

# MOVING TO **COSTA RICA**



## *Masterclass*

### Module 4 **Financial Preparation**



## **Banking and Currency**

Establishing your financial foundation in Costa Rica requires thoughtful preparation before you arrive. Understanding the banking system and currency considerations will help you transition smoothly and avoid common pitfalls that newcomers often face.

Setting up a local bank account in Costa Rica is an essential step in your relocation process. Costa Rican banks generally fall into two categories: state-owned banks (like Banco Nacional and Banco de Costa Rica) and private banks (such as BAC Credomatic and Scotiabank). State banks typically offer more extensive branch networks and government backing, while private banks often provide more modern services and English-speaking staff.

To open a bank account as a foreigner, you must navigate some bureaucratic requirements. Most banks will require your passport, a secondary form of identification, proof of address in Costa Rica (such as a utility bill or rental agreement), proof of income, and sometimes a reference letter from your current bank. Some banks may also require your residency card (DIMEX), though certain accounts can be opened with just your tourist status. Bringing a Spanish-speaking friend or hiring a facilitator can make this process significantly easier, as most banking procedures are conducted in Spanish.

The application process typically involves an in-person visit and can take several hours. You'll complete numerous forms and may need to make an initial deposit. Patience is essential, as approval isn't guaranteed on your first attempt. Many expats find opening accounts at multiple banks beneficial to maximize convenience and minimize service disruptions, which can occasionally occur in the Costa Rican banking system.

Regarding currency exchange and budgeting, Costa Rica's official currency is the colón (₡), though U.S. dollars are widely accepted in tourist areas and for major purchases like real estate and vehicles.

Understanding the exchange rate and when to use which currency will save you money and frustration. The exchange rate fluctuates, but banks generally offer better rates than currency exchange booths or hotels. Many expats maintain accounts in both currencies, using colones for daily expenses and dollars for savings or major purchases.

When budgeting for life in Costa Rica, account for the differences in cost structures. While some items like fresh produce and local services may be less expensive than in North America or Europe, imported goods often carry premium prices due to high import taxes. Utilities can vary significantly based on location and lifestyle choices, with electricity being particularly expensive if you use regular air conditioning.

Digital banking is increasingly available but varies in sophistication between banks. Mobile apps and online banking platforms are improving, though they may not offer all the features you're accustomed to from your home country. Setting up automatic bill payments (when available) can help you avoid late fees, especially during your adjustment period or when traveling.

ATM access is generally good in urban and tourist areas but may be limited in rural regions. Be aware of withdrawal fees and daily limits, which tend to be lower than in North America. Notifying your home country's banks of your travel plans is crucial to prevent your cards from being frozen due to suspected fraud when used internationally.

Credit cards are widely accepted in businesses catering to tourists and urban areas, but many small local businesses operate on a cash basis. Having multiple payment methods available will ensure you're prepared for various scenarios. When using credit cards, be aware that some businesses may add a 3-5% surcharge to cover their processing fees.

## **Taxes and Financial Planning**

Understanding your tax obligations when moving to Costa Rica is crucial for financial success and legal compliance. Costa Rica operates under a territorial tax system, meaning you'll generally only be taxed on income earned within Costa Rica, not on worldwide income. This creates significant opportunities for tax planning, but also requires careful navigation of both Costa Rican and home country tax laws.

Understanding your obligations is essential for those maintaining ties to their home country, especially U.S. citizens who must file taxes regardless of where they live. U.S. citizens and permanent residents must continue filing annual tax returns reporting worldwide income, even while living in Costa Rica. However, mechanisms like the Foreign Earned Income Exclusion (FEIE) can exclude up to \$126,500 (2024 figure, adjusted annually for inflation) of foreign-earned income from U.S. taxation for those who meet either the physical presence test or bona fide residence test. The Foreign Housing Exclusion may also provide further tax benefits for qualifying housing expenses.

Costa Rica's tax system is relatively straightforward. If you establish residency and work in Costa Rica or operate a local business, you'll pay income tax on those earnings at rates ranging from 0% to 25%, depending on your income level. However, income from foreign sources—including retirement benefits, investment income, or remote work for foreign companies—generally remains untaxed by Costa Rica. This creates an attractive situation for many expats who maintain income sources outside the country.



Understanding double taxation treaties is equally important. Costa Rica has established tax treaties with several countries to prevent taxpayers from being taxed twice on the same income. Currently, Costa Rica has limited tax treaties, with agreements in place with countries including Spain, Germany, and Mexico. Notably, there is no comprehensive tax treaty between Costa Rica and the United States, though the countries do share tax information. Without such treaties, you'll need to rely on foreign tax credits and other mechanisms to avoid double taxation.

For retirees receiving pension or Social Security benefits, these payments are typically not taxed by Costa Rica. However, they may still be subject to taxation in your home country. Many pensionados (retirees on the pensionado visa program) benefit significantly from Costa Rica's territorial tax system while using their home country's foreign tax credits to minimize overall tax liability.

Wealth management takes on new dimensions when living abroad. Many expats maintain investment accounts in their home countries while gradually establishing financial resources within Costa Rica. Costa Rica does not impose capital gains taxes on most investments, though there are exceptions for certain types of real estate transactions and businesses. This creates opportunities for strategic investment planning, particularly for those with significant investment portfolios.

Digital nomads and remote workers face unique considerations. Under Costa Rica's digital nomad visa program, income earned from foreign sources remains untaxed by Costa Rica. However, you'll need to navigate the tax requirements of your employer's country and, potentially, your country of citizenship. Proper classification as an independent contractor versus an employee becomes crucial.

