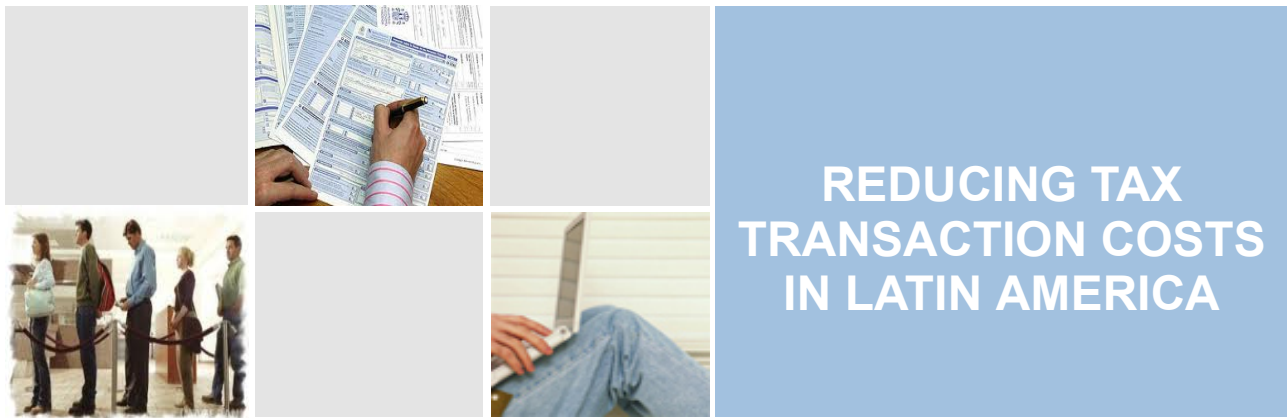




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Project to strengthen the
capacity of tax administrations
in
Developing countries



Measuring Tax Transaction Costs in Small and Medium Enterprises

Case Study: Costa Rica

Measuring Tax Transaction Costs in Small and Medium Enterprises Case Study: Costa Rica

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EXECUTIVE SUMMARY

1. Tax Transaction Costs represented 1.78% of 2012 GDP in Costa Rica. 1.67% of this total corresponded to tax compliance costs of taxpayers and 0.11% represented the administrative cost of the tax administration.
2. The Micro, Small and Medium Enterprises (MSME) are a significant number of firms in Costa Rica. According to the definition provided by the CIAT-UNDESA tax transaction costs measurement methodology, most of the companies are within the so called micro enterprises. Only 0.5% of companies are included within the definition of medium enterprises (sales revenue between 2 and 5 million US Dollars).
3. The average cost per company increased U.S. dollars \$2,156 per year. For microenterprises this cost increased U.S. Dollars \$ 2,150 while for small it was U.S. Dollars \$ 2,160 and for large enterprises it was U.S. Dollars \$ 3,254. These differences are due to external costs and expenses incurred by companies representing almost 75% of the cost. Given that these are fixed costs, when they are analyzed as a percentage of sales it shows that compliance costs are regressive for micro enterprises representing 4.5% of sales while for small and medium enterprises represent 0.5% and 0.2 %, respectively.
4. An average traditional regime company spends 134 hours a year to comply with its tax obligations, this represents on average \$ 649 per year for businesses. As a result, 47% of companies said they use external consultants for complying with their tax obligations. This information is interesting within the scope of the study and highlights some opportunities for improving some processes.
5. Administrative costs are 0.11% of the GDP. There is a high concentration of administrative costs (0.05%) in the control actions of the tax administration.

6. The item remuneration is the most important in the DGT budget. Thus the allocation methodology of installed capacity is consistent with the calculations performed. There is a high concentration of administrative costs in the tax control process and there is a consistent relationship between the control actions costs and the compliance costs. 9% of respondents said they were within the tax administration actions.
7. Finally, this study has been a first approach to the assessment of compliance costs of both the general and simplified scheme, so we suggested to extend to other studies including the cost - benefit of the tax system for overall economy mainly focusing efforts towards simplification

CHAPTER 1

GENERAL CONSIDERATIONS OF THE TAX SYSTEM IN COSTA RICA

ECONOMIC AND BUSINESS STRUCTURE OF COSTA RICA

Costa Rica, officially known as the Republic of Costa Rica, borders to the north with the Republic of Nicaragua and southeast with the Republic of Panama. It has 4,652,459 inhabitants (2013). Its territory covers a total area of 51,100 km², it is limited to the east by the Caribbean Sea and to the west by the Pacific Ocean. Regarding maritime boundaries, it borders Panama, Colombia, Nicaragua and Ecuador. Its capital, the political and economic center is San Jose, and its official language is Spanish.



According to the 2012 Human Development Index (HDI), it is the seventh in Latin America and the second in Central America. In 2010, based on the Gender Inequality Index, Costa Rica is the most egalitarian country in Latin America. In 2010, UNDP¹ highlighted that Costa Rica is among the few countries that have achieved a much higher human development than other countries with the same income level. In the 2013 UNDP

¹ United Nations Development Program

Report, Costa Rica was the country with the highest life expectancy in Latin America (79.4 years). Costa Rica is the most democratic country in Latin America, according to Konrad Adenauer Foundation, due to the high participation of women in elected offices, a high participation of parties in Congress and the efficiency and coverage of health and education services.

Costa Rica has suffered a significant evolution in its economy, from being a predominantly agricultural country to a service economy. The export revenues from traditional agricultural products such as bananas, coffee, sugar, cocoa and pineapple still remain important. It highlights the Costa Rican high quality coffee production and its exports to the U.S. market where they are highly valued. However, revenues from the export of nontraditional products such as flowers and mini-vegetables have largely overcome the previously mentioned ones and the service sector has strongly grown in recent years, generating more than 10 thousand jobs².

Tourism is the fastest growing industry and since the early 2000 is generating more revenue than any of the main agricultural export.

While traditional agricultural exports of bananas, coffee, sugar and meat are still the backbone of the country's exports, a variety of agricultural, industrial and specialized exports have broadened export trade in recent years. Furthermore, the country has focused its exports of high value-added products such as microchips. Similarly, tourism has an important contribution to the economy; the country's biodiversity makes it a key destination for ecotourism.

Currently, Costa Rica is one of the most stable economies in Latin America. In recent years, in the economic field, it has a sustained GDP growth above 4% allowing recovering from the 2008-2009 global crises. Costa Rica maintains a moderate inflation level around 5% over the past 3 years.

Table N. 1

Indicators

Annual Growth Rate

	2010	2011	2012
Gross Domestic Product	4.9	4.2	5.1
Inflation	5.8	4.7	4.6
Source: Central Bank of Costa Rica (BCCR)			

² En caribbean insider. www.caribensider.com

According to 2013 IFC³ *Doing Business* ranking⁴, Costa Rica is located at position 110. Such items as access to electricity (45), registering property (46) and International Trade (51) were highlighted. Similarly, the areas where the country is below the Latin American average are: Protecting investors (169), resolution of insolvencies (128) Building Permits (128). It should be noted that in relation to the tax payment item, Costa Rica held the position 125, improving 10 places compared to 2012.

According to the World Bank study, companies spend 226 hours a year to comply with tax requirements⁵. Companies also have to make 23 payments a year, with a decrease of 8 payments compared to the year 2012. These results are below average in Latin America and the Caribbean.

Table N. 2

Doing Business 2012 -2013		
Indicator	DB2012	DB2013
Ranking	135	125
Payments (per year)	31	23
Time (hours per year)	246	226
Tax Rate	55	55
Source: Doing Business		

In relation to the business segment, Costa Rica maintains a large group of enterprises that are classified as micro, small or medium enterprises (MSMEs). Micro, small and medium enterprises represent almost all the industry (97.8%) and generate 48.4% of private employment⁶.

According to the Social Security Fund⁷, until December 2012 the Business Sector included 65,538 formal businesses, of which 72.7% are classified as micro (1-5 employees), 21.4%

³ International Finance Corporation

⁴ <http://espanol.doingbusiness.org/data/exploreeconomies/costa-rica/>

⁵ Includes Corporate Income Tax, Indirect Tax and Social Security taxes.

⁶ Monge-González, Ricardo y Rodríguez-Álvarez, Juan Antonio The impact of financial and training services in MSMEs in Costa Rica - BID - November 2012

⁷ www.camara-comercio.com

are small businesses (6 to 30 workers), 4.1% are medium-sized (31 to 100 employees) and 1.9% are large companies (over 100 employees). Thus, in total, 98.1% of all enterprises are MSMEs.

Table N. 3

Number of Companies - Costa Rica - June 2012			
Type of company	Number of employees	Number of companies	%
Micro	1 to 5	47,621	72.7
Small	6 to 30	14,011	21.4
Medium	31 to 100	2,669	4.1
Large	above 100	1,237	1.9
Total		65,538	100.0
Source: Chamber of Commerce of Costa Rica			

TAX AND INSTITUTIONAL SYSTEM

Institutional

The Costa Rican tax system is under the Ministry of Finance of Costa Rica, within the Vice-Ministry of Revenue, which includes the Directorate General of Customs (DGA), responsible for the administration of taxes related to customs; the General Directorate of Finance (DGH) which is the advisory entity of the Minister and in charge of judicial collection, the Fiscal Control Police (PCF), in charge of the investigation and inspection to determine tax infringements and tax crimes in the Tax, Customs and Fiscal areas, and the General Directorate of Taxation (DGT) which is the main agency for domestic taxes. It aims at contributing to the continuous improvement of the Costa Rican tax system, seeking balance and progressiveness, in harmony with the rights and guarantees of citizens.

Appeals are decided by the Administrative Tax Court (TFA)⁸ which is an independent body from the executive. This court has national jurisdiction and is responsible for knowing the challenges against administrative acts of tax assessments, requests and queries performed by the DGT tax administrations. Municipal taxes are directly collected by each of the municipalities that have autonomy in this regard. The social security contributions are administered by the Costa Rican Social Security Fund (CCSS).

The DGT manages many central government taxes; the most important is the income tax which was 46.3% of total revenue in 2012 followed by the General Sales Tax which was 30.3% of the total. It should be noted that it operates a number of taxes that have a low collection such as: Tax Exit Rights, Specific Tax on Alcoholic Beverages, Real Estate Transfer Taxes, among others.

⁸ Autonomous executive Body; its members were appointed by the Executive for a period of four years and may be reelected.

Table N. 4

Annual Collection 2011 - 2012

Thousands of dollars

TAXES	2011	%	2012	%
Income Tax	1,468,375	48.0	1,744,675	46.3
General Sales Tax	930,562	30.4	1,143,926	30.3
Tax on Fuels	266,241	8.7	380,673	10.1
Vehicle Property Tax, Embar and Aircraft	150,883	4.9	199,388	5.3
Departure Tax	42,352	1.4	49,632	1.3
Selective consumption tax	46,141	1.5	50,719	1.3
Specific Tax on Alcoholic Beverages	46,922	1.5	55,446	1.5
Tax on non-Alcoholic Beverages and Soaps	45,817	1.5	54,510	1.4
Real Estate transfer tax	33,760	1.1	40,992	1.1
Vehicle, Aircraft and Embar transfer tax	24,226	0.8	25,332	0.7
Tobacco production Tax 9028	0	0.0	19,923	0.5
Tax on Casino and Gambling	511	0.0	418	0.0
Education and Culture duty	932	0.0	586	0.0
Housing Solidarity Tax	4,386	0.1	5,162	0.1
Total	3,061,108	100	3,771,381	100.0

Source: Directorate General of Taxation, Ministry of Finance of Costa Rica

Until February 2013, the DGT has 971 employees at all agencies levels of the country. 29% are core operations which include regulatory operations, collection and examination and 71% corresponds to the different regional offices distributed throughout the country.

Table N. 5
Number of officials of the Directorate General of Taxation
 Until February 2013

Division	Amount	%
Core level	279	29
Operational level	692	71
Total	971	100

Source: Directorate General of Taxation, Ministry of Finance of Costa Rica

Active taxpayers until December 31, 2012 were 600,212 along the regional units of the country supported by two computer systems: the Tax Digital System and the Integrated Information System for Tax Administration (SIAT).

Of the whole of taxpayers 487 are large taxpayers who report to the Large Taxpayers Directorate. These taxpayers receive a personalized service by the administration as they represent 71% of total collection and are supported by the Digital Taxation System.

The Digital Taxation System also supports large territorial corporations (GETES). 605 taxpayers belong to this group as well as a group of 710 taxpayers (medium and small) that due to their importance were included in the system.

The medium and small taxpayers include 598,000 legal entities and individuals at all units' levels in the country. The largest concentration of taxpayers is under the San Jose regional directorate grouping 43% of taxpayers.

Table N. 6

Active Taxpayers 2012			
System	Type of taxpayer	Amount	%
Digital taxation	Large Taxpayers	487	0.08
	Getes	605	0.10
	Taxpayers	710	0.12
Integrated Tax Information System (SIAT)	Medium and Small	598,410	99.70
Total		600,212	100.00

Source: Office of Tax Single Registry, Revenue Authority, Directorate General of Taxation

Table N. 7

Active Taxpayers 2012		
Type of Taxpayer	Amount	%
Large Taxpayers	487	0.08
Tax Administrations	599,725	99.92
San Jose	263,873	43.96
Alajuela	68,473	11.41
Cartago	57,739	9.62
Heredia	64,417	10.73
Guanacaste	35,689	5.95
Puntarenas	24,432	4.07
Limon	27,083	4.51
North region	31,613	5.27
South Region	26,406	4.40
Total	600,212	100.00

Source: Directorate General of taxation of the Ministry of Finance of Costa Rica

The DGT has developed the following systems and assistance tools for presenting returns:

SIAT

It is the transaction registration system carried out by all taxpayers and the tax administration in relation to them. Currently it is the registration, management and control platform for small and medium taxpayers.

Digital Taxation

It is a comprehensive tax management model based on e-government strategies. It allows taxpayers to do their transactions, file returns, pay taxes, resolve queries and comply with other tax obligations through the Internet, without having to leave their home or office. This system is only available for a group of taxpayers (Large, Getes, others)

Tribunet

It is a technological tool that enables those who initiate economic activities to complete the registration and modification of data, as well as the tax return and payment of special tax Contribution FONATEL D.177 and the reserve fee of the radio spectrum D.176

EDDI (Tax Returns Digital Processing)

It is a technological tool that allows the taxpayer prepare the following tax forms

- Income tax return D.101
- General sales tax D.104
- Official payment receipt D.110.

TASABAN

It is a system through which users can assess the amount of tax and stamps on the movable and immovable property in the National Register.

Direct Taxation and Connectivity

It is the system by which companies can file and pay their returns generated by EDDI through banks that have connectivity agreements.

Declare 7

A system developed for filing information through internet.

The DGT received during 2012 around 3 million returns. 80.2% were received electronically through the different reception systems of electronic returns that the DGT has available for taxpayers, which include connectivity (internet), and EDDI⁹ which receives more than 50% of the returns.

Table N. 8

Received Returns 2012		
Type of Return	2012	%
Normal (Paper)	577,317	19.8
Electronics	2,335,860	80.2
Digital taxation	53,007	1.8
Tribunet	5,315	0.2
EDDI	581,896	20.0
Tasaban	36,348	1.2
Conectivity	1,434,214	49.2
Declare 7 (Informatives)	225,080	7.7
TOTAL	2,913,177	100.0
Source: Directorate General of taxation of the Ministry of Finance of Costa Rica		

To carry out its activities, the Ministry of Finance allocates an annual budget to the DGT, according to each unit needs. The DGT executed budget for 2012 was 51 million U.S. dollars. The most important item of this budget is the remuneration item which is almost 70% of the budget. The second most important is services, 25%. The DGT have many outsourced services (computer equipment, printing, among others) which are why they have a significant representation in the budget. The executed budget represented 1.35% of revenue in 2012 and 0.11% of GDP for that year.

⁹ digital processing of tax returns.

Table N. 9

DGT Budget		
Thousands of Dollars		
Item	2012	%
Remunerations	35,095	68.8
Servicios	12,832	25.1
Materials and Supplies	335	0.7
Durable Goods	1,466	2.9
Common Transfers	1,302	2.6
Special accounts	1	0.0
Total	51,032	100.0
% of the collection	1.35	
% of GDP	0.11	

Source: Directorate General of taxation of the Ministry of Finance of Costa Rica

Tax System

Tax collection comes from various taxes; however it mainly focuses on two taxes: the Income Tax which tax base is income from productive activities both from legal entities and individuals, and the sales tax.

