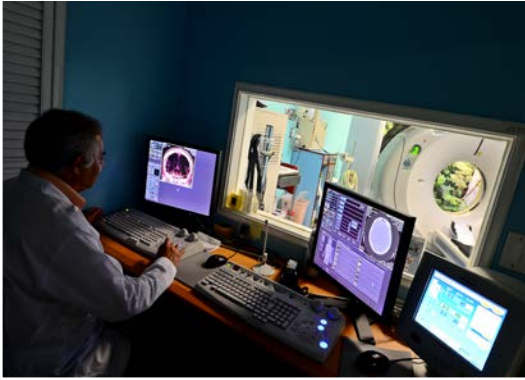
Types of classifications



Commercial exportation companies

- b) Commercial exportation companies that do not produce, but just handle, repack or redistribute non-traditional merchandises and products for exportation or re-exportation.

Types of classifications



Services

c) Industries and service companies that export to individuals and legal entities domiciled abroad or provide them to the beneficiaries of the Free Zone Regime; provided, in the latter case, that the services are directly related to the process of production of the beneficiaries of the Free Zone Regime.

Types of classifications

Companies managing parks

ch) Companies managing parks for installation of companies under the Free Zone Regime, provided the parks comply with minimum conditions of infrastructure and availability of services, in accordance with the Regulations to this Law. These companies shall enjoy the exemptions specified in Article 20, provided only companies operating under the Free Zone Regime get installed in the industrial park. If companies not operating under the Free Zone Regime establish themselves in the park, the managing company shall lose then the exemption specified in subsection g) of Article 20

INDUSTRIAL PARKS



I. PROCESS OR MIXT
12 SHIPS OR 10.000 SQUARE METERS



II. SERVICE OR
COMERCIALIZATION
4000 SQUARE METERS

“ AREA AVIALABLE FOR INSTALLATION OF
FREE ZONES”

Types of classifications



Scientific research

d) Companies or entities engaged in scientific research for improvement of the technological level of industrial or agro-industrial activities and the Foreign Trade of the country.

Types of classifications



Dockyards

- e) Companies operating dockyards or dry or floating docks, for construction, repair or maintenance of ships

Types of classifications

New processing industries

f) Processing industries that produce, process or assemble goods for export or otherwise, and that meet the requirements under Article 21 bis of this Law.

Excluded Activities



“The free trade zone regime does not apply to companies involved in mining, hydrocarbon exploration or extraction, production or sale of weapons and ammunitions with depleted uranium, and companies involved in the manufacturing or sale of any type of weapon. Power generation companies are not eligible, unless such generation is for self consumption.”



INCENTIVES



INCENTIVES

✓ Free of all import taxes and consular duties:

- ☐ Raw materials, manufactured and semi manufactures products, components and parts, containers, packing materials and other goods required for their operation.
- ☐ Machinery, vehicles and equipment, as well as the accessories and parts thereof
- ☐ Fuels, oils and lubricants required for the operation of the companies.
- ☐ Exemption from all taxes





INCENTIVES

- ☐ 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.
- ☐ Exemption from sales and excise taxes on purchases of goods and services.
- ☐ To exonerate all profit taxes and others, the taxable base from which is determined by gross or net earnings, dividends to shareholders, or revenue, or sales depending on the companies location
- ☐ Exemption from all municipal taxes and licenses for a term of ten years.
- ☐ Exemption from all taxes on remittances abroad.

Other incentives

Exemption of sales tax in services related to:

- Telephony
- Electricity
- Equipment, maintenance y repairs
- Private services taxes



Sales to local market

- ✓ Export processing industries a) : 25%
- ✓ Commercial exportation companies: 0%
- ✓ Service companies: 50%
- ✓ Companies engaged in scientific research: 50%
- ✓ New processing industries f) 100%



Last amend to the Free Zone Regime Law

8794 January 12, 2010



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OBJETIVES:

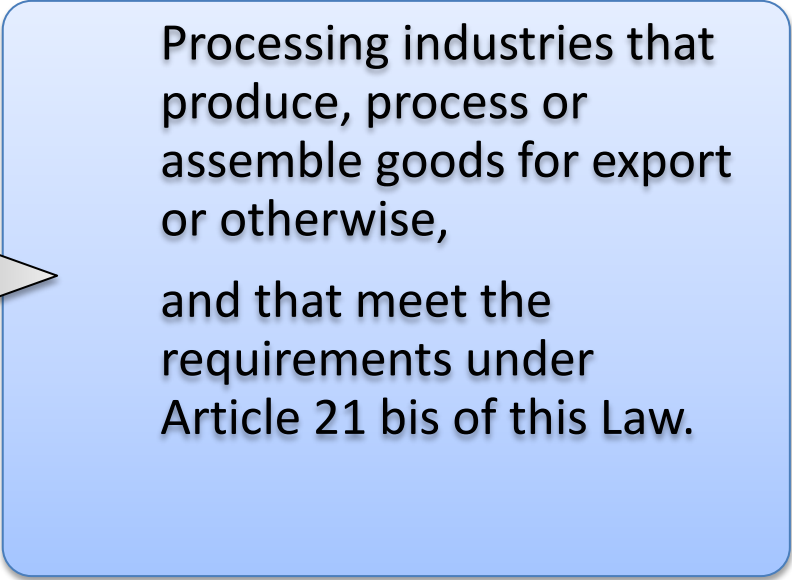
- Adapt incentive to WTO
- Mayor productive investment
- Production Chains
- **Promote investment in less developed areas**

New category 17f): processing industries

**New
category
f)**



Processing industries that produce, process or assemble goods for export or otherwise, and that meet the requirements under Article 21 bis of this Law.



Requirements for the new processing industries

f)

In order to fulfill the requirements of the WTO provisions, a new category of processing industries is incorporated, which does not require export to become a beneficiary of the Free Trade Zones.



- Ensure that the project is operated under the free trade zone regime, within a strategic sector for national development, or is established outside the Expanded Greater Metropolitan Area (GAMA).



- Make new investments in the country, as provided in Article 1 of the Law, which, due to their nature and characteristics, could be made in, or transferred to, another country.



- Be exempt from, totally or partially, or not subject to, income taxes in Costa Rica at the time of applying for the regime,

Parameters

Comply with any of the following
(art. 2)



- Projects with high contribution to social development and that generate quality jobs.
- That the projects incorporate high technologies that effectively contribute to the country's productive modernization.
- Develop research and development activities.
- Projects that promote innovation and technology transfer
- Projects that promote the incorporation of clean technologies, integrated waste management, energy conservation and efficient water management.

Strategic sectors

SECTOR	CHARACTERISTICS
✓ Employment	200 workers on average in spreadsheets
✓ Advanced electronics	Such as computer and printing equipment, microprocessors, communication equipment, integrated circuits, cathode ray tubes, advanced connectors, sound and digital video equipment.
✓ Advanced electronics	Advanced electronic components
✓ Medical	Devices, equipment, implants and medical supplies (including orthopedics, orthodontics, dental and optometry) and its highly specialized packages or containers
✓ Automotive	Devices and supplies for the automotive industry
✓ High Accuracy	Parts and precision machined components
✓ Aerospace	
✓ Pharmaceutical industry and biotechnology	

Strategic sectors

SECTORS	CHARACTERISTICS
✓ Renewable energy	Such as photovoltaic/solar cells, polymer batteries or other advanced materials, wind turbine's and/or hydro's parts and components.
✓ Automation and Manufacturing Systems	Equipment such as computerized process control, process instrumentation, robotic equipment.
✓ Advanced materials	Such as polymers or biopolymers, super conductors, advanced ceramics, high resistance composites, pigments, nanoparticles and their formulations
✓ Investigation and development	Projects in which the company allocate at least an equivalent to 0,5% of its sales in research and development expenses.
✓ ISO	14001 (14004) or equivalent
✓ LEED	LEED or equivalent

