



# DOING BUSINESS IN COLOMBIA

# FOREWORD

This guide has been prepared with the purpose of providing basic information to people interested in investing and doing business in Colombia. It does not cover in detail all the requirements and subjects to be considered, but instead it is intended to provide an overall idea of the benefits of doing business in Colombia and the basic taxation requirements.

The guide is intended to be used for informational purposes only and therefore, you should consult a professional tax and business advisor to acquire more information.

The material contained in this guide is based on information and regulations in effect as of May 2020.





# ABOUT H&CO

Since 1992, H&CO has been providing international tax and business advisory services to multinational companies, global families and local companies that seek to invest or expand their operations in multiple jurisdictions in Latin America.

By working together with our affiliates in the region, we offer integrated solutions to help companies with all of their cross-border requirements and reporting obligations, from opening a new company abroad, and manage your operations, to helping you create an international tax strategy and repatriation plan.

With 3 offices throughout South Florida and partner firms in more than 15 countries in South and Central America, H&CO's primary goal is to be the most trusted service provider of accounting, tax and consulting services for the global community.



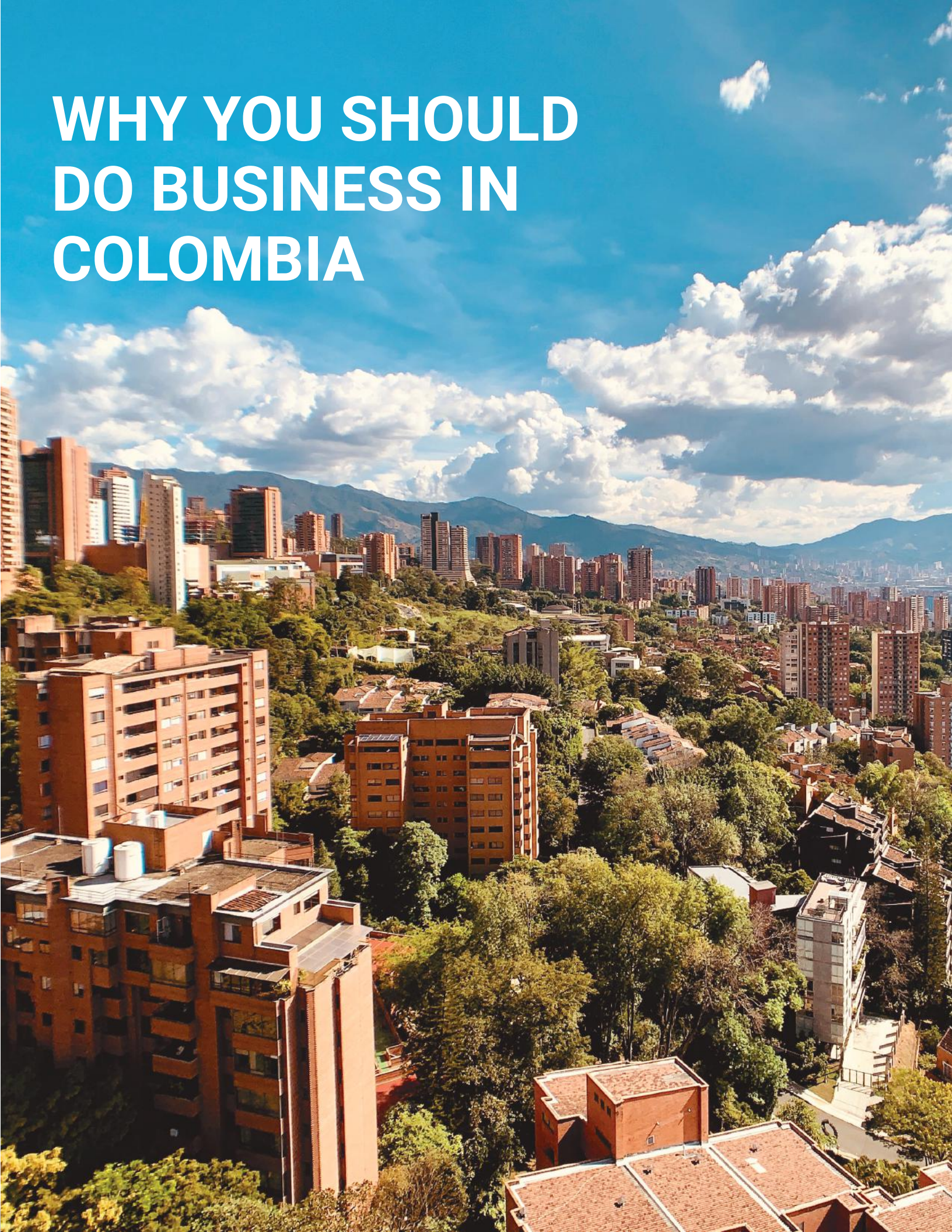


# COUNTRY ESSENTIALS

Capital City	Bogotá
Area and population	1,138,910 km² and a population of 49,084,841 people (July 2020 est.)
Language	Spanish
Currency	Colombian Peso (COP)
International calling code	+57
GPD	\$333 billion USD (2018 est.)
GPD per capita (PPP)	\$6,689 USD (2018 est.)
Exports	\$44.4 billion USD (2018 est.)
Imports	\$49.6 billion USD (2018 est.)
Inflation rate	3.2 % (2018 est.)
Government structure	Colombia is a presidential representative democratic republic, divided into three branches: the executive, the legislative and the judicial. The President serves as both head of state and head of government. Executive power is exercised by the government. Legislative power is vested in two chambers of congress, the Senate and the House of Representatives. The Judicial power is independent of the executive and the legislative.



