



# SETTING UP BUSINESS IN COLOMBIA 2024



## Type and General Aspects of Legal Business Entities

Depending on the type of legal entity selected to incorporate the business, there are minimum and maximum number of partners. In Colombia there is one type of entity (see SAS below) that requires just one partner, and it can be a company with one stockholder or a corporation. There is no need to have a local resident as a partner of any corporation; therefore, there are not restrictions for entities 100% owned by foreigners.

There are not either rules related to the amount of share capital, its amount should be determined based on the capital estimated to set up the business. All legal entities are independent from their owners; however, in some cases the liabilities can go beyond the capital contributions of the partners.

All legal entities require an Agent (Legal Representative) and for convenience most companies have at least 2 alternates. Several routine and periodical reports, forms and tax returns should be signed by the agent. Limitations of agent's capacities are defined in the incorporation documents. Because of the lack of such limitations and in order to protect the company's assets, several companies sign power of attorneys with limited capacities to the assignee different than the agent. All corporations and branches are subject to the control of the authorities through the superintendence of corporations or equivalent.

## Legal Forms of Business Entities Used by Foreign Companies

Legal form	Feature
<b>Limited Liability Company</b> (Sociedad Limitada)	Requires at least 2 partners and max. 25 partners. 100% of the equity shall be paid at once. Needs a Board of Partners. Law requires that companies with assets higher than approx. US\$1.1 million or annual sales higher than US\$684,000 should have a statutory auditor (Revisor Fiscal) who has several duties assigned by Law
<b>Corporation</b> (Sociedad anónima)	Requires at least 5 shareholders and there is not a max. number of shareholders. Needs a General Meeting of Shareholders meeting as the top authority, a Statutory Auditor and a Board of directors. Law requires that these companies have a statutory auditor who has several duties assigned by Law.
<b>Simplified Stock Company</b> (Sociedad por acciones Simplificada) The most used	Requires at least one shareholder here is not a maximum number of shareholders. It is the most used vehicle to incorporate a business in Colombia because it does not need to define duration, nor a specific area of business and it is a very flexible vehicle to manage the corporate affairs. Equity can be paid in two-year term. Trading of shares can be limited during 10 years in the bylaws. There is no need of board of directors. Law requires that companies with assets higher than approx. <b>US\$1.487.000</b> or annual sales higher than <b>US\$893,000</b> should have a statutory auditor (Revisor Fiscal) who has several duties assigned by Law. It is the most used vehicle to access the stock market and different type of shares can be created to accommodate financing needs or even to compensate employees.
<b>Foreign Company Branch</b>	Branch of a foreign corporation: It is mainly used by corporations of the extracting business (oil & gas, mining) to take advantage of tax benefits in their Country of origin and to take advantage on the exchange regulation freedom given by Law to O&G and mining branches mainly because that type of activities are mostly conducted in foreign currency. Most of branches have a statutory auditor (Revisor Fiscal).

## Foreign Direct Investment Principles

Under Colombian Law, a foreign investor or Company may operate in Colombia based on 4 principles established, Decree 2080 of 2000, amended by Decree 4800 de diciembre 29 de 2010:

Principles	Feature
<b>Equal Treatment</b>	For all purposes, foreign investment is subjected to the same treatment as investments made by Colombian nationals. Therefore, the impositions of any conditions on foreign investors, whether discriminatory or favorable, are not permitted.
<b>Universality</b>	<p>Foreign investment is allowed in all sectors of the economy except for the following:</p> <ul style="list-style-type: none"> <li>• Activities related to defense and national security.</li> <li>• Processing, disposition and disposal of toxic, hazardous or radioactive waste not originating in the country</li> </ul> <p>There are certain legal restrictions related to the property in some economic activities such as land acquisition in borders, manufacture, possession, use and commercial exploitation of nuclear, biological and chemical weapons; Private Security and Surveillance Services; Transportation, journalism and radio broadcasting services.</p> <p>Activities like gambling and liquors are a public monopoly of the state.</p>
<b>Authorization</b>	<p>Conducting foreign investment does not require authorization; however specific investments such as financial services, O&amp;G, and mining require authorization from authorities like the Colombian Financial Superintendence or the Ministry of Mines and Energy.</p> <p>The Colombian Central Bank (Banco de la República) requires registering investments for statistical purposes.</p>
<b>Protection</b>	Repayment terms of investment and transfer of legal income effect on the date of registration of the foreign investment may not be changed in a way that would adversely affect the investor, except temporarily when international reserves are less than three (3) months of imports.

