

The big five

Exposition by the president of the Republic of Costa Rica, Alfredo González Flores, to the congress, in support of the five proposed laws of the financial reform.

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CONSTITUTIONAL CONGRESS

Responding to the concerns of this High Body, I have expanded the call for extraordinary sessions in order to present to you the financial reform plan, which the Executive Power has been working on, foreseeing for months the distressing situation that the Public Finance Administration is facing.

This plan was definitely concluded recently and is the result of serious work and mature reflection. The reform is of such significance that its preparation and presentation to the country, represented by Congress, could not have been rushed.

In the Message that I addressed to the Chamber when it opened its last ordinary sessions, I explained to you all the defects of the current fiscal system on which the financial life of the Government rests, and the general reasons that support the need for a radical reform; and on the date of last August 27, I revealed to you the current situation, inevitable and logical consequence of our false system, from the moment in which the conditions that serve as its foundation were modified.

It would have been preferable to prepare in time for this situation; But, contrary to what I expected, not a single voice was heard in the country either for or against the problem that I raised at that time. It was necessary for the difficulties to reach the extreme we are feeling today, for the

country, worthily represented by Congress, to understand the non-extendable need to undertake the reform.

And perhaps it was better that way. This reform is of such transcendental significance, it requires to such an extreme the willingness to sacrifice the patriotic work of all citizens, mainly those who form the Legislative Power, that without reaching the entire country and its Representatives, due to a painful experience, to the intimate conviction of its necessity, the work could not have been based on the solid foundation that it demands for its greater stability; public conscience.

The excitement of Congress to the Executive Branch, so that the latter, before further reducing salaries or suppressing public services, present the tax reform plan, is highly satisfactory for me, since it signifies the express recognition that my Government has reached the limit of the possible economy, and that I can calmly dismiss street criticism.

In the Message of May 1, I have tried to give you a general outline of my ideas about the solution to the problem. I have always maintained that it is not possible to demand that the servants of the State comply with their obligations, if they are not simultaneously offered adequate remuneration, or if they are overburdened with too much work.

It was, therefore, against my intimate conviction, and only obliged to them by the necessity of the moment, that I have requested your authorization to make a greater reduction in salaries and eliminate jobs. And if this is not done, the only remedy that could be possible would be the total suppression of certain public services.

However, rather than the abolition of public services, the country is in the process of expanding and intensifying them; This is a requirement of the modern state of culture, from whose influence Costa Rica cannot and should not avoid responsibility.

Even without creating new public services, the existing ones are becoming more expensive every year, due to the simple fact that the country's population is constantly increasing and, at the same time, it is spreading over a larger area of the national territory each year. The extension of the government's action and the gradual increase in its expenditures is thus simply natural; not simply a reduction of these, - the simple limitation of them to the norm of today or yesterday, would be equivalent to a regrettable setback.

The expenses corresponding to the services established today must necessarily grow, as also the need for the creation of new ones is imposed, if we do not want to lose our advantageous position relative to the progress of universal culture. It is the development of this universal culture that obliges the State to fulfill its social obligation with the disinherited of fortune, with the vast majority of the people who suffer and work in the daily economic struggle.

The proportion of the proletariat proper has been increasing in our country in a remarkable way in recent times. The popular saying that happiness lives in our populace, examined through a fair criticism, turns out to have no more value than that of a simple phrase. In truth, there is no shortage of food, above all, articles produced in the country; but not all have access to their necessary portion, nor does man live on bread alone.

There is an abundance of doctors, and yet there are many ravages suffered by diseases in the poor classes; there are schools established throughout the country and, despite this, countless children find it impossible to attend them due to lack of adequate clothing, and in the heart of the capital there are not rooms enough to house the school population with relative comfort. The division of children into their natural categories, separating the mentally or morally inferior from the normal mass, is a need that we still cannot meet due to the expenses that this measure would require, not even in important centers, where precisely the proportion one of them is already large and where it grows constantly. The presence of

such elements in the general school retards the work of normals, and the bad example of those children who should undergo forced education in correctional institutions is a very serious evil. Our school education and instruction system is the target of bitter criticism daily; Its fruit leaves much to be desired, nobody understands this like the Government; who also appreciates the true causes, but without being able to remedy them due to lack of resources.

The shortage of suitable personnel for teaching, the frequent case that teachers - and precisely the most qualified ones - abandon their careers to accept occupations of another nature, better paid, are the most conclusive proof that a remarkable improvement of this evil is impossible without large expenses.

The modern State has the obligation to raise these and many other problems that modern life offers, and it must try to solve them, without assuming that private charity should be interested in them. The Republic needs citizens, and moral character has been lost by those who depend on charity.

In the Message of May 1 last I tried to show you that, despite the current crisis, the productive force of the Costa Rican people has not suffered any decline, that the financial crisis is superficial and does not affect the real economic resources of the nation. No one can point to a general stoppage of the country's activities as far as true production and true consumption are concerned. Only certain industries, which require of investment of capital and not the satisfaction of current needs, suffer the difficulties of the moment. The theaters are still full, the town continues to attend parties and contribute to worship activities no less than in earlier times. For the first time they have begun to export grains and several consignments of cattle have been sent to foreign markets, without any shortage of these products being noticed in the country, nor on the contrary unfavorable for the consumer in their price.

Our exports during the year 1914 reached ₡23,358,598, - leaving a surplus on imports of ₡7,118,428 .-- The total export was greater by ₡1,161,677 than the previous year, the latter as well as the trade balance left in favor of the country have never been equaled in previous years.

The sudden decrease in Treasury income is not due, then, as might be believed, to a subtraction of the productive force and, therefore, the contribution of Costa Ricans and our foreign guests, but to the deficiencies of our fiscal system. And the current consequences of those shortcomings are not likely to cease to be felt sooner or later by the restoration of peace in Europe. It is most likely that it will take years for the complete normalization of international trade, and with it the normalization of the government's public revenues, if we leave them based on Customs duties, as before.

The current situation and the probable future of our country force us to opt for a new contribution system. It is necessary that all inhabitants and all sources of wealth and production contribute directly to the payment of the expenses that the Public Administration requires, from this Public Administration, a condition of existence of our political and social life, which, in turn, transforms into goods the product of capital, property and work. It is necessary for everyone to understand that without the political-social organization in which we are constituted and without the harmony that the Government guarantees, the value of the most productive agricultural, commercial or industrial enterprise would be completely unstable.

