



# Doing Business

in Colombia

Armenia Edition



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## Doing Business in Colombia 2021 – Edición: Invest in Armenia

The join of the current crisis that affects the economies worldwide, and that was not inevitable for our region has not been a sign of discouragement for that live and emerging city that is Pa' Todos...a city that beats vigorously, seductive and bravely like the CORAZÓN CUYABRO.

Armenia is a privileged city located in a strategic path among the three main industrial and economic centers of the country, Bogotá, Medellín and Cali. Surrounded by the center mountain hills and full of living green have made it named by some as the Green Capital of Colombia. Currently, is one of the most relevant destinations in the country and the world in a suitable context for investment.

There are several arguments in favor of Armenia as an investment destination; weather conditions that make it attractive for the development of almost any agricultural product with different thermal levels in a department where it represents more than half of the economic weight. Tax incentives such as the Special Economic and Social Zone -ZESE- that involves exemptions from income tax to companies with industrial, agricultural or commercial activities that generate new employment in the city.

The update of the municipal income code which incorporates new local tax exemptions for the economic recovery of the city after the impact of the pandemic and more recently, of the social wave that strengthens us and allows us social and economic improvements in the country.

Certainly, these tax, geographical and environmental dimensions are decisive for fostering new businesses, but the most important characteristic has been, is, and will continue to be, the human capital of the “people”; human talent rooted in the strength that has historically been forged since the colonization of Antioquia, making it worthy of the title of the ‘Miracle City’ for its resilience where, without a doubt, any pandemic, any exceptional situation at an economic and social level will only make us bigger and bring us closer to achieving continuous improvement of the socioeconomic conditions of those who bet on us.

Ultimately, these are just some of the determining factors that allow us to confidently affirm the city’s spirit to continue growing and achieve a higher level of economic development with a sustainable approach. The CORAZÓN CUYABRO beats and an agenda city emerges, with a portfolio of opportunities as great as its entrepreneurial drive. Here is Armenia, the new magnet for Colombian Development ... only you are missing!



Finally, we want to invite all investors exploring Colombia or interested in topics related to mergers and acquisitions in Colombia to check our specialized publication “Mergers & Acquisitions in Colombia”. Scan the code to access the publication.



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# Invest in Armenia

• 3 PwC Colombia Doing Business 2021 •

As the beneficiary of the Special Economical and Social Zone

## What is it?

It is a special tax regime, which seeks to reduce unemployment through the attraction of domestic and foreign investment.

## Benefits:

**0%**  
**THE FIRST 5 YEARS**

### Rent tax

10 years of benefit in the income tax rate.

- The first five (5) years 0% income tax rate.
- The following five (5) years with a benefit of 50% of the applicable income tax rate.

Withholding at source and self-withholding the rate is equal to the income tax rate.



## Beneficiaries:

- Commercial companies that are incorporated in the ZESE, within three (3) years following the entry into force of the law (May 24, 2019).
- Companies already incorporated within the territories that are considered ZESE.



El progreso  
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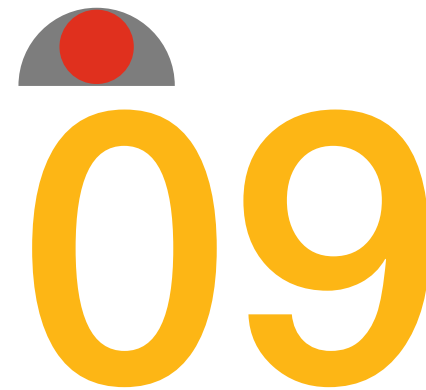
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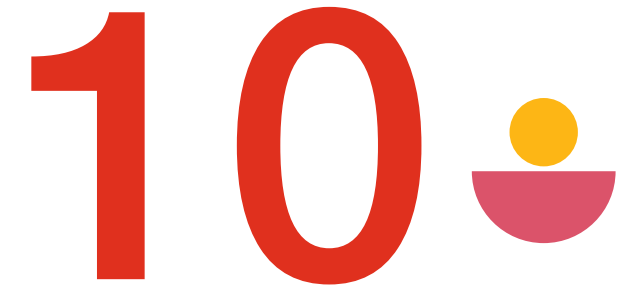
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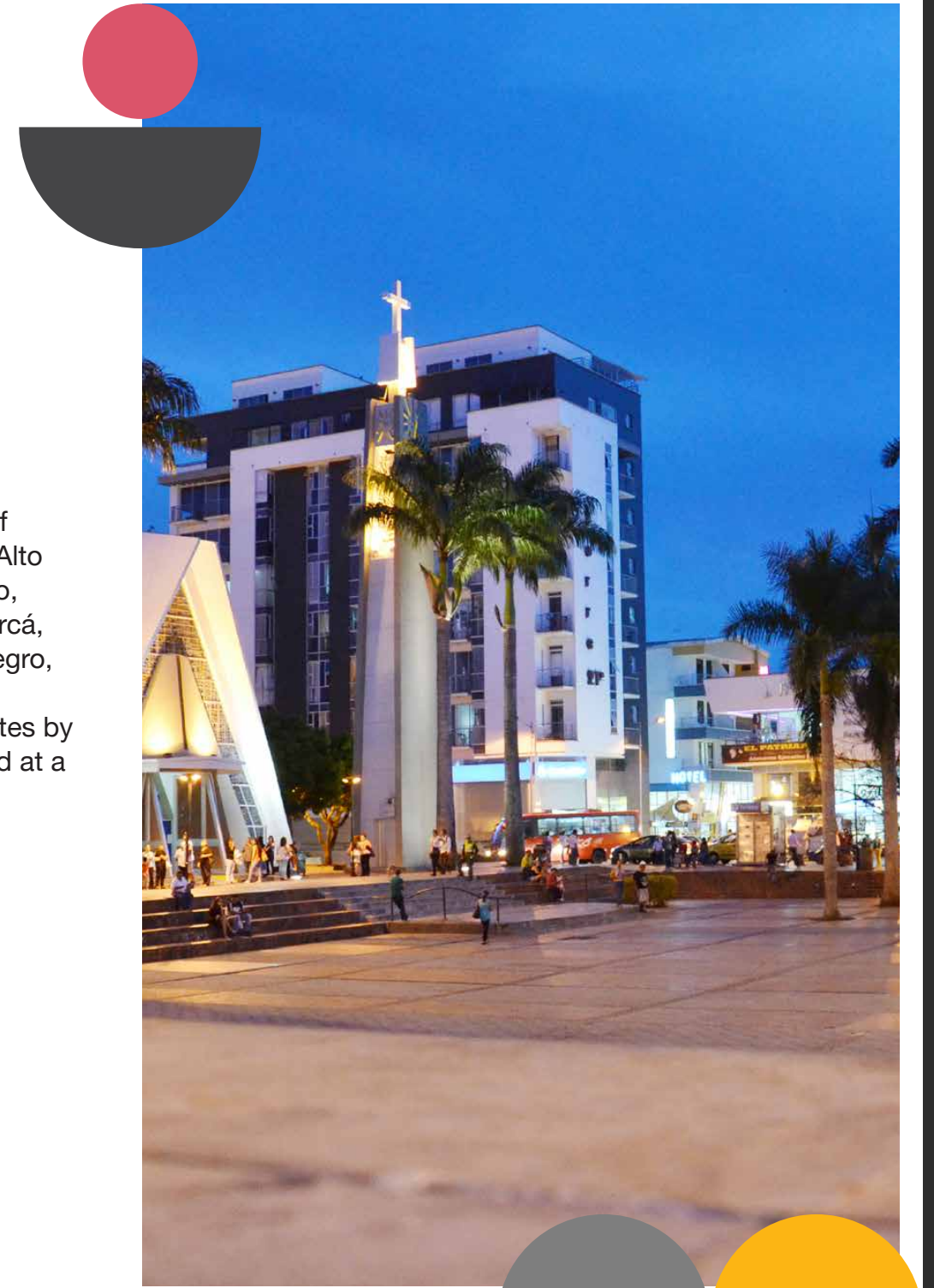