The Income Tax

The income tax in Costa Rica is territorial. This means that the income tax applies to individuals and legal entities. The tax is levied on income originating from Costa Rican source only; Costa Rican laws do not tax revenue derived from a foreign source. This tax is assessed and collected through self-return system. It also has a set of specific tax withholdings on wages, interest, dividends, foreign services rendered by non-residents, and remittances abroad on behalf of individuals or non-resident legal entities.

The tax base is based on net income. These are calculated as gross income after deductions. This includes income from real estate, capital investment and other business activities. It also includes any increase in equity during the taxable year which cannot be justified by the reported or registered income.

In addition, the tax applies to Costa Rican source income received or accrued by

individuals or legal entities domiciled in the country, as well as any other Costa Rican source income not exempt by law. The annual fiscal period, counted from October 1 of a year to September 30 of the following year, without detriment to the possibility that other fiscal periods allowed for taxpayers depending on their economic activity.

The income tax should be declared and paid quarterly as partial payment of the tax, but the Tax Administration may authorize to make monthly payments as advance payments of each installment. To determine the payable tax by the end of the respective fiscal year, the taxpayer must multiply the net income by the tax rate. The tax rate is 30% for legal entities.

In the case of MSMEs constituted as legal entities whose gross income in the fiscal period does not exceed the rate of ¢ 95,447,000.00 as follows (effective for the fiscal period 2013):

- i) Up to ¢ 47.451.000, 00 of gross incomes: 10%
- ii) To ¢95.447.000, 00 of gross incomes: 20%

The following are not subject to tax:

1. The State, municipalities, autonomous and semiautonomous institutions which by a special law enjoy exemptions, and State universities.
2. Political parties and religious institutions whatever their creed, by income obtained for the maintenance of worship and providing nonprofit social services.
3. The companies operating under the Free Zone Regime in accordance with Law No. 7210 of November 23, 1990.
4. The unions, foundations, associations declared by the Executive as public, if the received income as well as their assets are all intended exclusively for public use or charity and that under any case they cannot be directly or indirectly distributed among their members.
5. Cooperatives duly organized under the Law No. 6756 of May 5, 1982, as amended.
6. Solidarity associations.

7. The Life Insurance Corporation of National Education, Savings and loan of the National Association of Teachers and Corporation of Multiple Services of the National Teaching.
8. Civil associations of small or medium-sized agriculture producers of goods and services whose purposes are providing technical assistance and direct provision of agricultural inputs at low cost, alternatives for production, marketing and technology as long as they are non-profit, as well as their premises or establishments in which only agriculture inputs are traded. In addition, the income received, as well as assets will only be used for their creation and under any case they will not be directly or indirectly distributed among their members.
9. Those micro, small and medium organic producers registered with the appropriate office of the Ministry of Agriculture and Livestock, which for a year have been in transition to be certified as such, for a period of ten years, while maintaining the conditions for such exoneration.
10. Education boards and administrative boards of education public institutions.
11. The Orphans' Hospice of San Jose.

The following scale of fees is applied to individuals with income-generating activities (effective for the fiscal period 2013):

- i) Income up to ¢ 3,171,000.00 annually, are not subject to tax.
- ii) Exceeding ¢ 3,171,000.00 annually and up to ¢4,735,000.00 annually, will pay ten percent (10%).
- iii) Exceeding ¢ 4,735,000.00 annually and up to ¢ 7,898,000.00 annually, will pay fifteen percent (15%).
- iv) Exceeding ¢ 7,898,000.00 annually and up to ¢ 15,827,000.00 annually, will pay twenty percent (20%).
- v) Exceeding ¢ 15,827,000.00 annually, will pay twenty five percent (25%).

Individuals with income-generating activities which have also received during the fiscal period income from personal independent labor or from pension or retirement shall subtract from the earlier mentioned amount, the part not subject to what was applied to the income received from personal independent labor or from pension or retirement.

In case the last one exceeds the not subject amount mentioned above, the only amount applied will be the one not subject to the single tax on the income received from personal independent labor or from pension or retirement or other compensation for personal services, in which case the net income obtained by individuals with income-generating activities will not be subject to it but to a 10% fee established in the above mentioned subsection ii).

In relation to individuals as employees, these are subject to withholding by their employer and are subject to the following rates according to their gross salary.

1. Up to ¢ 714,000 per month, exempt.
2. Exceeding ¢714,000 up to ¢1,071.000, 10%.
3. Exceeding ¢1,071.000 and above 15%.

The Sales Tax

The sales tax levied on the transfer of titles, free of charge or against payment, of all sorts of goods and services taxed by law. Individuals or legal entities, in law or in fact, whether public or private, that sell or provide services on a regular basis are considered taxpayers as well as people of any nature that export or import goods.

The amount of tax is determined by applying the rate established in Article 10 of the General Sales Law, which currently is 13%, on the net sale price, which includes the selective consumption tax when the goods in question are affected by it.

The tax to be paid to the Treasury is determined by the difference between the debit and the tax credit, properly supported by vouchers and recorded in the taxpayers' accounting.

Tax on real estate transfer

This tax levies transfers under any title of real estate registered or not in the Public Registry of Property. The obligation to pay the tax arises at the time and date of execution of the deed in which the legal status of the transfer of property is done.

Table N. 10

Tax System: Rates	
Taxes	Tax Rates
Income Taxes	30%
Import/export tariffs	Depending on the product
Sales Tax	13%
Duties	1%
Real Estate Tax	0.25%
Tax on transfer of real estate	1.50%
Municipal Patent Tax	0.30%
Withholding tax on royalties, fees and dividends	up to 25%
Interts Tax	8.00%
Income tax for non-resident	10% with dependency ration- 15% without
Source: Research Department CINDE (Costa Rican Coalition for Development Initiatives)	

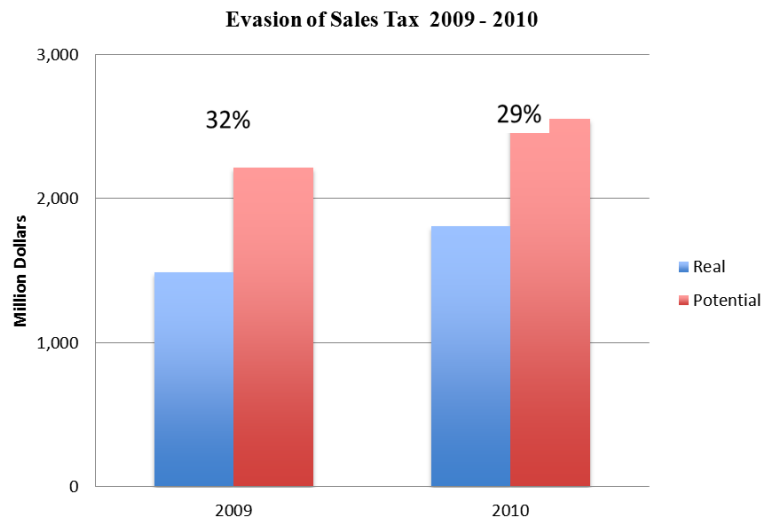
Evasion Studies

According to estimates of the Ministry of Finance, Tax evasion General Sales¹⁰ was 29% in 2010 (2% of GDP). This represented a decrease of 3 percentage points compared to 2009. It should be noted that Costa Rica has one of the lowest evasion rates in the region even though that the sales tax regime is complex¹¹.

¹⁰ Noncompliance with general sales tax and income tax in Costa Rica, 2010. Ministry of Finance.

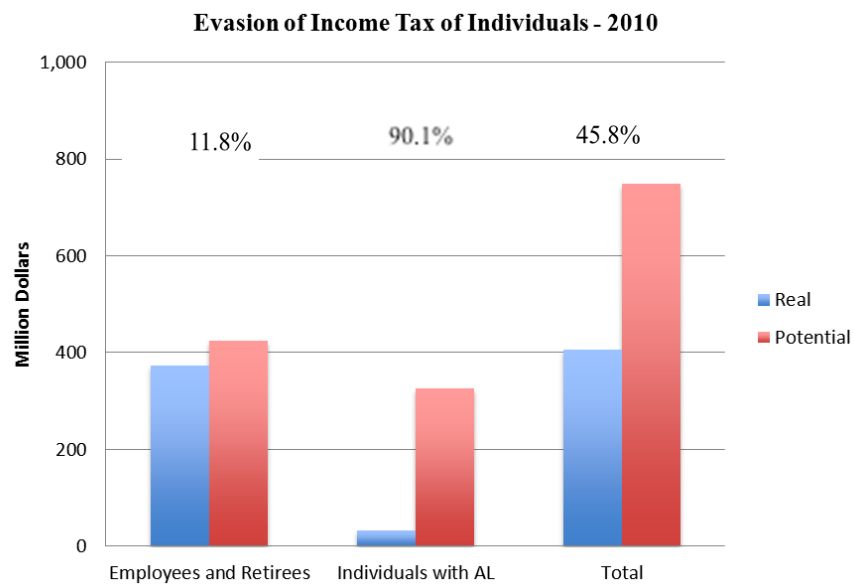
¹¹ Study Introduction of VAT and income tax evasion in Costa Rica, 2010 by the Ministry of Finance

Graphic N. 1



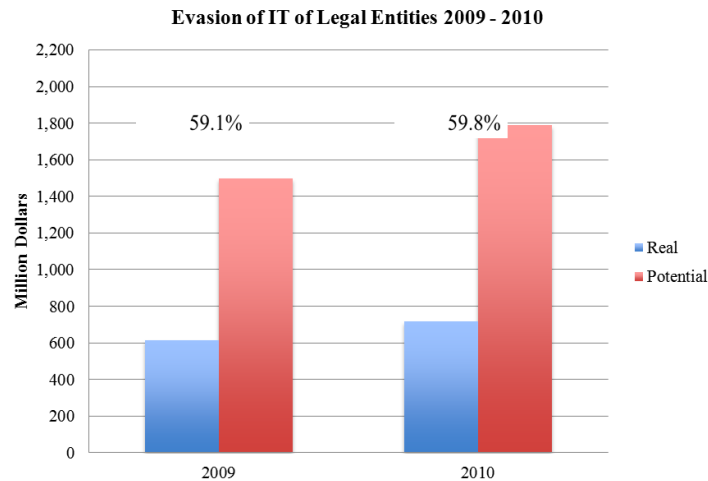
In relation to Individual Income Tax, the study mentions that evasion was 45.8% in 2010. It is worth noting the high evasion levels of Individuals with lucrative activity (independent professionals) where the evasion levels reach 90% (0.9% of GDP). Similarly, the evasion levels of the wages segment reached 12%.

Graphic N. 2



Source: Ministry of Finance

Legal entities had a noncompliance level of 60% on income tax (2.9% of GDP) the variation was not higher than in 2009. In this evasion segment it is likely to also find elusive practices. Finally, the total evasion level was around 5.8% of GDP

Graphic N. 3

Source: Ministry of Finance

Tax Expenditure

The Ministry of Finance in their study¹² on tax expenditures¹³ estimated that they increased to GDP 5.81% in 2010, 63.3% coming from the general sales tax and 31.3% from the Income Tax.

In relation to tax expenditures associated with General Sales Tax, the largest proportion of expenditure are from tax exemptions which is 93%; this is due to the difference in the tax exemptions on customs and purchases.

¹² Tax Expenditure Estimates for Costa Rica in 2010: Sales Tax, Income Tax and other Taxes. Fiscal Studies Program of the School of Economics at the National University and the Department of Finance (DGH) of the Ministry of Finance

¹³ Tax expenditure is defined as the level of income forgone by the government by granting a different tax treatment generally applied in the national tax legislation which aims to benefit or promote certain activities, sectors, regions or taxpayer groups

Table N. 11

Tax expenditures 2010		
Millions of Dollars		
<i>Category</i>	<i>Total</i>	<i>% GDP</i>
Sales	1,267	3.68
Income	630	1.82
Others	106	0.31
Total	2,002	5.81
1/ Source Ministry of finance		

MAJOR REFORMS TO IMPROVE TAX COMPLIANCE IN MSMEs

Law for Strengthening Small and Medium Enterprises¹⁴

The tax system of Costa Rica does not have a general definition of micro, small and medium enterprises, however for other public sector processes; some agencies have conceptualized a definition. Thus, The Costa Rican Social Contribution, responsible for the administration of social contributions defines it as: micro enterprises those with 1 to 5 employees, small enterprises those with 6 to 30 employees, medium-sized those having between 31 and 100 employees and finally large ones with over 100 workers.

¹⁴ Law No. 8262: Law for Strengthening small and medium enterprises

Table N. 12

Number of Enterprises by Economic Activity - 2012					
Type of Enterprise	Micro (1 to 5 workers)	Small (6 to 30 workers)	Medium (31 to 100 workers)	Large (above 100)	Total
trade	13,098	4,074	621	175	17,968
services	8,490	1,544	242	114	10,390
Real Estate Activities	7,579	1,986	482	266	10,313
agricultural	4,976	1,174	196	153	6,499
industry	3,064	1,435	333	237	5,069
Transport and Communications	2,993	882	237	81	4,193
Hotels and Restaurants	4,012	1,272	180	55	5,519
construction	2,343	1,096	200	77	3,716
Public Adm. And Teaching	608	352	107	47	1,114
financial	435	185	67	32	719
others	23	11	4	0	38
Total	47,621	14,011	2,669	1,237	65,538
Source: Costarican Social Security					

On the other hand the Ministry of Economy, Trade and Industry¹⁵, by Law 8262 "Law for Strengthening Small and Medium enterprises" defines them in its Article 3 ° as - *"For all purposes of this Act and policies and State or public institutions programs to support SMEs by micro, small and medium enterprises is understood all permanent production unit that has the human resources, manage and operate them, under individual or legal entity figures, in industrial, commercial, or agricultural services to develop organic farming activities."*

The difference between micro, small or medium enterprises is determined from the results of the following formulas, for sectors specified below¹⁶:

For the Industrial Sector:

$$P = ((0.6 \times pe/100) + (0.3 \times van/\text{¢}600.000.000) + (0.1 \times afe/\text{¢}375.000.000)) \times 100.$$

For trade and service sectors:

$$P = [(0.6 \times pe/30) + (0.3 \times van/\text{¢}1.200.000.000) + (0.1 \times ate/\text{¢}375.000.000)] \times 100.$$

¹⁵ MEIC <http://www.meic.go.cr/>

¹⁶ In General Regulations of Law No. 8262 Strengthening Small and Medium Enterprises

Where:

P: Scores obtained by the company.

pe: Average staff employed by the company during the last fiscal year..

van: Amount of annual net sales of the company in the last fiscal year.

afe: Amount of net fixed assets of the company in the last fiscal year..

ate: Amount of the total net assets of the company in the last fiscal year..

The reference value of the parameters used is subject to MEIC annual review and update.

Companies are classified based on the score P obtained, with the following criteria: Micro enterprise $P \leq 10$

Small enterprise $10 < P \leq 35$

Medium enterprise $35 < P \leq 100$

In order to classify business activities such as industrial, commercial or service, the aforementioned categories will be used in the most recent update of the International Standard Industrial Classification of all Economic Activities (ISIC).

To take advantage of the benefits of the Law No 8262, in addition to qualifying businesses in a category of micro, small or medium enterprises, they must meet at least two of the following legal requirements:

- a) The payment of social contributions, understood as the payment of duties collected by the Social Security of Costa Rica.
- b) The tax compliance, understood as those related to Direct Taxation.
- c) Compliance with work duties, which refers to the payment of Occupational Risks policy.

In order to assure that the benefits of the Law are only granted to MSMEs, companies must show through a notarial certification that a large company does not own more than 25% of their capital stock.

The MSMEs incentives policies in Costa Rica are aimed at building capacity to businesses and develop an entrepreneurial culture. Thus, we have developed the following programs:

- Business incubators and accelerators programs,
- Entrepreneurship training program
- National Program on the local market chains
- National Simplification Procedures programs
- National Program to Finance MSMEs
- National Public Procurement Program.

Simplified Regime

The tax system of Costa Rica created the Simplified Tax System for Retailers and Bars. This system includes both general sales tax and income tax.

The simplified scheme was implemented in 1996 and applies to both the sales tax and the income tax. The scheme is limited to certain types of economic activities among them are: bars, pubs, taverns and similar establishments, photographic studios, handmade footwear, furniture and accessories, pottery, pottery and porcelain, structural metal products, florists, bakeries, restaurants, coffee, sodas and other establishments selling food, beverages or both, artisanal fishermen, retailers, and taxis.

In this regime taxpayers must present a quarterly return within the first 15 days of each quarter. Taxpayers apply to quarterly purchases totaling a specific factor for each tax (GST and income) of total taxable purchases.