It is clear that the task of a radical reform of the current tax system, as justice and equity demand it and as the country needs it, has all the appearance of a great enterprise. The experience of countries of a social and political nature more or less analogous to ours, which could serve as a guide, is completely lacking. Almost all of Latin America has so far handled fiscally with systems to some extent similar to ours, and most of them are

currently experiencing the same difficulties in which we find ourselves for the same reasons.

Consequently, it is necessary to look for models in Europe, in those countries that have already developed tax systems with long practical experience and with good success and that little by little have been approaching the ideal of reconciling public needs as much as possible with natural selfishness of the taxpayer.

The Executive Branch has devoted the most serious study, both to practical experiences in other countries, and to theoretical teachings on the matter, which can facilitate the application of those to the specific social and economic conditions prevailing among us. It has also carefully studied the tax systems in the United States and in the large colonies of the European states, and has found useful lessons to overcome the difficulty of applying - with due modifications - improved systems in less developed countries such as Australia, New Zealand and the Philippines, similar to ours.

Everywhere where there are well-arranged public finances, the main basis of the State's income is constituted by the tax on territorial property and the direct tax on the income or profits of each one, these are taxed at a proportional and progressive rate, according to the individual's income capacity.

In order for the cost of public works to weigh as much as possible on those who are directly or indirectly favored with them, in many places those favored mainly in the United States and lately also in England are obliged to make a special contribution for such works, contribution more justified than others, in countries of recent origin, where it is necessary to do quickly what in others has been the work of a few centuries; where these works turn deserts and jungles into valuable properties in a short time. This form of contribution is already initiated in our administrative law for the details of local roads.

In accordance with all the ideas that I leave exposed here and in previous messages, the Ministry of Finance will submit to your knowledge and pending your approval, the bills that the Executive Power has prepared in order to build the financial life of the State upon a base that is fairer and firmer. These projects are:

- 1°. - Law on the formation of the Cadastre.
- 2°. - General Law of Direct Taxes.
- 3°. - Law on Territorial Contribution.
- 4°. - Income Tax Law.
- 5°. - Law on the Contribution for Public Works of special or local interest.

The absolute lack of local practical experience on the subject and of many elements, in the matter of statistics, etc., necessary for the elaboration of these projects, inevitably gives them the characteristic to a certain point of being a test. It will be necessary, however, to put them into practice, because only in this way will the statistical material be accumulated and the practical experience will be acquired that will later be used to perfect the system, to correct its deficiencies and to attenuate its possible difficulties later, to the extent that they are avoidable.

When preparing the Territorial Contribution project, the Executive has felt how much the cadastre is needed in our country. As long as this gap is not taken with the help of the corresponding law that is projected, it is impossible to appraise the property based on its extension, its situation and its net theoretical value, which should be the basis of this tax, leaving without considering the venal value; this market value to a certain extent is modified by the owner's work, favorably or unfavorably, therefore, in good theory, it should not be confused with the property as such, the true subject of this contribution.

It has been necessary to adopt the system of the contribution proportional to the common value. The appraisal is left to the interested party. Missing

all basis so far, an appraisal by the Administration or by experts or boards would be almost impractical, at least the preparations for the first appraisal would take us such a long time, consequently, at such a large personnel cost, that the date on which the first installment of the tax would be collected could not even be calculated; and the financial result of it, at least in the beginning, would be problematic. The Government has preferred to trust the civic conscience of Costa Ricans, establishing --- yes --- serious consequences for fraudsters.

The Executive has seen fit to levy a tax on land speculators. This speculation is a very serious evil, and if, in order not to pay this tax, the hoarders of large tracts of wasteland prefer to abandon them, the country would make an effective profit with it. In the regions along the coast of the Pacific Ocean there are large private properties, whose character it is not easy to appreciate exactly, whether they are cattle enterprises, or merely objects of speculation. The government has tried to shape the provisions to properly protect legitimate businesses.

Railways and similar companies will be subject to this contribution like all others. They are for-profit companies, the services they provide to the country are paid for by the public. The small services that they provide for free or at a special rate to the Government can hardly compensation for the privileges they enjoy. In the United States, the value of the concession as such, in most of the States - are subject to a special tax, in addition to being taxed with multiple and, sometimes, very heavy taxes - It cannot be alleged Against the obligation of the railroads to pay the tax, among us, the fact that these companies do not give but very little returns, contrary to what happens in the United States. The list of American railroads that have actually gone bankrupt is long, which has not happened here; The risk of the company's first establishment in underdeveloped districts has been offset both in the United States and here with valuable land grants. If, when the Railroad was transformed into Companies for its exploitation, the first entrepreneurs stopped giving these companies said concessions,

and the companies took over only the company itself, necessarily of poor performance in the first years, this has been the fault of the State.

In general, all foreign companies must be subjected to the same charges as the citizens of the country. Among those existing here there is none that for special reasons should be exempted.

When planning new ones, the circumstances of the case may be taken into account, to resolve whether there is room for an exception; in principle, the Executive Branch sees no reason for this. This refers to both the Territorial Contribution and the Income Tax and, of course, any possibility of exception from the compulsory Contribution for Works of Special Interest is of course excluded.

For the Income Tax, the Executive Branch has set the lower limit of the income required to contribute, at ¢ 1,000. Both in this, and when setting the rate, the Executive has inspired its criteria in the greater amount of equity, without taking into account, for the time being, fiscal reasons, related to the probable yield of the Tax. These reasons will guide us later in modifying and perfecting the system, when statistical material from some years can provide it.

The Executive has not seen fit to exempt anyone from this tax. The only just reason for the exemption would be the total scarcity of rent, and this exemption has been done in a general way. The exclusion of certain categories of employees, of certain professions, as the Executive Branch has been advised to do, has no reason to be.

The rate of this tax has been made in progressive proportion with the total net income. This is the only fair and equitable criterion. A differentiation in the rate of the different sources of income, such as, for example, taxing more the income from the simple placement of capital at yield, is not without justice, but for this a long practical preparatory work is necessary;

We cannot reach this and other improvements in the system except gradually.

