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Doing
Business in
COLOMBIA



H&CO.



This guide has been prepared to provide basic information to people interested in investing and doing business in Colombia.

The following guide does not cover in detail all the requirements and topics that must be considered, but is intended to provide a general idea of the advantages of doing business in Colombia and the basic tax requirements.

This document is intended to be used for informational purposes and its content is based on the information and regulations that came into force as of January 2023. If you wish to obtain more information, we recommend that you consult a professional tax advisor.



H&CO.



About us?

Since 1992, we have worked with one primary goal in mind “to simplify the burden of global compliance and maximize global operations through technology-enabled transformations.” Over the years, we empower people and organizations to conquer new frontiers by providing world-class global services in more than 14 countries.

Additionally, we are members of the BDO Alliance and founding members of BLITA International, an international association of independent tax advisors.



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**Why do business
in Colombia?**

General Aspects of Colombia

Capital	Bogotá
Area and number of inhabitants	1,138,910 km ² and a population of 50,372,000 inhabitants (est. July 2021) National Administrative Department of Statistics (DANE)
Language	Spanish
Currency	Colombian Peso (COP)
Code for international calls	+57
GDP	\$76,965,381 billion USD (2021 est.) National Administrative Department of Statistics (DANE)
GDP – per capita	\$1,528,871 USD (2021 est.) National Administrative Department of Statistics (DANE)
Exports	\$3,987.6 million USD (2021 est.) National Administrative Department of Statistics (DANE)
Imports	\$5,348.5 million USD (2021 est.) National Administrative Department of Statistics (DANE)
Inflation	5.62% (2021 est.) National Administrative Department of Statistics (DANE)
Government structure	Colombia is a representative presidential democratic , divided into three branches: the executive, legislative and judicial. The president serves as head of state and head of government. The executive power is exercised by the government. Legislative power resides in two chambers of Congress, the Senate and the House of Representatives. The judiciary is independent of the executive and the legislature.

Business and tax advisors in Colombia:

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Strategic geographical location

Unquestionably, the Republic of Colombia has a strategic geographical position in Latin America. It is an important link between the northern and southern countries in the hemisphere, and is the only country in the subcontinent with coasts on the Atlantic and Pacific oceans. This location allowed it to become the gateway to South America, which by having ports facilitates connection with the rest of America, the United States, Europe, Asia and the countries of the Pacific Rim. The nation shares borders with Venezuela, Ecuador, Brazil, Panama and Peru.

Additionally, thanks to its location in the equatorial zone, the existence of a great variety of climates and ecosystems is generated that provides the nation with a wide wealth of natural resources, which in turn generate a great variety of commercial opportunities and have allowed it to position itself as an important destination for foreign investment in the region.

According to the world's geographers, Colombia is a privileged “corner house” that on the one hand has a strategic location in the northwest of South America and on the other has two large oceans; the Pacific to the West and the Atlantic, which makes up the Caribbean Sea or the Antilles.

Skilled labor

According to Mintrabajo, the Government has been working in the business context to improve workers' skills and promote inclusion, with the aim of generating good work environments that enhance the country's organizational productivity.

According to the National Administrative Department of Statistics (DANE), throughout the national territory as of July of last year, the working-age population reached 40.4 million people, where 24.4 million were in the labor market (PEA) and 16 million corresponded to the economically inactive population (PEI). This shows that Colombia has one of the largest annual increases in the



availability of human resources and one of the most effective labor regulations in force in South America.

Additionally, DANE states that 55% of the Colombian population is under 30 years old and there are seven cities with more than one million people. In addition to having more than 200 thousand students who graduate each year from the higher education system, 53% have a university degree and 28% have a postgraduate degree.

Government commitment to foreign investment

The Colombian Government and its private sector have been working together for the last 15 years to simplify laws and procedures, with the aim of encouraging and promoting international investment. This initiative has allowed the nation to create one of the most competitive investment areas in Latin America, offering incentives such as a 15% tax on income, the absence of customs contributions, 33 permanent free zones, 69 special free zones and the possibility of participating in the local market.

Along with the above and according to Mincomercio, Colombia has traditionally received Foreign Direct Investment (FDI) for the exploitation of its natural resources such as gasoline and gas, however, it has been diversifying the offer in recent years. That is why the Government has designed a series of instruments that provide good benefits to investors, such as mega-investments, investments in the agro-industrial sectors, renewable energies, the Vallejo Plan and incentives for the orange economy, among others.