- To benefit from the scheme they must also comply with the following requirements:
- That the amount of annual purchases does not exceed 150 base salaries.
- That business has more than 5 employees, excluding the taxpayer.
- In the case of taxis, the number of vehicles involved in the activity must not exceed one unit.
- That the value of fixed assets does not exceed 350 base salaries.

In addition since the calculation and payment of the tax is easy, companies within this regime are excluded from keeping full accounting. Companies should only keep track of purchases that records purchases of goods, materials and supplies for the manufacture of products or provision of services.

The taxpayer is not required to issue invoices, except when the amount of the sale for each product exceeds 5% of a base salary and upon the customer's request.

The taxpayer should not keep the vouchers for all the operations, but only the purchase invoices.

Application factors are variable according to the company economic sector and are applied on purchases quarterly declared.

Companies may be reclassified at the traditional system previous registration or reclassification request. The reclassification of the Regimen may be also carried out by an audit of the Directorate General of Taxation.

The collection of this regime was 0.016% of GDP for 2010.¹⁷

¹⁷ Source: Taxation Simplified Regimes for Small Taxpayers in Latin America, CIAT (2012)

Table N. 13

Simplified Regime - Application Factors		
Income Activity	Income	Sale
a) bars, pubs, taverns or similar establishments	0.020	0.040
b) Retail Traders	0.010	0.020
c) Photographic Studies	0.010	0.020
d) Hand-made shoe	0.010	0.026
e) Manufacture of furniture and accessories	0.010	0.065
f) Manufacture of pottery, china, pottery and porcelain	0.010	0.020
g) Manufacture of structural metal products	0.010	0.052
h) Flowers	0.010	0.058
i) Bakeries	0.010	0.020
j) Restaurants, cafes, sodas and other establishments selling food, drinks	0.020	0.040
k) Small Scale Fishermen in	0.025	
l) artisanal fishermen	0.033	
m) Transport of people- Taxi	0.5 by the number of kilometers driven	

Source: Decree No. 25514-H Simplified Tax System for Retailers and Bars.

CHAPTER 2

TAX TRANSACTION COSTS IN COSTA RICA

METHODOLOGICAL CONSIDERATIONS CASE STUDY

The tax transaction costs study has 2 components: Administrative Cost and Compliance cost. Administrative Costs are those that are incurred by the State to administer the tax system, while compliance costs are those incurred by taxpayers to comply with the tax system.

Tax Transaction Costs consist of.

$$CTT = CC + CA$$

Where:

CTT = Tax Transaction Costs
CC = Taxpayer Compliance Costs
CA = DGT Administration Costs

The measurement process performed, according to the model proposed in the CIAT - UN – DESA study, is as follows:

Measurement study of TCC in MSMEs in Costa Rica	
Phase 0: Initial	
Identification of the general context, detailed compression of the normative and administrative tax framework to be analyzed. It is important to understand the institutional framework, the maturity process, and political support for a possible reform of the tax simplification.	
Phase 1: Preparatory	
Defining financial resources of the project as well as training of the local technical team. At this stage it is important to analyze the financial viability of hiring external provider conduct the survey, and the quality of internal information to allow determination of the CTT::	
Phase 2: Analysis	
Step 1	Identification of the reporting obligations, requirements and tax transactions as well as DGT major internal indicators of the tax cycle.
Step 2	Identification of rules related to the tax and procedure
Step 3	Identification of relevant business segments for the study
Step 4	Identification of the population and frequency of the transaction
Step 5	Identification of the related rules
Phase 3: Measurement	
Step 6	compliance costs Measurement
Step 7	administrative costs Measurement
Phase 4: Reports	
Paso 8	Extrapolation at national level of the data obtained
Step 9	Final report of the results and determinations of the simplification plan

Source: Measuring Tax Transaction Costs in Small and Medium Enterprises

Definition of MSME

For the purposes of this study the definition of MSME used is based on the decision raised in the tax transaction costs measurement study in small and medium enterprises developed by CIAT and the United Nations, which is included below:

Table N. 14

Definition of MSMEs			
Criteria	Micro-enterprise	Small Enterprise	Medium Enterprise
Number of workers	up to 10	up to 50	up to 200
Annual Sales	up to 100 thousand dollars	up to 2 million dollars	up to 5 million dollars
Source: Measuring Transaction Costs in medium and small businesses - CIAT - UN DESA			

Considering that in the case of Costa Rica, there is a tax system that includes MSMEs (not exclusively) in this study this group of companies was differentiated as to assess the impact of the scheme in this group and its relation regarding tax transaction costs. Thus, the population framework differentiates traditional regime companies from simplified regime companies.

The previous source information is based on the 2012 annual income return as well as on information statements filed by companies in the simplified regime within their quarterly statement. Since companies in the Simplified regime do not declare sales but purchases, the purchases were used as sales proxy¹⁸ in order to be able to define a standardized population.

Since the tax administration does not have in their databases information on number of workers per company, for determining the target population of the study, this variable was taken from the survey due to the fact that this information was collected in the fieldwork.

For the definition of the population those companies that did not have any activity were not considered, i.e. those that did not submitted returns or submitted information with zero activity. Based on this assessment it was possible to identify that there is a low incidence of taxpayers cancelling a registration or reporting low activity.

So the population subject to study was defined as follows:

¹⁸ Variable approaching the phenomenon to be studied

Table N. 15

**Companies registered at the Directorate General of Taxation- Population of the Transaction Cost Study.
Number of companies**

Company size	Population		
	Traditional reg.	Simplified reg.	Total
Micro	276.746	32692	309.438
Small	34.951	182	35.133
Medium	1.798	0	1.798
Total	313.495	32.874	346.369

Source: Directorate General of Taxation, Ministry of Finances of Costa Rica

1/ The number of companies taking into account the sales and purchase amount determined respectively in each regime

Collection of Information

According to the methodology, the administrative cost is estimated by using budgetary information provided by the DGT. In the case of compliance costs, it required taxpayer's information through survey.

Taxpayers Survey

The development of the survey took into consideration the CIAT - UN proposed methodology for measuring the transaction costs in small and medium enterprises. This survey was taken as a starting point and adapted to the particular characteristics of the tax system of Costa Rica.

The adequacy of the survey involved officials of the DGT taxpayers' assistance areas whose operational experience and knowledge of taxpayers were essential not only for the vocabulary and terms of the survey but also for the extent and scope of questions. The survey performed is in the annex of this document.

For the data collection supported by the CIAT - United Nations DESA Project, the market research company *Synapsis*¹⁹ located in localized Costa Rica was hired to be responsible for the data collection process. The methodology adopted for this study was face to face surveys interviewing the taxpayer for a period of twenty minutes.

The team consisted of 16 interviewers who with the information received from the DGT began the telephone contact process with the intent to make appointments with taxpayers.

After the survey was developed, it was evaluated through fieldwork test to an accountant at the survey company offices by one of their interviewers which was virtually transmitted to the rest of the team for them to see how it was done and for leaving no doubt as to the definitions and scope of the questions.

On the following day a fieldwork was performed where each interviewer should at least make two surveys to companies in a particular area previously selected and these were reviewed in the company with DGIT staff and the *Synapsis* supervisors. In case businessmen had doubts and problems for filling up the survey, it was explained once more to clarify them. The results of the evaluation were satisfactory.

Sample Selection Criteria

During the work developed by the DGIT team it was agreed that the selection criteria of the sample should be:

- Active Taxpayers (Not omitted for 2012 fiscal period) to February 28, 2013 within the General and Simplified Tax System.
- This includes all taxpayers defined under the parameters of MSMEs, excluding Large Taxpayers and large Territorial companies (GETES).
- This includes all sectors except for the public administration, Education and agriculture sectors.
- The scope was for those companies which are active within the Wide Metropolitan Area, which is defined from the counties of Athens in the Alajuela province to Paradise in the Cartago province and from Alajuelita in the San Jose province to Santa Barbara in the Heredia Province, for a total of 31 counties and 163 districts.

¹⁹ <http://synapsis-rs.com/site/>

The simple random sampling methodology was adopted with the following results:

$$N = \frac{P \cdot \alpha^2 \cdot Z^2}{(P - 1) \cdot e^2 + \alpha^2 \cdot Z^2}$$

Where:

N = sample value

P = Number of Taxpayers ranges defined in MSMEs

α = Standard deviation of the population (0.5 Suggested)

Z = confidence level (95%)

e = acceptable error limit (3%)

$$P = 346,369$$

$$\alpha = 0.5$$

$$Z = 95\%$$

$$e = \pm 3.5\%$$

$$N = 780$$

Thus, the sample resulted to study effects of at least 780 valid surveys, which were also grouped into proportions for both the general and simplified regime.

COMPLIANCE COSTS

According to the concept, the tax compliance cost component can be expressed as follows:

$$CC = IC + EC$$

Where:

CC = Taxpayer Tax Compliance Cost

IC = Internal Costs

EC = External Costs

The compliance cost is the sum of the Internal and External Costs. Internal Costs include labor costs and non-labor costs. Direct labor costs are those costs covered by the company using its own human resources and by which they receive a payment for the work performed used to comply with their tax obligations. Within the Internal costs additional values unearned incurred by the company are also included.

Similarly, External Costs are defined as those that the company charges to third parties to comply with their tax obligations. By which a payment in compensation for the service received must be made.

Internal Costs Calculations

One of the main difficulties in measuring compliance costs is to determine the time (hours per month) used by taxpayers to comply with their tax obligations. Then, the task of turning time into monetary values depend on the accurate estimate of the number of hours worked and the value to be determined for each hour.

Since internal costs are the result of the work developed by the company's internal staff, they are calculated based on the time company's internal resources spends for developing the tasks required for tax compliance.

This way we formalize the internal costs as follows:

$$IC = T_A * V_A + AE$$

Where:

IC = Taxpayer Internal Costs
 T_A = time (in hours per year)
 V_A = Value of time
AE = administrative expenses

Calculating the number of Hours.

For calculating the annual hours that an average taxpayer spends to comply with tax obligations a taxpayer profile was defined for both the traditional and the simplified scheme. These profiles were used to make annually the data for the information cost with a standardized treatment and adapted to be organized into annual data. It should be noted that the profile is a concept included in the methodology of this study.

It is known that for taxpayers, the refunds, claims and tax control process are non-periodic processes. However, for the purposes of this work it is assumed that all taxpayers participate at least once (event) in the process a year.

Taxpayer Profile in the Traditional Regime

- Submits 12 General Sales Tax returns (Form D -104)
- Submits 1 annual income return(Form D-101)
- Submits 1 annual Statement Summary of customers, suppliers and Specific Costs (Form D-151)
- Submits 3 Self-assessments of installments - income tax (Form D - 108)
- Submits 12 withholdings at Source (Form D - 103)
- Submits 1 request for a refund
- Submits 1 application for claims
- Receives one visit / contact for control reasons from the DGT

Taxpayer Profile of the Simplified Regime

- Submits 4 Simplified Tax Regime Statements (Form D - 105)
- Submits 1 annual Statement Summary of customers, suppliers and Specific Costs (Form D-151)
- Submits 1 request for a refund
- Submits 1 application for claims
- Receives one visit / contact for control reasons from the DGT

In relation to the submission of forms, the survey asked taxpayers how long it took, to fill, file and pay monthly, quarterly and annually each of the tax obligations respectively.

If a taxpayer mentioned that the filling process takes a number of hours (in the event that the taxpayer shall indicate minutes are divided between 60 to move time to hours and facilitate the interpretation) per month, this value is multiplied by 12 to get the annual data.

These times were accumulated and extrapolated to annual period using the expansion factor for each type of taxpayer and tax regime. The expansion factor is interpreted as the number of companies in the population, which represents a company in the sample.

The estimate of the total given for a variable is obtained, first, by assessing the value of the variable by its expansion factor and then adding all the companies in the sample.

Also, in relation to the refunds, claims and control processes, it was assumed that this process only occurs once a year and therefore the data from the survey corresponds to the annual period.

For this study, the monetary cost of the taxpayer time as an opportunity cost concept incurred by the medium taxpayer, we used the minimum wage of an accountant issued by the ministry of labor and social security of Costa Rica²⁰ for the second semester of 2012. This salary was set at c/441, 531 colones to the exchange rate of December 31, 2012 c / 508.20. We have an average hourly wage of \$ 4.8.

Calculating Administrative Costs and Expenses

Taxpayers within the compliance process with their tax obligations must present expenditures with printing invoices, documents, purchase ledgers, authentications and accounting books. The survey developed required that the taxpayer to estimate how much these expenses on a monthly basis were and thus incorporate them in the compliance costs calculations.

This calculation has 5 components:

1. External expenses incurred by the registration and application process, issuing invoices, forms, ledgers, Computer programs, legalization or other.
2. Other expenses generated by the tax control actions of the tax administration.

²⁰ <http://www.mtss.go.cr/>

3. Additional expenses from a refund request
4. Additional expenses from request for claims
5. Additional expenses for the use of an external consultant

Each of these expenditures was aggregated by taxpayers on a monthly basis so that they can be extrapolated to annual data.

Tax Compliance Costs

Based on the sample data, each tax process components was evaluated by ax process, which includes: registration, return and payment, tax control, refunds and claims, consolidating all hours (according to profile) multiplied by the time monetary cost (salary), adding external costs and expenses for the taxpayers of the sample. The calculations were made for each population subset i.e. type of regime and business.

Thus, the following results were obtained for the 842 companies in the sample. According to the calculation of sample size the number of valid surveys should be 780, but the contracted company was requested to make 800 and it made 842.

Table N. 16

Survey Results - By Type of Company			
Company Size	Sample		
	Traditional Reg	Simplified Reg	Total
Micro	531	203	734
Small	96	6	102
Medium	6	0	6
Total	633	209	842
Source: CIAT - UN DESA Survey			

This way, the following results were obtained for the 842 companies of the sample

Table N. 17

Annual Tax Compliance Costs - - Sample 842 Taxpayers -2012				
Thousands of Dollars				
Regime	Company Size			Total
	Micro	Small	Medium	
Traditional Regime	1,206	208	20	1,434
Simplified Regime	226	8	0	234
Total	1,433	216	20	1,668
Source: CIAT - UN DESA Survey				

It is to note that for medium-sized companies there is no information of the simplified system since by definition this group is not included in the scheme. It is worth noting that the determination of a Simplified Regime enterprise are made according to their activities and based on a certain amount of purchases; there is no classification by size of company.

The determination of the total amount (total cost) is the simple sum of each of the subsets of the population.

These data were extrapolated by the expansion factors calculated with the information of the sample divided by the total population under study, resulting in the following values²¹.

Table N. 18

Expansion factors			
Regime	company Size		
	Micro	Small	Medium
Traditional Regime	521	364	300
Simplified Regime	161	30	0
Source:CIAT - UN DESA Survey			

As it can be seen the expansion factors are fairly homogeneous. In the case of the traditional system the data are 521, 364 and 300 for each type of business, respectively and a little heterogeneous in the case of simplified regime due to its representation in each type of business in the population. In the case of small businesses in the simplified scheme a company is representing 30 companies from the population.

Table N. 19

Annual Tax Compliance Costs-Costa Rica - Population -2012				
Thousands of Dollars				
Regime	Company Size			Total
	Micro	Small	Medium	
Traditional Regime	628,749	75,661	5,851	710,261
Simplified Regime	36,437	239	0	36,676
Total	665,186	75,900	5,851	746,937
Source: CIAT - UN DESA Survey				

²¹ The expansion factor for a study based on a sample, is the amount that acting as a multiplier allows taking the sample data to the population, i.e. expanding the sample. This factor is calculated based on the selection probability of the elements in the sample, being the spreading factor the inverse or reciprocal probability of the selection of elements

The total compliance costs in Costa Rica for 2012 is estimated at \$ 781 million dollars representing 1.69% of the country's GDP. If we analyze the information by type of enterprise, micro enterprises, given their number and level of concentration, represented a cost of \$ 695 million dollars with a share of 1.5% of GDP. Finally, the small and medium enterprises, due to their low representation in the study, were only 0.17% and 0.01%, respectively.

Table N. 20

Tax Compliance Costs - Costa Rica -2012				
% GDP				
Regime	Company Size			Total
	Micro	Small	Medium	
Traditional Regime	1.41	0.17	0.01	1.59
Simplified Regime	0.08	0.00	0.00	0.08
Total	1.49	0.17	0.01	1.67

Source:CIAT - UN DESA Survey

Moreover, compliance costs represented 2.24% of total sales. As can be seen in the micro segment, compliance costs represent 4.50% of total sales while for small and medium represent 0.5% and 0.17%, respectively.

