



Professional Service Proposal
"The Luxury Home Tax"

Faycatax
October 2009
This proposal contains 6 pages



October 27, 2009

To the Potential Taxpayers of the Solidarity Tax to Strengthen Housing Programs
(popularly known as the “Tax on Luxury Homes”)

This proposal is to express the interest that FAYCATAX, S.A. (“FAYCATAX”) has in offering you services relating to advice on the luxury home tax. The intention of this document is to describe the nature and scope of our service.

FAYCATAX is the Tax Service for the Law Offices of Facio & Cañas. It is made up of specialists in tax matters with a long track record in this field, lead by Dr. Adrián Torrealba Navas, the Ex-Director of the General Tax Service and other professionals in both the accounting-financial and legal areas.

FAYCATAX offers the following general services:

- Diagnosis of the Tax Contingencies
- Consulting Services
- Administrative and judicial litigation in tax matters.
- Outsourcing of Accounting Service
- Informational and Updating Service (the Faycatax Bulletin)
- Compliance Services (preparing tax returns)

I. Background

The Solidarity Tax Law to Strengthen Housing Programs, commonly called the “Luxury Home Tax” intends to tax real property located in Costa Rica that fall within the following categories:

- Residential real estate that is used continuously, occasionally, or for recreation purposes that constitutes a residential unit, regardless of whether or not subdivided properties are occupied.
- The real estate property must have fixed, permanent buildings and facilities, i.e., houses, swimming pools, roofed recreational areas (*ranchos*), sports facilities, parking areas, etc., whose value exceeds ₡100,000,000 (one hundred million colones).

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- For buildings on the property that exceed ₡100,000,000 (one hundred million colones), the land value must be added. The total resulting value of the buildings and the land will be the tax base.

The owners or the holders of rights to residential units located on the same property (condominiums, properties *in jure*, etc.) must be assessed separately.

Those parties subject to this tax are owners or owners *in jure* in possession of the property, i.e., concessionaries, co-owners, licensees, occupants of the border zone and the land-maritime zone, etc. For the purposes of this law, the property owner or possessor as of January 1 of each year will be the taxpayer.

The tax went into effect as of October 1 of this year. Ruling No. 29-2009 by the General Tax Service, published in the *La Gaceta* official journal on September 29, 2009, establishes the taxpayers' obligation to register within a period of three months after the ruling was published, such that the electronic form available on Tribunet and Digital Taxation must be used.

For a fraction and payment of a fraction of 2009 between October 1 to December 31, 2009, the taxpayer must file a tax return for each residential unit taxed; therefore, the tax amount payable in fiscal period 2009 must be prorated among the months the law was in effect, so one-fourth of what would be paid annually for the tax will be paid. The tax rate oscillates between 0.25% and 0.55%.

This tax has a calendar year period (January 1 to December 31) and must be paid within the first fifteen days, at the latest, of it coming due, i.e., January 15.

For the first real property assessment, i.e., fiscal period 2009¹, taxpayers must use the assessment parameters set by the Technical Normalization Body, as detailed below:

- The Base Unit Value by Construction Type Manual to appraise the buildings and the other fixed, permanent facilities, published in the *La Gaceta* official journal number 78 dated April 23, 2008. It is available at <https://www.hacienda.go.cr/>.
- The Map and Matrix Values by Homogeneous Zone for land appraisal. It is available at <https://www.hacienda.go.cr/>.

Taxpayers must file a sworn statement every three years that updates the real property value by January 15. Co-owners must designate a single co-owner to register with the Registry and this designated party may include the other owners on the form. For condominiums or

¹ For the fraction and fraction payment for 2009 between October 1 and December 31, 2009, the taxpayer must file a tax return declaration for each residential unit taxed so the tax amount must be prorated for the months that the Law has been effect such that one-fourth of the amount to be paid annually must be paid.

properties *in jure* affected by the tax, each residential unit must be registered and the tax must be paid independently.

The co-owners are jointly and separately responsible and if the real property is transferred, the new owner will be jointly and severally responsible for paying the tax for the current fiscal period as of the acquisition date, as well as any interest, fines, and sanctions related thereto.

II. The Scope of Our Service

We have itemized our service as follows:

1. Taxpayer registration with the Tax Administration.
2. Tax calculation based on the information supplied by the taxpayer.
3. Preparation of the joint and several tax returns based on how it is established by the bylaws on electronic media.
4. Final report to the client about the different back-up evidence and documentation in case of a eventual or potential tax audit.

III. Client Responsibilities

The client pledges to provide the documentation and information required as necessary. In this case, the general basic information questionnaire must be filled out so the tax can be calculated.

The integrity and quality of the information to be processed in the tax calculation system is the client's responsibility, along with the existence, accuracy, and nature of the transactions reflected on the documents that support this information. The documents must be a reflection of the client's property as of December 31 each year.

IV. Professional Fees.

The proposed fees are based on the experience level of the team assigned to provide the services and have been classified into two types of packages: a basic package to fulfill the obligation and another full package for those clients that also want a full expert report.

Basic Service

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| Electronic registration service (include setting up the bank account's legal address). | US\$ | 50 |
| Tax base determination service (tax payable) | | 200 |
| Electronic tax return (D-179) preparation service | | 150 |

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| | | |
|---|------|-----|
| Final report with the pertinent support documentation | | 100 |
| Total | US\$ | 500 |

Full Service

| | | |
|--|-------|-------|
| Electronic registration service (include setting up the bank account's legal address). | US\$ | 50 |
| Tax base determination service (tax payable) | | 200 |
| Electronic tax return (D-179) preparation service | | 150 |
| Final report including an expert study by an engineer | | 1000 |
| Total | US \$ | 1.400 |

The client will be responsible for paying for any additional expenses due to stationery, report copies, living expenses, etc., if any.

We are available to answer any questions you may have about any aspect of this proposal. If you accept the proposal, please return it to us, signed at the bottom as an indication of your acceptance.

Sincerely,

José María Oreamuno L.
Partner

ACCEPTANCE:

BY

FACIO & CAÑAS

Name: _____

Signature: _____

Position: _____

Date: _____