# 01

## Economic information of Armenia.

### Geographic location.

The city of Armenia is located 290 kilometers southwest of Bogotá, near the central mountain range (35 km from the Alto de la Línea) and is the capital of the department of Quindío, which also includes the municipalities of Buenavista, Calarcá, Circasia, Córdoba, Filandia, Génova, La Tebaida, Montenegro, Pijao, Quimbaya and Salento. The nearest municipality is Calarcá, located 6 kilometers away (approximately 7 minutes by car), while the most distant municipality is Génova, located at a distance of 52 km.





The department has excellent land communication between its municipalities, with fully paved roads and easy access by road in any type of vehicle, which facilitates the internal mobility of the population, as well as trade, transportation and distribution of goods and services both within and outside the department. The eastern part of the department has a mountainous geography in contrast to the undulating geography of the west, with rivers that receive the aquiferous currents that descend from the central mountain range.

World experts in urban transportation trends have emphasized the need to encourage collective means of transportation as opposed to individual modes that generate a greater long-term cumulative impact on the environment. With this in mind, Armenia currently has companies such as Buses Armenia S.A., Cooburquin, Transportes Urbanos Ciudad Milagro, among others, which are in charge of providing collective transportation services to the city's inhabitants and tourists, connecting the farthest points of the city in short periods of time and at a low cost.

Armenia, in addition to being part of the so-called coffee circle formed by the departments of Caldas, Quindío and Risaralda, is located in the "golden triangle", equidistant from the cities of Bogotá, Medellín and Cali, which implies a strategic geographical location for various economic activities, in addition to operating as an obligatory passage to reach the center of the country from the port of Buenaventura, the most important port in the country.



## Economics.

The National Administrative Department of Statistics -DANE- reveals that the city officially has approximately 304,218 inhabitants for the year 2020, among which 70% are of working age (15 and 64 years old). In addition, more than 96% of the homes in the city have coverage of public services such as energy, aqueduct, sewerage and garbage collection, while 60% of these have internet access.

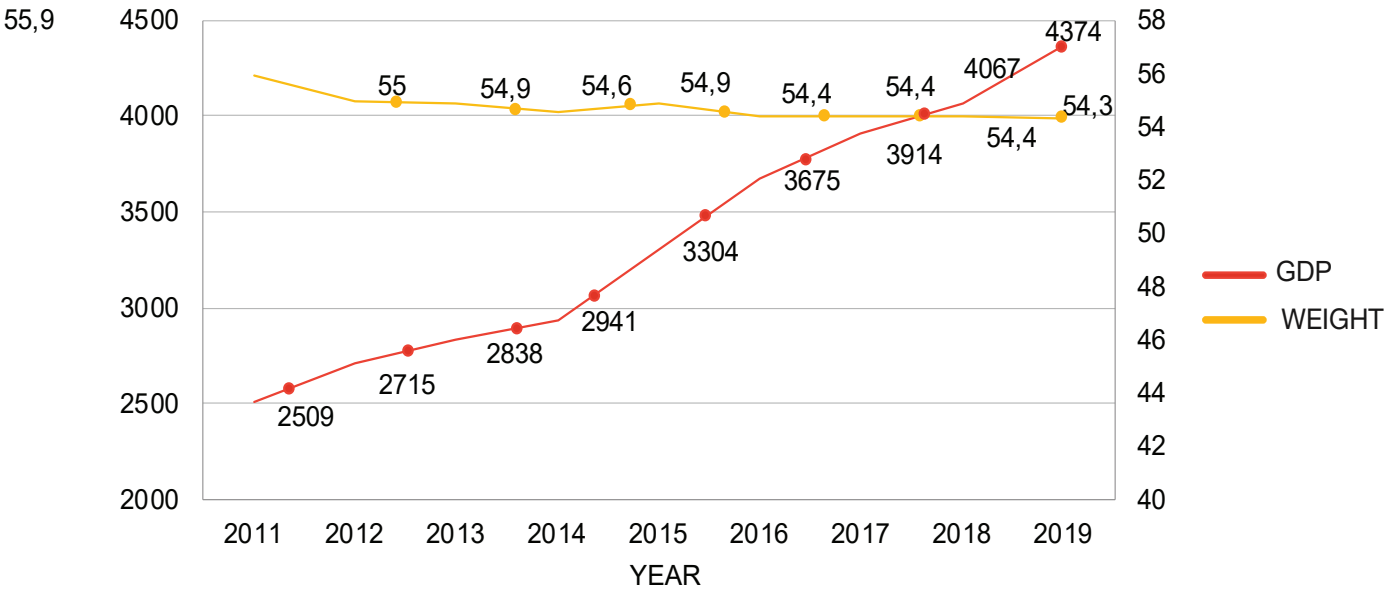
According to the last Departmental National Accounts report made by DANE in 2020, during the last years, the city of Armenia has maintained its relative participation over the total added value of Quindío's GDP, at more than 50%. In 2016, Armenia's GDP was around 3,675 billion pesos, thus representing 54.4% of the total Departmental GDP. In 2017 this same figure was 3,914 billion pesos (54.4%), while, in 2018, Armenia's GDP reached a total of 4,074 billion pesos (54.7%).

The following graph shows the behavior of this economic growth indicator for the city of Armenia, from 2011 to 2018:





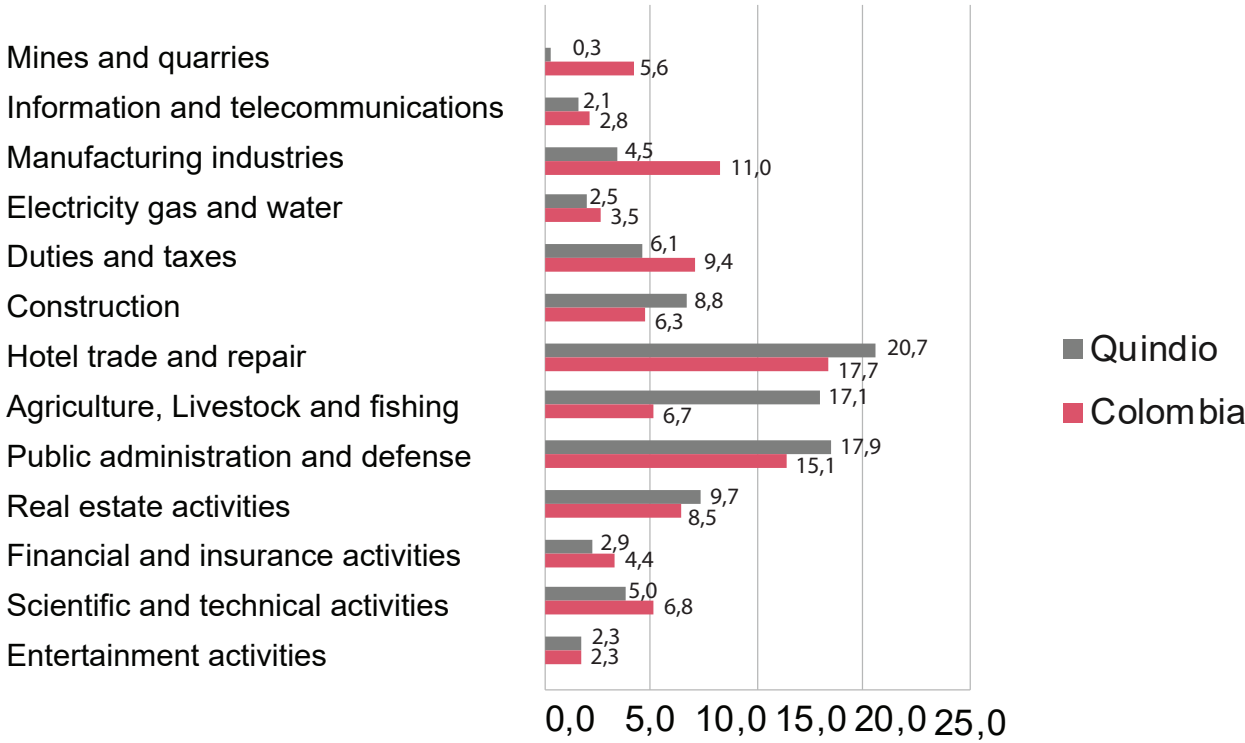
Gráfico 1.  
GDP at current prices Armenia and relative municipal weight in departmental value added, 2011-2018.



Source: Departmental national accounts: GDP by department, DANE (2020).

The above information allows establishing the significant participation of the city of Armenia in the aggregate value of Quindío's GDP during the last decade, establishing an average municipal relative weight of 54.9%. In essence, the economic activity of the department, and therefore of the city, is mainly characterized by the prevalence of the trade, hotels, repair and tourism sectors, as the most representative. In 2019, the sectoral composition of the Departmental GDP, was presented as follows:

Graph 2. Sectoral composition of Quindío's GDP, 2019



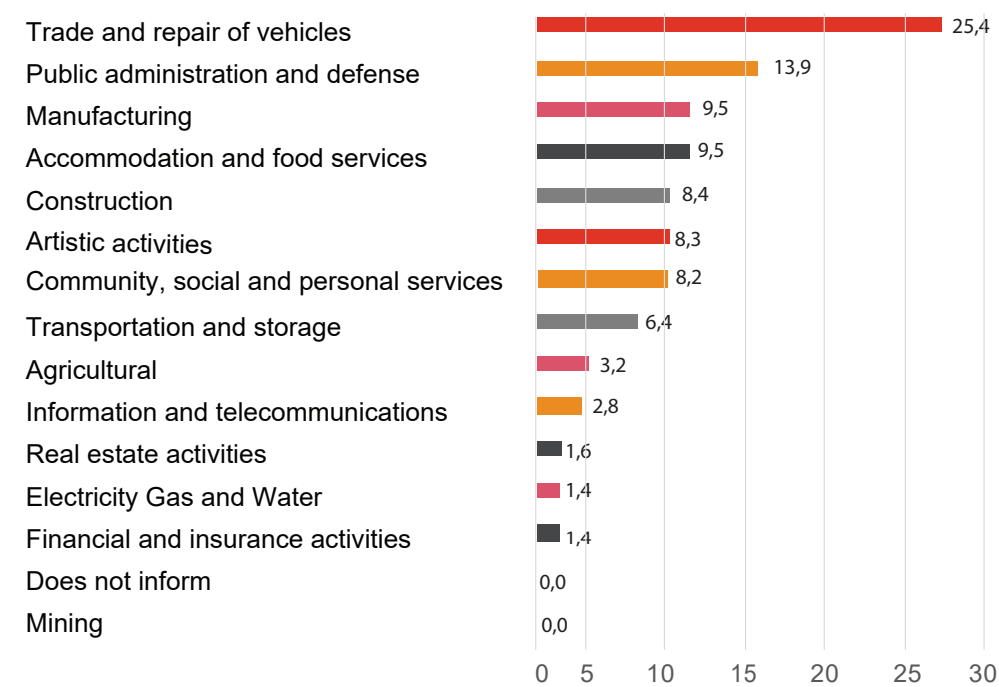
Source: Departmental Economic Profiles, Mincomercio (2021).





Due to its representativeness, Armenia is no stranger to this behavior within its productive sectors. With respect to the most important economic activities and employment in the municipal labor market, their distribution is as follows:

Participation of employed persons according to economic activity in Armenia, mobile quarter Oct-Dec 2020.oct-dic 2020.



Source: Departmental Economic Profiles, Mincomercio (2021).

Given that during the October-December 2020 mobile quarter, more than 58% of the city’s employed were working in commerce and vehicle repair, public administration, artistic activities, and accommodation and food services, the importance of the tertiary sector in the city of Armenia can be understood, not only in terms of employment generation, but also in terms of potential productive capacity.

On the other hand, activities such as manufacturing, construction and transportation, are profiled with the potential to attract investment to the city in the coming years, due to the demographic growth that has been evidenced with the arrival of people from other cities in the country, in order to establish themselves as residents in the capital of Quindío, in addition to the growing arrival of Venezuelan migrants. According to the Migration Module of the GEIH of DANE, in 2019 approximately 1,914 Venezuelans arrived in the department of Quindío. Approximately 1,257 arrived in the city of Armenia, and more than 80% of these are in the economically active population.

Foreign trade (exports, main products, destinations)

The trade balance of the department of Quindío has been showing a favorable behavior as a result of the increase in exports, which has been accompanied by a relative decrease in the weight of imports entering the region. Within the main import products in the department for 2020 are the following basic industry products that represented 29.9% of total imports, with a value of 22,078,000 USD growing by 0.3% with respect to 2019 and agricultural products that represented 28.8% of total imports with a value of 21,313,000 USDT, growing by 25.3% with respect to the previous year.

Some of the import sectors that were affected as a consequence of the pandemic were light industry which represented 16.6% of the total and fell by 24.7% with respect to 2019, machinery and equipment with a 14.3% share of the total which had a drop of 15.1% and the agro-industrial sector which with a 9.4% share, experienced a 7.8% drop in the value of its external purchases.

Regarding the department’s foreign sales, the agricultural sector stands out, which, with a share of 96.5%, made exports for a value of USD 261,696,000, experiencing a drop of 3.3% with respect to 2019 as a result of the national and international economic contraction of the department’s trading partners. On the other hand, sectors such as agro-industry, light and basic industry, machinery and equipment, represent insignificant proportions within exports.