# WHY YOU SHOULD DO BUSINESS IN COLOMBIA





## STRATEGIC GEOGRAPHIC LOCATION

Being the only country in the subcontinent with coasts on the Atlantic and Pacific oceans, and borders with Venezuela, Ecuador, Brazil, Panama and Peru, Colombia is strategically located in the northwestern corner of South America. It has ports on both the Atlantic and Pacific coasts that connect the country with the United States, Europe, Asia, Latin America and the Caribbean, as well as connected land routes that position the country as the gateway to South America.

## ACCESS TO GLOBAL MARKETS

Colombia has built extensive trade relations worldwide. It exports to 181 countries and has more than 9,700 exporter companies. In addition, the country currently has 16 trade agreements in force (including free trade agreements and partial scope agreements), ranking fifth in number of agreements in Latin America, behind Chile, Peru, Panama and Mexico.

## EMERGING MARKET ECONOMY

Colombia is considered the third largest country in Latin America, and with approximately more than 49 million inhabitants. It is the 24th in the world in terms of population and the second largest Spanish-speaking nation in the world.

Unlike other emerging economies and the majority of Latin American countries, Colombia has maintained a very stable inflation rate that has remained at approximately 3% over many years.

According to the Economist's Intelligence Unit, Colombia is currently positioned as the 27th economy in the world and is expected to become one of the fastest growing economies over the next two decades.





## **INVESTMENT PROTECTION**

As a result of its positive economic and financial performance, Colombia has investment-grade rating awarded by Moody's, Fitch and Standard & Poor. This status was granted based on the country's long history of timely debt payments, its increased macroeconomic policy credibility and its ability to deal with internal and external shocks.

In addition, the country has the second lowest perceived risk in the region, measured by the behavior of 5-year credit default swaps; and compared with 183 countries, the World Bank described Colombia as the thirteenth country in the world and the first in Latin America in protecting investors.

## **GOVERNMENT COMMITMENT TO INTERNATIONAL INVESTMENT**

Over the last 15 years, the Colombian government and the private sector have successfully cooperated to simplify laws and procedures to promote international investment. As a result, Colombia has one of the most competitive investment areas in Latin America offering incentives such as 15% income tax, no customs contributions, 33 permanent Free Trade Zones, 69 Special Free Trade Zones and the possibility of participating in the local marketplace.

According to JP Morgan, Colombia is and will be the third most appealing country for investment in Latin America over the next years.