It should be noted that since there is no information available of the population sales under study and that the survey only required the sales ranges to which each company belongs, the sales were estimated by using the average of each range and multiplying it by the expansion factors of each of the company under study resulting in the total sales by company type and tax regime which was used for the calculation of the indicators in table 20.

Table N. 21

Tax Compliance Costs - Costa Rica - 2012				
% Total Sales				
Regime	Company Size			Total
	Micro	Small	Medium	
Traditional Regime	4.06	0.48	0.16	2.04
Simplified Regime	0.24	0.00	0.00	0.11
Total	4.30	0.48	0.16	2.14

Source:CIAT - UN DESA Survey

Average Costs by Company:

The tax system generates companies in Costa Rica an average annual cost up to \$ 2.256. These results were calculated by dividing the total cost by the number of companies in the population. However, the total costs for medium enterprises had a higher average (\$ 3.395) than for micro enterprises (\$ 2.248). We can conclude that there are factors that make large companies to have higher fixed costs are incurred, as will be seen later, due to costs and external expenses.

Table N. 22

Tax Compliance Costs - Average Cost per Company - 2012				
In Dollars				
Regime	Company Size			Total
	Micro	Small	Medium	
Traditional Regime	2,272	2,165	3,254	2,266
Simplified Regime	1,115	1,316	0	1,116
Total	2,150	2,160	3,254	2,156
Source: CIAT - UN DESA Survey				

However, when analyzing these costs as a percentage of sales it shows that microenterprises have a higher burden as a percentage of their sales by having a company of the traditional system costing up to 4.8% of sales. This cost decreases as the company gets bigger having a medium size company up to 0.2% of sales. Thus, the compliance costs are regressive for companies in Costa Rica being these costs 20 times more important for microenterprises than for medium ones.

Table N. 23

Tax Compliance Costs - Cost as a Percentage of Sales - 2012				
In Percentage				
Regime	Company Size			Total
	Micro	Small	Medium	
Traditional Regime	4.5	0.5	0.2	2.2
Simplified Regime	2.2	0.3	0.0	1.1
Total	4.3	0.5	0.2	2.1
1/ Sales calculated based on the average of the defined range				
2/ Total sales calculated weighted by the number of taxpayers by company size				
Source:CIAT - UN DESA Survey				

Table N. 24

Tax Compliance Costs - Cost per Tradicional Reg Company- Used Hours - 2012				
Annual Average Cost - In dollars				
	Comapny Size			Total
	Micro	Small	Medium	
Number of Annual Hours	129	161	111	134
AnnualnCost	623	776	537	649
Source:CIAT - UN DESA Survey				

For calculating the average of hours a company in Costa Rica spends to comply with its tax obligations, the average times of the companies in the sample for each of the tax processes where staff in the company spends time.

This way, the payment statement, returns, claims and tax control were added to the information and registration processes²², i.e. we did not consider the costs or the external costs²³ in order to have an average total number of hours for a company in the year.

We can see that the companies in the traditional system spend an average of 134 hours per year to comply with their tax obligations. If this number of hours were multiplied by the average hourly wage, the cost is \$ 698 per year. These hours are to be a comparison of the payroll cost that represents tax system operation in a company.

²² We used the profile thus contributing to extrapolate to annual data

²³ Data in the survey was asked to calculate the taxpayer

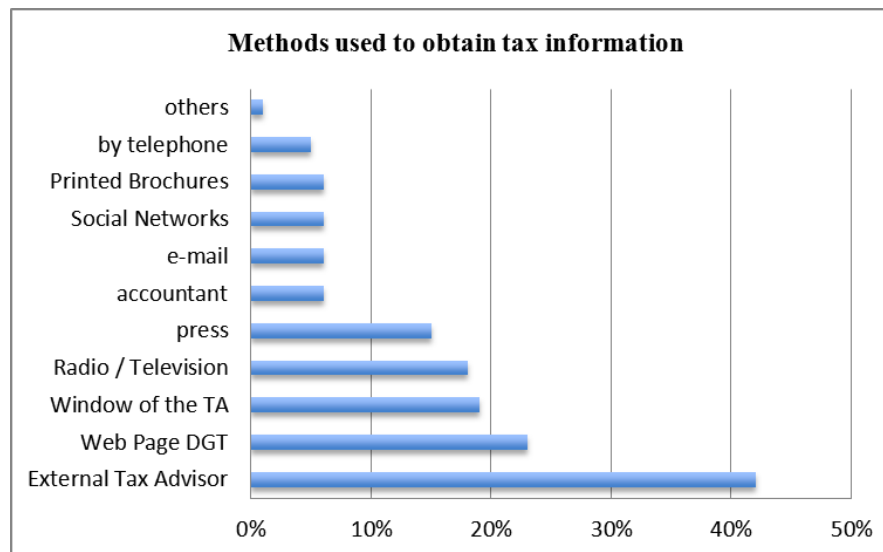
Table No. 25

ax Compliance Costs - Cost per Company- Simplified reg- Used Hours - 2012				
Annual Average Cost - In dollars				
	Company Size			Total
	Micro	Small	Medium	
Number of Annual Hours	66	78	0	66
Annual Cost	317	375	0	320
Source: CIAT - UN DESA Survey				

In the case of companies in the Simplified Regime the numbers of hours in the year were 66 at a cost of \$ 317 on average.

Graphic N° 6 shows that 42% uses an external tax advisor as a method to get tax information, only 23% uses the DGT website, and 19% reports in the offices.

Graphic N.4



When the taxpayer was asked about the reason for hiring the services of an external consultant, 76% said the adviser provides a more detail information than the Tax Administration, 67% said that the reason is the lack of time to go to the tax administration and 39% that TA officials did not adequately explain queries. With these results we can see which activities within the tax administration can be strengthened in order to provide tax advice to taxpayers so that it is not necessary to hire an external consultant.

26% considered it cheaper to hire a tax advisor. This group believes that the opportunity cost is high therefore they preferred to hire someone to do it.

Table N. 26

Reasons for hiring the services of an external consultant

The tax advisor provides a more detail information than the AT	76%
Due to the lack of time to go to the TA to request information	67%
TA officials do not adequately explain the consultations	39%
There was little information at the TA or the DGT website	34%
It was cheaper to hire an external tax advisor	26%
Others	4%

Source. CIAT – UN Survey Project

An interesting fact is that a tax advisor fills the gap found by taxpayers when finding constraints on the information provided by the tax administration. In this sense, it could generate opportunities for improvement and seek a reduction in external costs acquired by the taxpayer. On one hand, to be more effective in the training and deployment of the tax system is an opportunity that could generate a direct relationship between increased training and lower taxpayer compliance costs since they would require fewer external consultants.

On the other hand, it may also regulate the role of external consultants whose ability to face the tax system is greater than that of a trained taxpayer (tax accounting) or an experienced taxpayer. Thus the country's tax administration should find a balance that should equal the opportunity cost of the taxpayer.

Information and Registration

Information and registration process includes 3 sub processes for taxpayers. These are: Registration or updating data, training on tax issues in the tax administration and the accounting records. For each of the cases during the survey the taxpayer was asked how many hours they spent on these activities.

Companies spent 44 hours on average to address these three processes. As seen in the case of company size the cost is slightly higher for medium compared to micro and small enterprises. This is due to the number of hours for filling up accounting record where the greater the size of the company the greater the complexity in the tax system and therefore more time spent for bookkeeping.

Table N. 27

Tax Compliance Costs - Traditional Reg - Information and Registration - Hours - Annual Average Cost - In dollars				
	Company Size			Total
	Micro	Small	Medium	
Annual Hours	42	49	51	44
Training	13	15	8	13
Registration or Update	2	2	3	2
Accounting Records	28	32	41	29
Annual Cost	205	238	247	210
Source: CIAT - UN DESA Survey				

Regarding the registration process, it takes on average 2 hours. However, given that only 4% were registered last year, the hours are overvalued for new taxpayers considering that the registration and virtual data update were recently implemented. According to information from the DGT this process takes on average less than one hour.

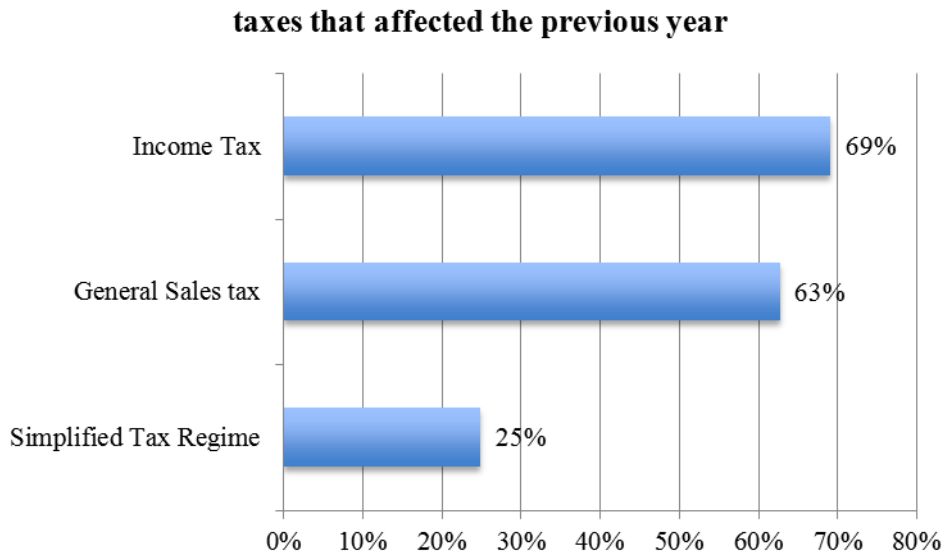
It can be seen that regardless of the type of registration and type of scheme of the taxpayer, there were no statistical differences in the training time or to inform about tax obligations, most of them use 1 hour or less on average per month.

Table N. 28

Time to be inform				
In percentage				
Time per month to be Informed/ trained on tax Obligations	Type of Company			
	Micro	Small	Medium	Total
Less than half an hour	28	24	33	27
Between half and 1 hour	22	16	33	21
1 hour	26	30	33	26
Between 1 and 2 hours	0	0	0	0
Between 2 and 3 hours	17	24	0	17
More than 3 hours	3	4	0	3
NA	4	3	0	3
TOTAL	100	100	100	100
Source. CIAT - UN Project Survey				

Taxpayers were asked what taxes affected them last year. While Simplified Taxation includes income tax and the general sales tax, the universes of these are exclusive so 25% affirm to be in the simplified system while 69% and 63% reported being subject to GST and income tax, respectively.

Graphic N.5



In relation to the economic sector-disaggregated data it should be noted that the distribution is fairly homogeneous, i.e. a concentration of the simplified regime in economic sectors is not observed, except for the artisans which are 100%.

Graphic N.6

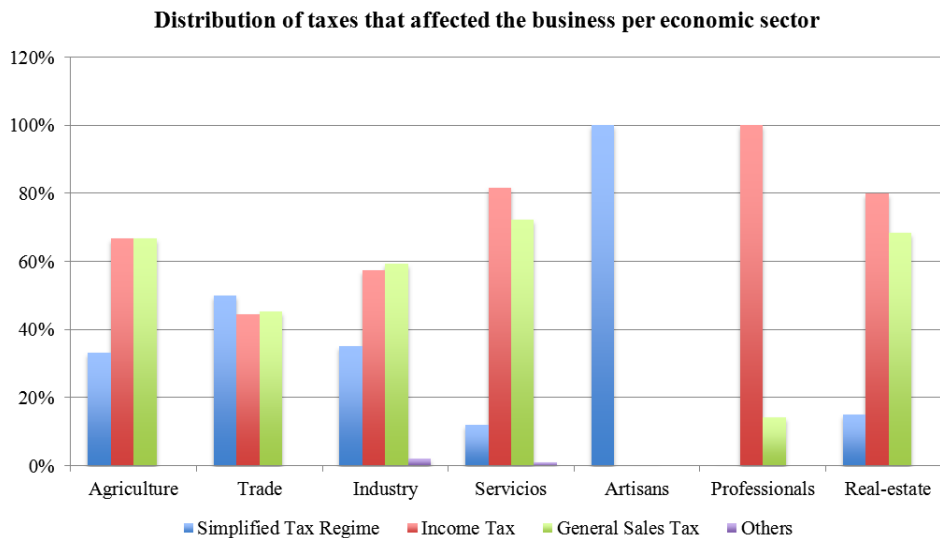


Table N. 29

Time per month to be Informed / trained on tax Obligations					
In percentage					
Times	Position in the Company				Total
	Manager	Owner	Business Accountant	Employee	
Less than half an hour	42	46	47	39	44
Between half and 1 hour	3	7	18	3	6
1 hour	34	25	22	30	27
Between 1 and 2 hours	12	16	7	21	15
Between 2 and 3 hours	5	2	2	3	3
More than 3 hours	4	3	4	5	4
TOTAL	100	100	100	100	100

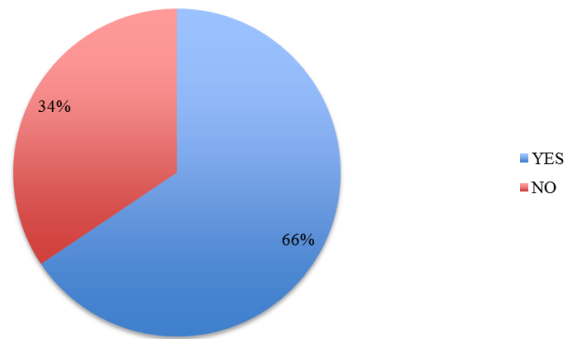
Source. CIAT - UN Project Survey

When asked about the average time per month for training, there were no significant differences by age, sex or province. However, 65% of those holding accounting positions admit using less than an hour, contrary to other positions where only 50% admit to be in this range.

On the other hand, 66% of taxpayers use the internet to meet their tax obligations. Of this 66% to 66% perform their operations from the company's office, while 36% do it from home. It is common to find in MSME segments the use of internet from home given the level of commitment that companies have with their own development and growth.

Graphic N.7

Use Internet to comply with tax obligations

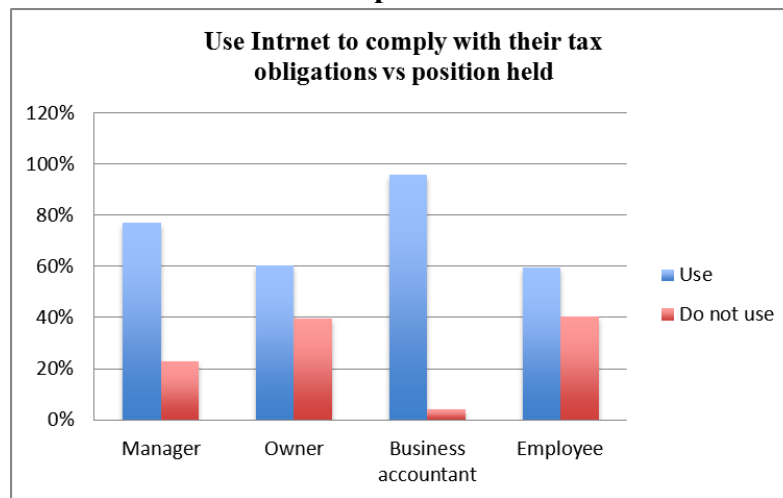


Source: CIAT-UN DESA Survey

When we see the information received according to the position in the company, we observe that accountants understand the virtual platforms better than 96% of people with other positions in the company who use the internet to meet their tax obligations. Also, it can be seen that both the owners and employees of the company are less likely to use the Internet to meet their tax obligations.

Graphic N.8

Use Internet to comply with their tax obligations vs position held



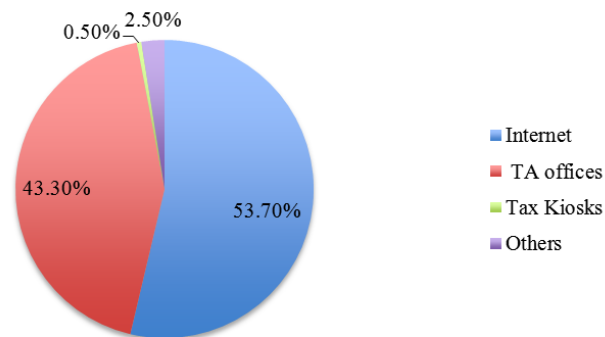
Source: CIAT-UN DESA survey

Regarding the channel used to update the register, taxpayers are using the virtual channels. So 53% of taxpayers use Tribunet for their processes while 44% still go to the tax administration for the process. The remaining 3% responded with different answers such as

through the accountant or banks which would indicate that the answers are not valid as these are not within the feasible set.