The Executive Power has not wanted either to exempt from the Income Tax earnings from real estate by those alleging that these are already taxed with the Territorial Tax. This is an object of divergence among theorists in the field. In practice, the exception is almost impossible to make, as experience has shown wherever this has been intended. And in good theory, this has no reason to be either. This problem is closely linked to that of whether the territorial remuneration must be paid on the full value of the property, or on the net value, deducting the taxes from the gross value. Apart from the fact that also in this case the appraisal would find insurmountable technical difficulties in practice, the Executive's decision regarding this problem has been inspired by the following considerations: The advantages that a property derives from the action of the Government are not proportional to the net capital that the owner may have upon it, but proportional to the gross value, the size and the situation of the estate. Neither of these qualities is affected by whether the owner is free or in debt. Land property as such is the object of the corresponding appraisal, regardless of who the real or apparent owner is, and individual income is subject to another tax, regardless of its source. Any theory to the contrary ignores the intimate essence of both taxes, and forgets that the services provided by the State to property, as such, are entirely different from those enjoyed by the individual. The capitalist who receives his income from abroad demands the same guarantees and comforts personally, as the one who has his capital employed in farms in the country; and a farm, as such, receives the same guarantees and identical service, whether the owner lives in the country or lives abroad. And regarding the question of whether foreigners residing here must pay tax, or those who reside abroad and receive their income from their businesses established in the country, it is easily resolved from the same point of view that has just been explained, in the affirmative sense. The Executive Branch hopes that you will devote all your attention to this great matter, and that you will propose the appropriate modifications in your

enlightened feeling about the proposed laws. The only thing that it does seem convenient to note is that all the five laws have their practical connection to each other, and that any modification introduced in one of them can affect the effectiveness of the others, so that it is necessary to consider them as an organic set and to change certain details of a law will necessitate changes that correspond to it in another or others.

I especially draw your attention to the Municipal Surcharge established in the General Law.

The municipalities among us have such a rickety life that it does not allow them - not by much - to fulfill the high mission that corresponds to them as exponents of an organized community. The reason is obvious: with the sole exception of the capital, all of them have such meager incomes that in many cases they are not even enough to meet the most necessary current expenses. Their income is made up of special taxes subject to fluctuations, and they lack order and system. These taxes, for the most part, are nothing other than the collection of certain and very few public services - such as, for example, plumbing and lighting - that are consumed in the precise expenses of these same services.

For Municipalities to be in reality what they should be, the collective administration of local interests, it is necessary that they enjoy sufficient resources provided in a fair and equitable manner by all stakeholders in the locality: only in this way will it be possible for them to serve the multiple communal needs.

It is necessary to put an end to the administrative error of authorizing the Municipalities to contract loans with the guarantee of the State, under the pretext of expenses or special works, but in truth simply to pay off their expenses. Such loans sooner or later of all kinds fall on the State and if to this are added the special subsidies that Congress is often forced to allocate for purely local purposes, the municipal administration turns out to

be an unbearable burden for the Public Treasury, which today feels much of this enormous debt as a consequence.

And it should be noted that such special subsidies have become - for a long time - an easy instrument of steeple politics. In a previous Message, I tried to show you the unpredictability of the proceedings of the Congresses when authorizing aid for certain localities without at the same time making the necessary resources available to the Executive Power to cover such expenditures. And the list of decrees issued by Congress in this sense is very long, without their execution having been possible due to lack of means.

The annoyances that these procedures bring to the Executive are easy to understand; it constantly has to hear complaints from disgruntled localities due to the lack of fulfillment of favors agreed on for their benefit; and this lack of compliance is not due at all to the ill will of the Executive, which, however, bears the consequences of the thoughtless local patriotism of the Deputies.

With the establishment of national taxes on income and property, the Government claims, these to be the two most convenient sources of contribution, and it is difficult for the Municipalities to establish other sources, which, at the same time, are equitable and sufficient for their needs. It is, therefore, the most natural and fair thing to authorize them to collect an additional percentage on these same taxes. This will also achieve another, purpose: the appraisals avoid local intrigues. And it is fair that some of these contributions correspond to the Municipalities, because in the Government's plan for the administration of these contributions to these bodies a certain effort and a certain responsibility are imposed on them.

The objection will not be lacking that the municipalities of the country, beginning with that of the capital, have been poor administrators, and that, for the same reason, it would be dangerous to entrust them with

greater resources. Analyzing well this concern and the reasons that originate it, these could turn out to be the same that serve as the basis for the charges of waste that are formulated against the Government, that is, that the difficulties come, not so much from the mismanagement of the funds, as of the scarcity of them.

But, even admitting a certain basis for this concern, the remedy would have to be sought through a reform of our municipal system. To declare the incompetence of the Municipalities to properly administer the communal funds in greater quantity, would be to go directly against the democratic principle that gives them life, or to deny the capacity of the towns for their own local administration. Not for one nor the other can the Executive Power be a spokesperson, but it does believe that with the principles of legitimate and true democracy are compatible with an organization of firm constituted authority, of rigidly defined and applied criminal and civil responsibility, and the removal of purely administrative functions to the ups and downs of politics and partisan influences.

Only in this way, by giving the Municipalities an independent financial life, can we prepare the approach to the republican ideal of the greatest possible decentralization. This will never be more than a beautiful phrase consigned in political programs, as long as the Municipalities do not stand financially on their own. As long as these Corporations depend economically on the Government, their political and administrative dependence on it will be a fact, even if the opposite is stated on paper; and as long as each county cannot pay its own administrative head and while the functions of the latter, as the executive body of the Municipality, are in charge of the Governor or Political Chief, paying for the Government, the Executive Power will have to appoint these officials and not the citizens of the locality.

Although the first and immediate object of the proposed reform is of a fiscal nature, that of creating a broad and secure base for the financial life

of the Government, I am fully convinced that it will at the same time be fruitful in benefits for the economic life of the country in general.

A careful study of the history of the Treasury in the last fifteen or twenty years proves that ordinary income has never been sufficient not even for the minimal expenses of the Administration. This is the reason why our Government has always been and unfortunately is today, the best customer of the Banks; Each and every one of the previous governments has had to turn to them for money to weld their budgets, and the French borrowing for the most part is nothing more than the consolidation of those occasional loans. Since that enormous debt was created in the hope of putting an end to the daily difficulties, the internal and floating debt has already reached the respectable sum of ₣ 9,000,000, more or less.