## **YOUNG AND SKILLED WORKFORCE**

With an economically active population of 23.1 million, Colombia has one of the largest annual increases in availability of human resources and one of the most effective labor regulations in force in South America.

Fifty-five percent of the Colombian population is less than 30 years old and there are seven cities with over one million people. More than 200,000 students graduate every year from higher education, 53% with undergraduate and 28% with postgraduate degrees.



# TAXATION





## CORPORATE TAXES

Corporate income tax is levied on income derived worldwide by corporations and business entities resident in Colombia, and on the income obtained in national territory by non-resident entities, i.e. foreign companies and branches thereof.

An entity is considered to be resident in Colombia when it meets any of the following requirements:

1. It is incorporated according to Colombian Law
2. It has its main domicile in Colombia
3. Its administration headquarters is located in Colombia

The basic corporate tax rate is 32%, and there is a surtax of 4%

## TAXES ON CAPITAL GAINS AND DIVIDENDS

Capital gains are subject to capital gain tax only when it is derived from the sale of assets held for two years or more. The tax rate applicable to most capital gains is 10%.

With some exceptions, dividends are treated as untaxed income.

Income taxes must only be paid on dividends when the company distributes more than its profits that have been taxed.

No taxes are imposed on foreigners for sending or remitting dividends abroad received in Colombia, as long as the profits on which the dividends are paid have been taxed at the corporate level.



## ESTATE AND GIFT TAXES

Gifts are treated as capital gains and therefore taxed at a general rate of 10%. Gains derived from marital partnerships are not subject to this 10% tax. Only heirs in the strict sense of the word are subject to this tax: children, grandchildren, parents and grandparents, in general, ascendants and descendants and those who receive inheritances or legacies.

In the case of donations, the tax is paid by the receiving person or entity and is treated as occasional gains. Gifts and inheritances of immovable property may also be subject to local real estate transfer tax.



## SALES / VAT TAXES

VAT is applied to the sales of goods and services in Colombia and to imports. A tax rate of 19% is applied, with a preferential rate of 0% applicable to exports and certain domestic supplies. A 5% rate also applies to certain goods and services.

There is also a consumption tax, which coexists with, but is not creditable against, value added tax (VAT). This tax is levied on food and beverages sales in restaurants and similar establishments (with the exemption of franchises that are taxed under the VAT regime), the sale of cars and mobile phone services, and is not eligible for deductions.

VAT taxpayers are required to register with local tax authorities and acquire a VAT ID number for filing and payment. Depending on the net profits of the preceding taxable year, VAT must be submitted bi-monthly, quarterly, or annually.

## EMPLOYMENT TAXES

Tax withholding from income derived from employment is applicable on payroll. See table below for social security contribution rates.

Over 10 MLW*	Employee	Employer
<b>Healthcare</b>	4.00%	8.50%
<b>Retirement Fund</b>	4.00%	12.00%
<b>Workers' Compensation</b> **	–	0.522% - 8.7%
<b>Other Contributions</b>	–	9.00%

\* MLW: Minimum legal salary in force in 2019: \$ 828,116 COP

\*\* Depending on the scale of occupational risk levels.

There is a special regime for companies established after 2011 that reduces employment tax rates during the first four years of the company's constitution, characterized by equity, employment and income. Its purpose is to encourage small businesses, of both national and foreign origin to invest in Colombia.



## PERSONAL TAXES

A Colombian resident is taxed on his or her worldwide income; non-residents are only subject to their Colombian source income.

An individual is considered a resident of Colombia for tax purposes if he or she spends more than 183 days (continuously or otherwise) in national territory in a fiscal year.

Each individual must file his or her own income tax return; joint filling is not allowed.

Income is taxed according to the progressive rate scale shown below.