GAMA



Defined by the
Urban Development
Plan

Extended
Metropolitan
Area

Grecia

San
Ramón

Palmares

Valverde
Vega

Naranjo

Except Río
Cuarto

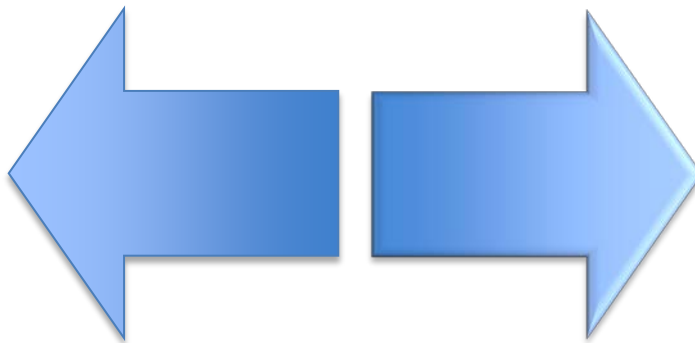
Excluding the districts of
Peñas Blancas, Zapotal,
Piedades Norte, Piedades
Sur y Ángeles

Entry requirements

Inside GAMA

Perform a new initial investment in fixed assets :

Inside the
Industrial Park
US\$ 150.000



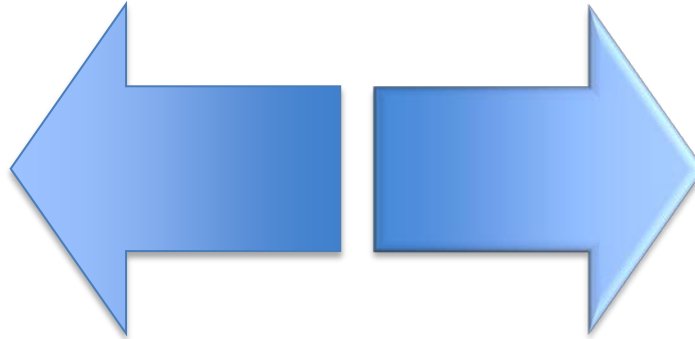
Outside the
Industrial Park
US\$ 2.000.000

Entry requirements

Out of GAMA

Perform a new initial investment in fixed assets:

Inside the
Industrial Park
US\$ 100.000



Outside the
Industrial Park
US\$ 500.000



Megaprojects

- **\$10.000.000** new fixed assets subject to depreciation
- Investment plan of 8 years
- Book value: calculation of depreciation starts from the beginning of operations
- New and total investment
- **100 permanent employees** from the start of production operations and throughout the operation.
- Incentives article 20 paragraphs g) and l) of the Law 7210
- GAMA: 8 years 100% , 4 years 50%
- Out of GAMA: 12 years, 100% , 6 years 50%.

Suppliers with RZF

Requirements

- Sell at least 40% of its total sales to free zone companies
- Being a processing company: produces, processes or assembles
- New investment



INCENTIVES OUT OF GAMA

INVENTIVES OUT OF GAMA

- ✓ Lower investment requirements
- ✓ No need to be a strategic sector
- ✓ Differentiated incentives
- ✓ Promote development poles
- ✓ Deadlines for the development and modernization of industrial parks

Better incentives out of GAMA

INCENTIVE	GAMA	OUT OF GAMA
Rent: all companies other than f))	8 years 100% 4 years 50%	12 years exemption 100% 6 years exemption 50%
Rent processing f)	8 years 6% 4 years 15%	6 years rate 0% 6 years rate 5% 6 years rate 15%
Megaproject f)	100 employees Strategic sectors \$10.000.000	100 employees Strategic sectors \$100.000
Incentives Megaprojects f)	8 years 100% 4 years 50%	12 years exemption 100% 6 years exemption 50%
Minimum investment	\$150.000	\$100.000

Moving companies to f)

Requirements:

- Being in a strategic sector or outside GAMA
- Keeping up with the obligations
- That the company is committed to making new investments in fixed assets as set out in the law.
- That the company is full or partially exempt or not subject to income tax , under the terms of the article 3 of Law 7092.



DEVELOPMENT POLES

"Article 16 bis.-

The Government shall utilize the free trade zone regime to strengthen development poles outside the Expanded Greater Metropolitan Area (GAMA). It shall develop plans of action to generate services, infrastructure and the necessary operating conditions to foster the establishment of companies in free zones and the establishment of new industrial parks, or the modernization of existing industrial parks, in such poles.

The Government shall encourage public universities and the Instituto Nacional de Aprendizaje (National Learning Institute) to offer academic courses that meet the technical professional needs of companies in free trade zones. Priority shall be given initially to Limón, Puntarenas, Guanacaste, Región Brunca and Región Huetar Norte."

THANK YOU

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