The Government has thus been and is the most disastrous competitor of agriculture, industry and commerce in the demand for funds and these constant needs of the Government are due to the fact that for years the current interest in the country, for operations with collateral is maintained at the high rate of twelve per cent per annum.

The money that entered the country as a result of the French loan did not come to bear the expected fruit of that negotiation, that negotiation was not the powerful lever from which a new and vigorous push was expected in favor of national production; No new companies were undertaken through them, nor did the capitalists whose credits against the Government were canceled once the loan had been made, provide other businessmen, in good conditions for the debtor, with the means to expand the companies.

The conditions of existence of the Public Treasury were not changed at all by that evolution. The country continued its normal development, the population increased, the rents grew and with them the public expenditures also grew; and both items, rents and stipends, continued to keep the same disadvantageous proportion as ever. Subsequently, each

year the expenses have been greater than the income, each year it has been necessary to resort to credit, and the disastrous result we see today in the alarming sum total of new debts.

The French Loan was nothing more than a momentary liquidation of the created situation up to then; but it did not change the conditions that fatally led to it; It did not interrupt the process at all, but it constantly increased in one way or another the burden of our debts. The Government has, and will continue to demand money from the Banks and the capitalists, as long as a rational proportion between inflows and outflows is not established.

Establishing this rational proportion is the main objective of the projected reform, and once that end is achieved, the Banks established in the country will be what they should never have ceased to be: credit institutions, true financial centers that collect available money and lend it, to those who request them under the best possible conditions and at interest rates that will be given according to legitimate offers and commercial demand, and not, as up to now, due to the insatiable need for funds on the part of the Government, which must necessarily cover its deficit each year and that if today it resists acceding to the lender's assumptions, tomorrow it will have to be willing under the weight of an ever more pressing hardship and until the entire financial base of its existence is radically reformed. This reform is the aim pursued by the projects that are submitted to your knowledge today.

If this redemptive movement is carried out on this occasion, if the projects of which I speak are approved and put into practice, all the conditions in which our economic and financial life unfolds today will change. Certainly a sacrifice will be demanded of all the inhabitants of the country, but the sacrifice is insignificant when compared with the great advantages that in compensation we have the right to expect.

The land tax, with everything and being so moderate in its rate, will not cease to seem annoying in appearance: Meditating serenely on the question, it turns out that one fourth of one percent as an annual tax on the value of the property does not amount to much, if this is to achieve what by so many artificial means has been sought in vain, the reduction of the current absurd rate of interest to a rational level, perhaps to eight percent a year, and no one will want to deny that once the Government ceases its constant demand for funds, the entire banking business in Costa Rica will have to adapt to a new and healthier base.

Once the Government can, and this will happen in a not too distant time, to reduce its credits in the Banks - mainly in the International Bank - investing its surpluses to strengthen this institution, it will benefit the taxpayer with the possibility of low interest loans and long terms. The International Bank will be able to increase the amount that today it allocates for Agricultural Credit Loans for the benefit of the small producers, it will also open a mortgage section for the benefit of the medium-scale farmer, who both are the most important factors of the wealth of the country.

These indirect benefits are as important as others that will be directly realized. In this way, it will be possible to better serve public services and development works that require a more active development of our production.

Credit in advantageous conditions, new and better means of communication, here is what the country needs, and what is impossible to achieve if we continue to abide by an irrational, insufficient and unstable income system. Every effort to achieve that desired end will fail if, first of all, this vacillating system is not replaced by a more consistent one.

The laws such as I present them for your enlightened consideration serve at least to show that although the task is difficult, it is not, impossible, and I consider that the only thing that is necessary to carry it out is to be

convinced, as is the Executive, of its urgent need. The reform is essential to promote justice, establish the democratic system on solid foundations, defend our autonomy, threatened by strong commitments to the outside world, and to ensure the financial independence of the Public Administration.

I know that it would be very easy to govern with conservatism, rather than breaking traditions. Any innovation of the transcendence of the proposals damages vested interests and some of these will try to give the character of a disruptive revolution to what exists, which is nothing more than a healthy evolution. I am confident, however, that just persons will support a reform that pursues those ideals, even when it seems that for the moment their personal interests are being injured. This conviction strengthens the hope of the Executive that this initiative will find an intelligent reception within this Chamber.

The Executive Power expects, from your patriotism, that the bills which are the object of this exposition, and that you requested to submit to your knowledge, deserve your full attention, and that you approve or modify them without delay following the indispensable and natural careful examination and conscientious deliberation.

By elevating the aforementioned projects to laws of the Republic, you will have resolved, in principle, the serious problem that plagues us today.

If, on the contrary, you reject them, the Executive will find it absolutely necessary to demand from you the necessary resources to continue managing the State's affairs, or to suppress entire branches of the Administration and to lower the salaries of the employees even more that remain in their positions.

Either way, the responsibility of the Executive Power is, of course, safe before the country.

Constitutional Congress.

ALFREDO GONZALEZ

San José, 4 of Setiembre of 1915.

Law on the formation of the Cadastre

1°.- The General Cadastre Office is established, annexed to the Property Registry, which will proceed with the gradual lifting of the General Cadastre of the Republic.

By means of engineers employed by this Office or with extraordinary work the Office - will draw up an exact plan of all roads and public streets, whether national, county or district, of the Railways and rivers of any importance, fixing as far as possible cardinal and visible points. Private maps that exist on this and that offer, due to their good execution by competent technicians, the guarantee of being exact, may be used as far as possible.

2°.- Any deed that is hereinafter presented to the Property Registry and in which the transfer of total or partial ownership of a property, declaration of improvements, rectification of improvements, rectification of measure or boundaries, must be accompanied by a detailed map, which indicates not only the general contour lines, but also the different characteristics of the land and buildings, the surface measurement, the perimeter of the farm, its cardinal boundaries and also its exact location not only indicating the name of the district to which it belongs but also in relation to some indisputably fixed point on some road, street, railroad or river.

