

LUXADI

COLOMBIA

COUNTRY FILE - 2022

COLOMBIA

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Officially named The Republic of Colombia, Colombia has a population of 51.8 million, mostly concentrated in the capital city, Bogotá – home to more than 11 million. Its land mass of 1.139 million km² makes it the fourth largest country in South America, and the only South American country with both Pacific and Atlantic coasts.

The country has maintained stable economic growth and experienced a post-pandemic boom, with a growth rate of 10.6% and GDP of US\$314 billion in 2021, and an inflation rate of 5.62%.

Colombia's economic stability has also been made possible in part due to the current climate of legal security, promoted by 34 Legislative Reforms and tax incentives for investment, including launching free trade zones. As a consequence, FDI inflow rose sharply from 2010 (US\$6.4billion) to reach US\$13.9 billion in 2019, before dropping to US\$7.46 billion during the pandemic. The oil and mining industries are the main focal points for attracting foreign capital, with energy, financial, and professional business services also attracting a sizable amount of foreign investment in the last ten years. FDI in Colombia represents around 4% of the country's GDP and, thanks to updates to the free trade zone regime (Decree 278 of 2021), Colombia now offers 112 different free trade zones.

Colombia is a member of the OECD and has trade agreements in place with the Andean Community (Bolivia, Ecuador and Peru), Canada, CARICOM (Caribbean Community), the Central North American Triangle (El Salvador, Guatemala and Honduras), Costa Rica, Cuba, EFTA (Iceland, Liechtenstein, Norway and Switzerland), the EU, Israel, Mercosur (Argentina, Brazil, Paraguay and Uruguay), Nicaragua, South Korea, Venezuela, and the United States.

Colombia is also a member of the Pacific Alliance (Chile, Colombia, Mexico and Peru). Formed in 2011, the Alliance negotiates trade agreements, boosts scientific research networks and provides free movement of people and integration of securities markets. With a combined GDP per capita of US\$19,000 and total exports of US\$627 billion, the Pacific Alliance is the eighth largest economy in the world.

Boasting an impressive literacy rate of 95%, the Colombian workforce is keen, willing, and under-utilised.

Colombia: country overview



US\$9,402 M

FDI



US\$314

GDP



US\$6,131

GDP per capita



65.6%

Public Debt (% of GDP)



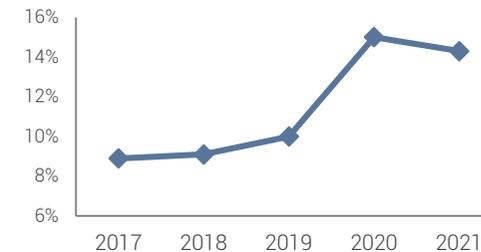
51,881,464

Population



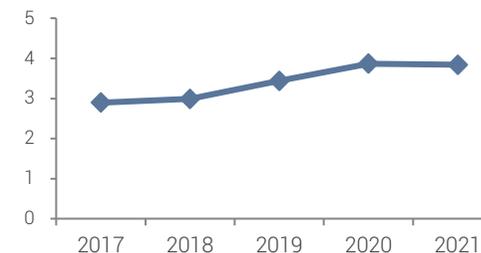
14.3%

Unemployment rate of total workforce



PESO COLOMBIANO

Monetary unit: \$
Exchange Rate to US\$1



Main Economic Areas



Financial/
professional
services



Oil



Manufacturing



Mining



Agribusiness



Colombia has extensive regulations that protect foreign investors. The estimated time to incorporate a Simplified Joint Stock Company, or SAS, is less than 15 business days.

11
days



The current legal monthly minimum wage for 2022 is US\$225. The maximum normal working week is 48 hours.

225
US\$/month



There are agreements to avoid double taxation with 15 countries, including Spain, as well as tax benefits in place to encourage investment in certain sectors considered "priority".