Table 1. Exports by sector of Quindío (2020)

Chain -Sector-Subsector	US\$ 2019 FOB	US\$ 2020 FOB	Variación
Agrifood	274.710.676	266.958.561,00	-3%
Metalworking and other indus-tries	1.801.332	2.406.339	34%
Mining	240	-	-100%
Others	202.157	9.216	-95%
Chemicals and life sciences	298.697	1.819.345	509%
Fashion System	1.729.457	12.191	-99%
Grand Total	278.742.561	271.205.653	-3%

Source: Chamber of Commerce of Armenia and Quindío (2020).

Within the agri-food exports made by the department in 2020, the main item is coffee and its derivatives representing a total of \$248,871,447 USD, registering a negative variation of 4% compared to 2019, in addition to species of dates, figs, pineapple, fresh citrus fruits, prepared fruits, etc.

On the other hand, the main import products of the department in 2020 were Corn (\$10,476,000 USD), Soy beans (\$9,119,000 USD), particle board (\$3,689,000 USD), among others, having as its main foreign trade partner the United States, from where most of Quindío’s external purchases come from (especially corn) and where 91.8% of the department’s exports are also directed, especially coffee and its derivatives.







## 2. Armenia for investment

### Advantages of the region

#### Why invest in the Coffee Axis?

Armenia is a city that has a privileged location in the country, as it is part of the Golden Triangle with Pereira and Manizales, in addition to the proximity to major cities in central Colombia such as Bogota, Medellin and Cali.

One of the best options to invest in Armenia are the projects that are profiled as a generator of social development, with a real estate proposal whose uses contribute to socioeconomic growth, employment generation and improvement of the quality of life of the people. To live in the Eje Cafetero is to live in a true paradise on earth, having multiple advantages for those who wish to invest in real estate, such as the following:

**Location:** The Eje Cafetero has a privileged location between Bogota, Cali and Medellin. It is in the center of the main roads that cross the country. Thus becoming a meeting point for investors.

**Economic Growth:** During the last few years there has been a growth trend. The greatest growth has been in construction, which has the lowest prices per square meter compared to the main cities in the country, manufacturing, agriculture and the financial sector.

**Valuation:** The Eje Cafetero is one of the regions with the highest valorization in Colombia. The main reason is the investment being made by the different levels of government. Works such as the coffee highway and the remodeling of airports have contributed to the valuation of the area. According to DANE data, in 2017, the Eje Cafetero was one of the regions with the highest increase in the valuation in the price per square meter for new housing: Manizales, Pereira and Armenia increased respectively by 11.59, 10.83 and 4.26%.

**Climate:** The climate of the region varies, however, most of the time it is temperate, ranging from 17 to 22 degrees Celsius, so all year round you can enjoy outdoor activities.

**Natural Beauty:** Living in the coffee region is to enjoy nature, fresh air, hiking in the mountains and of course, the friendly people, smiling, humanitarian, hospitable, hardworking, with great spark and charisma.

**Public Services:** One of the areas with the most public service coverage in the country.

For these and many more reasons, the region is a good offer for those who want to live and enjoy all the benefits or for those who want a second home, either for rental or investment purposes.



## Potential investment sectors



### ICT and software

#### Connection and services

Services in the IT sector continue to be the second most important technology market in the world, in which the main contributions and participations are those related to implementation and support.



### Digital ecosystem

Colombia offers a wide range of sectors that demand software and IT services. It is a market in constant growth that presents technological advances in the development of a national digital ecosystem.



### Aligned with the future

By valuing the software and IT market, with high potential in Latin America, Quindío is working to align itself with the strong internal and growing demand in Colombia, having companies with international connections and focused on improving IT talent to offer competitive services.



### Government programs

With the Online Government, IT Industry Strengthening (FITI) and Vive Digital programs through the Ministry of Information Technologies, the Colombian government is working for greater coverage in the use and exploitation of networks. These programs open a wide range of opportunities for the software and IT services industries in the country due to the massification and access to technology, a growth in the demand of the industry and the inhabitants of these goods and services.



### Operating costs

Colombia offers one of the lowest operating costs for IT service delivery. Compared to Colombia, operating costs are 30% - 60% higher in places like Mexico, Costa Rica and Chile, and 5% - 10% higher in Peru. This is due to lower compensation costs thanks to the low cost of living. (Everest)



## Tourism

### Business destination

Quindío is experiencing a definitive moment: tourism continues to grow, especially, that of foreigners, which has increased significantly since 2014; infrastructure is modernized and coffee updates its recipe to consolidate a department in new sectors with investment opportunities.

### Corporate tourism

Increasingly, the region is improving the provision of tourism services and the renovation of the current offer in order to establish a competitive destination that incorporates best practices and links entrepreneurs in processes of continuous improvement and incorporation of quality standards, especially at the corporate level.

### Pioneers in parks

Quindio is the first Colombian destination in diversity of theme parks. In beautiful natural settings you can visit routes full of novelties, with adventure and nature activities, specialty coffees, handicrafts, charming villages and a tourism that promotes contemplation and the enjoyment of slow tourism in the first unhurried city in Latin America: Pijao, in the Quindío mountain range, which is one hour from Armenia.

### What to invest in?

Development of hotel projects in ecotourism, adventure tourism, wellness, experiences and conventions.

New entertainment alternatives: theme parks, tourist attractions, etc. Complementary services:

## Quindío agroindustrial

### Fertile soil

The agro-industrial potential of Quindío consolidates its processes to germinate in the world the benefits of a fertile land, with an ideal climate and a geography worthy of taking advantage of its comparative advantages and exogenous factors.

Promising crops for Quindío and support services with investment potential Banana, coffee (origin), pineapple, hass avocado, citrus (orange and lemon), inputs and equipment for the agricultural sector (fertilizers, machinery, spare parts), advice on environmental management of crops, warehouses and storage centers for cleaning and packaging activities.

## Logistics

### Boosting platforms

Quindío and Armenia are benefiting from important achievements and progress in logistics, which continue to reduce the costs of transporting cargo and goods, and provide greater impetus to industrial platforms and parks in the epicenter of the Golden Triangle, with the recent opening of the tunnel line, improving logistics times between Bogotá and Buenaventura, being mandatory passage of the largest cargo exported by the country.

### International standards

The strategic connection of the logistics corridors of the center-west is consolidated with the highest international standards, as well as the national objectives that commit all the actors of the chain, from the supply, transportation, storage and receipt of goods, to timeliness and quality.

### Strategic connection

Currently, around 22 million tons of cargo per year are moved through Buenaventura at its maritime terminals, which constitutes an advance to face the commercial challenges of the Pacific Alliance and strategies such as the strengthening of innovation, science and productivity in the face of the new challenges that the actors of the supply and transportation chain will have to face.

Invest in: Multimodal logistics operators, Logistics activity zones and dry ports, Water conditioning services, services to transporters and cargo vehicles.





3.

## Creation of new entities in Armenia

### Formalities

The following are defined for the creation of companies:

- Define the type of person, whether legal or natural.
- Define the type of company.
- Verify the availability of the name in the Single Business Register (RUE).
- Present the articles of incorporation and bylaws of the company at a notary's office.
- Sign public deed of incorporation and obtain copies.
- Register the company and the commercial establishment in the commercial registry (at the Chamber of Commerce).
- Completion of Form No. 1648 (Pre-RUT form) through the DIAN portal.
- Registration before the Chamber of Commerce, who issues the certificate of existence and legal representation

(Provisional) with the annotation “The NIT is only valid to request the opening of a bank account”.