3°.- The interested parties will have to present their map in duplicate, or if this is impossible, the Land Registry Office will make or order a copy to be made at the cost of the party. One of the copies will be kept in the Cadastre, the other will be returned to the interested party, with a Cadastre seal stating the registration of the farm and that a duplicate is deposited. Once a copy of the map has been filed, the corresponding record will suffice for the registration of future deeds; Except in the cases in which it is a matter of registering material division, segregation or reunification of farms, or of registering improvements made in them, for which it will be necessary to present maps of the new farms, or of the improvements, so that the previous map is replaced or rectified.

The maps must be made and signed by certified public surveyors.

4°.- The Executive, in the regulations that will dictate the execution of this law, may grant prudential terms to facilitate the presentation of the maps during the first five years, so that the lack of maps and the limitations of the surveyors do not put obstacles to the registration of deeds in the Registry.

5°.- If when comparing the maps of two adjacent lands, the boundary between them does not correspond to both, the interested parties will have to proceed to fix the dividing line by mutual agreement in a new map made with the intervention of the Cadastre. If they do not agree to do so, either party may ask the Land Registry Office to have a map of this dividing line drawn up, the cost of this work being the responsibility of the interested parties, if none of their maps are accurate, or of the owner of the wrong map if the other is good. The manifest contradiction between the map that is presented and that of a neighboring property already presented, will be an obstacle to registration.

6°.- Once there are maps in the Cadastre Office for several properties, which dispute a boundary, and the dividing line in the maps, which have been presented by their owners, coincide in whole or in part, there will be

no more discussion on the points that such maps fix accordingly. If between the maps of two adjacent farms there is a part of the land excluded from both, the portion that thus results without an owner will be considered property of the State, provided that the line of the boundary of one and the other is not manifestly wrong.

7°.- All registered property owners have the obligation to present maps according to this law of their properties, within five years, if they were not obliged to do so before for the registration of a deed.

8°.- All the maps that are presented to the Cadastre by virtue of this law, will be verified on the ground gradually by the engineers or surveyors of the office at the cost of the interested parties. The Executive will dictate the corresponding dispositions to establish the order by counties or provinces for the revision of these maps.

9°.- To avoid this future expense, the interested parties who plan to establish a map of their properties may apply to the Land Registry Office, which will indicate the rules that must be followed when carrying out the measure, being subject to the approval of the Land Registry the appointment of the surveyor. If this proceeds with the agreement of the neighboring properties and of the local authority when establishing the lines of the boundaries, and this is duly established, the map will be considered definitive and of probative force for the future, forming part of the provisional Cadastre.

10°.- All properties reduced to private ownership in the Republic must be registered in the Property Registry within ten years from the date of this law. For the registration of any information possessing a property it will be necessary from now on that the respective application be accompanied in addition to what is required by law, a detailed map as indicated herein. The lands that at the expiration of those ten years are not registered in the aforementioned Registry, will be considered property of the State and its

occupants will have the rights that correspond to the possessor in good faith.

11°.- The owners of real estate already registered will present in all the cases that this law requires, a detailed map of the lot of the general estate that they own in payment of them or of the total estate, and the property will be definitively located and the material division practiced in terms of the joint owners who have presented those plans once they have been exposed to the public in the form expressed in the following article.

12°.- Each time a group of properties has been definitively established and is sufficient to locate and circumscribe without interruption a section of land that covers a normal sheet of the form, measure and scale of those that will form the definitive Cadastre, according to the regulations issued for this purpose, this page will be duly raised and offered for public inspection in four copies, in the capital of the Republic, in the province, in the county and in the respective district, for a peremptory term of three months. Those who do not agree with the location of the properties indicated there, will present their claim in the way that the Executive regulates. After three months, the definitive Cadastre will be considered firm, and of absolute and incontestable force of proof in the part that has not been timely objected. The details that are the object of the claim will be aired in the way and in the manner indicated by the Executive in its regulations.

13°.- This law modifies or adds all those that in any way can oppose it. The Executive is empowered to regulate it.

General Law of Direct Taxes

Art. 1 .-- With the subsequent purpose of being able to modify the existing indirect contributions and in order to make the distribution of public charges more fair, direct taxes are established.

Art. 2.- Direct taxes are general or specific.

Art. 3.- General taxes are imposed on all the inhabitants of the Republic, whether they are Costa Rican or foreigners, and on all property owned and all profit-making companies established in the country, even if the owners and beneficiaries of it reside outside of the Republic and whether or not they are Costa Rican.

Art. 4.- Special taxes will weigh on industries or properties determined by the law that creates them, which will indicate in each case the express purpose to which their revenue will be dedicated.

Art. 5.- The taxes to be created by virtue of this general law are national and need a special law for their validity that establishes their general bases, specifies the rents, profits, industries or properties subject to each contribution and set the corresponding rate.

Art. 6.- In order to increase the income of the Municipalities and at their request in each case, the Executive Power may decree a proportional increase, up to forty percent (40%) of the original tax, on the national direct contributions in favor of the Municipal Treasury of the locality in which the property or the encumbered company is located, or where the taxpayer resides or has his business. If by virtue of this provision the taxpayer is obliged to pay the municipal surcharge in several counties, it will be distributed among them in such a way that in no case will a double municipal tax be paid on the same object.

If the needs of any Municipality require a surcharge of more than forty percent on the national tax, the authorization of the Legislative Power will be necessary.

Art. 7.- The special law on each tax will determine whether the obligation to pay it is a real or personal burden. In any case, such obligation will enjoy, together with the interests and legal penalties, absolute privilege over any other particular of the same nature.

Art. 8.- Neither the obligation to pay the assessed taxes, nor the right of the Treasury to claim what has been defrauded, prescribe during the life of the taxpayer. Regarding the prescription of the real lien that will weigh on the property established by a tax, the law that creates it will set the rules.

Art. 9.- Any exemption from the payment of Direct Taxes must be expressly decreed by law.

Art. 10.- The Executive Power will create the General Administration of direct Taxes, dependent on the Ministry of Finance, and the Sub-administrations that the service requires.

Art. 11.- The Executive Power will dictate the corresponding regulations for each special direct tax law.

Art. 12.- The expenses caused directly or indirectly by the execution of this law will be charged by the Executive Power to Eventual Expenses of the Treasury until this service is definitively organized and its expenses can be included in the ordinary budget.

Law on Territorial Contribution

Art. 1.- Establish a general tax on real property, which will be called "Territorial Tax."

