



Incentives for Retirement & Investment in Costa Rica

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FINAL REPORT

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Acronyms

DGI	General Immigration Administration
ICT	Costa Rican Tourist Board
INAPAM	National Institute of Senior Citizens (Mexico)
INM	National Immigration Institute (Mexico)

Methodology

Research for this report was carried out through interviews – either in person, by phone or through e-mail – with retirement and investment experts in Costa Rica, Panama and Mexico in adherence with Stanford University’s Human Subjects protocol. Interviewees all have direct knowledge of the details of each country's policies regarding retirement and investment incentives regarding foreigners. Information gathered through interviews was confirmed and supplemented with data collected from the text of the pertinent laws, government documents, current independent studies, media reports and Web sites that specialize in information on retirement and investment in these countries.

Executive Summary

Costa Rica is a popular destination not only for U.S. vacationers, but also for retirees and those approaching retirement age. Real estate agents often report that many of those who come looking to buy property along Costa Rica's Pacific coast are of the so-called Baby Boomer generation, and are thinking of a buying a home to live at least part of the year once retiredⁱ. What draws these potential immigrants to Costa Rica? Many say it is the weather, or the low cost of living or the natural beauty and local culture.ⁱⁱ Few will say its Costa Rica's regimen of attractive incentives and benefits offered to foreign retirees – because one doesn't exist. Though it is possible to retire to Costa Rica and attain residency with a low required pension of just \$600 a month, that rate is expected to rise to at least \$1,000 a month and the application process is long and tedious when compared to Mexico and Panama, to other popular retirement destinations in the same regionⁱⁱⁱ. Both of those countries also offer a long list of benefits for foreigners, with Panama offering the most generous combination of tax breaks and retiree discounts.^{iv} Costa Rica has no explicit benefits for foreign retirees. The policy that once allowed foreigners that come to live out their golden years here to import their household goods and vehicle duty free was eliminated more than a decade ago.^v Both Panama and Mexico allow residents to import household goods duty free, and have varying regimens to bring in a vehicle either tax free, or at a low rate.^{vi}

Along Costa Rica's Pacific coast, the rapid growth in tourism has been accompanied by a boom in construction of both hotels and large-scale real estate developments. The popular tourist beach towns of Jacó, in the central Pacific region, and Tamarindo, in the northern-Pacific province of Guanacaste, have seen their skylines fill with condo towers, while luxury housing projects have sprouted up in the mountains and hillsides overlooking the Pacific up and down the coast.^{vii} While Costa Rica hasn't expressly offered incentives for coastal development, government officials have given special attention to specific projects, such as appearing at ribbon cutting ceremonies^{viii} and, in once case, declaring of national interest a massive project featuring luxury homes, hotels and a golf course^{ix}. Through the Costa Rican Tourism Board (ICT), the government does offer incentives, however, for the development of tourism projects, from hotels to car rental agencies, anywhere in the country independent of whether it is foreign or national investment.^x Mexico has no incentives in place, while Panama is actively promoting both tourism and real estate development with a series of tax benefits and other incentives.^{xi}

Part I: Pension Benefits and Incentives

Overview

As the Baby Boomer generation in the United States begins to retire, many have begun looking outside the country as they consider where they hope to spend their golden years. Costa Rica saw its fame grow thanks to the eco-tourism boom of the 1990s, and the explosion of coastal development and tourism that followed the opening of international flights to the international airport in Liberia, Guanacaste in 2002. And now, it is also a well-known destination for U.S. retirees. A combination of proximity, climate, culture, and a reputation for peaceful democracy and quality, low-cost health care have all helped.^{xii}

Between 2001 and 2006, an average of more than 580 U.S. citizens received residency in Costa Rica each year.^{xiii} As of 2007, U.S. citizens were Costa Rica's third largest immigrant group after Nicaraguans and Colombians, with 1,916 temporary residents and 7,212 permanent residents.^{xiv} Available government statistics do not indicate how many of those were retirees, or how many were under the *pensionado* residency scheme, which is a temporary residency class specifically designed for foreign pensioners. The general manager of Costa Rica's principal foreign residents' association says his office, which handles residency applications for members, receives between 20 and 40 new requests for residency applications every month, on average. Nearly all of those apply for either the *pensionado* or *rentista*-class residency, the latter of which is designed for people with steady, non-pension sources of foreign income. He also estimated that the majority of U.S. residents, both temporary and permanent, are retirees or *pensionados*.^{xv}