For a favorable investment climate, Colombia has implemented a policy of negotiation and ratification of International Investment Agreements (IIAs), Bilateral Investment Treaties (BITs), as well as Free Trade Agreements (FTAs) with chapters on investment and Double Taxation Agreements (DTAs). This policy implements the strategy of economic integration embodied in the Colombian Constitution and in the most recent national development plans.

## Foreign Exchange Regimen

Regulation strictly controlled by the Colombian Republic Bank which allows transactions needed to conduct the business only after complying certain formalities including a set of reports with authorities. Compliance is also supervised by the Superintendence of Companies and the Tax Authority.

Trading and transactions in foreign currency between residents is not allowed and foreign currency is not a legal mean of payment inside the national territory. Currency in cash can be converted into local currency using banks, hotels and authorized establishments.

Residents are allowed to open and use bank accounts in foreign currency with banks established outside the national territory. There are no bank accounts in foreign currency in Colombia. Several banks offer the service of such bank accounts using their branches outside the country.

Dividends can be paid to foreign investors without limitations or restrictions.

The Foreign Exchange Regime involves two different markets: i) the Foreign Exchange Market and ii) the Free Market.

Markets	Feature
<b>Foreign Exchange Market</b>	<p>The following transactions must be done through this market, and must present a foreign-exchange declaration:</p> <ul style="list-style-type: none"> <li>• Import and export of goods.</li> <li>• Foreign debt operations carried out by residents and the financial cost related to those transactions.</li> <li>• Investment of foreign capital in Colombia and returns associated therewith.</li> <li>• Investment of Colombian capital abroad and returns associated therewith.</li> <li>• Endorsements and warranty bonds in foreign currency.</li> <li>• Foreign derivative transactions.</li> <li>• Financial investments in securities and assets issued or registered abroad and their returns</li> </ul>
<b>Free Market</b>	<p>The free market consists of foreign exchange transactions that could be completed voluntarily through the foreign exchange market, such as payments for services in foreign currency and transfer of foreign currency for other types of transactions, such as donations. These types of transactions do not have to be reported to the Central Bank.</p> <p>Colombian residents are allowed to open and hold bank accounts at foreign banks. Free market bank accounts may be used in connection with transactions that need not be mandatorily traded through the foreign exchange market.</p>

# Main Taxes in Colombia

The fiscal year is the calendar year from January 1st to Dec. 31st.

Taxes Law 2277 de 2022	Feature
<b>Income Tax</b>	<p>The general income tax rate is 35%.</p> <p>The combined general rental rate for companies, that is, the rate paid by the company plus the shareholder, would be 48%, which is the result of adding: (i) the corporate rate of 35%; and (ii) the taxation of dividends of 13%, which results from taking the remaining 65% and applying the nominal rate of 20% (65*20%), which applies to nontax residents</p> <p>The deduction t on income from the Industry and Commerce Tax (ICA) will continue to be 100% of the amount paid for said tax.</p> <p>It should be remembered that the regulations previously in force provided that the ICA discount would be 100% as of the taxable year 2022, which will no longer apply.</p> <p>The exempt income for orange economy companies would have the following changes:</p> <ol style="list-style-type: none"> <li>1. Its term of validity is reduced to 5 years. It is currently 7 years old.</li> <li>2. The term to apply is extended, since companies incorporated and starting activities before June 30, 2022, will be able to access. Currently, the term is December 31, 2021.</li> <li>3. It is eliminated as a requirement to access the minimum investment amounts, which is currently 4,400 UVT (USD\$40,127).</li> </ol> <p>They modify the VAT exclusion for goods subject to postal traffic, urgent shipments or fast delivery shipments whose value does not exceed \$200 dollars, since it would only apply to shipments from countries with which Colombia has signed a Free Trade agreement or treaty, in by virtue of which it is expressly obliged not to collect VAT. Currently, the exclusion applies to any country in the world.</p> <p>The VAT exemption is extended for one year, until December 31, 2022, for the provision of hotel and tourism services to residents in Colombia, including tourism for meetings, congresses, conventions and exhibitions, and entertainment, for those who have active registration in the National Registry of Tourism.</p> <p>The tax system considers three different ways to determine the taxable income: ordinary system, a presumptive taxable income and equity comparison system. For 2022, presumptive taxable rate is 0%.</p> <p>The concept of the electronic "invoicing system" is incorporated, which includes the sales invoice, the equivalent documents and the other electronic documents that are determined by the DIAN.</p> <p>In order for a cost, expense or deductible to be valid, it must be supported by one of the documents that make up the billing system. While the billing system regulations are issued, the provisions that currently regulate the matter will apply.</p> <p>They specify the sanctions that are generated by non-compliance with these obligations, as well as those that proceed when they are issued without fulfilling the requirements, with errors or extemporaneously.</p>