Graphic N.9

Channel used by surveyed to make their registration or update their data

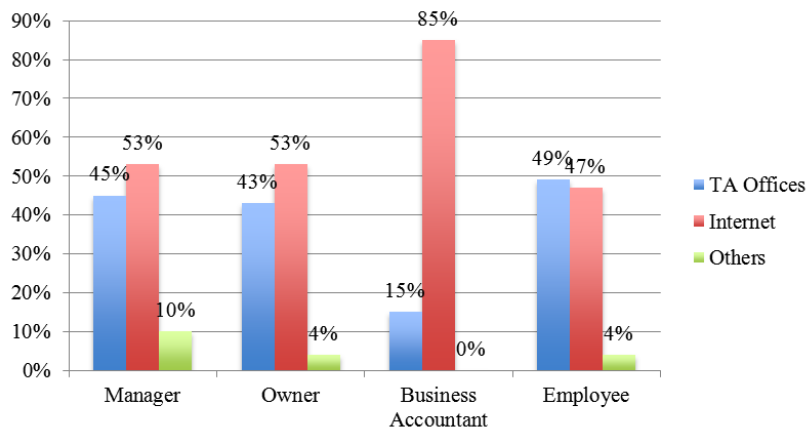


Source: CIAT-UN DESA survey

When we analyze the information received according to the position in the company, it shows again that accountants have a greater tendency to use virtual tools compared to other positions in the company. 89% of accountants update information online while only 50% of the other positions use the virtual tool.

Graphic N.10

Channel used for Tax registration or update according to the position held



Source: CIAT- UN DESA survey

Tax Returns and Payment

The returns and payment process includes filling out forms, submissions (face to face, virtual, etc.) and finally the payment process (banking, virtual, etc.). On average a company under the traditional system allocates 83 hours per year to activities related to the payment process this represents 62% of total hours (134).

Table N. 30

Tax Compliance Costs - Reg Traditional - Return and Payment - 2012				
Annual Average Cost - In dollars				
	Company Size			Total
	Micro	Small	Medium	
Annual Hours	79	109	60	83
Filling	27	40	19	29
Return	27	38	12	29
Payment	24	30	30	25
Annual Cost	380	524	289	401
Source: CIAT - UN DESA Survey				

It is worth noting the difference in filling hours of medium enterprises which is significantly less time than for small and micro enterprises. This could be explained by the level of automation that these companies have developed and because they have more trained personnel to fill tax forms.

In relation to the average of hours for a company in the simplified regime, these were up to 17. This is so considering that the regime is submitted quarterly and according to the profile they only submit an annual summary of customers, suppliers and specific expenses.

Table N. 31

Tax Compliance Cost -Simplified Reg - Return and Payment - 2012				
Annual Average Cost - In dollars				
	Company Size			Total
	Micro	Small	Medium	
Annual Hours	17	11	0	17
Filling	6	4	0	6
Return	7	3	0	7
Payment	3	4	0	3
Annual Cost	83	55	0	82
Source: CIAT - UN DESA Survey				

For 70.3% of the companies it took about an hour or less to fill out forms this is statistically significant for the 3 types of company.

Table N. 32

Time for filling returns				
In percentage				
	Company Size			
	Micro	Small	Medium	Total
Less than half an hour	31	20	33	30
Between half and 1 hour	15	8	0	14
1 hour	26	30	44	26
Between 1 and 2 hours	0	1	0	0
Between 2 and 3 hours	16	22	11	17
More than 3 hours	11	19	11	12
TOTAL	100	100	100	100

Source. CIAT - UN Survey Project

However, when we analyzed the information by the type of position that the respondent has in the company, accountants differ from respondents in other positions since most of them take less than 1 hour. The common denominator is that accountants are more effective in using the tools and therefore will create greater value to the process.

Table N. 33

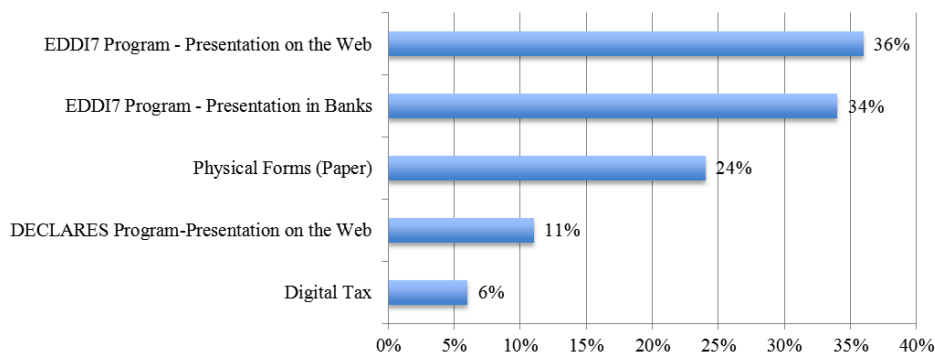
Hours per month it takes to submit the forms to the TA					
In percentage					
	Position in the Company				Total
	Manager	Owner	Business Accountant	Employee	
Less than Half Time	35	41	63	35	40
Half to 1 hour	15	20	15	17	18
1 hour	26	25	9	29	25
1 to 2 hours	15	10	7	13	11
Two to 3 hours	4	1	4	2	2
Over 3 hours	5	3	2	4	4
TOTAL	100	100	100	100	100

Source. CIAT - ONU Survey Project

As it can be seen 55% of taxpayers use the EDDI7 program for submitting returns, about 50% submit it through the internet, while the remaining ones are traditionally submitted in banks. 24% submit them through physical forms; this group corresponds to the companies in the simplified regime that still do not have a virtual tool for filing returns.

Graphic N.11

Means used by the taxpayer for filling the tax returns



Source: CIAT-UN DESA survey

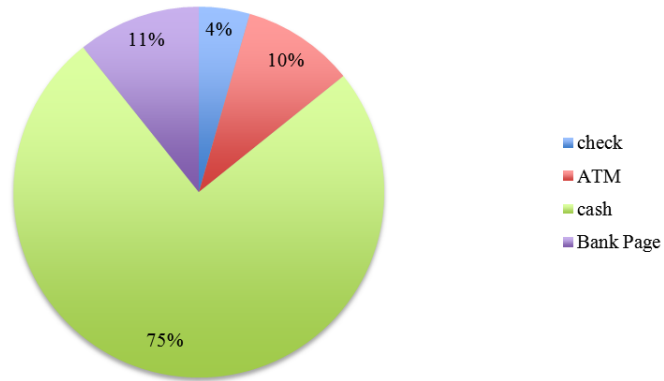
Regarding the payment mechanisms, it is worth noting the high use of cash (75%) in the payment of tax obligations. This could explain the 25 hours per year that companies spend in this activity and may be the reason why medium enterprises that have greater access to payment instruments spend fewer hours (19) for this activity.

The payment process is the tax administration responsibility but it should go hand in hand with the financial system which is the responsible for providing the tools and payment instruments available to taxpayers.

Of those (24%) who used the financial system for the payment of taxes, 59% used the company's account and 38% used their personal accounts while 3% used a third party account. It is important to note that tax transaction costs have additional costs such as banking costs, which are not included in the scope of this study. In that sense, the fact that companies use banking accounts to pay taxes is a way to reduce financial costs but which does not support the banking process.

Graphic N.12

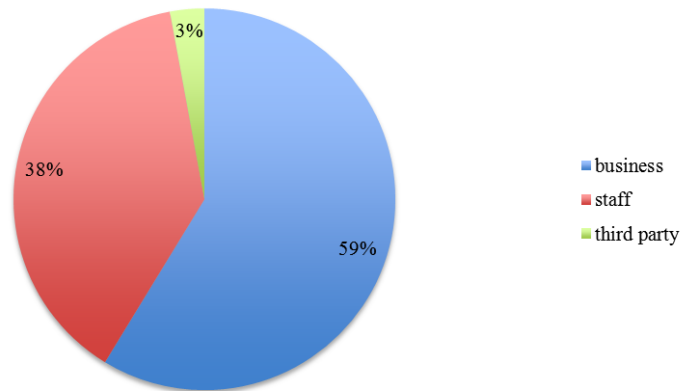
Payment methods to comply with their tax obligations



Source: CIAT-UN DESA survey

Graphic N.13

Account used for paying taxes.



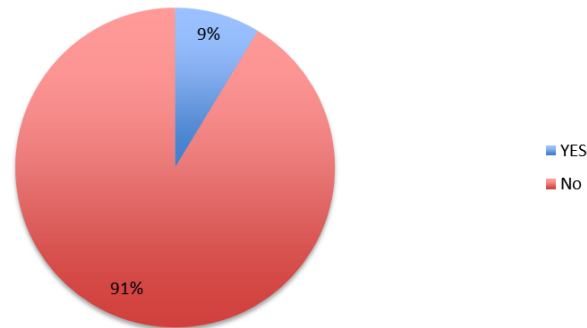
Source: CIAT-UN DESA survey

Tax Control

The tax control is bounded to the requirements of business information, verification of differences, and control of accounting records, among others. 9% of respondents said that they had performed a process or made a requirement at the tax administration in the last 12 months. These results show the presence and coverage of the tax administration in the period of the study.

Graphic N. 14

Taxpayers with proceedings in the tax administration in the last 12 months



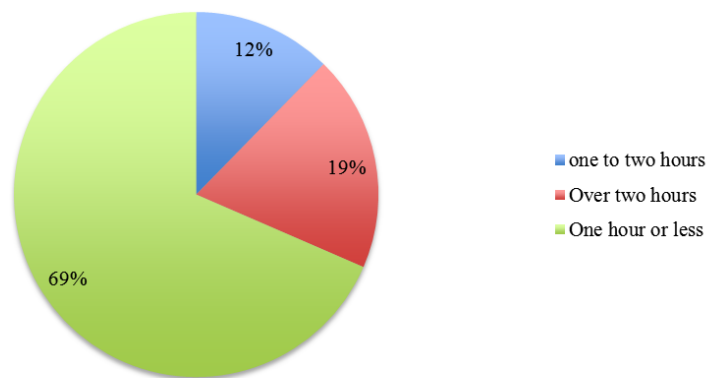
Source: CIAT-UN DESA survey

About 43% of taxpayers contacted by the DGT said that had been required for information on the business (document verification), followed by 20% who had a verification of the differences in the affidavits. The average time for these requirements was 3 hours. Less than 10% of taxpayers said they had incurred in any extra cost.

69% of taxpayers who had some process at the tax administration resolved the request in an hour or less, 12% between 1 and 2 hours and 19% in more than two hours.

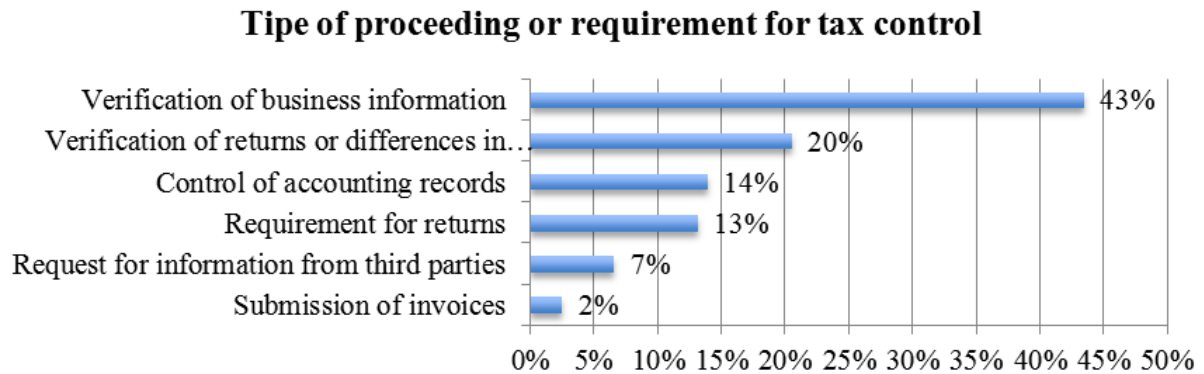
Graphic N.15

Hours required to comply with the tax administration's requirements



Source: CIAT-UN DESA survey

Graphic N.16



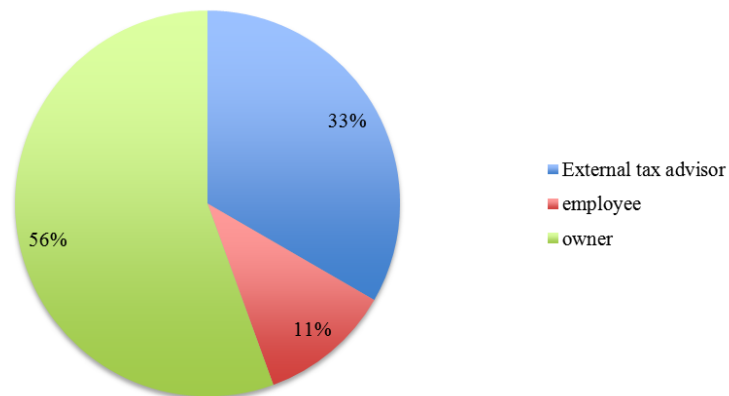
Source: CIAT-UN DESA survey

Refunds and Claims

Only 1% of respondents said that they had made a request for refunds in the period of the study. 33% of respondents indicated that they had used an external consultant and that on average they spent approximately \$200 for the processing. The taxpayers' cash refund process by its very nature becomes very attractive to external agents plus the complexities of the refund system itself makes the transaction cost for this process expensive.

Graphic N.17

Person who usually prepares or performs the tax refund request

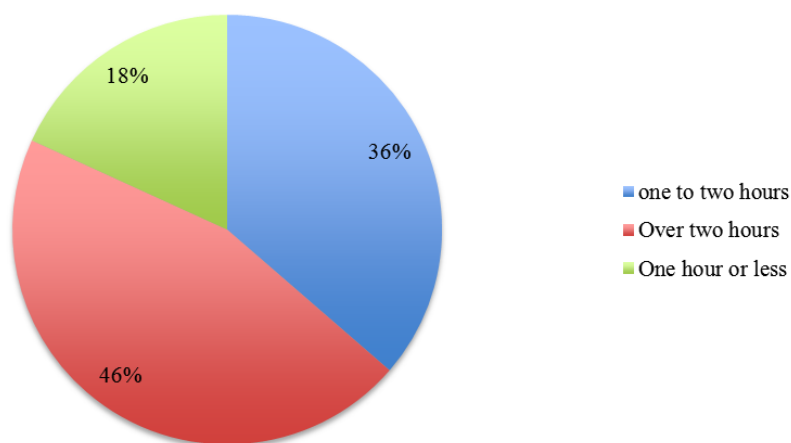


Source: CIAT-UN DESA survey

Although a significant percentage use external consultants for the refund process, 67% of companies prepares the request directly, the average time for filling the application was 1 hour. This would mean that hiring an external consultant it's not only for making the request but to monitor the processing (phone calls, emails, etc.). The average cost of an external consultant is up to \$200.

Graphic N.18

Time it takes for a tax claim



Source: CIAT-UN DESA survey

In relation to claims, 2% of respondents said they had made a claim in the study period. 50% of respondents said that they personally performed the process and 50% used an external consultant to perform the procedure. Additionally, the average to solve a claim was between 1 and 6 months. Finally, 46% of respondents said it took more than two hours to present the claim.

External Costs and Expenses

The costs and external costs are an important component of the tax compliance costs in Costa Rican companies. Nearly 76% of the compliance cost is intended to external costs and expenses. This way, companies spent \$ 1.654 per year in external costs and expenses out of the total \$ 2,156 tax compliance costs.

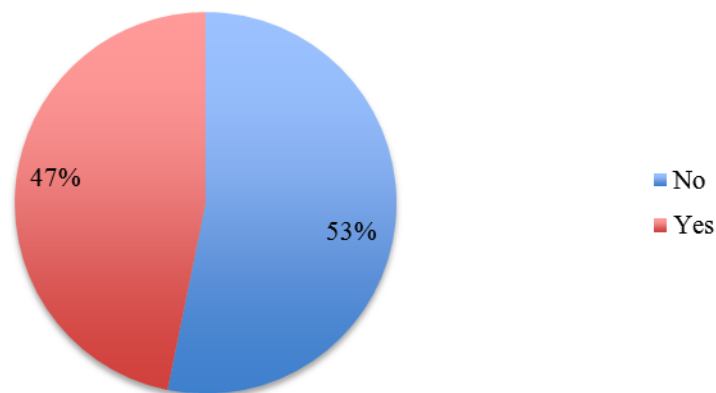
Table N. 34

Tax Compliance Costs -External Costs and Expenses - 2012				
Average Cost per Company in dollars				
Regime	Company Size			Total
	Micro	Small	Medium	
Traditional Regime	1,760	1,514	2,732	1,738
Simplified Regime	848	941	0	849
Total	1,664	1,511	2,732	1,654
Source:CIAT - UN DESA Survey				

A central issue in the tax transaction costs which confirms the hypotheses of this study is that 47% of respondents said they used an external tax advisor to meet their tax obligations.