For example, in the mega-investment segment, the Government grants special regime incentives such as:

- A rate of 27% of income and complementary taxes.
- Elimination of the special tax on dividends.
- Elimination of the wealth tax.
- The periodic decrease of its assets in a minimum period of 2 years, without taking into account the useful life of the asset.
- Establish tax stability contracts, with which the Colombian State undertakes to guarantee that the aforementioned tax benefits will be respected for the same time, regardless of whether the regulations are adjusted.
- The Government grants subsidies for the payment of salaries and social benefits of employees to companies that generate decent jobs for Colombians.

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

Investment protection

Given Colombia's positive economic and financial performance, Moody's, Fitch and Standard & Poor's awarded it investment grade for its long and positive history of punctual debt payment, strengthening the credibility of its macroeconomic policy and its ability to cope with to internal and external shocks.

In addition, the country has the second lowest perceived risk in the region, measured by the behavior of 5 years of credit risk swaps; and compared to 183 countries, the World Bank described Colombia as the 13th country in the world and first in Latin America in investor protection.

In this scenario, it is understood how Colombia has positioned itself as an important destination for investors, and that is why the Government has established several aspects to guarantee the protection of foreign direct investment (FDI), such as:

- Equality in the treatment between foreign investment and national investment, which is contemplated in the Political Constitution of the country and where, according to the Organization for Economic Cooperation and Development (OECD), there are very few restrictions that arise, in comparison with other countries in the region.
- Through the network of International Investment agreements signed by the country with several economies around the world, clear and fair guidelines were established for foreign investments, demonstrating the Government's commitment to supporting and respecting international investments.
- Participation of foreign investment in almost all sectors of the economy, except for defense and national security activities, the final disposal of highly dangerous waste, among others.
- Foreign investment in Colombia, in most cases is not subject to prior authorization from the national authorities, what must be done is register with the Central Bank (Banco de la República).



Access to global markets and free trade agreements (FTA)

According to the Ministry of Commerce, Industry and Tourism (Mincomercio), due to the process of liberalization of the economy and the market that began in Colombia since 1991, the signing and implementation of trade agreements has been achieved with several strategic partners, with the objective of guaranteeing stability and legal security to economic actors and agents.

For Mincomercio, the trade agreements established by the country are highways through which commercial exchanges flow, which must be used to the maximum to promote the development of the nation. In this context, the country has built extensive commercial relations with important economies in the world, with which it exports the products of its more than 9,700 companies to 181 countries. Currently the nation has the following trade agreements in force:

- Andean Community.
- Pacific alliance.
- Trade Agreement between Colombia and Israel.
- Chile – Colombia Free Trade Agreement.
- Trade Agreement between Panama and Colombia.
- Free Trade Agreement between Colombia and Costa Rica.
- Agreement between Colombia and the countries of the Northern Triangle.
- Trade continuity agreement between Colombia and the United Kingdom.
- Economic Complementarity Agreement No. 72 Colombia Mercosur.
- Trade Agreement between the European Union, Colombia, Peru and Ecuador.
- Trade Promotion Agreement between the Republic of Colombia and Canada.
- Free Trade Agreement between the Republic of Colombia and the Republic of Korea.
- Free Trade Agreement between the Republic of Colombia and the EFTA States (EFTA).
- Free Trade Agreement between the United Mexican States and the Republic of Colombia.
- Trade Promotion Agreement between the Republic of Colombia and the United States of America.
- Economic complementarity agreement No. 49 concluded between the Republic of Colombia and the Republic of Cuba.
- Free Trade Agreement between the Republic of Colombia and the Republics of El Salvador, Guatemala and Honduras.
- Partial Scope Agreement on trade and economic and technical cooperation between the Republic of Colombia and the Caribbean Community (CARICOM).

The Government, with the objective of continuing to boost and strengthen its country's exports as an important source of economic growth and social well-being, has created the Center for the Advantage of Trade Agreements (CAAC). Through these entities, actions are established that make it easier for the country's regions to export their products. These guidelines contemplate the three macro sectors of national productive activity such as services, agriculture and agroindustry and manufacturing.

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De acuerdo con JP Morgan, Colombia es y será el tercer país más atractivo para la inversión en América Latina en los próximos años.



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02

Taxes in Colombia

Corporate taxes

The Corporate Tax is applied on income obtained worldwide by companies and business entities resident in Colombia, and on income obtained in national territory by non-resident entities, that is, foreign companies and their branches.