<b>Deductions</b>	<p>Specific donations to innovation, technological research and innovation in professional education projects of public or private higher education institutions may be entitled to a deduction.</p> <p>Donations to public libraries are entitled to a deduction of 100% of the amount donated during the taxable period with the fulfillment of certain requirements.</p> <p>Donations to entities such as foundations and non-for-profit associations are not entitled to deductions on income tax. However, these donations are entitled to a discount of 25% of the donated amount over the calculated income tax.</p> <p>Donations to certain entities developing activities of social interest such as health, education and research activities are also not deductible for income tax purposes however donations to these entities are entitled to the same discount mentioned in the paragraph above.</p> <p>The costs directly related with the acquisition or manufacturing goods, or the provision of services related to manufacturing are deductible from income tax with some specific restrictions. Also Costs and expenses incurred abroad are deductible if they comply with general requirements.</p> <p>Salaries paid or accrued to employees are deductible.</p> <p>The tax paid for industry and commerce are entitled to a deduction of 100%.</p> <p>Interests accrued on debts are deductible if they meet some specific requirements.</p> <p>Investment in environmental control and improvement is entitled to a discount of 30% of the over the calculated income tax.</p> <p>The exchange difference from payments made in foreign currency calculated to the day of acquisition and the debts or assets in foreign currency calculated with exchange rate in force on the last day of the year shall be taxable or deductible.</p>
<b>Value Added Tax (VAT)</b>	<p>The general rate applicable to sales, rendering services and import of goods is 19%, exports are exempt, most agricultural goods and goods of special interest for the economy have a rate between 0% and 5%. Luxury or special goods are taxed at a higher rate (Tobacco, liquor, perfumes, etc.).</p> <p>Taxpayers are entitled to deduct from their VAT return the amount of VAT paid for the purchase of goods and taxable services.</p>
<b>Consumption Tax</b>	<p>Sales from specific sectors of the economy such as vehicles, telecommunications and food and beverages have rates 8% of consumption tax.</p>
<b>Tax on Financial Transactions</b>	<p>Tax calculated at a rate of 0.4% over debit transactions in bank accounts.</p> <p>Debit transactions between accounts that belong to the same owner are except of this tax.</p>
<b>Stamp Tax</b>	<p>It's a national tax applicable to private or public documents that certify specification, amendment, or termination of a responsibility.</p>
<b>Industry and commerce tax (ICA)</b>	<p>Paid and regulated on each city where the company sell/operate on a regular basis. Rate varies from city to city in a range of 0.2% to 1.4% as follows:</p> <ul style="list-style-type: none"> <li>• For industrial activities: from 0.2% to 0.7%.</li> <li>• For commercial and service activities, from 0.2% to 1%.</li> <li>• Some municipalities have as high as 1.4% for some activities.</li> </ul> <p>The placement of billboards, signs, boards and emblems on the street, in public or private places visible from the public space and the placement of ads in any kind of vehicles is subject to a billboard or signs tax with a rate of 15% of the industry and commerce tax.</p>
<b>Real State Tax</b>	<p>This is a municipal tax applicable to any real estate property located at any municipality. Tax rate is based on the formal valuation of the taxpayer's real estate property.</p> <p>The tax rate may vary from 0.3% to 3.3% of the property value depending on the municipality or if it is an undeveloped land.</p>