- Opening of a bank account.
- Formalization of the RUT before the DIAN.
- Submit a photocopy of the RUT certificate from the Chamber of Commerce.
- The certificate of existence and definitive legal representation is issued within 24 hours.
- Obtain a copy of the “Certificate of Existence and Legal Representation” from the Chamber of Commerce.
- Obtain tax identification number (NIT) for national taxes.
- Register commercial books with the Chamber of Commerce

4.

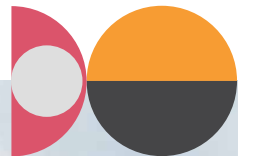
## Procedures And Services

### Local taxation

#### Specific taxes in Armenia.

Article 903 ETN. Creation of the unified tax under the Simple Taxation Regime - Simple. As from January 1, 2020, the unified tax to be paid under the Simple Taxation Regime -Simple is created, in order to reduce the formal and substantial burdens, promote formality and, in general, simplify and facilitate compliance with the tax obligation of taxpayers who voluntarily join the regime provided for in this Book.

The unified tax under the Simple Taxation Regime - Simple is an optional taxation model of integral determination, of annual declaration and bimonthly advance payment, which substitutes the income tax, and integrates the national consumption tax and the consolidated industry and commerce tax, payable by taxpayers who voluntarily choose to join it. The consolidated industry and commerce tax includes the complementary tax of notices and boards and the firefighter surcharges authorized to the municipalities.







Fees

Table 3. Unified property tax

Type	Stratum rates per thousand
Industrials	8.0
Commercial and services	8.0
Rurales agropecuarios	
1. Small Rural Farmers	8.0
2. Medium Rural Agriculture and Livestock	9.0
3. Large Rural Agriculture and Livestock	12.0

Source: Administrative Department of Finance, Mayor's Office of Armenia (2021).



Tabla 4. Tarifas de industria y comercio según su actividad económica

Activity description	Rate per Thousand
1. Elaboration, production and transformation of agricultural and livestock products.	3,0
2. Textile manufacturing, fabrication and transformation.	3,0
3. Manufacture of office machinery, basic metal industries and other metal products.	3,0
4. Distillation and manufacture of production and blending of alcoholic beverages. production of Gas, energy from other sources.	6,0
Commercial activities.	
1. Trade of agricultural products, trade of flowers and plants, trade of meats, confectionery products, non-alcoholic beverages, books, newspapers and magazines, production materials, medical and surgical equipment.	1. 3.0
2. trade of lubricants, additives and production of products for the cleaning of vehicles, pharmaceutical, medical and dental stores, used cars.	2. 6.0
3. rade of paints, pottery, glass, wood.	3. 8.0
4 . trade of household appliances, home furniture, office furniture, sales and purchases, sale of electrical energy.	4. 10.0
Service activities.	
1. Actividades de servicios agropecuarios, corte y tallado en piedra, forjados de metales.	1. 4.0

Source: Administrative Department of Finance, Mayor's Office of Armenia (2021).Procedures.



## Steps to register investment in Armenia

Foreign capital investors and residents who make investments abroad must register their investments according to the procedure established by Banco de la República through general regulations (Decree 119 of 2017). All investments, including foreign currency entering the country by non-residents, which are destined as capital contributions for a company or branch of a foreign company, must be registered as foreign investment before the Bank of the Republic (Invest In Armenia, 2021).

The registration of foreign investment, in the case of foreign currency, is made by channeling the foreign currency through an exchange market intermediary or clearing account and filling out the Exchange Declaration for International Investments. The investment of foreign capital in Colombia will be treated for all purposes in the same way as the investment of residents (Invest In Armenia, 2021).

## Existing tax incentives.

In order to attract domestic and foreign investment, contribute to the improvement of living conditions and stimulate development in the regions, the National Government created the Special Regime on Tax Matters Special Economic and Social Zone -ZESE-, enshrined in Article 268 of Law 1955 of 2019 and regulated by Decree 2112 of November 24, 2019 (DIAN, 2020).

It brings the benefit of a general income rate of zero percent (0%) for the first 5 years and 50% of the general income rate during the following 5 years. It applies in the same proportionality for the rate of withholding at source and self-withholding as income tax, as long as the withholding agent is informed in the respective invoice or equivalent document of the requirements related to article 1.2.1.1.23.2.6 of Decree 2112 (DIAN, 2020). In Colombia there are only five zones with this benefit and it is focused for new or pre-existing companies located in Armenia and having as main activities those related to: Commerce, Agriculture, Industry, Tourism and Health.

This benefit makes Armenia today one of the most attractive investment destinations in Colombia for doing business, because in addition to being a ZESE region, it has one of the most important strategic locations in the country, being the epicenter of Colombia's Golden Triangle, which concentrates the country's productive activity. In addition, it is the strategic passage of 40% of the land cargo that goes between the west and the center of the country and has, less than 300 km around, access to a population of 29 million people from 9 surrounding departments. In addition, with the upcoming inauguration of the Túnel de la Línea tunnel, the region will be connected to the Colombian capital in only 4 hours (Invest in Armenia, 2020).





5.

## Free trade zones in Armenia

The Eje Cafetero Free Trade Zone, located at Km 13 on the Armenia - Valle road, in the municipality of La Tebaida, acts as a platform for the internationalization of trade in the coffee-growing region, promoting competitiveness by taking advantage of a strategic geographic location. In addition to this, there are specific tax incentives, security systems, infrastructure, customs support, among other benefits that make this zone an important focus for the economic development of the region.

This free trade zone was declared as such by Resolution 751 of July 6, 1996 and is located 216 km from the port of Buenaventura, which mobilizes 50% of the country's foreign trade, with access via the Pan-American Highway, which allows dynamic mobility of tradable goods and services within and outside the country. Some of the benefits that can be accessed in the Free Trade Zone of the Coffee Axis are:

- 15% income tax rate for industrial users of goods and services (for the national customs territory, the rate is set at 33%).
- Non-payment of customs duties (VAT and tariffs) for machinery, spare parts and equipment coming from abroad.



- Indefinite storage of goods.
- Partial nationalization of products and possibility of nationalization of products transformed into finished products or raw materials.
- Simplification of foreign trade procedures.
- Inventory control systems.

Goods coming from the rest of the world or from another Colombian Free Trade Zone are considered as introductions and not imports. The Operating User authorizes the operation through the Goods Movement Form to take advantage of the benefits mentioned in the free zone of the coffee axis. On the contrary, from the rest of the National Territory, when merchandise from the rest of the national territory enters the free zone, these are considered an export from Colombia, and therefore must comply with all the procedures stipulated in the customs legislation.

Regarding sales abroad, when these are made from the Free Trade Zone to the rest of the world or to another Colombian Free Trade Zone, this operation is considered a departure and not an export. The movement is authorized by the User Operator through the Goods Movement Form. For the rest of the national customs territory, goods leaving a free zone to the rest of the national territory are considered as imports from Colombia and must comply with all the procedures stipulated by the customs legislation.