35%
Corporate
Income Tax



Colombian accounting standards are based on the International Financial Reporting Standards (IFRS).

IFRS



Legal Aspects

Foreign investment

Apart from companies in the financial sector, including insurance (or other specific cases), there is no special authorisation needed for foreign investment. However, there is a ban on FDI in advocacy, national security, the processing of or disposing of toxic, hazardous, or radioactive waste not produced in Colombia.

Colombia does not require foreign investors to have a local partner or domestic investor to conduct business, and there are generally no limits on the percentage of foreign investment.

All foreign investments must be registered with the Central Bank of Colombia and, in exchange, the investor will acquire rights to repatriate or reinvest the proceeds of the initial investment. It should also be noted that Colombian legislation guarantees the repatriation of profits and capital without restrictions.

In Colombia there is freedom for currency conversion, however it is compulsory to inform the Bank of the Republic. As a result, the following operations must be made through financial intermediaries or clearing accounts.

1. Import and export of goods and services (any foreign transaction)
2. Foreign indebted operations
3. Foreign investments in the country
4. Colombian capital investments abroad
5. Granting guarantees and guarantees in foreign currency
6. Derivatives operations

To further encourage foreign investment, Colombia became a member of the Multilateral Guarantee Agency (MIGA), the International Centre for Settlement of Investment Disputes (ICSID / ICSID) and the Corporation for Private Investment Disputes Abroad (IMS). Equally encouraging to foreign direct investment in Colombia was the successful negotiation of the International Investment Agreements (IIA). There are also agreements for the Reciprocal Promotion and Protection of Investments (BITs) with more than 10 countries, two of which are the United States and Spain.

FDI in billions of dollars per year



*Source: UNCTAD, 2021. Latest data available



Types of companies

Colombian corporate regimes are based on various constitutional provisions, such as the right of association, the right to equality, the protection of free enterprise and private initiative for all corporate structures.

Colombia also offers sole proprietorship and partnership structures that do not require more than one partner for their constitution. Meanwhile, apart from financial institutions, Colombian law does not require a minimum capital to formalise commercial companies.

The most commonly used corporate structure by foreign investors is the simplified joint stock company (SAS). Once documentation has been prepared, it is estimated that incorporation take 15 days and cost no more than US\$30, plus 0.7% of the entity’s capital value.

New Ultimate Beneficial Owner (UBO) regulations came into force in January 2022. In Colombia, a legal entity’s ultimate beneficial owner is considered to be a natural person who owns 5% or more of the share capital or voting rights (directly or indirectly), and/or benefits 5% or more from the assets, revenue or profits. This can also be a natural person who controls the legal entity by any different means. When the UBO cannot be identified using this standard, the UBO is considered to be the legal representative. See the [Tax Aspects section](#) for more.

Every foreign investor needs a legal vehicle to develop its business in Colombia. The most commonly used corporate structures are:

	Simplified Joint Stock Company (SAS)	Anonymous society	Limited Liability Company	Branches of foreign companies
CAPITAL	The subscription and payment of capital can be determined by shareholders in a period not exceeding two years.	Must be at least 50% subscribed at incorporation, with at least 1/3 of the value of each share. The remaining 2/3 must be paid within one year.	The share capital is fully paid to the formation of the company and any increase thereof solemnized	Once the branch is established, all assigned capital must be paid immediately.
NUMBER OF PARTNERS	At least one shareholder - no maximum.	At least five shareholders, none of whom can hold 95% or more of the capital.	Requires at least two members, up to a maximum of twenty.	N/A
RESPONSIBILITY	The company is liable only up to the amount of its capital. Shareholders are jointly and individually liable only when the company breaks the law or causes harm to others.	The company is liable only up to the amount of its capital. Shareholders are liable beyond their contributions for legal fraud.	The company is liable up to the amount of its capital unless specific partner responsibility is stipulated. Members cannot be responsible for paying any social debt, apart from amounts due for labour or tax.	The foreign company is responsible for its activities in Colombia, and responsible for the branch’s capital.
BOARD OF DIRECTORS	The company is not required to have a board.	The board is a mandatory social body.	Not required to have a board.	Does not apply.
AUDITOR	It is not required unless the gross asset value is \geq 5,000 the legal minimum wage (SMMLV) or yearly revenues are \geq 3,000 SMMLV.	Required.	It is not required unless the gross asset value is equal to or greater than 5,000 SMMLV or revenues last year are greater than 3,000 SMMLV.	Required.
FISCAL RESPONSIBILITY	In the instance of tax abuse, legal corporate representatives can be removed from their posts and are considered shareholders, jointly liable for any obligations arising from such acts as deemed by the tax administration.	In the instance of tax abuse, legal corporate representatives can be removed from their posts and are considered shareholders, jointly liable for any obligations arising from such acts as deemed by the tax administration.	The partners are jointly and individually liable to the tax authorities for tax payments.	The foreign company and the branch are jointly liable for the tax obligations of the company.