Costa Rica does not offer special incentives or benefits aimed at enticing foreign retirees onto its soil. In fact, Costa Rica eliminated the few incentives it once offered, and is now considering more restrictive requirements for its *pensionado* and *rentista* residency schemes.^{xvi}

Currently, Costa Rica requires anyone wishing to apply for *pensionado* residency to show proof of a guaranteed monthly government or private pension of at least \$600. This amount includes a wife and legal dependents. *Rentistas* must show \$1,000 per month in guaranteed income, not necessarily from a pension. The temporary residency application process, when handled by an immigration lawyer, takes an average of 12 to 18 months, not counting the time needed to gather and prepare the appropriate documents, which can take anywhere from six weeks to a year, on average.

The application process requires applicants to gather documents in their home country, have them translated, then come to Costa Rica for fingerprinting and other steps, then return to present the completed application at the nearest consulate office in their home country. The final trip can be avoided only by the applicant giving someone in his or her home country power of attorney, and having that individual present the application. Lawyer's fees cost between \$850 and \$1,000 for the process, on average.^{xvii}

Once awarded, the *pensionado* residency is a temporary residency that must be renewed every year, at a cost of between \$100 and \$150, but after three years a pensioner may apply for permanent residency. However, in May of 2009, the Costa Rican government introduced a

new program to ease the renewal process by allowing residents to renew at any one of the country's 32 Banco de Costa Rica bank branches. Before, the renewal could only be done at the General Immigration Administration (DGI) offices on the outskirts of the capital, where residents, sometimes traveling from the far reaches of the country, had to make multiple visits involving lines that infamously take hours to get through. When announced, officials promised the new system would mean the renewal process would take approximately 20 minutes and cost only \$48, and a new residency card would be sent to the resident's home within 22 days.^{xviii}

Among many residents, Costa Rica's *pensionado* residency program has been seen as a headache, rather than an incentive to move to the country. What draws most people, rather, is the lower cost of living, allowing retired persons dependent on a fixed income the ability to stretch their dollars further, and other comparative benefits. These includes health care, which can be found in Costa Rica at U.S.-level quality but at much lower prices. In addition, retirees in Costa Rica do not pay taxes on foreign income, and pay a much lower tax rate on property and income inside Costa Rica.^{xix} *Pensionado* residents are not allowed to work as employees, but may own their own business. Foreign residents must also pay Costa Rica's 13% sales tax on goods and services.^{xx}

Changes over time

Until 1992, Costa Rica offered two important benefits to foreign citizens when they attained *pensionado* residency: a one-time lifting of import tariffs on up to \$1,000 in household goods, and the right to import a vehicle every five years free of import duties, which currently can reach up to 89% of a vehicle's value. Legislation enacted in 1992, however, eliminated these benefits. Though no new incentives were introduced, the *pensionado* application process was kept simple and brief compared to today's requirements.

Until 2006, the average application took a few months to process, compared to the 12 to 18 months the process currently averages. However, former president Abel Pacheco (2002-2006) introduced a new immigration law to the Legislative Assembly in 2005 which legislators approved that December. The law did not take effect until August of 2006, after President Oscar Arias (1986-1990, 2006-2010) took power. The Arias administration, which assumed power in May of 2006, opposed the new law, citing concerns that it would cost too much to enforce and that it violated the human rights of immigrants. The administration was unable, however, to get legislators to suspend the new immigration law before it took effect, so instead it announced it would not enforce certain aspects of the law and introduced new reforms. The administration also never produced the *reglamento* for the law, which is the list of rules and regulations that determine how the law is to be enforced. Instead, it enforces the law based in part on old *reglamentos* and specific memos issued by the director of the DGI.

In 2007, the Arias administration introduced a draft of a new immigration law to the Legislative Assembly, which is now in committee being revised.^{xxi} The new law would increase the minimum pension required for a *pensionado* residency for an individual from \$600 to \$1,000, and fix the required minimum pension for a family at \$2,500. The bill would not create any new retirement incentives, but it is intended to simplify the residency application process by, among other reforms, allowing foreigners to present their applications in Costa Rica.^{xxii} Representatives with the Costa Rica residents' association have been told that the bill is low

on the list of priorities, with as many as 150 bills ahead of it.^{xxiii}

Comparison with Panama and Mexico

Panama

Unlike its neighbor to the north, Panama offers a substantial list of benefits and incentives to foreign retirees, including the one-time lifting of import duties on up to \$10,000 in household goods, and the right to import – or purchase in Panama – a vehicle duty free. Benefits also include reduced health care costs for the uninsured, price cuts for prescription medication, discounted electricity, water and telephone service, reduced mortgage rates and discounts on loans, movie tickets, airfare and public transportation, among other benefits.^{xxiv}

