FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country’s taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com.
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## STRUCTURE OF COUNTRY DESCRIPTIONS

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- Value Added Tax (VAT)
- Income Tax for Equity - CREE
- Property Tax
- Wealth Tax
- Surcharge on Income Tax for Equity - CREE
- Tax for Fiscal Normalisation
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- Stock / Inventory
- Interest Deductions
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MEMBER FIRM

For further advice or information please contact:

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<tr>
<th>City</th>
<th>Name</th>
<th>Contact information</th>
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<tr>
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BASIC FACTS

- Full name: Republic of Colombia
- Capital: Bogotá
- Main languages: English, Spanish and 68 ethnic languages and dialects.
- Population: 47,938,081 (Jan 2015 estimate)
- Major religion: Christianity
- Monetary units: Colombia Peso (COP)
- Internet domain: .co
- Int. dialling code: +57

KEY TAX POINTS

- Companies resident in Colombia are subject to corporate income tax at a rate of 25% on their worldwide income (a reduced 15% rate applies in the ‘free-trade zone’ areas).
- Companies contributors of income tax would be subject to an income tax for equity- CREE at a 9% rate. For years 2015 to 2018 there is a CREE surcharge of 14%, 15%, 16%, 17%, respectively,
- Capital gains are taxed as ordinary income (there are some exemptions however, such as gains from lotteries and similar sources that may be subject to special taxation).
- Value Added Tax (VAT) is levied at a standard rate of 16% on taxable supplies of goods and services by a taxable person within Colombia and on the importation of goods into Colombia by any person. 5% VAY applies to staples products and 0% is applied to exempt services and goods.
- There is no concept of group relief for Colombian tax purposes.
- Special tax incentives are provided to investors in certain specified industries such as agricultural plantations, creation of hotels (new and remodeled), and national production of software.
- There are a number of ‘free-trade zones’ and ‘special import-export systems’ which provide duty-free entry of capital goods and materials to be used in the production goods for exportation.

A. TAXES PAYABLE

The following are the most important taxes that apply in Colombia.

COMPANY INCOME TAX

Companies resident in Colombia are subject to corporate income tax on their worldwide income. Resident corporations are those organised under Colombian law and those foreign companies that have a branch in Colombia. Permanent establishments are also submitted to income tax. The tax rate is 25%. A reduced 15% rate applies in the ‘free-trade zone’ areas. A minimum presumptive base of 3% on fiscal equity is applied.

CAPITAL GAINS TAX

Capital gains are taxed as ordinary income except for a few types of capital gains that may be subject to special taxation (eg. gains from lotteries and similar sources) or exempt from income taxation. The tax rate for capital gains is 10%.
**TAX ON DIVIDENDS**

Dividends distributed out of profits that have been previously taxed at the corporate level would be submitted to taxes. They are subject to a withholding tax at the rate of 20% when paid to resident persons and 33% for non-residents.

**WITHHOLDING TAX**

The following domestic withholding tax rates apply in respect of payments to non-residents on years 2015, 2016, 2017, 2018.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Rate</th>
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<tbody>
<tr>
<td>Dividends</td>
<td>33%</td>
</tr>
<tr>
<td>Interest</td>
<td>Long Term 14%, Short Term 33%</td>
</tr>
<tr>
<td>Royalties</td>
<td>33%</td>
</tr>
<tr>
<td>Fees and commissions</td>
<td>33%</td>
</tr>
<tr>
<td>Technical services and assistance</td>
<td>10%</td>
</tr>
<tr>
<td>Consultancy</td>
<td>10%</td>
</tr>
</tbody>
</table>

**VALUE ADDED TAX (VAT)**

VAT is applicable on taxable supplies of goods and services by a taxable person within Colombia and on the importation of goods into Colombia by any person. The general rate of VAT is 16%. Currently in Colombian there are only three VAT rates as follows: 16%, 5% for staples products and 0% for exempt services and goods.

**INCOME TAX FOR EQUITY - CREE**

Income tax for Equity – CREE is applied to Resident companies and foreign companies that are income tax payers. The general rate is 9%. CREE does not apply in free trade zones or for non-profit entities.

**PROPERTY TAX**

Real estate property is subject to municipal taxation. The tax is usually levied at rates within a band of 1 to 16 per thousand, with reference to the cadastral value of each property. Undeveloped plots of land may be subject to increased tax rates.

**WEALTH TAX**

With the enactment of Law 1739 of 2014 this new tax is applied on the possession of wealth to 1 January 2015, at or above COP 1,000 million pesos. A new tax called Wealth tax is created; it is an extraordinary tax with a similar previous estate tax structure, considering marginal rates and escalation with progressive reduction. Applies to legal persons during the years 2015, 2016 and 2017, and for individuals during the years 2015, 2016, 2017 and 2018.