Labour Aspects

Overview

Legal

Labor

Tax & Fiscal

Accounting

Why Auxadi?

All employment contracts developed in Colombia are governed by Colombian law.

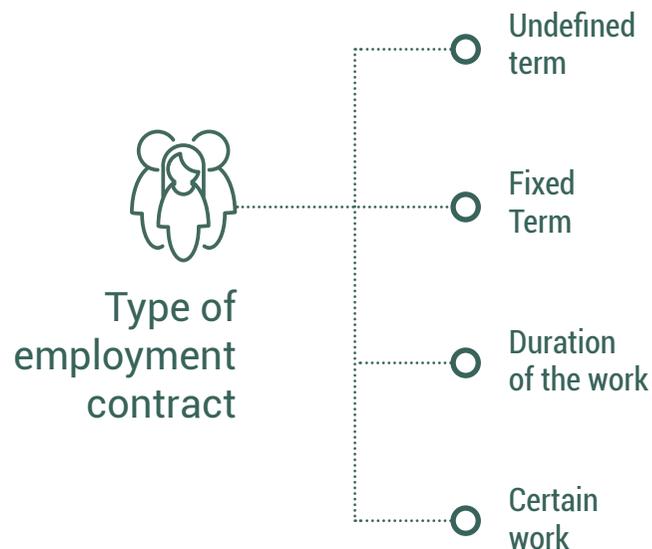
There are four types of contracts: indefinite term contracts, fixed-term contracts, contracts for contracted work, and accidental or temporary contracts. Only indefinite term contracts can be verbally agreed upon, which means that any contract without written or evidentiary support will be assumed undefined.

The legal monthly minimum wage (known as SMMLV) is fixed annually by the national government, and is 1,000,000 COP in 2022 (around US\$225 at time of writing).

The maximum ordinary working week in Colombia is 48 hours, distributed from Monday to Friday, or Monday to Saturday as agreed.

There are five types of labour terminations or settlements:

- Voluntary retirement (by the will of the worker)
- Completion of probationary period (which may not exceed 2 months)
- Company Liquidation
- Unilateral termination of the contract for cause
- Unilateral termination of contract without just cause



Compensation for a unilateral breach of contract without just cause is as follows:

Fixed term: The value of wages for the time remaining to meet the deadline agreed in the contract.

Duration of the work or specific project: The value corresponding to the duration of, but no less than, 15 days of work or hired labour wages.

Indefinite term:

- **For employees earning lower than 10x SMLMV:** 30 days salary for the first year of service and 20 days salary for each subsequent year, and proportionally per fraction.
- **For employees earning wages equal to or greater than 10x SMLMV:** 20 days salary for the first year of service and 15 days salary for each subsequent to the first year and proportionally per fraction. The legislation provides a special allowance for workers who, as at 27 December 2002 have 10 or more years of service, and one for those who had 10 or more years of service as at 1 January 1991.