If a foreign pensioner owns property in Panama, and it is his or her only piece of property and is in his or her name, then the tax rate cannot be raised by the government, even if the property value is reassessed. This is in addition to a 20-year exemption of property taxes for any residential project built before July 1, 2009, a benefit allowed to anyone, not just pensioners.^{xxv}

Panama's government last year decreed new immigration regulations which will take effect August 2009 that make the process more expensive, but faster. Currently, a pensioner must show proof of only \$500 in foreign pension income, but that will go up to \$1,000 under the new regulations, which is more expensive than Costa Rica's current requirements, but equal to what is proposed under legislation currently being discussed there. That \$1,000 in Panama can be the sum of the applicant's pension combined with that of a spouse's.^{xxvi}

Alternatively, if a pensioner invests in \$100,000 in property in Panama, he or she need only show proof of \$750 a month in pension income, an option not offered in Costa Rica. The cost of applying for *pensionado* residency in Panama also rises from \$1,500 to about \$1,850 under the new law, with an additional \$250 to \$300 per dependent, which is more than double what it costs to apply for residency in Costa Rica.^{xxvii}

Pensionado residents in Panama must also present a second application after the first two years' residency, which will cost an additional \$1,000 to \$1,500, but if approved, the pensioner receives permanent residency. Five years after that, residents may apply for Panamanian citizenship, but the government -- which prohibits dual citizenship -- requires applicants to renounce their citizenship elsewhere.^{xxviii}

Under the new law, pensioners may apply either in Panama or at any consulate in the world, and applications are required to be processed and either approved or denied within 60 working days, a rate significantly faster than the 12-to-18-month wait that is the current standard in Costa Rica. If immigration does not reply in time, the application is automatically approved.^{xxix}

Mexico

Mexico has two visas that can serve foreign retirees: one for those who expect to live full time

in Mexico, and one for those who plan to travel back and forth between Mexico and their home country, spending less than the full year in Mexican territory. These applications for both are easier and faster than in Costa Rica.^{xxx}

The FM3 Visa, called a non-immigrant visa, allows a foreigner to live in Mexico full- or part-time, granted he or she has an outside source of income sufficient to live off of. This income can be a pension or an alternate financial instrument, making the requirement more flexible than in Costa Rica. That amount is not a fixed amount, and is decided by individual immigration officials during the application process, but it is generally at least 13,500 Mexican pesos, or about \$1,000, which is higher than Costa Rica's current requirements, but equal to what is proposed in legislation being discussed. The amount can be cut in half if the applicant buys real estate in Mexico and plans to live in it, a benefit not offered in Costa Rica.^{xxx1} The application costs \$211, which is much cheaper than fees in Costa Rica or Panama. Once granted, the visa must be updated every year. FM3 residents are entitled to import household goods into Mexico duty free, and can get a permit to bring in a vehicle for as long as they are in the country paying a \$29.70 fee and a 15% tax. The FM3 cannot be used to transition into permanent residency or citizenship.^{xxx2}

For those more serious about living in Mexico, the government offers what is called the FM2 Visa, which does not need to be updated once awarded and grants the foreigner the same rights as a Mexican citizen with the exception of voting rights. After 5 years with a FM2 Visa, residents can then apply for Mexican citizenship, and if granted, may also keep their original citizenship as well. To receive a FM2 Visa, a retiree must show proof of foreign income equivalent to at least 400 times the Mexican minimum salary, currently set between 52 and 55 Mexican pesos per day, depending on the region. Additional income equaling 200 times the minimum salary is required for each dependent. By current exchange rates, that is approximately \$1,600 for an individual, plus \$800 for each dependent.^{xxx3}

According to Mexico's National Immigration Institute (INM), applications for either Visa are resolved within 35 calendar days, significantly faster than in Costa Rica.^{xxx4}