Graphic N.19

Companies that paid external consultants in the last 12 months



Source: CIAT-UN DESA survey

In relation to the component "external consultants", companies spent on average \$ 743 per year to pay external consultants. It is also observed that the largest expenditure is in medium companies.

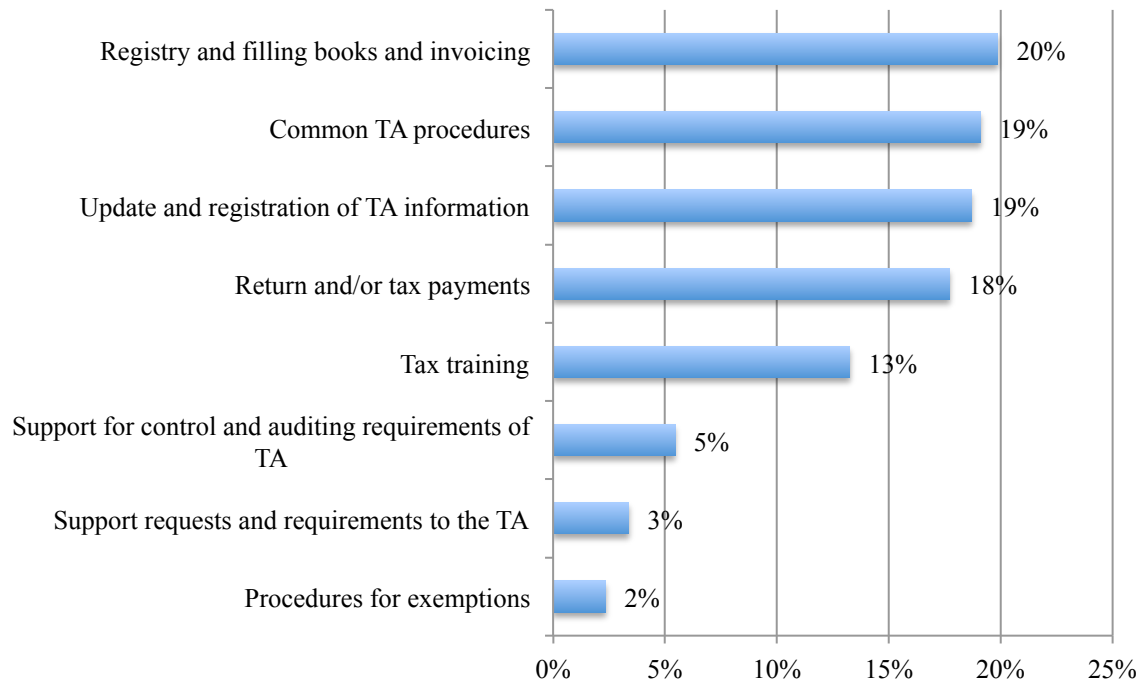
Table N. 35

Tax Compliance Costs - Expenditure on External Consultants - 2012				
Average Cost per Company in dollars				
Regime	Company Size			Total
	Micro	Small	Medium	
Traditional Regime	787	550	1,417	764
Simplified Regime	262	315	0	262
Total	732	549	1,417	717
Source: CIAT - UN DESA Survey				

The most common activities for which the taxpayer required the support of an external consultant were: the filling and the registration of accounting books (20%), the usual formalities in tax administration (19%), updating and recording information and the submission of returns (18%).

These results indicate that it is quite common in MSMEs to use external advisors in supporting ledgers filled; despite that this activity has a relatively low level of difficulty, companies prefer to assigned it to a third party.

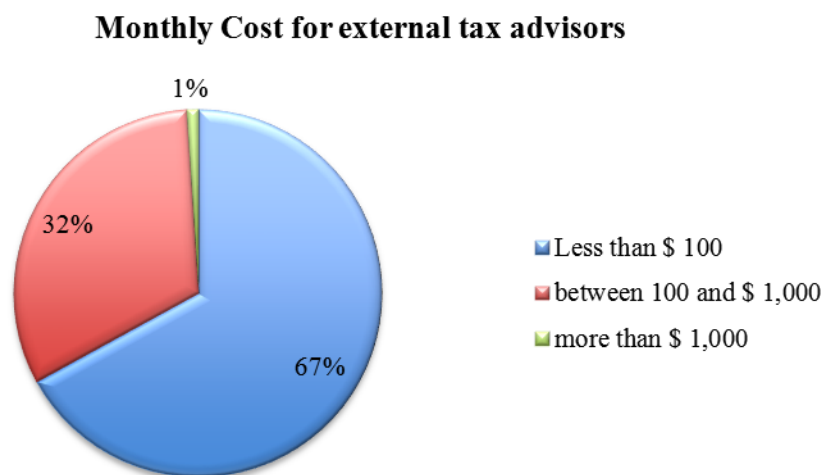
It may be concluded that the taxpayer opportunity cost for this activity is high and thus is transferred to a third party who surely has fairly defined both procedures as well as software tools which for a reasonable amount performs this activity. The average external cost to develop these activities is \$ 120 per month according to the results of the survey. It should be noted that counseling is not exclusively for an activity but it could include more of them, increasing their value.

Graphic N.20**Procedures that require a tax advisor**

Source: CIAT-UN DESA survey

67% of those who used an external consultant said that this represents a cost less than \$ 100 per month, 32% said that the payment represents between 100 and 1000 dollars per month and only 1% said it exceeded a thousand dollars a month.

Graphic N.21



Source: CIAT-UN DESA survey

Additionally, the taxpayer was asked if he had any other costs not covered by this survey, 3% mentioned administrative penalties and 4% mentioned the interest payments.

ADMINISTRATIVE COSTS

Administrative costs represent the state spending to administer the tax system. According to information from the executed budget it was 0.11% of GDP in 2012

The purpose of this section is to distribute this amount expended in each of the sub tax processes/cost center. For calculating these costs it was required to the Revenue Management Division of Costa Rica information of the budget and human resources allowing implementing measurement methodology for tax transaction costs.

The DGT is an organization that operates under a model of "functional structure" based essentially on a group of Directorates at the core level with national operational competence and decentralized operational tasks assigned to territorial tax Administrations under the Regional Directorates and a Large Taxpayer Unit at national level. In these central areas we find activities labeled as normative, however for the purpose of this methodology we have assigned them to sub-processes. The activities of the Control, Collection and Taxpayer Service Directorates have therefore been distributed to their respective sub-processes.

Table N. 36

DIRECTORATE GENERAL OF TAXATION

AREAS
Central and Regulatory Directorates
Directorate and Directorate General
Integrated Tax Management Directorate
Directorate for Interinstitutional Taxation Affairs
Tax Information Technology Directorate
Regulations Directorate
Directorate of International Taxation and Technical Taxation
Taxpayer Service Directorate
Directorate of Revenue
Directorate-Area Collection and File Doc
Extensive Tax Control Directorate
Management Control
Directorate of Tax Intelligence
Directorate of Administrative and Tax Appraisals
Directorate of Technical Standardization Body
Directorates Operational
Large Taxpayers National Directorate
Central Regional Directorate
Adm. San Jose West
Adm. San Jose This
Adm. Lemon
Northern Regional Directorate
Adm. Alajuela
Adm. Heredia
Adm. North Zone
Pacific Regional Bureau
Adm. Guanacaste
Adm. Puntarenas
South Regional
Adm. Cartago
Adm. South Zone

Source: Directorate General of Taxation

In relation to the operational units, they manage a departmental structure with profiles assigned to each of the areas that allowed that each of them be assigned to each of the sub-processes.

Table N. 37

Areas and Profiles		
Area	Profile	
Extensive. Tax Control	Managers	
	Resolvers	
	Jefaturas	
	RUT Manager	
	Other	
	Manager Assistant	
	Support Staff	
Intensive Tax Control	Auditors	
	Resolvers	
	Head Offices	
	Subdirector	
	Support Staff	
Collection, Control and Tax Services Sub-Management	Managers	
	Resolvers	
	Others	
	Tax Analysts	
	Support Staff	
Collection	Managers	
	Resolvers	
	Jefaturas	
	Manager Assistant	
	Returns	Manager
		Reviewer
		Manager
		Support Staff
	Others	
Collection	Support Staff	
	Manager	
	Reviewer Manager	
	Head Offices	
	Manager Assistant	
Checking Account	Support Staff	
	Manager	
	Reviewer Manager	
	Head Offices	
RUT	Manager Assistant	
	Managers	
	Head Offices	
Taxpayers services	Support Staff	
	Managers	
	Assistant Manager	
	Head Offices	
	Resolvers	
	Others	
Assessment	Support Staff	
	Expert	
	Manager assistant	
Economic and Tax Research Studies Sub-directorate	Tax Analysts	
	Manager Assistant	
manger Level/ administrative Staff	Manager	
	Head Offices	
	Resolvers	
	Manager	
	Support Staff	

For these purposes, each step of the methodology described below was followed.

Step 1: Executed Budget

The executed budget for 2012 was \$51 million Dollars having a drop of 10% over the 2011 budget. It should be noted that almost 70% of the budget is allocated to salaries category followed by the service category with 25%. The budget represents 0.11% of GDP. The reason for the budget decrease is due to the current transfers' category. In this area in the years 2010 and 2011 were included pending refunds from previous years that were executed during these years.

Table N. 38

Step 1: EXECUTED BUDGET			
In Dollars			
Items	2010	2011	2012
Salaries	26,254,378	32,370,536	35,095,249
services	9,543,383	12,647,879	12,831,708
Materials and Supplies	341,916	366,356	334,930
Durable Goods	594,275	685,319	1,466,150
Current Transfers	10,768,219	9,742,951	1,302,099
Special Account	11,150	551	1,456
Total	47,513,320	55,813,591	51,031,592
% Collection	1.63	1.65	1.35
% of GDP	0.14	0.14	0.11

Step 2: Budget for Expenditures by Function

In this step we proceeded to allocate the budget to pay according to the participation of the remuneration paid to officials in each of the areas for the year 2012. So it was necessary to assign based on the function performed by officials within each area and which human resources has divided it by the profiles of each of the sub tax processes. It was observed that some tax processes are across the areas of DGT such as the registration or RUT which does not only belongs to taxpayer service area but also has profiles within other areas of the organization. Just for a methodological aspect it assigned the heads of operating units²⁴ to

²⁴ Understood as the managers and support staff of tax administrations.

the taxpayer services process so that their contribution was identified within any of the processes.

The following Directorates were included in the General Management function: General Directorate and Sub-directorate, Integrated Tax Management Directorate, Inter-institutional Tax Affairs Directorate, Tax Information Technology Directorate, Tax Regulations Division, International Taxation and Tax Technical Directorate, Technical Standards and Regional Offices. It should be noted that the technical standards body is an advisory body and for municipal assistance with a limited role in taxation.

Thus, the audit area is receiving an increased amount of budget allocation (34%) due to the amount of human resources that are allocated to this process.

Table N. 39

STEP 2: EXPENDITURE BUDGET 2012

In Dollars

Expenditures by Major Functions	Expenses on Salaries	Nº of Staff	% of Total Employees	Average Monthly Salary
Support and Services	6,359,892	184	19	2,880
Return and Payment	5,429,045	151	16	2,996
Collection	2,367,649	69	7	2,859
Claims	1,989,308	58	6	2,858
Refunds	302,441	9	1	2,800
Auditing	12,092,928	364	37	2,769
General Administration	6,553,986	138	14	3,958
TOTAL	35,095,249	973	100	3,006

Step 3: Installed Capacity by Key processes

This section calculates the installed capacity for each sub-process or defined cost center. For this it 240 working days were considered which will be a reference for resource allocation in subsequent sections of the methodology. In this case general administrative costs are not taken into account since this activity must be distributed in each of the tax sub-processes.

Table N. 40

STEP 3: INSTALLED CAPACITY BY MAIN PROCESSES

Costs Center	N. of Employees	Annual working days	% Installed Capacity
Support and Services	184	44160	22.0%
Filing and Payment collection	151	36240	18.1%
Claims	69	16560	8.3%
refunds	58	13920	6.9%
Auditing	9	2160	1.1%
TOTAL	835	200,400	100.0%
<i>Work days per year</i>	240		

Step 4: Calculation of administrative costs per key processes

In this step the administrative costs must be distributed to each of the tax sub-processes. This is how the general management process, expenditure on goods and services, spending on current materials, current transfers and special accounts are accumulated. In addition to the investment and infrastructure implemented, these costs must be distributed in each of the tax sub-processes. For this we use the distribution ratio of installed capacity which distributes the total expenditure on each of the sub-processes.

Table N. 41

STEP 4: ESTIMATED ADMINISTRATIVE COSTS FOR KEY PROCESSES

In Dollars

Cost Center	% Installed Capacity	Total Administrative Expenses (CA = b + c)	Total Current Direct Costs (b)	Total Indirect Costs (c)	GASTOS INDIRECTOS	
					Current Expenditure on remuneration and General Administration	Infrastructure Investment
Support and Services	22%	11,315,845	6,359,892	4,955,953	4,632,873	323,080
Filing and Payment collection	18%	9,496,158	5,429,045	4,067,113	3,801,977	265,136
Claims	8%	4,226,131	2,367,649	1,858,482	1,737,327	121,155
refunds	7%	3,551,511	1,989,308	1,562,203	1,460,362	101,840
Auditing	1%	544,851	302,441	242,411	226,608	15,803
	44%	21,897,095	12,092,928	9,804,168	9,165,032	639,136
TOTAL	100%	51,031,592	28,541,263	22,490,330	21,024,180	1,466,150

Step 5: Calculating tax administrative costs

Finally, with the collection information it proceeded to distribute the costs to each of the relevant taxes to each defined cost central sub process. It is worth noting that given the importance of the sales tax and income tax of the methodology used it represents a significant amount of the total expenditure.

Table N. 42

STEP 5: CALCULATION OF ADMINISTRATIVE COSTS PER TAX 2012
in Dollars

Taxes	Total Collection	% Collection	Total Administrative Expenses	TOTAL ADMINISTRATIVE COSTS PER PROCESS					
				Support and Services	Return and Payment	Collection	Reclamos	Refunds	Audit
Impuesto sobre la Renta	1,754,579,207	46%	23,607,676	5,234,812	4,393,009	1,955,047	1,642,961	252,053	10,129,794
Impuesto General sobre las Ventas	1,150,420,429	30%	15,478,784	3,432,296	2,880,353	1,281,860	1,077,236	165,263	6,641,776
Impuesto a los Combustibles	382,833,617	10%	5,150,986	1,142,190	958,516	426,574	358,480	54,996	2,210,231
Impuesto Propiedad de Vehículos, Embar y Aeronaves	200,519,545	5%	2,697,969	598,253	502,049	223,430	187,763	28,806	1,157,669
Otros	304,437,726	8%	4,096,177	908,294	762,233	339,221	285,071	43,734	1,757,625
TOTAL	3,792,790,523	100%	51,031,592	11,315,845	9,496,158	4,226,131	3,551,511	544,851	21,897,095
EN % DEL PIB	8.5%		0.11%	0.03%	0.02%	0.01%	0.01%	0.00%	0.05%
EN % DE LA RECAUDACION			1.35%	0.30%	0.25%	0.11%	0.09%	0.01%	0.58%

Source: Directorate General of Taxation Prepared: The author

FINAL CONSIDERATIONS

- The implementation of the methodology for measuring compliance costs is the point of departure for the Tax Administration to have a tool for evaluating the costs incurred by the taxpayer.
- The use of external tax advisors is a common practice in business, so we should pay attention, not with the intention of limiting the practice but to consider external advisors as an intermediate channel with taxpayers by trying to make their relationship more effective. If taxpayers outsource the activities that generate more value outside the business, this contributes to a more efficient system, but if instead this activity generates an overrun it is necessary to verify the processes and simplify procedures.
- The simplified scheme must have virtual tools for quarterly compliance statements this will contribute to the reduction of tax compliance costs for this segment of taxpayers.
- It is necessary to review the accountants' role in business and their relationship with the tax administration. It was evident in the study that those surveys answered by the *"in house"* accountant had better quantitative results and compliance cost effectiveness.
- The simplified regime is an important tool to reduce compliance costs of companies however it's worth noting the small amount of companies that are part of the regime. It would be important to synchronize efforts by strengthening the MSMEs Laws to support the reduction of MSMEs compliance costs.
- The use of cash carries a high use of hours per month for paying taxes. Develop a joint program with the banking system could lead to a reduction in the number of hours spent for paying taxes.
- The DGT budget represented 0.11% of GDP and 1.35% of the revenue of the year. These results are in some way related to the performing of the tax administration institutional objectives.
- The item salary is the most important in the budget. While this arises from a standard cost analysis factor, it would be important to discriminate the current remuneration from those that are pensionable.