Art. 2.- All land and all buildings found in the Republic are subject to this contribution, with the only exceptions of:

- a). The properties of the State, the Municipalities and the Boards of Education.
- b). Properties destined for free education, worship or charity, classified as such in each case by the Executive.
- c). Immune properties according to international law.
- d). Properties excepted by special law.

Art. 3.- The tax will be on the common value of the land, of the fixed and permanent constructions and of the stable plantations that are in it forming an integral part of the property according to civil law.

Art. 4.- Common value - in the sense of this law - is the total price, at which a property would be sold in cash, without taking into account the value for personal interest or the special value that its possession give to the owner because some industry or trade is established in it. The advantage of a favorable situation in any sense if it expressly forms part of the common value.

Art. 5.- Every owner or possessor by any title or titles of real estate is obliged to declare them every year before the office indicated for that purpose, stating their value and all the details that relate to them. The declaration shall be made in writing in the manner and at the time established by the respective regulations.

Art. 6.- Statements referring to properties registered in the Property Registry will be collected by sending the official formulas to the owners. But not receiving such formulas does not exempt the owner from the obligation of declaring, nor from the payment of the tax or paying the established fines. Both in this case, and in the case of properties or possessions not registered in the Property Registry, the owners are obliged to spontaneously submit their declarations in the form and on the regulatory date.

Art. 7.- The statements will have the value and significance of an oath. Fraudulent statements will be considered perjury with all the civil and criminal consequences of this crime.

Art. 8.- The statements will be reviewed by the administration and subject to rectification, according to the respective regulations. The rectification will be made at a hearing with the interested party, being the latter in the obligation of providing proof in case of divergence.

Art. 9.- Regarding the data declared by the interested party, the Administration will fix the common value - in the sense of this law - of each property and will value it for the purposes of the Contribution in accordance with articles 11 and 12.

Art. 10.- Property owners who, notified for the first time, do not present their declarations on the regulatory date will incur a fine of ¢ 5 to - ¢ 50 - for each property, those who do not verify it at the second warning, will be appraised ex officio without claim. When concealment of assets not registered in the Registry comes to light the owner will pay double the ordinary tax, and all the legal and administrative fines.

Art. 11.- On the common value, fixed according to the previous articles of this law, the owner will pay the contribution each year according to the following rules:

I. - All property destined for ordinary uses, for habitation, for industry or commerce, for agriculture, for mining, that is cultivated or is in formal exploitation in any sense, will pay a quarter percent annually.

II.- Roads, the rails and the bed and the constructions in which the rails are laid, of railways or trams or other similar companies, form a property in the sense of this law and pay the ordinary rate of the fourth percent, when they are destined exclusively or mainly for the private service of the

company. When these are of public service, unconditionally subject to the laws and administrative regulations of the country, they will pay the contribution at the rate of a fifth percent annually. The railway bridges will be free of contribution when they serve the public traffic, on foot, on horseback or with carts and carts. For this exception to take place, no dity and traffic safety.

Art. 12.- Uncultivated land shall be governed by the following special provisions:

a) Uncultivated lands are tax-free, if the total uncultivated property of a person throughout the Republic does not exceed 100 hectares.

b) If the total undeveloped property of a person, physical or moral, in the whole Republic exceeds 100 hectares, the contribution will be paid annually according to the following progressive rate:

1/2% on the excess of 250 hectares up to 500.

3/4% on the excess of 500 hectares up to 1000.

1% on the excess of 1000 hectares up to 1500.

1-1 / 4% on the excess of 1500 hectares up to 2000.

1-1 / 2% on the excess of 2000 hectares up to 3000.

1-3 / 4% on the excess of 3000 hectares up to 4000.

2% on the excess of 4000 hectares up to 5000.

2-1 / 2 on the excess of 5000 hectares.

When the uncultivated lands of a taxpayer have different values, the total value of them will be divided by the number of hectares and the resulting quotient will be the average value that is taken as the basis for the calculation of this tax. For the purposes of articles 24 and 25, the value given to each property will be applied.

Art. 13.- uncultivated land will be considered as all that is in a natural state, without its owner or tenants or settlers haven undertaken work of cultivation or exploitation. The simple opening of boundary lanes does not

remove its uncultivated character, nor is it considered as exploitation in the sense of this law the simple exploitation of wood or the use of superficial natural treasures. The systematic and organized exploitation with the help of stable mechanical installations, such as sawmills, mining machinery or other similar ones, can be admitted as exploitation that removes the uncultivated character of the land. The Administration will decide in each case, if there is a place to do so, and will establish the extension of land thus qualifiable as exploited or legitimate reserve in the sense of the following article (Art. 14)

Art. 14.- Uncultivated land that is part of an agricultural company will be considered as a legitimate reserve for future crops and will be subject only to the general tax rate, as if it were in proper exploitation, if its extension is not greater than the already cultivated. In order for them to enjoy this advantage, it is not necessary for the uncultivated portion to form a single body with what has already been used without interruption as long as the distance is not greater than two kilometers between its closest points.

Art. 15.- Uncultivated land less than 100 hectares do not enjoy the exemption of Art. 12, if they are located at a distance of less than 1000 meters from a public street or a railway station, unless it is forests or lakes in the vicinity of population centers, due to the hygienic interest that their conservation has.

Art. 16.- Natural savannas and forests of little thickness, as they are frequently found in the regions of the Pacific coast, will be considered as cultivated or exploited, if they are artificially fenced in a fixed and permanent way. It cannot be argued, to obtain this advantage, that there is no need for artificial fences because there are natural fences, such as rivers and the like. Likewise, such savannas or forests will be considered as used in the sense of this law, if they are properly used for livestock. For this exception to favor the owner or property, it will be a precise condition that a number of cattle be kept in it, not less than two thirds of what is considered normal in the circumstances of the locality, and in no case less

than one head for three hectares. If this condition is not fulfilled for a whole year, the land will be considered as uncultivated, taxed according to art. 12, in the part not used in accordance with the provisions of this article.

Art. 17.- The payment of the tax will be made in four quarterly installments each year, in the manner, on the dates and in the place determined by the corresponding regulations.

Art. 18.- For lack of timely payment, the obligor will incur a fine of 10% for the first month of delay, 20 percent for the second and 30 percent for the third and each following month. For the purposes of these fines, any fraction of a month will be counted as a full month.