<b>Income Tax on special revenues</b>	Taxes for specific profits have a rate of 15% as follows: <ul style="list-style-type: none"> <li>• Inheritances.</li> <li>• Sales of fixed assets.</li> <li>• Lotteries, raffles, gambling, etc.</li> </ul>
<b>Registration Tax</b>	The registration of acts, private documents, public deeds for incorporation before different authorities in Colombia have a rate between 0.1% and 1%.
<b>Offset of Tax losses</b>	Tax losses can be compensated in the subsequent taxable period with a time limit of 12 years . Compensations of excess presumptive income tax over net income are permitted within the following 5 years.
<b>Tax credits</b>	Discount for taxes paid abroad are permitted in the following cases when certain requirements are fulfilled: <ul style="list-style-type: none"> <li>• Taxes paid abroad</li> <li>• Payroll taxes for new employees</li> <li>• VAT paid for import of equipment and machinery of some industries</li> </ul>
<b>Transfer pricing</b>	For transactions amongst related parties, Colombian tax authorities request a transfer price report. Taxable income can be adjusted if prices, costs, etc cannot be considered as determined on an arm's length basis.

## Labor Rates and Labor Related Taxes

The incentive for the generation of new jobs is as follows: 25% for hiring young people (18 to 28 years old), 10% for people over 28 years old who earn up to 3 SMLMV for new jobs. A specific benefit is contemplated for the hiring of women, which will be 15% of the minimum wage for each additional worker.

- The Government is empowered to evaluate the results of the program in 2023 and determine whether to extend the benefit only to young people between 18 and 28 years of age.
- Associated Work Cooperatives are included as beneficiaries of both the PAEF and the incentives for generating new employees.

There is plenty of unskilled and semi-skilled labor throughout the national territory. Minimum monthly wage is around USD \$333 but the cost to the employer would be USD \$500. Labor related taxes and surcharges are around 51% of the salary.

There is also a growing skilled and managerial experienced population, most of it if they manage another language.

After 15 employees it is mandatory to hire one apprentice from the Governmental Learning Service (Servicio Nacional de Aprendizaje, SENA), one additional from 21 to 40 employees and another from 41 to 60, etc.

Unions are not a very common big issue; normally, proper and clear remuneration and HR policies may deter the formation of a union. A union can be formed with at least 25 employees. Strikes are subject to several conditions.

Less than 5% of the employees are unionized and most of them are from the official sector.

Maternity leave has a term of eighteen (18) weeks of paid leave pregnant or adoptive mothers. For multiple pregnancies, the paid leave entitlement is of twenty (20) weeks.

There is a tax benefit of 200% deduction for salaries paid to handicapped employees (handicap higher than 25% of limitation).

There is a tax benefit of 120% deduction for payments to employees under 28-year-old, for the first year of contract

Working hours are limited to 47 a week, including Saturdays.

Employees are entitled to 15 working days of vacation per worked year, also there are around 17 public holydays a year.

Employers take responsibility for the first 2 sick days of the employee as long as they are certified by a doctor from the private "promoter of health" (EPS) where the employee is registered. If the sick leave is longer the EPS will private "promoter of health" (EPS) will pay 66,67% of those days.

There are trial periods where both can terminate the contract without penalties.

Contracts can be terminated without penalties if the termination is properly/legally justified. As part of the legal system, foreign employees are subject to the same regulations as for the locals. The only exemption is to contribute to a pension plan when the foreign employee proves that such concept is being paid overseas.