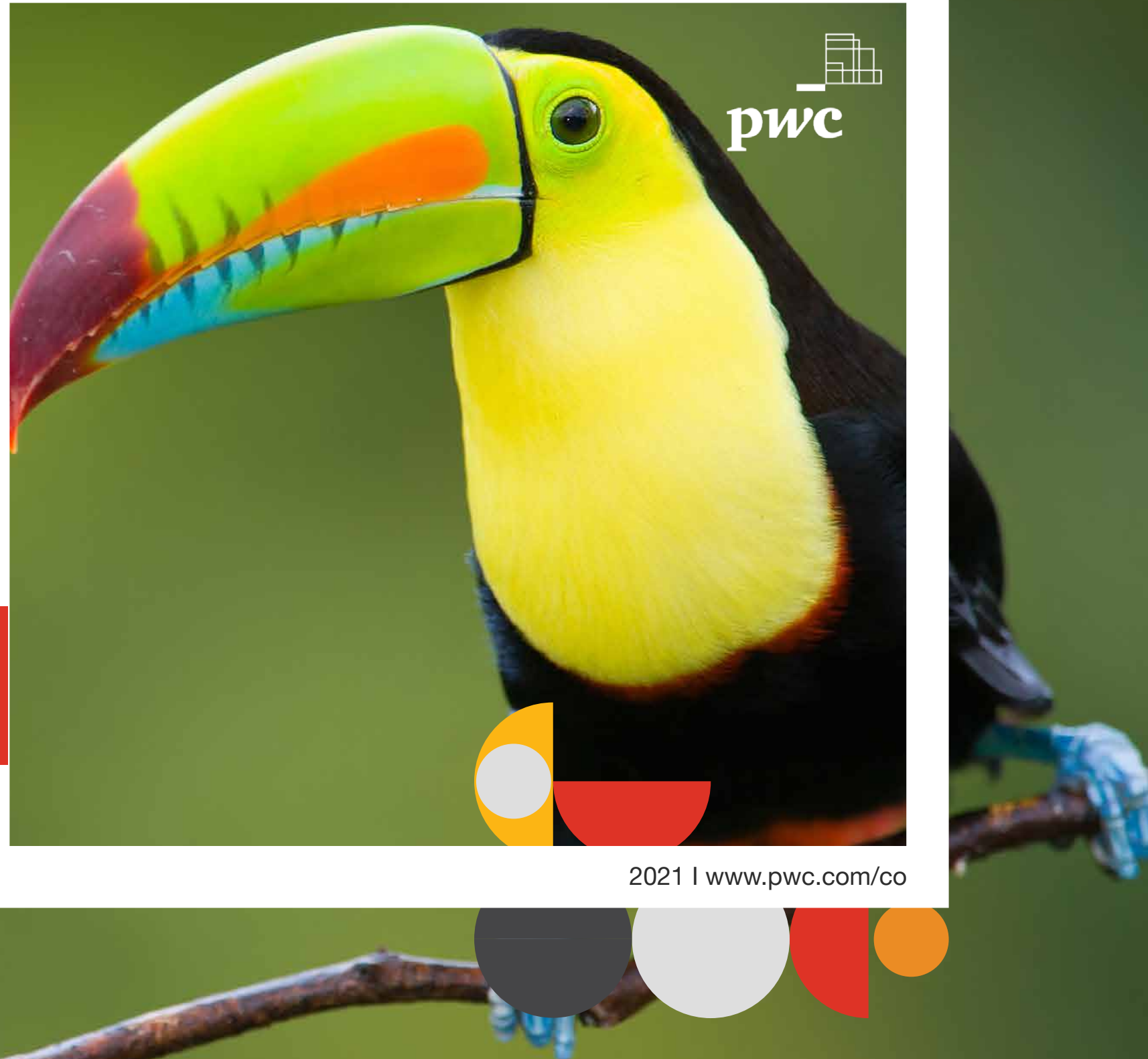




# Doing Business

in Colombia

Your investment guide



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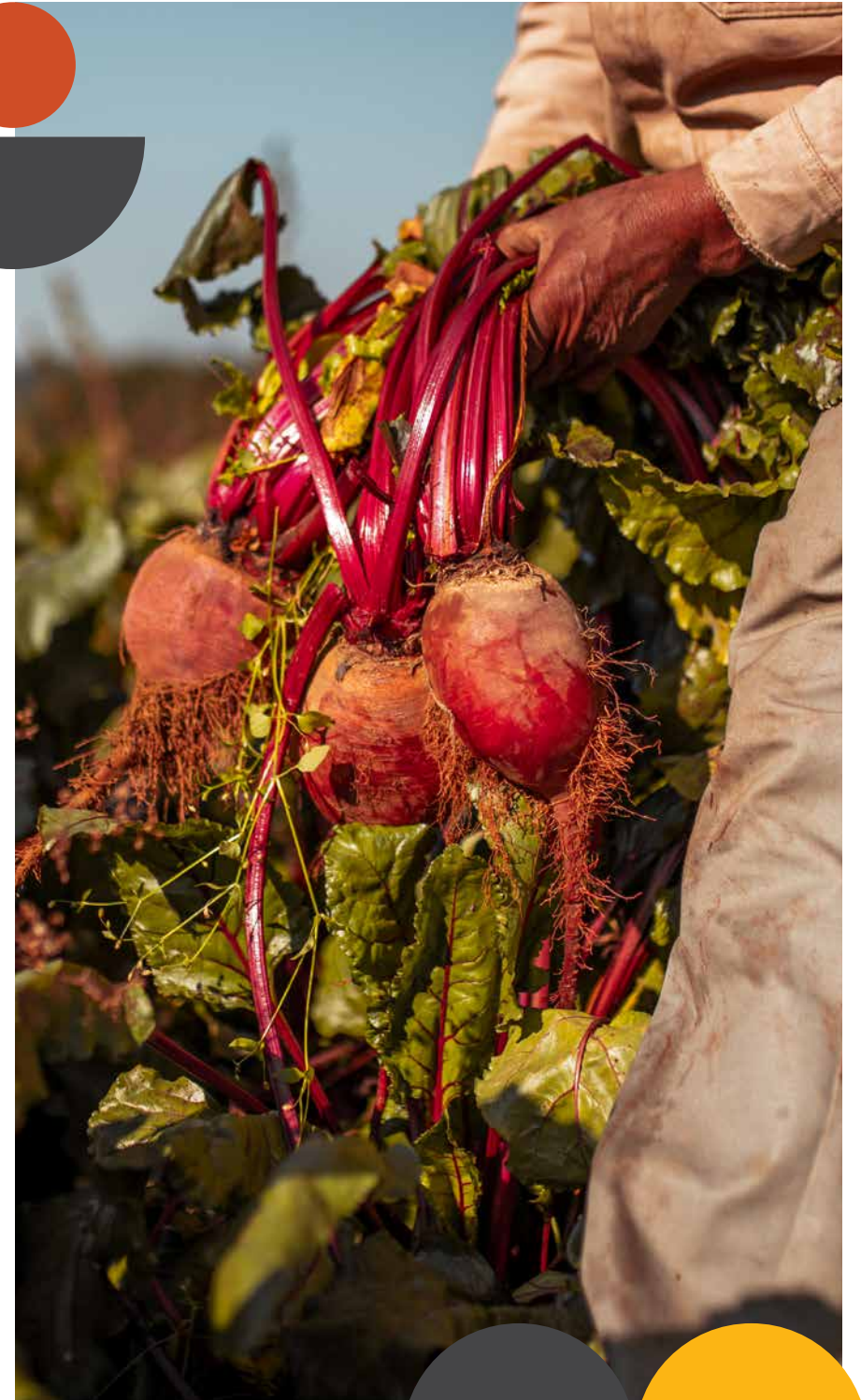


# 06

## Colombian Market

### Economic context in 2020 and perspectives for 2021

According to the expectations for 2020 and the estimates made by the World Bank (WB), the economy would experience a small rebound compared to the previous year, and issues such as the excessive increase in global debt and the prolonged deceleration in productivity growth were what concerned analysts the most, as they could have a negative impact on these expectations; for 2020 there were estimates of global growth around 2.5% compared to 2019, which had a global growth of 2.4%, but the world was not prepared for Covid-19.