- There is a consistent relationship between spending allocated to the control actions with the compliance costs. 9% of respondents said to be within the tax administration actions.

ANNEXES

ANNEX 1: Abbreviations and Concepts

CIAT	Inter-American Center of Tax Administrations
CIU	International Standard Industrial Classification of All Economic Activities
CINDE	Costa Rican Coalition for Development Initiatives
DESA	United Nations Department of Economic and Social Affairs
DGN	General Directorate of Customs
DGT	Directorate General of Taxation
EDDI	Digital submission of tax returns
GDP	Gross Domestic Product
GETES	Large territorial enterprises
IFC	International Finance Corporation
IGV	Sales Tax
ISR	Income tax
MEIC	Ministry of Economy, Industry and Foreign Trade
MIPYME	Micro, Small and Medium Enterprises
MNI	Minimum non-Taxable
SIAT	Integrated Tax Information System
UN	United Nations

ANNEX 2: Technical Data



UN - DESA



TECHNICAL DESIGN SAMPLE
COMPLIANCE COSTS SURVEY
COSTA RICA

SAMPLE DESIGN

1. Population and Coverage

The study population was identified as Active Taxpayer (registered for 2012 tax period) to February 28, 2013 within the General and Simplified Tax System.

Among the taxpayers included are all taxpayers defined under the MSMEs parameters, excluding Large Taxpayers and large Territorial companies (Getes).

2. Sampling framework

The sampling framework which determines the size of the sample consists of active taxpayers (those who filed their tax returns for fiscal 2012) within the Single Tax Register provided by the Directorate General of Taxation (DGT).

3. Coverage and Domain

It is the large metropolitan area, which falls from the cantons of Athens to Paradise and Alajuelita to Santa Barbara, for a total of 31 counties and 163 districts.

4. Analysis Unit

It is the productive unit that has registered as an active taxpayer. Inside the unit the responsible for the answer may be: the Manager, Accountant or the owner of the MSME Production Unit. According to the recommendation the sales level or second level of employees can be used as a criterion variable. It should also be clear that the informal sector is not included (not registered).

5. Sample size

To choose the size of the sample the stratified sampling mechanism is used in two-stages, by province and by economic sector, for each type of regime.

From the previous analysis it is considered that by 2012 there will be an approx. of 346 000 Taxpayers reporting, in all tax regimes residents across the metropolitan area, various sectors such as education, public administration, agriculture and others are excluded.

The chosen sample size is 800 surveys, which consider a proportional value to both taxpayers of the General Regime as well as from the Simplified Regime.

6. Expansion Factor

Correspond to the inverse factor of the probability sample.

7. Sampling standard error

It suggests a sampling error of 3.5% at 95% confidence.

8. Data collection strategy

The data collection work will be performed by the consultant Mr. Oscar Camacho Elizondo, expert on market research and surveys. The consulting service will cost \$ 17,800 excluding taxes; including the final report in PowerPoint format and sources of information on paper and SPSS format database.

ANNEX 3: Compliance Costs Survey

UN - DESA		ESTUDIO DE OPINIÓN SOBRE COSTOS DE CUMPLIMIENTO TRIBUTARIO EN COSTA RICA		Cuestionario No.																									
Buenos días / tardes. Mi nombre es _____ y represento a _____ Estamos realizando un estudio los costos que le generan el pago de impuestos. Le solicito me		Fecha:		Hora inicio:																									
		Encuestador:		Hora fin:																									
DATOS DE LOCALIZACION DEL NEGOCIO																													
A1. ¿Su negocio esta inscrito como ? (Marcar sólo 1 opción) [1] Persona Jurídica [2] Persona Física																													
A2. Provincia/ Cantón / Distrito _____																													
NUMERO CONTACTOS PARA ENTREVISTA EFECTIVA																													
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
DATOS GENERALES																													
A3. Género: [1] Hombre [2] Mujer A4 Edad: _____ [1] 18 a 25 años [2] 26 a 39 años [3] 40 a 54 años [4] Más de 55 años																													
A5. ¿Qué puesto desempeña Ud? [1] Gerente [2] Dueño [3] F Contador del negocio [5] Empleado [6] Asesor Tributario Externo (Agradezca y Cierre encuesta)																													
A6. Lugar de nacimiento:(ciudad/pais) _____ A7. Nacionalidad: Costarricense (1) Otra: (2) _____																													
A8. ¿Esta inscrito ante la Dirección General de Tributación ? (Marcar sólo 1 opción) [1] SI [2] NO (Agradezca y Cierre encuesta)																													
A9. ¿Esta inscrito en el Régimen de Tributación Simplificado ? (Marcar sólo 1 opción) [1] SI [2] NO																													
A10. ¿Cuánto tiempo en operación su negocio? (Marcar sólo 1 opción)																													
Menos de 6 meses					1																								
De 6 meses a 1 año					2																								
De 1 año a 2 años					3																								
De 2 años a 5 años					4																								
De 5 a 10 años					5																								
Más de 10 años					6																								
A11. ¿Cuántos LOCALES tiene su Negocio? (Marcar sólo 1 opción)																													
Solo Uno		1	2 o mas Sucursales		2																								
A12. ¿Qué COBERTURA tiene su Negocio?																													
1 Provincia		1	2 o mas Provincias		2																								
			Internacional (Comercio Exterior)		3																								
A13. ¿Cuál es el SECTOR ECONÓMICO de su empresa? LEA EN ORDEN Y MARQUE UNA OPCIÓN																													
[1] Agropecuario		[3] Industria		[5] Artesanos																									
[2] Comercio		[4] Servicios		[6] Profesionales																									
				[7] Inmobiliario																									
				[8] Otro (especifique): _____																									
A14. ¿Cuál fue el nivel de ingresos anuales (Ventas en Colones obtenido por su negocio en el último ejercicio fiscal)? (Marcar sólo 1 opción)																													
[1] Menos de \$50 millones		[3] De \$250 millones a \$500 millones		[5] De \$1000 millones a \$2500 millones																									
[2] De \$50 millones a \$250 millones		[4] De \$500 millones a \$1000 millones		[6] Más de \$2500 Millones																									
A15. ¿Cuántos trabajadores laboraron en su negocio durante el año pasado? (marque solo una opción) Cantidad de empleados: _____																													
[1] Menos de 10		[3] De 30 a 50 trabajadores		[5] De 100 a 200 trabajadores																									
[2] De 10 a 30 trabajadores		[4] De 50 a 100 trabajadores		[6] mas de 200 trabajadores																									
INFORMACIÓN Y REGISTRO TRIBUTARIO																													
B1. ¿A qué impuestos estuvo afecto su negocio durante al año anterior? (Marque los que apliquen)																													
Impuesto General sobre las Ventas					1																								
Impuesto sobre la Renta					2																								
Régimen de Tributación Simplificada					3																								
Otro Especifique:					4																								
B2. ¿Qué medio(s) emplea habitualmente para obtener información sobre sus obligaciones tributarias? (Marque las que correspondan)																													
[1] Ventanillas de la AT		[2] Folletos impresos		[3] Página Web de la DGT																									
[5] Prensa		[6] Radio/televisión		[7] Correo electrónico																									
[9] Redes Sociales		[10] Otros especifique: _____		[8] Especialista Tributario (Pase a B3)																									
(*) AT = Administraciones Tributarias		DGT = Dirección General Tributaria		[11] Ninguno																									
B3. Indique ¿Cuál fue la razón principal para contratar sus servicios? (Marque las que correspondan únicamente 3 opciones)																													
			Primera razón	Segunda razón	Tercera razón																								
Exista poca información en las ventanillas o Pagina web de la DGT			1	1	1																								
Los funcionarios de la DGT no explican debidamente las consultas			2	2	2																								
El asesor tributario brinda información con mayor detalle que la DGT			3	3	3																								
Por falta de tiempo para ir a la DGT a solicitar información			4	4	4																								
Es más barato contratar un asesor tributario			5	5	5																								
Otro especifique:			6	6	6																								
NS / NR			7	7	7																								

B4. ¿Cuánto tiempo le toma cada MES para informarse y/o capacitarse sobre las obligaciones tributarias de su negocio ?
 Horas al Mes

B5. ¿Utiliza el internet para cumplir con sus obligaciones tributarias de su negocio? [1] SI [2] NO

B6. ¿Dónde se conecta a internet para cumplir sus obligaciones tributarias?
 [1] Negocio [2] Café Internet [3] Quioscos Tributarios [4] Casa [5] Otros especifique _____

B7. ¿Cuánto tiempo le tomó inscribirse en el Registro Tributario o actualizar su información tributaria?
 Horas

B8. Que canal utiliza habitualmente para realizar su registro tributario o actualización de datos?
 [1] Oficinas de la DGT
 [2] Internet
 [3] Quioscos Tributarios
 [3] Otro especifique _____

B9. ¿Qué medio utiliza para el registro contable de las operaciones de su negocio? (Marcar sólo 1 opción)
 [1] Registros o Libros físicos (Papel)
 [2] Registros en Programas computarizados Propios
 [3] Otros especifique _____

B10. ¿Cuánto tiempo le toma **al MES únicamente** el registro contable de las transacciones comerciales y financieras de su negocio ?
 Horas al Mes

B11. ¿Cuánto es el valor estimado que gasta habitualmente al MES en Facturas, Formularios, libros contables, Programas Informáticos, legalizaciones, u otros gastos relacionados al Registro Contable - Tributario de su negocio ?
 Monto total al mes en colones

DECLARACIÓN Y PAGO DE IMPUESTOS

C1. ¿Qué medios utiliza para el llenado de la Declaración Jurada de Impuestos?
 [1] Formularios Físicos (Papel) [4] Tributación Digital
 [2] Programa de ayuda EDDI7 [5] Tributación Directa
 [3] Programa DECLARA

C2. ¿Cuántas horas le toma a Ud. el **llenado** del (los) formulario(s) **cada vez** que requiere presentar y con que frecuencia realiza esta declaración de impuestos?

	Horas	Mensual	Trimestral	Annual
Impuesto General sobre las Ventas (Formulario D -104)	1	1		
Impuesto sobre la Renta (Formulario D - 101)	2			2
Retenciones en la Fuente (Formulario D -103)	3	3		
Autoliquidación de pagos parciales – impuesto sobre la renta D - 108	4		4	
Declaración Anual Resumen de Clientes, Proveedores y Gastos Específicos (Formulario D-151)	5			5
Régimen de Tributación Simplificada (Formulario D - 105)	6		6	
Otro Especifique	7	7	7	7

C3. ¿Cuántas horas le toma al MES únicamente la **presentación** de (los) formulario (s) antes detallados ante la Administración Tributaria?
 Horas al Mes

C4. ¿Qué medio(s) utiliza para realizar el pago de su obligación tributaria? (Marcar las opciones que correspondan)
 [1] Efectivo [2] Cheque [3] Debito Automático del Banco [4] Pagina del banco

C5. Si paga sus impuestos a través del sistema bancario, ¿Qué cuenta utiliza?
 [1] De negocio [2] Personal [3] Tercero

C6. ¿Cuántas horas le toma al **MES únicamente el pago** de las obligaciones tributarias?
 Horas al Mes

CONTROL TRIBUTARIO

D1. ¿Ha tenido alguna acción de control o requerimiento de la Administración Tributaria durante los últimos 12 meses? [1] SI [2] NO (Pase a E1)

D2. ¿Qué tipo de acción o requerimiento particular ha tenido su negocio por parte de la Administración Tributaria? (Marcar las opciones que apliquen)

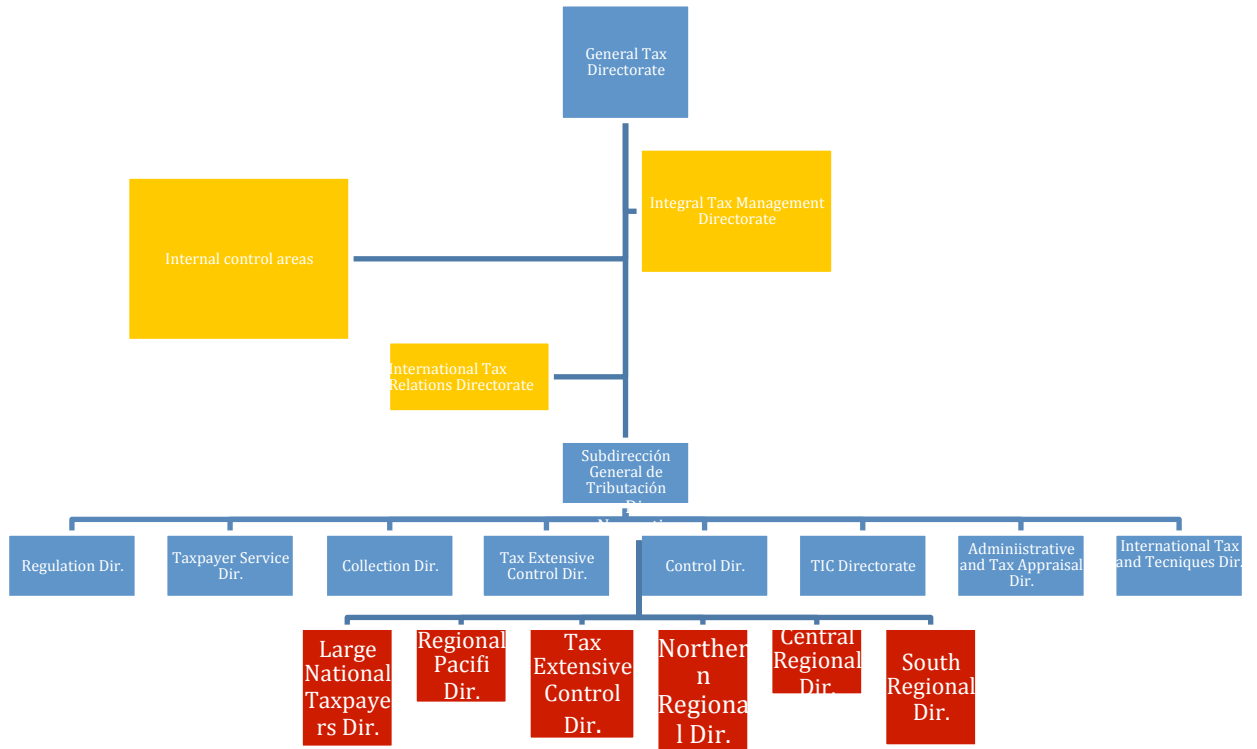
Verificación de información del negocio	1
Verificación de diferencias en declaraciones o en pagos	2
Requerimiento de información de terceros	3
Fiscalización de registros contables	4
Requerimiento de declaraciones	5
Otros (especifique)	6

D3. ¿Cuánto tiempo en horas le requirió a Ud. o un empleado del negocio el cumplir con el requerimiento de la Administración Tributaria?
 Horas

D4. Para este trámite tuvo que incurrir en algún costo externo adicional ¿Cuál fue el costo aproximado de esta asesoría externa?
 [1] SI [2] NO
 [3] Monto en Colones

