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A Letter to the Editor of www.amcostarica.com Concerning the Taxation of USA People in Costa Rica

24 February 2006

A.M. Costa Rica
San José, Barrio Otoya, calles 13 – 15
avendia 11 bis, de la entrado emergencias de
Hospital Calderón
Guardia, 100 metros oeste,
cincuenta metros note y seten y
cinco metros oeste, penúltima casa
a mano derecha, portón de rejas
negras
By e-mail: editor@amcostarica.com

Dear Sir or Madam:

In your 22 February 2006 edition, Mr. David K. Treadway wrote a letter addressing Costa Rica's proposed new income tax system. I am compelled to respond as nearly every point of law and fact in Mr. Treadway's letter is false.

Firstly, the USA is one of the few countries with a truly global tax regime. USA citizens and residents remain subject to USA income taxes until, in the case of citizens, they affirmatively in writing to the USA Department of Treasury or Homeland Security renounce their citizenship. Thus, a USA citizen does not escape the "oppressive taxes" of the USA by merely moving to another country or owning property in another country.

In my experience, most USA investors in Costa Rican hold their property in a *Sociedad Anomina* or "SA" organized under the laws of Costa Rica. Under current USA law, gain on the sale of Costa Rican land in an SA owned by a USA citizen (regardless of their country of residence) results in USA income tax at rates up to 35%. Of course, under current Costa Rican law, the Costa Rican income tax is zero.

Assuming the USA investor owns Costa Rican land in a *Sociedad de Responsabilidad Limitada* or "SRL" organized under the laws of Costa Rica and has timely made certain elections with the Internal Revenue Service, the USA income tax on the gain is at a rate not higher than 15% if the land has been owned for more than one year. Again, the Costa Rican income tax under current law is zero.

Under the new Costa Rican income tax regime, land held in a SA will result in a 10% Costa Rican income tax on its gain. The effective USA income tax on the USA citizen owner will drop to a top rate of approximately 32%; not 35%.

The astute USA investor owns their Costa Rican land in an SRL with the appropriate elections timely filed with the Internal Revenue Service. These folks will pay a 10% income tax to Costa Rica on the gain under the new Costa Rican income tax regime. However, their USA income tax will be only 5% again assuming the land has been owned for more than one year. Thus, the total global income tax under Costa Rica's new law is exactly the same top 15% as under the old Costa Rican law. The only difference is Costa Rica collects 10% instead of zero and the USA collects 5% instead of 15%.

In the discussion above, I have assumed the land owner is, in fact, an investor and not a dealer in land.

As a result, I would respectfully suggest that the leaders of Costa Rica are not "a bunch of arrogant, uninformed fools". On the contrary, I would suggest they are intelligent, thoughtful and savvy. Their new policy will not deter thoughtful, well informed and astute USA investors.

These matters are complex and the solutions often differ depending on one's personal circumstance. Thus, individuals should obtain competent professional advice before making significant financial commitments.

Sincerely,

Kevin P. Chapple, CPA, JD
Chapple Blondet LLC
(Organized under the laws of Delaware)
Grupo de Inversiones Chapple Blondet SRL
(Organized under the laws of Costa Rica)