There are two categories of waged workers in Colombia. The most common is the regular salary, to which monthly payments for social benefits must be added. The alternative, or integral salary, pre-emptively incorporates the corresponding percentage of social benefits in the monthly instalments paid to the employee. Integral salary cannot be less than 13x SMMLV.

In addition to the minimum salary, an employer must also recognise that an employee earning less than 2x SMMLV is entitled to transportation aid (the rate of which is set by the government annually), and appropriate work attire (including a pair of shoes and clothing three times per year).



Any employers with at least one permanent worker are obliged to make parafiscal, social security, and payroll contributions to the Colombian Family Welfare Institute (ICBF), the National Service (SENA) and Family Compensation Funds (CCF) respectively.

Contributions to Social Security

	Employee	Employer
PENSION SCHEME	4%	12%
HEALTH	4%	8.5% (> 10 SMMLV)
OCCUPATIONAL HAZARDS	-	Between 0.348% and 8.7%
PENSION SOLIDARITY FUND	between 1% and 2%	-

Payroll taxes paid by the employer

Entity	<10 SMMLV	> 10 SMMLV
SIGN	-	two%
ICBF	-	3%
COMPENSATION FUNDS	4%	4%

Colombia has negotiated bilateral social security agreements with Chile, Argentina, Uruguay and Spain. These treaties are meant to ensure that the nationals of the engaged countries can properly contribute to their respective pension systems, which includes old-age, invalidity, and survivors' pensions.

It is compulsory for Colombian employers to recognise two types of mandatory breaks for employees. Sundays and holidays are considered nationally recognised paid days of rest. Additionally, Colombian employees are entitled to 15 paid working days of vacation for each year of service.

Foreigners who wish to provide their professional services in Colombia are required to have an appropriate work visa, alien identification, and provide a written copy of their notification of employment to the Administrative Unit of Migration. It is the company's duty to enforce this national policy within its organisation.





Tax Aspects

Overview

Legal

Labor

Tax & Fiscal

Accounting

Why Auxadi?

Colombian taxes are at both the national and regional level. While national taxes apply to all resident individuals and corporations in the country, regional taxes are determined by each department or municipality under the parameters set by the law.

The timing of fiscal and accounting obligations is established each year, and based on the final digits of taxpayer identification number (NIT). The full schedule for all variations of NIT (personal, company, legal entity, etc.) is available on the [DIAN website](#).

These are the major taxes in Colombia.



NATIONAL TAXES

CORPORATE INCOME TAX	35%	The rate of income tax for fiscal year 2022 is 35%. Financial institutions with income over US\$110,000 (approx.) will be liable for an additional 3% surcharge for a total rate of 38%.
INCOME TAX IN FREE ZONES	20%	The general rate is equal for domestic and foreign permanent establishments in Colombia. There is a special regime for small businesses.
GENERAL VAT RATE	19%	General VAT is levied on the sale of goods, services, imports, with the exception lotteries. There are preferential rates of 0%, 5%, and 14% for certain goods and services.
CONSUMPTION TAX	4% - 8% - 16%	Consumption tax is levied on mobile phone services, internet, mobile navigation, data services, sales and importation of vehicles, food vending, and beverages prepared in restaurants, cafes, supermarkets for consumption on site.
TAX ON FINANCIAL TRANSACTIONS	0.4%	There is an indirect tax on financial transactions with funds deposited in checking or savings accounts

DEPARTMENTAL AND REGIONAL TAXES

TAX FOR INDUSTRY AND COMMERCE	0.2% - 1.4%	Municipal tax on gross taxes obtained by the exercise of industrial, commercial, and service activities.
UNIFIED PROPERTY TAX	0.3% - 3.3%	This tax is levied on the ownership, possession or enjoyment of property or real estate located in urban, suburban, or rural areas with or without buildings. The applicable rate depends on the condition of the property.
TAX REGISTRATION	0.1% - 1%	All acts, contracts, or legal transaction documents registered with the Chamber of Commerce, and the offices of registration of public instruments, are subject to the registration tax.