In line with the WB's Global Economic Prospects<sup>1</sup>, Covid-19 caused a global recession during 2020, the depth of which was only surpassed by the two world wars and the Great Depression of the last century and a half. Although global economic activity is slowly and progressively returning to growth, it is unlikely to return to normal in the foreseeable future. Similarly, ECLAC reports that the crisis has triggered a significant contraction in international trade, sharp fluctuations in commodity prices and high volatility in financial markets. In addition, the containment measures adopted in the large majority of countries to contain the pandemic have had a significant impact on tourism and related activities, such as commercial aviation and restaurant and hotel services. Likewise, the interruption of certain productive and commercial activities has had a strong impact on labor markets worldwide, thereby affecting the ability of migrants to send remittances to their countries of origin<sup>2</sup>.

Following the collapse of the world economy during 2020, with economic contraction closing this year at -4.3%, world economic output is expected to grow by around 4% in 2021. In addition, global growth is expected to stabilize to a growth rate of 3.8% in 2022, due to the negative impacts that will be reflected during these years as a result of the pandemic. Similarly, the impact of the pandemic on investment and human capital is expected to

erode growth prospects in emerging market and developing economies (EMDEs) and set back development goals. In the case of Latin American countries, growth at the end of 2021 is expected to be around 3.7%, a positive expectation compared to the abrupt contraction experienced in 2020, closing the year at -6.9%. The table below shows the changes in GDP growth historically (2019-2020) and the expectations for 2021:

Economic growth: historical results (2019-2020) and projections 2021

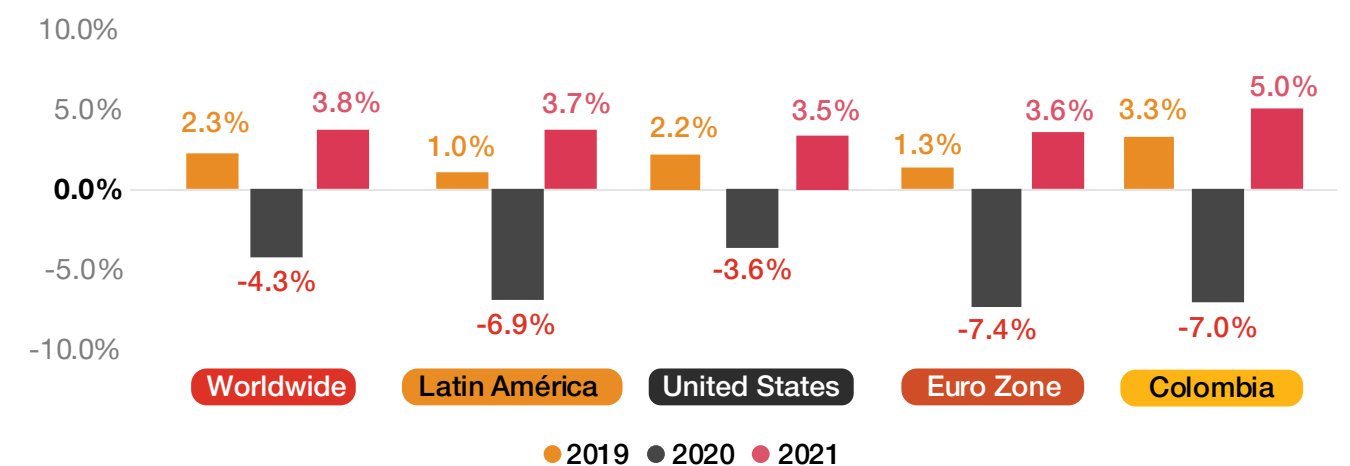


Figure 1

Source: Prepared by PwC - World Bank and ECLAC data.

Expectations regarding the estimated growth for 2021 and the expected economic recovery will depend mainly on the gradual strengthening of confidence, consumption and trade, hand in hand with the support of the ongoing vaccination that many countries have already initiated.

1. World Bank, January 2021. Global Economic Prospects; <https://www.bancomundial.org/es/publication/global-economic-prospects#:~:text=Europa%20y%20Asia%20central%3A%20Se,3%2C7%20%25%20en%202021>.  
 2. ECLAC, February 2021. Preliminary Overview of the Economies of Latin America and the Caribbean; <https://www.cepal.org/es/publicaciones/46501-balance-preliminar-economias-america-latina-caribe-2020>



## Performance during 2020 of the 3 most relevant economic scenarios



### International Trade

- 2020 slump:
- Frontier restrictions .
- Disruptions of supplies (raw materials).
- International shortages of goods and services.
- Trade in goods fell more rapidly and has recovered at almost the same speed, while trade in services is still at very low levels.



### Financial Markets

- Measures introduced by central banks prevented the global financial system from falling into crisis.
- Generally flexible financial conditions:
- Low borrowing costs.
- Credit incentives.
- Recovery in stock market prices.



### Commodities

- The rebound in oil prices lagged the broader recovery in other commodity prices in 2020 due to the prolonged impact of the pandemic on global demand.
- Crude oil prices, averaging US 41/bbl. in 2020, showed a 34% drop from 2019. Oil demand fell by 9% last year as a result of pandemic control measures and the resulting slump in global demand, which was partly offset by production cuts by OPEC<sup>3</sup>, as well as by Russia and other non-OPEC oil exporters. Oil prices are expected to remain near current levels and average USD 44/bbl. in 2021 before rising to USD 50/bbl. in 2022.



## GDP

During 2020, the Colombian GDP contracted, closing the year at -6.8% according to DANE figures<sup>4</sup>; this decrease is mainly due to the negative effects caused by the Covid-19 pandemic in the national territory. The economic activities that most contributed to this negative result were: Wholesale and retail trade, Repair of motor vehicles and motorcycles, Transportation and storage, Accommodation and food services, which experienced a contraction around -15.1%; Construction, which experienced a contraction of -27.7%; and Exploitation of mines and quarries, which contracted during 2020 by -15.7%.