## Types of contracts

Depending on the duration of the activities, if the services are rendered personally by the employee, if there is subordination of the employer and if the return for the remuneration, the following employments contracts can be offered:

Types	Feature
<b>Indefinite Term</b>	Duration is indefinite. Verbal contracts are indefinite term contracts, regardless of whether the parties have agreed otherwise. Payment for "promoter of health" (EPS) and pension fund are shared between both parties. All other social security contributions, taxes and benefits are paid by the employer.
<b>Defined Term</b>	The parties establish a term of duration without exceeding three years. Contracts with term of less than one year can be renewed for 3 times with equal or shorter terms. Further renewals must be for one year. Payment for "promoter of health" (EPS) and pension fund are shared between both parties. All other social security contributions, taxes and benefits are paid by the employer.
<b>For the duration of the work or service</b>	The term of these contracts is subject to the time of the work or service rendered and cannot be renewed. Health and Pension fund are paid by the employee.
<b>Occasional, casual or temporary</b>	A type of contract for products or services that are not part of the common activities of the company. Two types of salaries are found in the labor regime: <ul style="list-style-type: none"><li>• Ordinary salary where the employer pays surcharges and benefits such as severance payments bonuses. Employee receives 13 monthly salaries per year.</li></ul> Integral or all-inclusive salary which pays surcharges and benefits beforehand. Employee receives 12 monthly salaries per year. This type of salary can only be adopted if the employer pays more than thirteen times the monthly minimum wage (approx.. 3.566 USD). The employer pays the payroll benefits and taxes associated.

## Foreign employees / types of visas

There are no restrictions to hire foreign employees if they meet the necessary requirements (Visa process). They have the same rights and regulations as local employees and can voluntarily register to a pension fund. (Amendment 15, Law 100 1993).

Holders of passports issued by several countries do not require a visa to enter Colombia

[https://www.cancilleria.gov.co/sites/default/files/Normograma/docs/resolucion\\_minrelaciones\\_0572\\_2015.htm](https://www.cancilleria.gov.co/sites/default/files/Normograma/docs/resolucion_minrelaciones_0572_2015.htm).

At arrival, the foreign affair ministry will assign a permit depending on the activity conducted in Colombia. This can be an Entry and Permanence Permit (PIP) or a Temporary Permanence Permit (PTP). The Visas you can obtain in Colombia are business visa, temporary visa or resident visa. Each one is divided in different categories depending on the activity conducted.

### Business Visa

For visitors who conduct business in Colombian being part of foreign companies established in the country or those who have commercial affairs with local companies and represent the interest of the company by attending board member meeting, doing market research consultancy or supervise the management of the company in Colombia.

Visitors who can prove commercial status, vendors of industrial goods or services suppliers who want to conduct business in the country.

Visitors whose business is related to free trade agreements and seek to enter the country for the purpose of advancing corporate governance activities, promote business, develop investment, establish a commercial presence of a company, promote trade in goods and services across borders or other activities that are defined in those agreements.

At first, company representatives can visit the country. At the entry port, the official will define the duration of the visit (between 15 to 45 days). If necessary, an extension can be requested. The maximum Limit is 180 days.

## IFRS

Local regulations require the presentation of accounting in official books under IFRS or IFRS for SMEs, in Colombia since 2014, we are using IFRS and IFRS for SMEs, It depends on the classification of the company according to current law, and it related with the number of employees, the total amount in the assets and the relations with abroad companies.

It apply IFRS when:

The company is publicly traded.

Capture, manage or handle public resources with prior permission from the competent state authority.

It have more than 200 employees or their total amount of assets is more than 7.5 million dollar and:

Be a subordinate or branch of a foreign entity that applies IFRS.

Be subordinate or the parent company of a national company that applies IFRS.

Be a parent, associate company or joint venture of one or more foreign companies that apply IFRS.

Their imports exceed 50% of their purchases or their exports represent more than 50% of their income.

If you do not meet these requirements, you must apply a IFRS for SMEs.



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Czech Republic  
Denmark  
Finland  
France  
**Germany**  
Greece  
Hungary  
Ireland  
Italy

**Luxembourg**

Malta  
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Norway  
Poland  
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Romania  
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