Transfer Pricing

Colombia's laws on transfer pricing are, in general, based on the terms set by the Organization for Economic Co-operation and Development (OECD).

The taxpayers income will be subject to transfer pricing regime if:

1. Transactions are conducted with related parties abroad.
2. Domiciled in the national customs territory ("TAN") and conducting transactions with businesses located in a free zone.
3. Transactions are conducted with related residents in Colombia if their permanent establishment is abroad.

Ultimate Beneficial Owner

In January 2022, Colombia recently introduced new laws and reporting requirements for UBOs. Legal entities, and various entities without legal status, are obliged to provide Ultimate Beneficial Owner information – whether they have profit motive or not, whether they have permanent establishment or not.

This includes entities incorporated or administered in Colombia, governed by Colombian law, or if the entity's trustee (or equivalent) is a Colombia legal person/ natural person with Colombian tax residency.

Penalties will be imposed on entities that fail to comply with reporting obligations or ignore DIAN's requests from information. These penalties will be 0.5% of net income or 0.5% of gross assets of the taxpayer or declarant, corresponding to the year immediately before or the last declaration.

Entities without legal status created before 15 January 2022 are required to register with RUT (Colombia's online tax system) before 31 December 2022. Those incorporated after 15 January 2022 have a deadline of 30 September 2022, and companies formed after 30 September 2022 must register within 2 months of incorporation.

Double taxation agreements

Colombia has 14 Double Taxation Treaties in place, including with Canada, Mexico, the UK and Spain. It also has a free zone regime that allows companies to enjoy special regulations on tax, customs, and foreign trade matters.

Simple tax regime (RUT) and UVT

This single tax regime is a model based on optional annual taxation, with taxpayers making bi-monthly advance payments. This replaces income tax and integrates the excise tax, VAT, and the tax on industry and trade into one single tax.

The tax base (composed of the total gross, ordinary and extraordinary income, received in the respective taxable period) and the tax rate for Industry and Trade established are determined by local authorities.

The threshold for join the Simple Tax regime is 100,000 UVT (tax value units). The UVT value is set annual by the DIAN and, for 2022, is set at COP 38,004.



Withholding tax

The Colombian tax system incorporates withholding tax as a mechanism for advance collection of taxes. This implies that withholding is applicable only if the activity is subject to the respective tax.

Withholding agents are legal entities whose functions involve acts or transactions which must, by express provision of law, be making withholding tax payments.

The main obligations of withholding agents are:

- to deposit the withheld amounts in the places and within the deadlines set by the Government,
- to submit monthly and bimonthly statements of withholding tax, and
- to issue certificates of retentions. (Retention rates for transactions between national residents or between companies in Colombia ranges from 1% to 20%.)

Advances of income tax (Auto withholdings)

As of 1 January 1, 2017, taxpayers that met the following conditions would be considered as withholders (*autorretenedores*):

1. National, foreign companies or permanent establishments.
2. Those companies exempt from contributions to social security and payroll contributions of employees earning lower wages to 10x SMMLV.

This obligation is settled on each payment or credit into an account of the taxpayer who is subject to income tax, and the rate may vary between 0.4% and 1.6% according to the type of economic activity.

Taxpayers must declare and pay these monthly withholdings (*autorretenciones*), within the deadlines set by the Colombian government.

Electronic invoicing

Colombia uses electronic invoicing to pre-clear VAT, justify deductible taxes and costs, and deductible expenses. This has been in place since 2019.

Submitted invoices will be in XML format, including the company's digital signature, a e-invoice unique code ('CUFE') and QR code. Invoices can be submitted to DIAN by:

- Using the free DIAN upload portal
- Outsource complete e-invoice creation and submissions to a DIAN authorised e-invoicing provider for digital certificate and e-signature issuance services

Once confirmation is received from DIAN, the supplier may send the approved invoice to their customer in XML and PDF format.