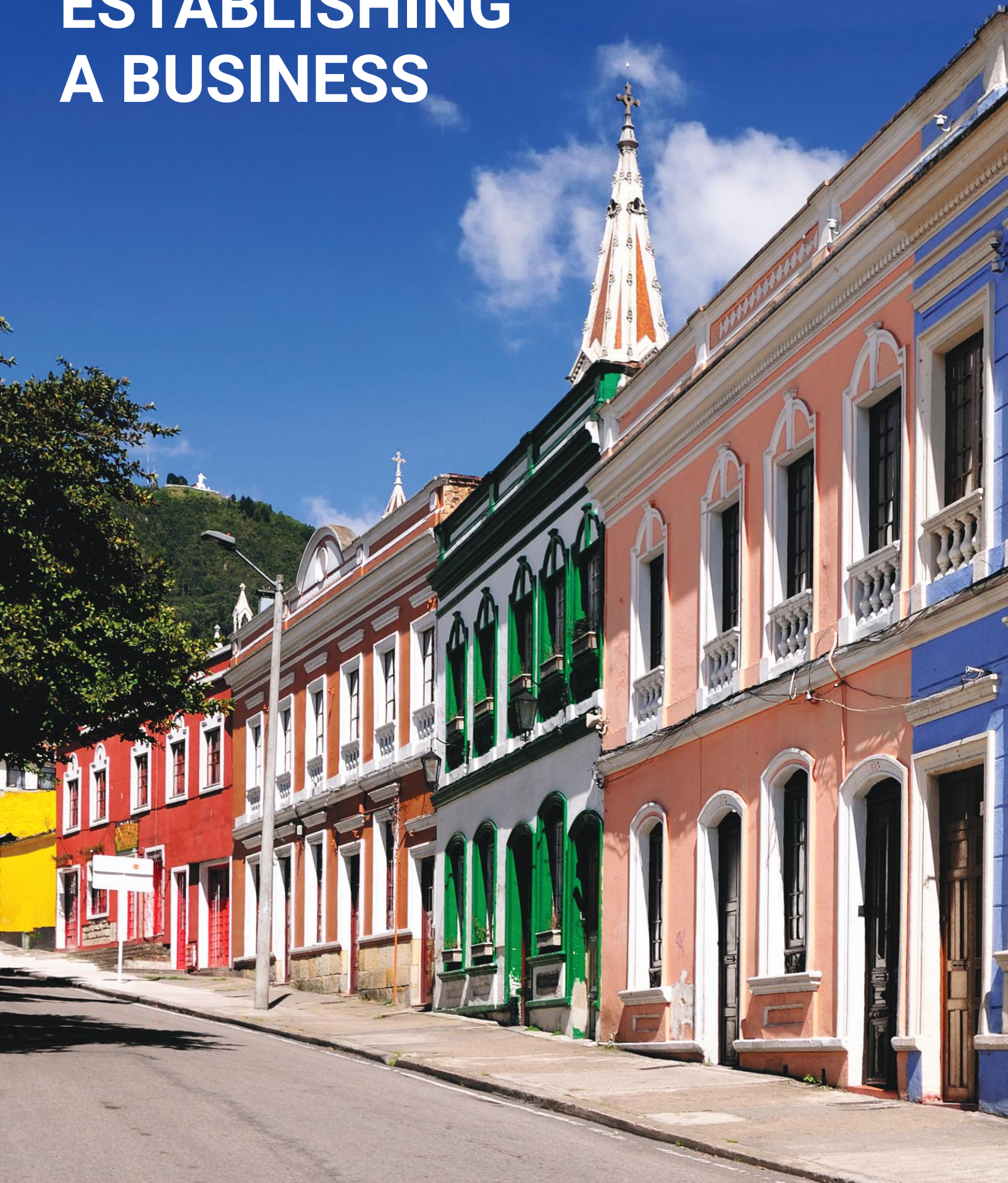
Over	But no more than	Income tax rate
0	1,090 UVT	0%
1,091 UVT	1,700 UVT	19%
1,701 UVT	4,100 UVT	28%
4,101 UVT	8,670 UVT	33%
\$8,671 UVT	\$ 18,970 UVT	35%
\$ 18,971 UVT	\$31,000 UVT	37%
\$ 31,001 UVT	And over	39%

