



## **What is the Luxury Homes Tax? (“Solidarity Tax to Strengthen Housing Programs”)**

The Solidarity Tax for the Strengthening of Housing Programs, also known as the Luxury Homes Tax, is an annual tax applicable to residential properties that are considered luxury properties.

Law 8683 establishes that this tax applies to the value of all properties for residential use that are used on a habitual, occasional or recreational basis; including fixed and permanent installations, such as a racho, a swimming pool, or any other accessory and permanent building to the main construction.

Therefore, this tax must be paid even if the property is used on an occasional basis for other functions or events, within which we can include the use as Airbnb as an example.

### **Why was the Luxury Homes Tax created?**

This tax was created so that homeowners with more economic value could in turn finance proper dignifying housing for the sector of the population living in extreme poverty.

### **What is a Luxury Home?**

Each year a decree establishes the threshold for a property to be considered a luxury home. This year, the threshold establishes that to be a luxury home the total construction value must exceed ₡145,000,000 colones (approximately \$277,000 USD).

This threshold only takes into account the value of the construction and not the value of the property.

### **When must the Luxury Home Tax be paid and declared?**

The tax must be paid annually before January 15 of each year. The tax period starts from January 1 to December 31 of each year.

The law 8683, establishes that the owners of luxury houses must file the report that sets an appraisal and updates the value of the real estate every three years. The current three-year period

is composed of the years 2022, 2023 and 2024, so that the next declaration must be made no later than January 15, 2025.

### **What are the steps to pay the tax?**

Firstly, the appraisal of the construction of the property must be determined. To determine such value, it would be best to hire architects or engineers to perform a professional appraisal.

2. Once the value of the construction has been determined, the applicable tax rate must be established. That is to say, the total value of the construction will be the basis for determining the tax rate to be applied, according to the 2024 tax rate table, which will be explained in detail later on.

The registered value of the construction must be multiplied by the applicable tax rate to calculate the tax to be paid.

For the year 2024 the scale was updated by Decree N°44328-H and starting from the taxable value above ₡145,000,000.00 which is approximately \$279,000, depending on the current exchange rate. this tax must be paid according to the following table:

#### **Thresholds**

##### **Tax Rate**

From 145,000,000.00 up to 364,000,000.00- 0.25%.

Over the excess of 364,000,000.00 up to 731,000,000.00 - 0.30%.

In excess of 731,000,000.00 up to 1,096,000,000.00 - 0.35%.

Over the excess of 1,096,000,000,000.00 up to 1,463,000,000.000.00 - 0.40%.

In excess of 1,463,000,000,000.00 up to 1,826,000,000.000.00 - 0.45%.

In excess of 1,826,000,000,000.00 up to 2,193,000,000.000.00 - 0.50%.

Over 2,193,000,000,000.00 0.55% Over 2,193,000,000.00 0.55% Over 2,193,000,000.00 - 0.55%.

Law 8683 establishes that the taxable base of this tax corresponds only to the value of the construction of the house and not to the market value. That is to say, if the value of the construction of the house, -which takes into account the type of materials; labor cost; infrastructure; complexity of the design added to the value of the common land of the condominium-, exceeds 145,000,000.00 million colones, the luxury house tax must be paid. This is the importance of having a qualified professional to perform the appraisal of the house.

The owners of condominium houses must add to the value of their house, the value that corresponds to them, proportionally, on the common areas. The final value obtained is taken as the basis for establishing the tax rate for the payment of the tax.

On the other hand, it is important to clarify the difference between the market value and the construction value, since it is an issue that worries many of the taxpayers of this tax, when they see that their property has a much higher market value compared to the construction value.

The market value takes into account not only the construction value, but also aspects such as location, supply, demand, physical, economic and legal characteristics of the property. This generates an increase in value.

On the other hand, the construction value, which is the value that is taken as the basis for applying the tax to luxury homes, is the value of the property.

It is important to note that the applicable thresholds for the Luxury Home Tax are subject to modifications or adjustments, by decree.

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