**SURCHARGE ON INCOME TAX FOR EQUITY - CREE**

This surcharge is created for the years 2015, 2016, 2017 and 2018. The tax payers of the surcharge are the same tax payers of income tax for Equity- CREE, whit a tax base equals or greater than COP 800 million pesos.

The surcharge rate is: 2015 5.0%; 2016 6.0%; 2017 8.0% and 9.0% by 2018. The surcharge shall be
subject to an advance of 100%, which is calculated on the taxable base of the tax determined in the previous year.

**TAX FOR FISCAL NORMALISATION**

Tax for fiscal normalisation was created for the years 2015, 2016 and 2017 and it is applied to wealth tax payers who omitted assets and included non-existent liabilities on their tax returns. The overall rate for 2015 is 10%, for the year 2016 will be 11.5% and for 2017 will be 13%.

**VEHICLE TAX**

Vehicle possession is subject to municipal taxation. The tax base is the commercial value.

**FINANCIAL TRANSACTIONS CONTRIBUTION**

A 4 per mil contribution on financial transactions amount is applied. The rate would be reduced since 2019 in 1 per mil each year. In 2022 the contribution would disappear.

**CONSUMPTION TAX**

This tax is applied on restaurants and bars consumption and some small familiar vehicles. The rate is 8%. Other vehicles apply 16%. Also is applied on cellular telephony at a 4% rate.

**INDUSTRY AND COMMERCE TAX**

This is a municipal tax applied for developing commercial, industrial and service activities in a municipality. The tax rate goes from 4.14 per mil to 11.04 per mil, and it is settled according with the activity of the company.

**B. DETERMINATION OF TAXABLE INCOME**

**DEPRECIATION**

Tax deductions are available for reasonable depreciation rates which reflect the normal wear and tear or obsolescence of the property concerned. The straight-line and the declining-balance methods may be used, along with any other method of recognised technical value authorised by the Auditing Assistant Director of the General Direction of National Taxes.

**STOCK / INVENTORY**

The average, LIFO, FIFO, retail and specific identification methods may be used in order to value inventories and all are accepted for tax purposes as long as the relevant method is recorded in the accounting books.

**INTEREST DEDUCTIONS**

Interest is not deductible in full. Income tax payers may deduct an amount not exceeding the average result of a threefold increase in net worth of the previous year end.

**DEDUCTION OF TAXES**

The only taxes that are deductible are industry and commerce tax, property tax and 50% of financial transactions tax.
LOSSES

Losses incurred by a company in a tax year can be carried forward and deducted against 'liquid income' in subsequent tax years without time or amount limit. The same criteria apply for CREE.

FOREIGN SOURCE INCOME

Foreign source income for non-residents is not subject to income tax.

EXPENSES ABROAD

Expenses abroad that are necessary and related to the activity that generate fiscal income that are not submitted to withholdings are deductible with a limitation of 15% of taxable base.

INCENTIVES

Special tax incentives are provided to investors in certain specified industries such as agricultural plantations, creation of hotels (new and remodelled), and national production of software. There are also a number of 'free-trade zones' and 'special import-export systems' which provide duty-free entry of capital goods and materials to be used in the production goods for exportation. The law 1429 of 2010 gave the following income tax benefits for new small businesses (natural or legal person), and for inactive enterprises that are reactivated as a result of this law:

a) They do not have presumptive income tax in their first 10 years;

b) They calculate the income tax at reduced rates (progressive rates - starting at 0%, 6.25%, 12.5%, 19%, 25%).

C. FOREIGN TAX RELIEF

In most cases, double taxation is relieved unilaterally by granting a foreign tax credit (FTC) against Colombian corporate income tax. Taxpayers may credit the amount of foreign tax paid on income from abroad, up to a maximum of the Colombian tax applied on the income received from abroad.

D. CORPORATE GROUPS

There is no concept of group relief for Colombian tax purposes.

E. RELATED PARTY TRANSACTIONS

As a general rule, transactions between related parties must be carried out on arm's length principles, i.e. the prices should be the same as those that would be arrived at in comparable transactions with independent parties. The tax authorities may adjust the prices at which the taxpayer acquires or sells goods, as well as the consideration of other transactions, and modify the taxable base or the relevant loss of a taxpayer for income tax purposes. None of the double taxation agreements between Colombia and other countries reduce the withholding tax rates below the domestic rates.

F. EXCHANGE CONTROL

Certain foreign currency transactions must be channelled through authorised exchange intermediaries:

- Import of property;
- Export of property;
- External indebtedness;
- Foreign investment in Colombia;
- Colombian investment in foreign countries;
- Financial investments and fixed assets based in foreign countries;
Colombia

- Endorsements and guarantees;
- Derivative transactions.

**G. TREATY AND NON-TREATY WITHHOLDING TAX RATES**

Colombia has signed Double Taxation Agreements with Canada, Chile, Spain, Mexico, Switzerland, India, South Korea, Portugal and the countries of the Andean Community. Double Taxation Agreements currently being negotiated are with Belgium, Holland, France, Germany, Japan and the USA.