*The value of the Tax Value Unit (UVT) for 2020 is \$35,607.*





# ESTABLISHING A BUSINESS





## PROCESS TO INCORPORATE A COMPANY

An investor aiming to establishing a business entity in Colombia requires 7 procedures to be performed in an average of 10 days, making it one of the best countries in the region in terms of regulatory favorability to start a business

PROCEDURES	TIME TO COMPLETE
Register with the Registry of Commerce and obtain a “taxpayer ID” (RUT)	3 days
Obtain an authorization for invoices and an electronic signature	1 day
Register company with the Family Compensation Fund ( <i>Caja de Compensación Familiar</i> ), the Governmental Learning Service ( <i>Servicio Nacional de Aprendizaje, SENA</i> ) and the Colombian Family Institute ( <i>Instituto Colombiano de Bienestar Familiar, ICBF</i> )	5 days
* Register employees for health coverage (public)	6 days
* Register employer and employees for a retirement plan program with <i>Colpensiones</i> or one of the private funds	1 day
* Register company with the Labor Risks Administrator ( <i>Administradora de Riesgos Laborales, ARL</i> )	1 day
* Register employees with a severance fund	1 day
<b>Total number of days</b>	<b>10 days</b>

*Note: Steps marked with an asterisk (\*) may be completed simultaneously.*

# REQUIREMENTS TO INCORPORATE A COMPANY





The *Sociedad de Responsabilidad Limitada* (Ltda.), similar to a Limited Liability Company, is the most common form of incorporation in Colombia. Shareholders in a Limited Liability Company are liable only to the value of their shareholding. The partners are, however, jointly liable for the company's tax and labor obligations.

## **COMPANY NAME**

Colombian regulations require company names to be unique and approved by the registry. The registered name must include the word "*Limitada*" or the abbreviation "Ltda."

## **REGISTERED OFFICE**

Under Colombian regulations, all companies are required to have a registered office in Colombia where legal documents can be served. In addition, the company must have a legal representative with at least one alternate.

## **MANAGEMENT**

Management of a Limited Liability Company registered in Colombia is carried out by the partner meeting and a legal representative. Each share represents one vote, and decisions require approval by an absolute majority.

## **SHAREHOLDERS**

A Limited Liability Company registered in Colombia must have at least two shareholders, but no more than 25. There are no restrictions regarding the nationality of them.





# MARKET OPPORTUNITIES AND COMMERCIAL SECTORS







## **AGROINDUSTRY**

Thanks to its availability of land, climatic characteristics and water resources, the agro-industrial sector is one of the industries that has the most investment opportunities in Colombia. According to the Ministry of Agriculture, the agri-food sector generates more than 20% of employment in Colombia and represents around 5% of GDP.

Colombia is the fourth country in Latin America with a wide availability of land for the development and production of agricultural projects, which also enjoys an advantageous tropical climate. Furthermore, it is the first country in Latin America with the highest annual precipitation rates and tenth worldwide.



## **MANUFACTURING**

The manufacturing industry in Colombia is the third most important productive activity in the country's economy. In addition to 16 free trade agreements, it has competitive costs, an efficient internal market, competent labor and government support.

The manufacturing sub-sectors with the most interest and greater demand in Colombia include, construction materials, metalworking, fashion, cosmetics and beauty products, textiles and clothing.



## **SERVICES**

The service sector makes up more than 50% of the national GDP and, therefore, has become a focus for foreign investors in Colombia due to its enormous potential and growth. Initiatives are currently underway to explore and develop new opportunities in sectors such as IT software and services, electrical energy, biotechnology and related services.

It should be noted that since in 2001, more than 2 million students have graduated from programs related to BPO, CSC and Software - IT operations such as: administration, law, public accounting, economics and engineering; mainly in the departments of Bogotá, Antioquia and Valle del Cauca.



OFFICES:

**Coral Gables**

2320 Ponce de Leon Blvd.  
Coral Gables, FL 33134

**Brickell**

800 Brickell Ave., Suite 800  
Miami, FL 33131

**Ft. Lauderdale**

350 East Las Olas Blvd., Suite 1250  
Ft. Lauderdale, FL 33301

**Download our Global Taxes application**