Electronic payroll

All companies who pay income tax and also deliver employment related payments or credits into an account are required to issue an electronic document, similar to the electronic invoicing system.

This document is to be produced monthly, no matter how many times during the month disbursements are made to employees. The document should be transmitted to DIAN by day 10 after month end.





Accounting Aspects

Accounting for trading companies in Colombia is governed by the Decree 2267 of 2014, in tandem with the Decrees 2649 and 2650 of 1993. Currently Colombia is governed by International Standards (IFRS) and Colombian GAAP.

Financial statements must always be signed by the accountant, the legal representative and, if companies are audited, by the auditor. However, taxes should only be signed by the accountant. In cases of audited companies, firm's auditor and legal representative must sign.

Only public accountants may practice accounting activities in the country. There are qualified and authorised accountants, but they must be in possession of professional card issued by the Central Board of Accountants to be certified.

Accounting records must be maintained using Colombian pesos and in Spanish.

Minimum obligations

Financial statements

These must be prepared at the end of a period and include:

1. Statement of financial position.
2. Statement of income.
3. Cash flow statement.
4. Statement of changes in Equity.
5. Notes to the financial statements.



Colombia. Country file

Books

Books must conform and be processed so that their authenticity and integrity is guaranteed. Each book, according to their specific use, must carry a successive, continuous numbering.

According to the law, the nature of the economic entity and its operations should be required to carry books that:

1. Settle, in chronological order, all operations, either individually or global, in summaries of not more than one month.
2. Set monthly summary of all transactions for each account, their debit and credit movements, including the movements of the various establishments.
3. Determine the ownership of the entity, the movement of capital contributions and constraints that weigh on them.
4. Allow complete understanding of the above.
5. Record the decisions taken by the collegiate governing bodies, management and control of the economic entity.
6. Meet the requirements of other legislation.

Obligations Auditor (audit)

In Colombia the audit itself is known as revisoría, and applies special emphasis to taxation.

The Commercial Code Article 203 states who must have a statutory auditor:

1. Joint stock companies.
2. Branches of foreign companies.
3. The companies in which, by law or by statute, the administration does not correspond to all partners, or when the number of excluded management partners represents at least 20% of the capital.

In addition, it is mandatory to have auditor for all commercial companies (of any nature) whose gross assets at 31 December of the immediately preceding year reach or exceed the equivalent of 5,000x SMMLV, and/or whose gross income for the previous year are equivalent to or exceed 3,000x SMMLV.

Binding obligations

According to the statement No.1 1977 and Decree 2649 of 1993 undertakings holding 50% or more of the capital of another company should present accounts consolidated with the subordinate, alongside their own financial statements.

There shall be no obligation to consolidate financial statements:

- When the control by the parent body is prevented or avoided in any way.
- When control is temporary.
- Where the company has been taken over by a competent authority and such action has resulted in the loss of control over the subordinate.
- When the company is in liquidation.

Why Auxadi?



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We can help you with your international expansion and we service clients across many different sectors. We become an extension of your finance departments abroad. Access the accounting information of all your international subsidiaries through a single portal, customised to meet your needs.



Private Equity & Real Estate Funds

We can take of the corporate management and SPV administration of your investment structures. Whether you're creating a holding structure in Luxembourg or setting up an SPV in Europe or Latin America, we can help make your life easier. We offer accounting, reporting, tax compliance and directorship solutions.