Like in Panama, Mexico has a very broad program of benefits offered to retirees, which includes foreign retirees over the age of 60 with either the FM2 or FM3 Visa. Retirees must obtain an ID card from Mexico's National Institute of Senior Citizens (INAPAM), and after that they are eligible for discounts offered on everything from theater and movie tickets, to restaurants, clothing stores, lawyer fees and jewelry. Card-holders can also get discounts on water bills, health clinic bills, prescription medicines, and visits to certain health clinics and hospitals. The discounts are available on a provider-by-provider basis, with lists of discount-offering businesses available in each state.^{xxx5}

Perspectives on the best package

If there is a clear winner for best retirement incentive package, Costa Rica is not it. The country offers no explicit incentives, has a reputation for a slow, challenging and bureaucratic application process for those who do wish to get residency. What has made Costa Rica a popular destination is a combination of its natural beauty, its reputation as a peaceful and laid-back nation, its proximity to the United States, its low taxes and cost of living, and cheap but reliable health care.

According to one renowned organization, Mexico is the best destination when it comes to retirement. In International Living's Annual Global Retirement Index, Mexico not only beat out Panama and Costa Rica, but the rest of the world, and was named the best place on the planet to retire for the second year in a row. Panama, which had been the top destination in the previous six indexes, was ranked third while Costa Rica was ranked ninth.

Among the various categories the countries are rated on is "Special Benefits," which considers "government provisions that make moving to and living in each country easier and more affordable for foreigners" and takes into account "property rights for foreign residents, property tax rates, duty-free imports on personal belongings, currency controls, employment restrictions, voting rights, and transportation discounts for seniors." Out of a possible 100 points, Mexico scored 72, while Panama scored 85 and Costa Rica scored 70.^{xxxvi}

According to Susan Haskins, International Living's editorial director for Latin America, "Panama offers what is widely considered the best retirement program...but there are some 'ifs.' You can get a visa 'if' you qualify with an 'approved' pension, either from a larger well-recognized employer or from the government (like social security). If you can't prove this qualifies income then you have to make a considerable investment in the country... they just raised the required amount."

"In Mexico, though, it is VERY easy to get a resident visa – you need only show \$1500/month income from ANY source, including your personal bank or investment account," Haskins explained "This required amount is halved if you own property in Mexico."^{xxxvii}

Recently, a Web site dedicated to information on living in Latin America did a more informal comparison of retirement benefits offered in Panama and Costa Rica and declared Panama the most attractive.

"Honestly not much of a contest here. Panama, being the less developed of the two in terms of retiree and expat havens, is literally throwing the kitchen sink at prospective gringos," the site pronounced. "Conversely, Costa Rica has removed some of its benefits and cannot match the discounts Panama offers in the public sphere; being retired in Panama City must be like having the world's biggest damn coupon book in your hand. Add to that the ability to bring in your car tax free (in Costa Rica the costs are insane) and Panama takes this round handily. However, the \$1,000 USD pension does make Panama lose a few points."^{xxxviii}

Part II: Coastal Construction Benefits and Incentives

Overview

Costa Rica does not offer specific benefits for foreign investment in tourism or real estate development along its coast.^{xxxi} With few exceptions, land within 200 meters of the coastline cannot be privately held, and is considered public land. Costa Rica's Maritime Zone Law declares that the first 50 meters inland from the sea cannot even be built upon. The next 150 meters can be built on only if the developer receives a concession, usually awarded for 20 years and overseen by the local municipality and the Costa Rican Tourism Board (ICT). Foreigners cannot personally apply for a concession unless they have lived in Costa Rica for at least 5 years. Concessions cannot be won through corporations unless at least half of the shares are Costa Rican-owned.^{xi}

The Costa Rican government, and in particular the Oscar Arias administration, has however given special recognition and, in some cases, special treatment to specific developments. Top administration officials have shown up at ribbon cutting ceremonies^{xlii} and President Oscar Arias even climbed inside a backhoe to lay the first boulder at the groundbreaking ceremonies for a marina project on the southern Pacific coast^{xlii}. Arias and his environment minister also issued a presidential decree declaring a large-scale, \$800-billion development that included luxury housing, hotels and a golf course of national interest, exempting it from some environmental regulations.^{xliii} The administration has also had a hand in working with investors to create infrastructure to bring water to private developments along the northern Pacific coast where uncontrolled tourism and real estate construction has sapped the local supply.^{xliv}

Costa Rica does not offer any general incentives for real estate development for residential use, but through the ICT it does offer incentives for tourism development. A variety of types of businesses, located anywhere in the country and owned either by Costa Ricans or foreigners, can receive a "Tourism Declaration," which provides non-fiscal benefits. Once a qualified business has a Tourist Declaration, it may then apply for a "Tourism Contract," which brings with it additional benefits.^{xlv}