Art. 19.- The obligation to pay this tax is a real burden, which weighs, in preference to any other lien on the affected property, in addition to being a personal debt of the owner with the privilege established for all national taxes.

Art. 20.- The personal obligation of the obligor does not prescribe during his lifetime; the mortgage obligation of the property prescribes for the purchasers in good faith after five years, counted from December 31 of the year in which it was originated.

Art. 21.- When four consecutive quarterly installments have not been paid, the Administration shall proceed to the compulsory collection and request the public auction of the property. For this, the certification of non-payment will suffice.

Art. 22.- The interested party can claim both against the appraisal and against the rate if they are not satisfied. The respective regulations will establish the procedures for this. Once the administrative instances have been exhausted, there is the ordinary judicial route, but this does not defer the payment of the tax set in the last administrative. Justifying the claim,

the unduly paid amount will be returned to the interested party with interest of 6 percent per year and the procedural costs; If the claim is unfounded and manifestly reckless, the claimant will incur a fine equal to the assessed amount.

Art. 23.- The final appraisal and tax rate do not harm the right of the State to claim, when discovered, any difference that has been defrauded.

Art. 24.- In the event of forced expropriation of any property or part of it, the price that will be recognized to the owner will not be in any case greater than that declared for the purposes of this contribution or the proportional part if the expropriated property is not the entire property.

Art. 25.- Even without having decreed the expropriation for reasons of public interest, the State will have the right to buy any property at the price declared by the owner, with a 20 percent increase as the difference between the common value and the value of legitimate personal interest for the interested party. This purchase may be made by the State either to preserve the property or to develop immediately, and this resolution must be notified to the interested party within a peremptory term of three months from the date of the declaration.

Art. 26.- Every notary or official authorized to certify is obliged on real estate deeds granted before them, to impose on the purchaser of the legal mortgage the mortgage amount on said real estate because of the tax that this law establishes. Failure to do so will cause the notary or charter to incur a fine of ¢ 25 .-- for the first time, ¢ 50 .-- for the second and ¢ 100 .-- for each subsequent time, and as long as this is ignored said official is suspended in their functions.

Art. 27.- No registration will be authorized in the Property Registry on subsequent registered assets, or on the inicial registration if it is not yet registered or on segregations, as long as it is not proven that the

corresponding tax has been paid up to the date of the document whose registration is requested.

Art. 28.- No Court, once this contribution has been regulated, will henceforth give effect to the applications for supplementary titles, if the applicant does not prove that he has paid the corresponding land tax.

Art. 29.- In the case of a farm belonging to several co-owners, each one of them will be obligated to pay in solidarity the total amount of the contribución on the entire property, if they own it in common, or on the value of the lot they own in payment of their rights, if there is a material division in fact.

Law on Income Tax

Art. 1.- All the inhabitants of the Republic, Costa Rican citizens or not and all the people who have goods or companies in it, or from any other source receive an entry in money or its equivalent originating in the country - even if such Beneficiaries reside outside it - will pay a direct tax, proportional on a progressive scale to their total net income, when this total reaches or exceeds the minimum established by law,

Art. 2.- The following are income, in the sense of this law:

- a). Interest on invested capital, be it fixed income or variable dividends.
- b). The profits of agricultural, industrial, commercial, public service, transportation, dispatch or storage, lodging and food, recreation or entertainment companies and any business established for the profit of the interested parties.
- c). The products, whether in money, whether in fruits, or in values that represent the use of the real estate for profit.
- d). The remuneration of personal work, whatever that work and whatever the remuneration.

- e). Pensions, retirements and other similar income, without any exception and whatever the source from which they come.
- f). Accidental winnings, such as lottery prizes, etc.

Art. 3.- The following expressly form part of the rent:

- a). The rental value that represents living in your own home.
- b). The effects that the merchant or industrialist withdraws from his own establishment for private or family use and expense or the farmer uses the products of his farm for the same purposes.
- c). Food, room and other emoluments in kind that the employee receives as part of his salary or in addition to it.

Art. 4.- From the income or gross profits of a person or a company, the following shall be deducted to calculate the net income:

- a). All expenses necessary to produce income or profits and to preserve them or their source.
- b). Interest on capital that is owed, provided that it is not essentially private debts, or debts on the dwelling house whose interest must be considered as rent or part of it.
- c). Actual losses.
- d). A prudent amortization fee on movable or immovable property, professional utensils, tools, machines, livestock or other values of a similar nature, provided that it is not for expressly personal use, in which case its wear means a particular expense.
- e). A prudent guarantee quota for eventual losses, such as in doubtful credits or in speculative companies, which, without having been liquidated yet with a loss, already offer that danger.
- f). Insurance awards against fire or other dangers insofar as they do not affect objects for exclusively personal use.

Art. 5.- Life insurance premiums are not deducted from the income; they amount to capital accumulation. The liquidation of the life insurance of the interested party, either by balloon payment, or by means of a life annuity, will be considered partially as a return of capital, and partially as income or

profit. When it is not easy to specify exactly the proportion of both parties, two-thirds of the liquidation or income will be considered as return of capital, and the other third as income or profit subject to this tax.

Art. 6.- All individuals or legal entities will be subject to this tax, but a natural person will not be obliged to pay tax on the part of their income that has been previously assessed as income from a legal person.

Art. 7.- Societies or institutions, which pursue charitable, cult or any other public interest purposes, recognized as such in each case by the Executive Power, are exempt from this tax, but people are not, who serve in such companies or institutions enjoying a salary, fees or emoluments of any nature, fixed or variable, in money or in effects.

Art. 8.- All persons obliged to pay this tax, or who intend to be totally or partially exempted from it, must annually declare their total net income in the form and within the term established by the respective regulations.

Art. 9.- The declaration made in accordance with the previous article will have the value and significance of the oath. Fraudulent statements will be considered perjury with all the legal consequences of this crime.

Art. 10 - When the income is fixed, the taxpayer will declare income corresponding to the current year in which the declaration is made. When they are variable, such as commercial, industrial or professional profits, the income obtained on average in the three immediately preceding years will be declared as probable income; It is also possible - with the prior consent of the Administration - to make a provisional declaration, with the obligation to rectify it when liquidating the accounts corresponding to the fiscal year in question.