AUXADI

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Local knowledge, international coverage



4.5/5 Client Satisfaction
(the avg. for financial
services being 1.7/5)

22 Fully operating
subsidiaries

+50 Countries
currently served

+1,700 Clients

-  Accounting
-  Tax compliance
-  Payroll
-  Cash management
-  Consolidation and reporting
-  Domiciliation/
registered office
-  Directorships
-  SPV set up and admin
-  Transfer pricing



We **enable international expansion and investment** across more than **50 countries**



We're experts at **unravelling complexities**, making the **complex simple across all sectors**



We're **technology-driven**, utilising our best-in-class **cloud-based technology platform** to ensure flexible and efficient solutions



We adopt a **single-point-of-contact** service model, **putting you at the heart** of our business



We're a leading provider of **accounting, tax, payroll and SPV set up and administration services** to some of the world's largest multinational corporations and fund managers

MySPV

Your online accounting everywhere



Consistency of execution



Global footprint on the same online platform



Single Point of Contact

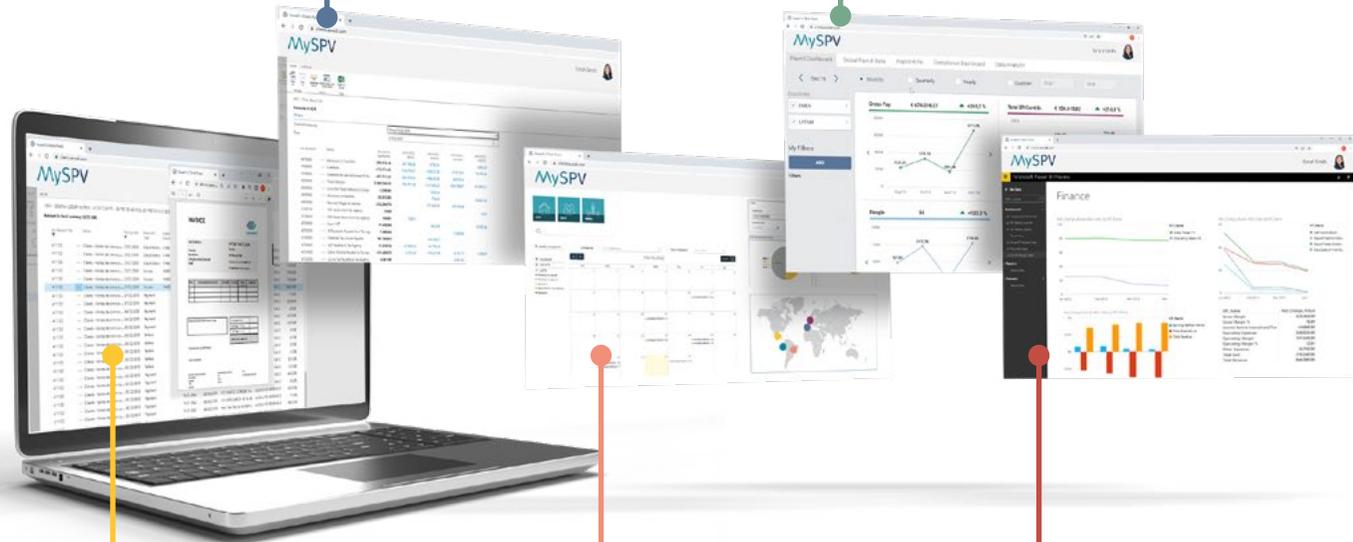


ACCOUNTING

- Access to multicountry reports
- Drill down functionality
- Map to your local GAAP and chartered accounts
- Multicountry aggregated and cost centre reports

PAYROLL

- Monitor and consolidate the payroll process
- GDPR compliant
- Approve payslips
- HeadCount & G2N reports



ADMINISTRATION

- Approve payments
- Cash flow reports
- Electronic invoicing

TAX

- Tax reports
- Access to tax forms
- Local tax connectors in many countries

REPORTS AND DASHBOARDS

- Tailor-made dashboards

Benefits of using MySPV:



Reports can be tailor-made



Available in over 50 countries



Cost-efficient



User-friendly with single sign-on



24/7 access – anytime, anywhere



Onboarding and implementation in just 10days



Built in partnership with Microsoft and hosted on Azure



Can connect to your own systems

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