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An overview of current tax reforms in Colombia

A TMF Group briefing

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Since January 2015 companies operating in Colombia have been challenged to a new tax reform. It seems to be a negative issue for foreign companies but it is necessary to take a look deeply to realize the real impact on multinational companies.

Lately, Latin American countries are in a constant battle to attract Foreign Direct Investment and Colombia has not been an exception being considered as an investment hub nowadays. Incentives such as 1429 law, which gives tax benefits in the first 5 years of operation, the attractiveness of the SAS type business entity, among others, have strengthened foreign investments.

Following a webinar featuring insights from Juan Carlos Alvarez, Regional Managing Director at TMF Group, and Hector Falla, Tax lawyer at Philippi, Prietocarrizosa & Uría, we present this overview of the changes resulting from tax reform in Colombia.

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Tax reform changes in Colombia

Wealth Tax

This applies to all domestic companies and non-residents that hold wealth in Colombia equal to or exceeding 1 billion
Colombian pesos (US$ 416,000) as of 1 January 2015.

It will rise progressively at a rate of:

- 1.15% for 2015
- 1% for 2016, and
- 0.4% for 2017

For individual tax payers, the rate rises will range from 0.20% to 1.5% until 2018.

Some double taxation agreements can affect wealth tax, as detailed in table 1 below.

Table 1

Agreements	Colombian resident with wealth in-country	Non-resident with wealth in Colombia
Spain	Colombian Government can tax wealth held in other jurisdictions or countries	Colombian government can tax companies with immovable property in Colombia, or property that is moveable but which forms part of a Colombian permanent establishment
Chile		
Canada		
Mexico		
Switzerland		
Korea	Do not include tax wealth	Do not include tax wealth
India		
Canada	Colombian tax authority cannot tax, only the country member where the wealth is located.	Colombian government can only tax wealth owned in Colombia

Tax "Amnesty" (Impuesto normalización tributaria)

While there is no direct translation for this term, it applies to companies who are wealth tax payers but have omitted assets or declared non-existent liabilities in their income tax. Omitted assets are those not included in national tax declarations or non-existent liabilities as debts declared but not held.

Tax rates are: 10% for 2015, 11.5% for 2016 and 13% for 2017.

CREE surtax (Income tax for equality)

A national tax designed to be a contribution from companies to benefit employees, employment generation and social investment, CREE (the income tax for equality) was established tax during the 2012 tax reform. It was created to fund National Learning Services and the Colombian Institute of Family Welfare with a general tax rate of 9%.

The CREE surtax will apply between 2015 and 2018; it's a transitional measure and does not apply to all CREE taxpayers.

Companies with net income in 2015 to 2018 equal or greater than COP $800 million pesos (approximately US 400.000) will find the surtax levied at a rates of 5% for 2015, 6% for 2016, 8% for 2017 and 9% for 2018.

Income tax

Legal entities and foreign companies not attributable to a permanent establishment or branch in Colombia, but who had Colombian-sourced income, will have an increase in their income tax rate as follows: 39% for 2015, 40% in 2016, 42% in 2017 and 43% in 2018 and later.

Colombia vs. region

These Colombian tax reforms could appear as an increased tax burden for all foreign companies. However, complexity to do business is focused on all Latin American countries and even Colombia having a complex fiscal model, is the less complex country in the region. Argentina is the most complex country followed by Brazil in second place and Mexico as number six.

Colombia is still the easiest country in which to do business in Latin America according to the World Bank report 2014; it ranks 34 out of 189 economies around the world in that index, and was also the least complex country in the region according to our Global Benchmark Complexity Report.

It's not all roses. Colombia does still needs to work on bureaucracy procedures taking into account the number of taxes and procedures – ranked 146 of 189 economies by the World Bank, red tape is a heavy burden in Colombia when compared to some countries – but it provides a solid base for doing business in South America. Table 2 below shows a comparison between neighbouring countries.

Table 2

	Colombia	Mexico	Chile	Peru
Doing Business World Bank report 2015	34	39	41	35
TMF Group's Global Benchmark Complexity Report	21	6	19	16
Corporate income tax	25% +9% CREE	30%	20%	28%
Paying Taxes index – World Bank Report	146	105	29	57
Niumber of total separate taxes paid by a Company – World Bank Report	11	6	7	9
Effective tax rate	51%	40.7%	27.2%	38.2%
Last tax reform	2014	2013	2013	2014

FAQ

- **Are there new sanctions established in the next tax reform?**

This tax reform does not include new sanctions, but the Colombian government has increased fines from 160% to 200% if DIAN (the National Tax Authority) sees omitted assets or non-existed liabilities.

- **What happen to companies established in free trade zones?**

Companies operating in free trade zones are not subject to CREE surtax.

- **Can we expect more changes?**

Mexico and Colombia are both constantly reforming tax, and more is expected. The Colombian government is negotiating its entrance to the OECD (Organisation for Economic Co-operation and Development) which has suggested the country lowers its fiscal burden, reduces sales tax and includes a new tax on dividends. The end of the reform is not yet in sight.

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Additional reporting: Andrea Hernandez

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