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

1. It is constituted in accordance with Colombian law
2. It has its main address in Colombia
3. Its administration headquarters is located in Colombia

The basic corporate tax rate is 35% and the income surcharge is 4%.

Taxes on capital gains and dividends

Capital gains are subject to capital gains tax only when 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 in excess of its taxable profits.

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

Inheritance and gift taxes

Inheritances and gifts are treated as capital gains and are therefore taxed at the general rate of 15%. Profits derived from marital partnerships are not subject to this 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 earnings. Gifts and inheritances of real estate may also be subject to local real estate transaction tax.

Value added taxes / VAT

VAT is applied to sales of goods and services in Colombia and to imports. A tax rate of 19% applies, 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, the value added tax (VAT). This tax is levied on the food and beverage service sold in restaurants and similar establishments (with the exception of franchises that are taxed under the VAT regime), the sale of automobiles and mobile telephone services, and is not eligible for deductions.

VAT taxpayers are required to register with local tax authorities and acquire a tax identification number for filing and payment. Depending on the net profits of the previous fiscal year, VAT must be submitted bimonthly, quarterly or annually.

Employment taxes

Withholding on income from employment is applicable to payroll. See the table below for social security contribution rates.

*About 10 SMLV	Employee	Employer
Health	4,00%	8,50%
Retirement fund	4,00%	12,00%
Occupational hazards**	--	0,522% - 8.7%
Other contributions	--	9,00%

* SLMV: Legal minimum wage in force in 2023: \$ \$1,300,606 COP

** Depending on the level of risk that the company manages.

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

Personal taxes

A resident of Colombia is subject to taxes on his or her worldwide income; Non-residents are only subject to their Colombian source income.

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

Each individual must file their own tax return; joint statements are not allowed.

Income is taxed according to the progressive scale shown below.

Greater than:	But not 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%
\$ 31.000 UVT	En adelante	39%

The Value of the Tax Value Unit (UVT) for 2023 is \$42,412. DIAN



International agreements to eliminate double taxation:

Click to see the details of each agreement:

- **Federal Republic of Brazil**
- **Kingdom of the Netherlands**
- **Eastern Republic of Uruguay.**
- **Pacific Alliance – Homologation tax treatment for Pension funds.** Law 2105 of 2021
- **United Arab Emirates.**
- **Japan.** Law 2095 of 2021
- **French Republic.** Law 2061 of 2020
- **Italian Republic.** Law 2004 of 2019
- **United Kingdom of Great Britain and North Ireland.** Law 1939 of 2018
- **Czech Republic.** Law 1690 of 2013
- **Portuguese Republic.** Law 1692 of 2013
- **Republic of India.** Law 1668 of 2013
- **Republic of Korea.** Law 1667 of 2013
- **United States of Mexico.** Law 1568 of 2012
- **Canada.** Law 1459 of 2011
- **Swiss Confederation.** Law 1344 of 2009
- **The Republic of Chile.** Law 1261 of 2008
- **Kingdom of Spain.** Law 1082 of 2006
- **Andean Community of Nations.** Decision 578 of 2004





03

**How to establish and
incorporate a company
in Colombia**



Process to establish a company in Colombia

According to the Bogotá Chamber of Commerce, when an investor wishes to establish a business entity in Colombia, he or she must carry out 7 procedures that will take an average of 10 days, which makes Colombia one of the first countries in the region in terms of regulatory favorability to start a business.

Procedure	Time to complete
1. Register in the Commercial Registry and obtain an "Identification taxpayer" (RUT).	3 days
2. Obtain invoice authorization and electronic signature.	1 day
3. Register the company with the Family Compensation Fund (Caja de Compensación Familiar), the Government Learning Service (National Learning Service, SENA) and the Colombian Family Institute (Colombian Institute of Family Welfare, ICBF).	5 days
4. * Register employees for health coverage (public).	6 days
5. * Register employer and employees for pensions with Colpensiones or any of the private funds.	1 day
6. * Register the company with the Risk Administrator Professionals (ARL)	1 day
7. * Register employees with the benefits fund.	1 day
Total number of days	10 days

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

Requirements to establish a company in Colombia

The Limited Liability Company (Ltda.) is the most common form of incorporation in Colombia. The shareholders of a Ltda. are responsible only for the value of their participation. The partners are, however, jointly responsible for the tax and labor obligations of the company.