DEVOLUCIONES DE IMPUESTOS Y RECLAMACIONES																			
E1. ¿Ha realizado solicitudes de devolución de impuestos durante los últimos 12 meses?	[1] SI [2] NO (Pase a E6)																		
E2. ¿Quién en su negocio prepara y realiza habitualmente la solicitud de devolución de impuestos?	[1] Ud. personalmente [2] Empleado [3] Asesor Tributario Externo (Pase a E4)																		
E3. Si la solicitud la realizó Ud. o el empleado del negocio ¿Cuánto tiempo le tomó?	Horas por solicitud <input type="text"/>																		
E4. Si la solicitud la realizó el Asesor Tributario Externo, ¿Cuál fue el costo aproximado por el trámite?	Monto en Colones <input type="text"/>																		
E5. ¿Cuánto tiempo duro la Administración Tributaria para la devolución del dinero después de realizada la solicitud?	[1] 1 mes [2] 2 a 3 meses [3] 3 a 6 meses [4] 6 meses a 1 año [5] Más de 1 año																		
E6. ¿Ha presentado algún reclamo o petición ante la Administración Tributaria en los últimos 12 meses?	[1] SI [2] NO (Pase a F1)																		
E7. ¿Quién en su negocio prepara y realiza habitualmente un reclamo a la Administración Tributaria?	[1] Ud. personalmente [2] Un Empleado [3] Asesor Tributario Externo (Pase a E9)																		
E8. Si el reclamo o petición lo realizó Ud. o un empleado del negocio ¿Cuánto tiempo le tomó?	Horas <input type="text"/>																		
E9. Si el reclamo o petición a la Administración Tributaria lo realizó Asesor Tributario Externo, ¿Cuál fue el costo aproximado por el trámite?	Monto en Colones <input type="text"/>																		
E10. ¿Cuánto tiempo duro la Administración Tributaria en dar respuesta a su reclamo o petición?	[1] 1 mes [2] 2 a 3 meses [3] 3 a 6 meses [4] 6 meses a 1 año [5] Más de 1 año																		
COSTOS EXTERNOS																			
F1. Durante los últimos 12 meses, ¿Tuvo que pagar por los servicios permanentes de algún asesor tributario externo (entiéndase a un experto que no labora en forma dependiente en el negocio)?	[1] SI [2] NO (Pase a F4)																		
F2. En que trámite o actividades requiere al asesor tributario externo (Marcar todos los que apliquen)	<table border="1"> <tbody> <tr><td>Actualización y registro de información en la Administración Tributaria</td><td>1</td></tr> <tr><td>Registro y llenado de libros contables y facturación</td><td>2</td></tr> <tr><td>Trámites habituales en la Administración Tributaria</td><td>3</td></tr> <tr><td>Declaración y/o Pago de impuestos</td><td>4</td></tr> <tr><td>Capacitación en temas tributarios</td><td>5</td></tr> <tr><td>Apoyo en requerimientos de Control y Fiscalización de la Administración Tributaria</td><td>6</td></tr> <tr><td>Apoyo en solicitudes y requerimientos a la Administración Tributaria</td><td>7</td></tr> <tr><td>Trámites de exenciones</td><td>8</td></tr> <tr><td>Otro especifique:</td><td>9</td></tr> </tbody> </table>	Actualización y registro de información en la Administración Tributaria	1	Registro y llenado de libros contables y facturación	2	Trámites habituales en la Administración Tributaria	3	Declaración y/o Pago de impuestos	4	Capacitación en temas tributarios	5	Apoyo en requerimientos de Control y Fiscalización de la Administración Tributaria	6	Apoyo en solicitudes y requerimientos a la Administración Tributaria	7	Trámites de exenciones	8	Otro especifique:	9
Actualización y registro de información en la Administración Tributaria	1																		
Registro y llenado de libros contables y facturación	2																		
Trámites habituales en la Administración Tributaria	3																		
Declaración y/o Pago de impuestos	4																		
Capacitación en temas tributarios	5																		
Apoyo en requerimientos de Control y Fiscalización de la Administración Tributaria	6																		
Apoyo en solicitudes y requerimientos a la Administración Tributaria	7																		
Trámites de exenciones	8																		
Otro especifique:	9																		
F3. ¿Cuál fue el costo aproximado MENSUAL que pagó a su asesor tributario externo por los servicios detallados en la pregunta anterior?	Monto en Colones <input type="text"/>																		
F4. Durante los últimos 12 meses, ¿Existieron otros costos de cumplimiento tributario que no hayan sido mencionados en la presente encuesta?	[1] SI [2] NO (Pase a G1)																		
	[3] Indique ¿Cuál? <input type="text"/>																		
F5. ¿Cuál fue el costo aproximado de trámite mencionado anteriormente? Excluya el monto del Impuesto, especifique el valor aproximado	Monto en Colones <input type="text"/>																		
G1. Ya para terminar la encuesta. Tiene usted algún comentario o observación sobre algún tema no tratado en la encuesta que afecte el cumplimiento de sus obligaciones tributarias (Favor anotar)	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>																		
DATOS DEL ENTREVISTADOR																			
NOMBRE DEL ENTREVISTADOR <input type="text"/>	NOMBRE DEL SUPERVISOR <input type="text"/>																		

ANNEX 4: DGT Organization



ANNEX 5: Survey and Profile of Interviewees

1. The DGT through the Integrated Revenue Management determined the universe and surveys as well as the random sample²⁵ which included tax identification card number, company name, address and telephone number.
2. The polling firm would contact companies by telephone to make an appointment with the owner or manager of the company, responsible for taxes.
3. If it was not possible to contact the company it would be directly visited to address registered at the DGT.
4. The time for answering the survey would not exceed twenty minutes.
5. The survey should be answered by the owner or manager of the company but if any of them delegated it to an employee or responsible for taxes the survey is accepted.
6. Surveys from external consultants will not be accepted.

With a team of 16 people the work began on May 8. It was planned to develop 80 surveys per day so the information gathering work should lead to May 21, 2012.

The first day of surveys there were some inconveniences (summarized in the table below) that led to having to rethink the implementation strategy. Given the low quality of information held at the tax administration, it became difficult to contact taxpayers. So, on the first fieldwork day only one survey could be completed out of 106 contact attempts.

²⁵ In order for the survey company to have a higher number of contacts, it was given twice the sample

Table N.43

Results of field work May 8		
Results	Amount	%
No corresponding Address	12	11.3
business closed	9	8.5
Does not have business	5	4.7
No corresponding Phone	22	20.8
Responsible out of the country	3	2.8
Has an external accountant	6	5.7
Did not want participate	21	19.8
Request an appointment	27	25.5
Performed	1	0.9
Total	106	100
Source: Synapsis		

Thus, and given the short implementation time it was decided to modify the implementation strategy. This resulted in visiting the registered companies, if the company was not found; the visit will take place over the companies on the same area and with the same characteristics of the sampling framework, i.e. economic sector and company size. With this change in methodology this situation was overcome and it was possible to perform 80 surveys per day according to scheduled times.

Survey Results

Once the information gathering period was over, 842 surveys were performed according to the attached distribution exceeding the target of 800 surveys planned. 633 corresponded to the traditional regimen (75.2%) and 209 of the simplified system (24.8%).

Table N.44

Survey Results - By Type of Company			
Company Size	Sample		
	Traditional Reg	Simplified Reg	Total
Micro	531	203	734
Small	96	6	102
Medium	6	0	6
Total	633	209	842
Source: CIAT - UN DESA Survey			

Most of the companies surveyed were in the province of San José with 56.9%. The remaining surveys were collected in a standard manner in the provinces of Alajuela, Heredia and Cartago. It is worth noting that the study was conducted in the GAM

Table N.45

Survey Results - By Type of Company		
Province	Sample	%
San Jose	479	56.9
Alajuela	133	15.8
Heredia	123	14.6
Cartago	107	12.7
Total	842	100.0
Source. CIAT - ONU Survey Project		

From the results obtained a large concentration in the business and services areas was observed for both the traditional system and in the simplified regime. These results are consistent with the economic structure and concentration of the country where both sectors represent nearly 40% of GDP.

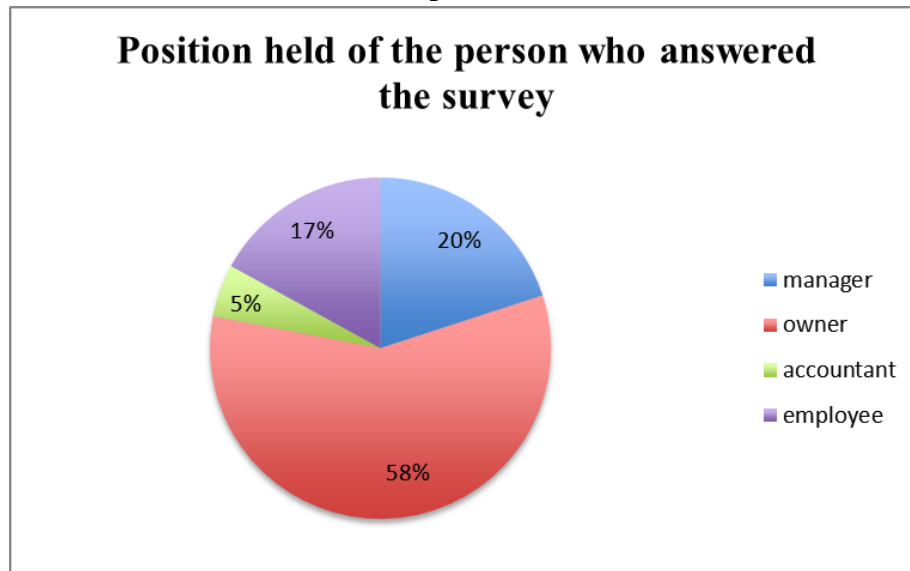
Table N.46

Number of Companies Surveyed by Sectors and Regime			
Economic Sectors	Simplified Reg	Traditional Reg	Total
agricultural	2	4	6
artisans	2	0	2
trade	121	121	242
industry	19	35	54
real-estate	9	51	60
Professionals	0	7	7
services	56	415	471
Total	209	633	842
Source. CIAT - ONU Survey Project			

The survey was answered by most business owners (58%), followed by managers (20%), employees (17%) and finally the accountants²⁶ (5%). As we will see, it is important the accountant's role in the outcomes assessed and their active participation in each of the tax processes.

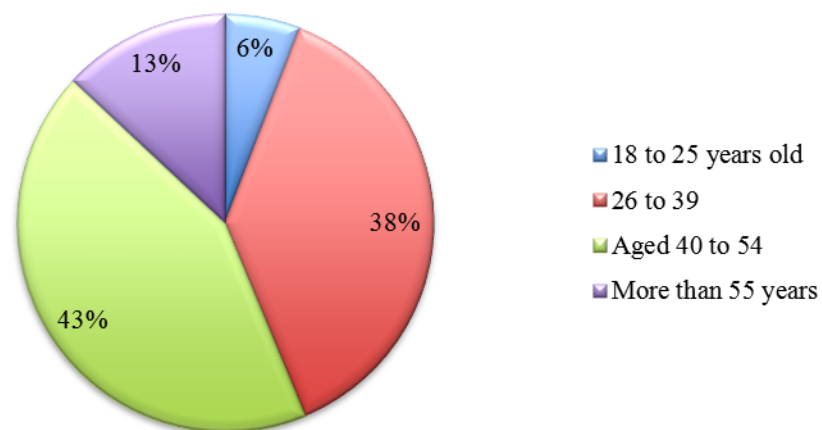
²⁶ Accountants belong to the payroll of the company

Graphic N.22



43% of the survey was answered by people between 40 and 54 years, 38% were people between 26 and 39 years, 13% for greater than 55 years and only 65 people between 18 and 25 years. Additionally, 90% of the survey was answered by 10% Costa Ricans and people and 10% from other nationalities.

Graphic N.23

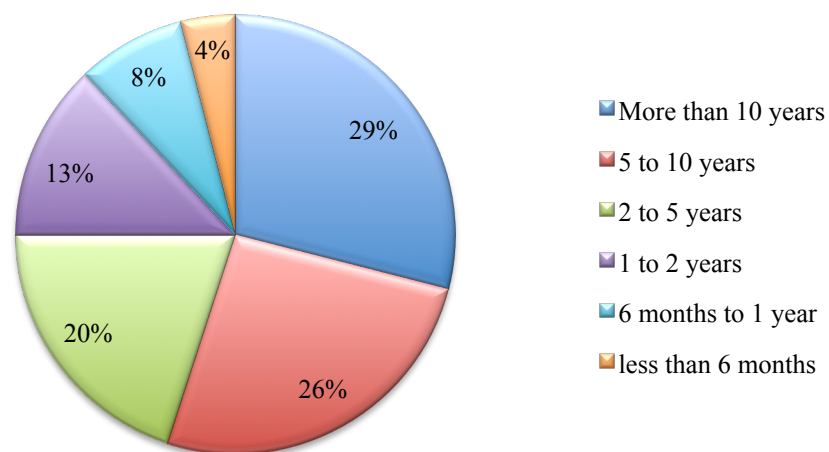
Age of the Survey Respondents

Only 4% of companies surveyed have less than six months of operation while a further 8% had less than a year. These universes are important when analyzing the recording time information in tax administration.

Given the recent entry in the tax administration records, the results are not entirely comparable with those companies that have more than 5 years of operation (55%) which recording time may be higher given the time and the different registration process.

Graphic N.24

Business operation time



Tabulation of Data:

Once the information was received it was analyzed and then the tabulation of data followed. Cross information were performed with the different sources of information in order to validate the consistency of the information: in this way the ID information of respondents was crossed with the tax registration information, annual income returns and simplified returns. With this information we proceeded to make adjustments where inconsistent or nonexistent information was found.

Deviation evaluation was performed using SPSS software²⁷, it was observed that deviations did not significantly affect the results of the whole sample, in this sense in most of the variables it was considered to leave the external values and respect the original

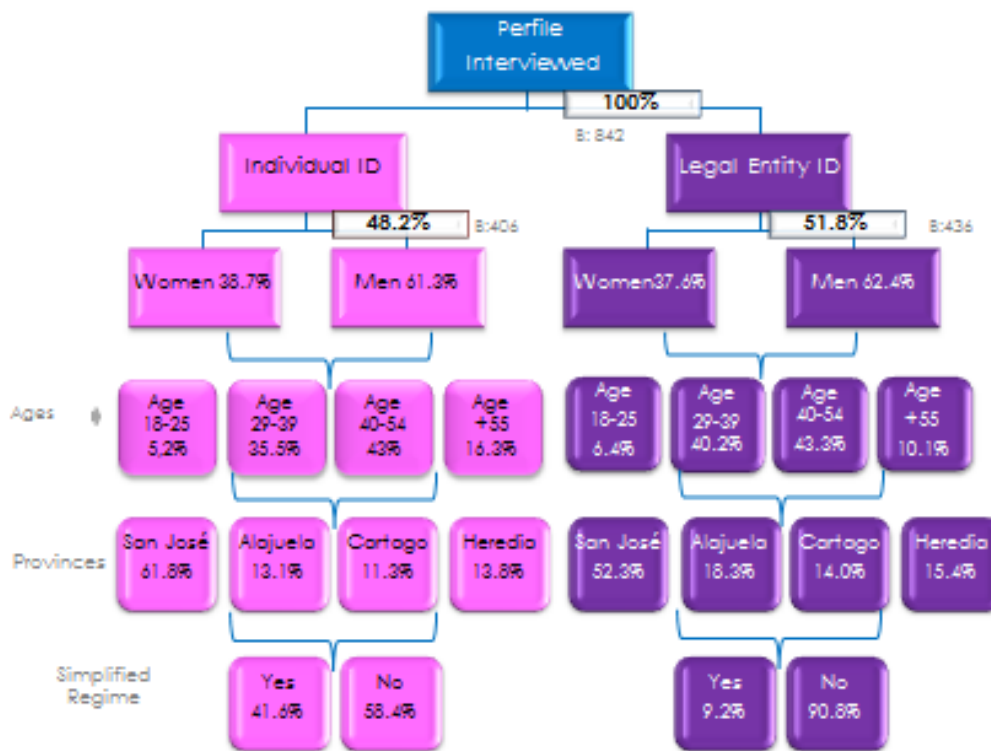
²⁷ Statistical computer program owned by IBM

values. It is noted that a qualitative analysis of the variable which had reasonable rankings for statistical evaluation purposes.

Companies which declared to be within the traditional regime but claimed to have submitted simplified returns were identified. On these cases the data were adjusted prioritizing the information reported on the statement submission form survey.

Graphic N.25

Surveyed Profile



ANNEX 6

Economic Information Used in the Study

Información	Colones	Dollars
GDP (In millions)	22,684,587	44,638
Collection (In millions)	1,927,477	3,793
Bachelor Degree Minimum Average Wage	441,531	869
Average Salary per Hour 1/	2,453	4.8
Estimated Total Sales of Micro enterprises (In millions) 2/	7,862,742	15,471.9
Estimated Total Sales of Medium enterprises (In millions) 2/	8,034,487	15,809.9
Estimated Total Sales of Small enterprises (In millions) 2/	1,827,469	3,596.0
Purchase Exchange Rate Compra 31/12/2012	502.070	
Sale Exchange Rate 31/12/2013	514.320	
TC promedio	508.195	

1/ 20 working days and 9 hours per day are considered

2/ Calculated based on sales ranges by company type under the study

Fuente: Dirección General de Tributación del Ministerio de Hacienda de Costa Rica

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