Financial planning should also include considerations for estate planning and inheritance. Costa Rica has its own inheritance laws that may differ significantly from those in your home country. Without proper planning, your assets could be distributed according to Costa Rican law rather than your wishes. Establishing wills valid in both Costa Rica and your home country, and potentially creating trusts for larger estates, can help ensure your assets are protected and distributed according to your intentions.

Professional guidance is invaluable in this area. Engaging both a Costa Rican tax attorney and a tax professional familiar with your home country's international tax laws is strongly recommended before making your move. These professionals can help structure your finances to legally minimize tax obligations while ensuring compliance with all relevant laws. Many expats find that the initial investment in proper tax planning saves significant money and stress in the long run.





A vibrant tropical beach scene. In the foreground, a large palm tree with lush green fronds leans over a sandy beach. The ocean is a deep blue with white-capped waves breaking onto the shore. The sky is a clear, bright blue with a few wispy clouds. The overall atmosphere is serene and idyllic.

# *Cost of Living*



## **Cost of Living**

Understanding the cost of living in Costa Rica is essential for successful financial planning before your move. While Costa Rica offers many lifestyle advantages, it's not the ultra-low-cost destination some might expect. Costs vary significantly depending on your location, lifestyle choices, and consumption habits.

Housing represents one of the most variable expenses in Costa Rica. Rental prices differ dramatically based on location, with properties in popular expat and tourist areas commanding significantly higher rates than those in more local communities. In desirable areas like Escazú, Santa Ana, or beachfront communities in Guanacaste, a two-bedroom apartment might cost \$1,000-1,500 monthly, while similar accommodations in less touristy areas might range from \$400-700.

Purchasing property involves additional considerations, with prices in prime locations starting at \$200,000 for modest homes and reaching well into the millions for luxury properties. Many expats find that living just 15-20 minutes outside popular zones can reduce housing costs by 30-40% while still providing access to amenities.

When budgeting for housing, remember to factor in additional costs that might not be included in your rent or purchase price. Property taxes in Costa Rica are relatively low (approximately 0.25% of the registered property value annually), but you'll also encounter municipal taxes, homeowners association fees in gated communities, and mandatory insurance. Home insurance rates vary but typically range from 0.25-0.4% of the property's value annually. Renters should clarify whether utilities are included, as separate utility payments can significantly add to monthly expenses.

Utility costs require careful consideration in your budget. Electricity is notably expensive in Costa Rica, especially if you use air conditioning regularly. Monthly electric bills can range from \$50-100 for modest usage, but can easily exceed \$300 with heavy air conditioning use. Water is comparatively inexpensive, typically \$15-30 monthly for average consumption. Internet service has improved dramatically in recent years, with fiber optic connections available in many areas, costing \$40-70 monthly, depending on speed and provider. Cell phone service is reasonable, with prepaid plans starting at around \$10 and monthly plans with data ranging from \$20-50.

Grocery expenses depend significantly on your shopping and eating habits. Locally grown fruits, vegetables, and basic staples are reasonably priced, especially when purchased at farmers' markets (ferias) rather than supermarkets. A week's worth of fresh produce for two people might cost \$20-30 at a local feria. However, imported products carry significant markups due to import taxes and transportation costs. Items like specialty cheeses, wines, and specific brands from your home country can cost 50-100% more than you're accustomed to paying. Adapting your diet to locally available items can substantially reduce your food budget while providing fresher and often healthier options.

Transportation costs vary depending on your chosen method of travel. Public transportation is extensive and inexpensive, with local bus fares ranging from \$0.50-1.50 depending on distance. Taxis operate on meters with regulated rates, while ride-sharing services like Uber are available in urban areas. Owning a vehicle involves significant expense due to high import taxes, making cars approximately 30-50% more expensive than in the United States. Additionally, fuel prices are higher than in the U.S., and maintenance costs can be substantial for imported vehicles. Furthermore, mandatory vehicle inspection (Revisión Técnica or "Riteve") and insurance add to annual expenses.



Healthcare expenses represent another important consideration. While Costa Rica's public healthcare system (Caja Costarricense de Seguro Social or "Caja") provides comprehensive coverage for residents at a fraction of U.S. costs, many expats supplement this with private insurance or out-of-pocket payments for certain services. Enrollment in the Caja is mandatory for residents and costs approximately 7-11% of declared income. Private health insurance runs \$75-200 monthly, depending on age and coverage, while out-of-pocket costs for private medical appointments typically range from \$50-100 for general practitioners and \$100-200 for specialists.

Entertainment and dining expenses depend entirely on your lifestyle choices. Local restaurants (sodas) offer meals for \$5-8, while tourist-oriented establishments might charge \$15-25 for main courses. Movie tickets cost approximately \$5-8, and fitness club memberships range from \$30-80 monthly. Many expats find that Costa Rica's natural attractions—beaches, hiking trails, and parks—provide low-cost entertainment options that enhance quality of life while keeping expenses manageable.

A couple can live comfortably in Costa Rica on \$2,500-3,500 monthly in many areas, including rent, utilities, food, transportation, and healthcare. A more luxurious lifestyle with higher-end housing, frequent dining out, and additional services might require \$3,500-5,000+ monthly. Single individuals can adjust these figures downward by approximately 20-30%.

By carefully considering your priorities and making informed choices about location and lifestyle, you can create a fulfilling life in Costa Rica while maintaining financial sustainability.