○ **Company name**

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

○ **Bylaws**

Constitute in a document how the company and the relationship of the partners to it will be formed. In this document, the corporate purpose, conditions, clauses, legal representative, shareholding must be established and it must be signed and authenticated in a notary office.

○ **Social Domain**

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

○ **RUT and NIT**

Request from the DIAN the Single Tax Registry (RUT) that the company will have. Once you have it, you must go to the Chamber of Commerce and register and obtain the Tax Identification Number (NIT) that will identify the company.



◦ Commercial registry

In the Chamber of Commerce, where the company is going to be established and register the statutes to register these documents and provisionally obtain a chamber of commerce. You must attach the required forms and a copy of the identification cards of the legal representative, the substitute and the shareholders.

◦ Administration

The management of a Limited Liability Company registered in Colombia is carried out by the meeting of partners 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 the shareholders.

◦ Registration of official books

Once you have the definitive Certificate of Existence and Legal Representation, which will be made up of the statutory content, the company name, the acronym, the tax identification to comply with taxes, you must register the shareholder book (it will contain the record of stock sales made) and the minute book (will detail all changes made) before the Chamber of Commerce.

◦ Billing resolution request

Before the DIAN, in person or virtually, you must request billing authorization (range of numbers) in accordance with the estimated sales projection.

◦ Industry and Commerce

Register the new company in the Ministry of Finance of the municipality where it will operate, through the Registry of Industry and Commerce. If employees are required, they must register in the Social Health Security System.





04

**Market opportunities
and business sectors**



Agroindustry

According to Minagricultura, Colombian agricultural exports closed positively last year with sales of around US\$9,418 million and a growth of 19.9%. Among the most exported products are coffee, flowers, beef, cocoa, tilapia, among others.

Likewise, the entity highlights that this has been a product of the wide availability of fertile lands, variety of climates and water resources, making Colombia the seventh place in the world. It also emphasizes that Colombia is the fourth country in Latin America with the most land for the development and production of agricultural projects and is the first in Latin America with the highest annual precipitation rates and tenth worldwide.

For its part, the Colombia Country Brand highlights that the nation's strategic geographical position allows for permanent production throughout the year, with a wide margin for sustainable growth that positions it as an export platform. The nation has a wide range of investment opportunities in the sectors of:

- Processed foods
- Cocoa, derivatives and chocolate
- Fruits and vegetables
- Palm industry
- Livestock and livestock
- Commercial forest plantations

On the other hand, ProColombia emphasizes that the nation is increasingly positioning itself internationally with its products and services. For example, the agricultural sector is very striking because this year it managed to conquer distant markets with its offer characterized by its quality, flavor and price. The projections for this year and next are very positive and encourage this segment, which is key to the country's economic reactivation.



Manufacture

The Country Brand, the entity belonging to the National Government, affirms that this sector occupies the third position within the most important productive activities in the country's economy. In addition, it has good access to raw materials at competitive

costs and qualified human talent at favorable costs compared to those managed in the region.

Additionally, the sector is strengthened by the trade agreements established between the Government and the main economies of the world, an efficient internal market, competent workforce and government support. Among the main segments that offer interesting investment opportunities are:

- Aeronautics
- Automotive
- Cosmetics and personal care
- Containers and packaging
- Fashion industry
- Petrochemical industry
- Construction materials



Health services and life sciences

For some time now, the Government has been dedicated to improving health coverage and has created several regulatory advances. For Colombia Co, given the increase in demand for health services, this segment must be competitive. Additionally, the pharmaceutical industry in Colombia has consolidated and has managed to put itself at the forefront of global trends, such as the medicinal and pharmaceutical use of cannabis.

Among the main segments that offer interesting investment opportunities are:

- Medical and cosmetic cannabis
- Pharmaceutical sector
- Health services
- Clinical studies

Business and tax advisors in **Colombia**

ESPINOSA
& Asociados

Lawyers

Espinosa & Asociados

Bogotá, Colombia

👤 **Beatriz Espinosa**

✉ bespinosa@espinosaasociados.com

☎ +57 1 642 8577

🌐 www.espinosaasociados.com



Accountants

G&D Consulting Group S.A.S

Bogotá, Colombia

👤 **Fernando Gomez**

✉ fgomez@gydconsulting.com

☎ +57 1 805 9112

🌐 www.gydconsulting.com

**Contact an advisor
in Colombia**



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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



Aventura

20764 West Dixie Highway
Aventura, FL 33180

H&CO.

in f  
www.hco.com