Art. 11.- The people who keep mercantile accounting will declare their income in accordance with their books, provided that when making the balance and cutting accounts they have followed the general prescriptions

of this law, and adding to the utility that the books show, income from other sources, not included in those.

Art. 12.- Accidental gains, obtained after the declaration has been made in good faith, must be included in the income declared for the following year, when it is not possible to rectify the declaration.

Art. 13.- The declarations will be examined by the Administration, and once approved they will serve as the basis for the appraisal according to the following article.

Art. 14.- On the annual net income of a person, when the total is ¢1000 or more, the tax will be paid according to the following progressive rate:

1% on income of ¢ 2,000 or fraction not less than ¢ 1,000

1-1 / 4% on the excess of ¢ 2,000 to ¢ 3,000

1-1 / 2% on the excess of ¢ 3,000 to ¢ 4,000

1-3 / 4% on the excess of ¢ 4,000 to ¢ 6,000

2% on the excess of ¢ 6,000 to ¢ 8,000

2-1 / 4% on the excess of ¢ 8,000 to ¢ 10,000

2-1 / 2% on the excess of ¢ 10,000 to ¢ 12,000

2-3 / 4% on the excess of ¢ 12,000 to ¢ 15,000

3% on the excess of ¢ 15,000 to ¢ 20,000

3-1 / 2% on the excess of ¢ 20,000 to ¢ 25,000

4% on the excess of ¢ 25,000 to ¢ 30,000

4-1 / 2% on the excess of ¢ 30,000 to ¢ 40,000

5% on the excess of ¢ 40,000

Art. 15.- For the application of the rate, the total net income will always serve as the basis, discounts and exemptions such as those indicated in article 17 will affect the assessed amount, but not the tariff proportion.

Art. 16.- In collective and limited partnerships of known partners, each partner will declare their income and pay the tax; for the absent partners the society will respond.

Art. 17.- Public limited companies and other similar companies are subject to this tax in their collective character. Individuals liable to pay the tax individually, whose income is part of individuals of such companies already assessed collectively, will enjoy a proportional exemption to this part of their income, but always in accordance with article 15.

Art. 18.- People who have not duly submitted their declaration will be appraised by the Administration.

Art. 19.- The persons whose declaration inspires doubt, at the request of the Administration have the obligation to verify in detail the truth of the declaration.

Art. 20.- Appraisal ex officio or in accordance with the declaration, does not harm the right of the Treasury to claim any difference that may exist, at any time that the error or fraud is found. In the event of fraud, the obligor will pay double the amount defrauded.

Art. 21.- The separate income of two spouses not legally separated will be calculated together for the purposes of applying the rate. The same will be done with the income that minor children have, who live under parental authority, when the head of the family has them for the common expenses of the family.

Art. 22.— For absent or handicapped persons, the legal representative is obliged to declare on their behalf.

Art. 23.— If the taxpayer does not comply with the appraisal, which will be notified at least one month before the term of the first installment, he may claim against it in the manner established by the respective regulations.

Against the decision of the last administrative instance there is no recourse other than the ordinary judicial process. But no claim will defer the obligation of payment according to the firm appraisal of the Administration. If the claim is finally justified, the taxpayer has the right to a refund of what was unduly paid, with interest at 6 percent per year, and the procedural costs, if any.

Art. 24.- If the claim turns out to be unfounded and manifestly reckless, the claimant will incur a fine equal to the amount of the assessed tax.

Art. 25.— In any case of divergence between the taxpayer and the Administration, the obligation of proof will always be in charge of the former.

Art. 26.- The payment of the tax will be made in four quarterly installments, the terms of which will be set in the corresponding regulations.

Art. 27.- For lack of timely payment, the obligor will incur a fine of 10 percent of the amount due for the first month of delay, 20 percent and 30 percent for the third and for each following month. For the purposes of this fine, any fraction of a month will be appreciated as if it were the full month.

Art. 28.- Three months after the regulatory deadline, the Administration will proceed to collect by means of pressure.

Art. 29.- The obligation to pay this tax is personal and enjoys absolute privilege over any other obligation that does not have a specific special guarantee. It does not prescribe in the life of the obligor nor does the obligation to pay what has already been assessed, nor the right of the Treasury to claim what was stolen or defrauded. In all mortuary proceedings, the Administration will be considered a party.

Art. 30.- The municipal surcharge shall be paid by the taxpayers who reside and have their assets or companies in a single county, to the corresponding Municipality. When the taxpayer resides in one and has his goods or companies in another or other counties, he will pay in each county what corresponds to the income originating there. In the county of residence payment in any case will be at least a quarter of what would correspond to the total income, and if this results in a double appraisal, since the income in this county of residence will not reach a quarter of the total, the surcharge in the other counties will be lowered to the corresponding proportion.

Art. 31.— All the administrative and judicial authorities of the country have the obligation to supply the Administration with the data and reports that it requires for the service of this tax.

Law on the Contribution for Public Works of special or local interest.

Article 1º.- For all public works that favorably influence the value or performance of the land, the owners directly or indirectly favored, will pay a contribution proportional to the improvement received.

Article 2º.-Special industries favored by such public works, will also pay a special contribution, in proportion to the advantages received.

Article 3º.- The revenue from this contribution will necessarily be invested in the construction or conservation of the works for which it has been imposed.

Article 4º.-The contribution will be regulated in each case, taking into account the nature of the work, its cost, the general interest of the country and the special advantages received by the favored properties or industries.

Article 5°.-The contribution will be paid at once, or in periodic installments; in this case it will last all the time necessary to complete the work or to cover its cost, or it will be permanent if it is a question of regular services.

Article 6.- The contribution is due for works or services, both from the national administration and from the municipality.

Article 7°.-In the contribution destined to national public works, the Administration of direct taxes will carry out the corresponding census, with the collaboration of special Appraisal Boards, appointed in each case by the Executive Power. In the case of municipal works, the municipalities will form the corresponding detail, in the already customary manner, with the prior authorization of the Executive Power, which will approve and modify the census.

Article 8°.-In case of forced expropriation for the execution of public works subject to this law, compensation will be made between the value of the expropriated and the contribution due, paying only the difference that remains in charge of the Treasury or the interested party.

Article 9°.- The Executive Power will dictate in each concrete case the respective regulation for the execution of this law.

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