For a business to receive a Tourism Declaration it must, among other requirements, supply a sworn affidavit swearing that its exclusive or principal purpose will be tourism-related activities. Once granted the Tourist Declaration, a business is then eligible to receive technical assistance, training, marketing and advertising provided by the ICT. Companies may also then apply for a license to serve alcohol, and restaurants holding a Tourism Declaration are also exempted from restrictions prohibiting the sale of alcohol near schools, churches, nurseries and other locations. The declaration also imposes some obligations, such as keeping the ICT informed of its location, rates and ownership as well as any changes in those. It must allow the ICT the right to inspect the business and ensure that facilities are clean and well-maintained. A Tourism Declaration is also required for any business using the term "tourism" or "tourist" or their derivatives in Spanish.^{xlvi}

A business with a Tourism Declaration is then eligible for a Tourism Contract, which brings with it broader and more attractive benefits. Tourism Contracts are available only to the following types of businesses: hotels, air transportation, water transportation, car rentals and

tourism agencies dedicated exclusively to incoming tourism. Benefits are specific to each type of business and include the partial or total exemption of sales taxes and import tariffs on particular items needed for business, such as vehicles or replacement parts for vehicles.

In the case of hotels, for example, a company with a valid Tourism Contract may import the items it needs to build, remodel or expand its facilities duty-free, as long as the company cannot find similar goods available at a equal quality, in equal quantity and at equal prices. The contract also guarantees the necessary municipal permits needed to operate, and requires the municipality to grant them within 30 days of the presentation of the application and corresponding taxes or fees. Hotels under Tourism Contracts are also authorized by Costa Rica's Central Bank to exchange currency.^{xlvii}

Comparison with Panama and Mexico

Panama

Investors in either real estate or tourism projects in Panama are eligible for significant benefits, thanks to an aggressive regime of incentives. Panama's 1984 Law No. 8 is considered by International Living as “the most modern and comprehensive law for the promotion of tourism investment anywhere in Latin America or the Caribbean.”^{xlviii}

For example, anyone who invests at least \$300,000 in a hotel in Panama City, or \$50,000 in a hotel in outlying rural areas, receives a 20-year exemption of import taxes on materials, furniture, equipment and vehicles; a 20-year exemption of real estate taxes for all the company's assets; an exemption of taxes charged at the country's airports and piers; and an accelerated depreciation of 10% per year for real estate assets. Travel agencies that exclusively work with incoming travel can import vehicles and replacement parts every three years free of duties. Restaurants, discotheques and night clubs declared to be of tourist interest by Panama's Panamanian Tourism Institute and valued at least \$120,000 in Panama City and \$20,000 in rural areas (excluding the land value) are exonerated of all duties on the materials and equipment needed to build and equip the businesses, assuming the products can't be found at sufficient quantity or quality in Panama. Incentives and exonerations are also available to transportation companies and companies that build, restore, equip and operate convention centers, zoos, recreational parks, ecotourism centers and marinas.^{xlix}

In addition, Panama also has established “Special Tourism Zones” around the country, many of them along both coasts and including Pacific and Caribbean Islands. In these areas, further incentives apply to tourism development, including a 15-year exemption of income taxes.ⁱ

Panama also offers incentives for real estate: a 20-year exemption of property taxes on residential projects that receive their construction permits before July 1, 2009. The exemption isn't new, and applies to projects built during various periods over recent decades. The land the project is built on, however is not exempted unless it is valued at less than \$30,000.ⁱⁱ

Mexico

Mexico offers no benefits for foreign investment in real estate or tourism development.ⁱⁱⁱ

Perspectives on the best package

While Costa Rica offers a variety of incentives for tourism development, Panama offers a much broader set of incentives, including benefits for residential real estate projects. When the 15-year income tax incentives offered in Panama's Special Tourism Zones are factored in, Panama has an extremely attractive package. Costa Rica maintains its competitiveness, however, thanks in part to its natural beauty and international reputation, which draws higher tourism numbers: Costa Rica received more than 2 million tourists in 2008,^{liii} compared to the 1.4 million registered in Panama between January and November 2008^{liv}. Costa Rica also has more developed infrastructure in outlying areas, while much of Panama's real estate and tourism development has been focused on Panama City. But when comparing just the benefits and incentives offered in current laws and regulations, Panama has the most attractive package.

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