Real GDP growth rate (%) Annual variation by quarter and year-to-date variation in the twelve months of the year

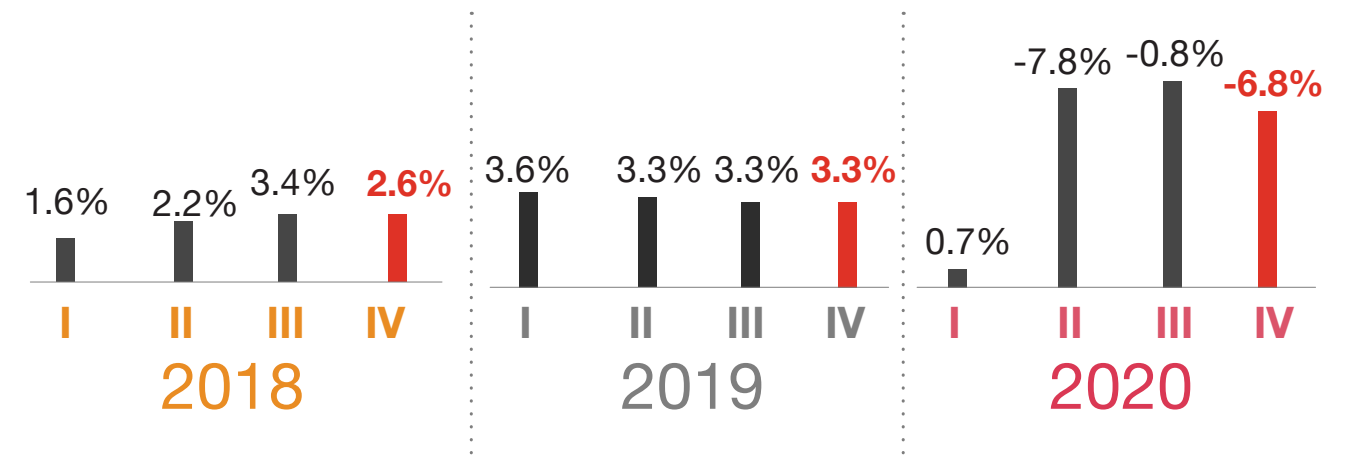
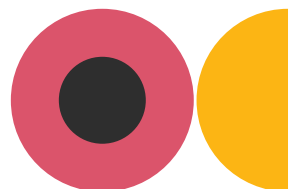


Figure 2

Source: Prepared by PwC. Data: DANE. National Accounts. Updated as of February 15, 2021.



3. Organization of the Petroleum Exporting Countries.

4. DANE, February 15, 2021. Technical Report. <https://www.dane.gov.co/index.php/estadisticas-por-tema/cuentas-nacionales/cuentas-nacionales-trimestrales/pib-informacion-tecnica>.



Growth rate by economic sector (%). Growth rate year-on-year (2020 vs. 2019)

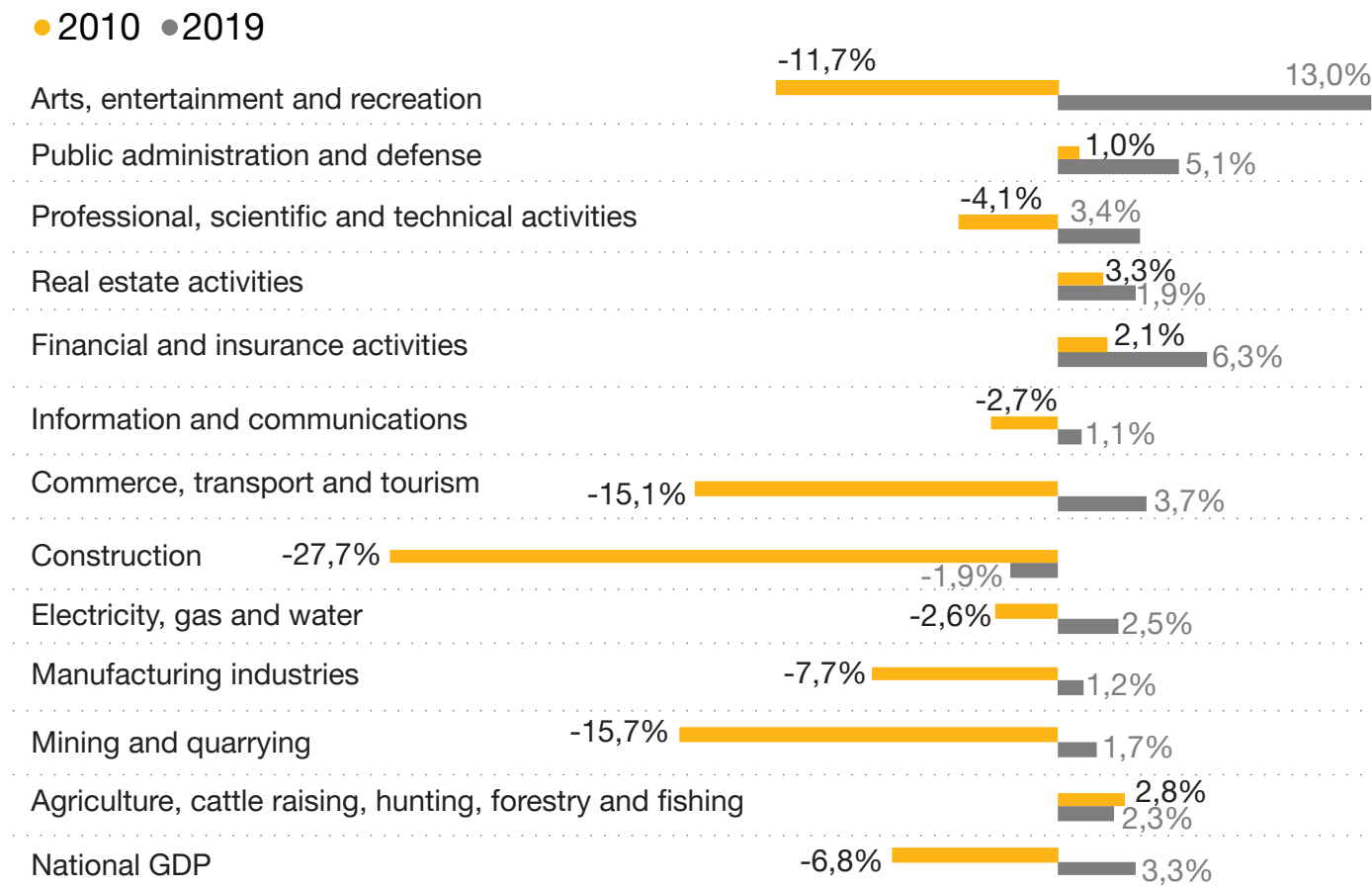


Figure 3

Source: Prepared by PwC. Data: DANE. National Accounts. Updated as of February 15, 2021.

It is important to note that the Colombian economy has been greatly impacted by the Covid-19 pandemic. The prolonged closure of some of the country’s most important economic activities and the confinement of the population influenced such negative results; it is also worth mentioning that there were sectors that stimulated the economy and prevented

the crisis generated by the pandemic from deepening further. This may give positive signs for economic recovery, although it will be slow and progressive and will depend, to a great extent, on the policies promoted by the National Government and on how economic agents respond to such policies.

Inflation

For 2020, inflation reached 1.61%, below the limit<sup>5</sup> set by the Banco de la República (Colombia’s Central Bank); the Colombian economy is expected to reach target inflation again in 2022. In the fourth quarter of 2020, downward pressures on inflation (with and without price relief) were more pronounced than projected and are signs of a weak demand. The annual deceleration of the major CPI<sup>6</sup> groups was widespread. The figure below shows the behavior of the monthly inflation and how it has fluctuated around the limits and the target inflation.

Colombian inflation behavior. Period 2019-2020 (running 2021). Inflation rate (%)

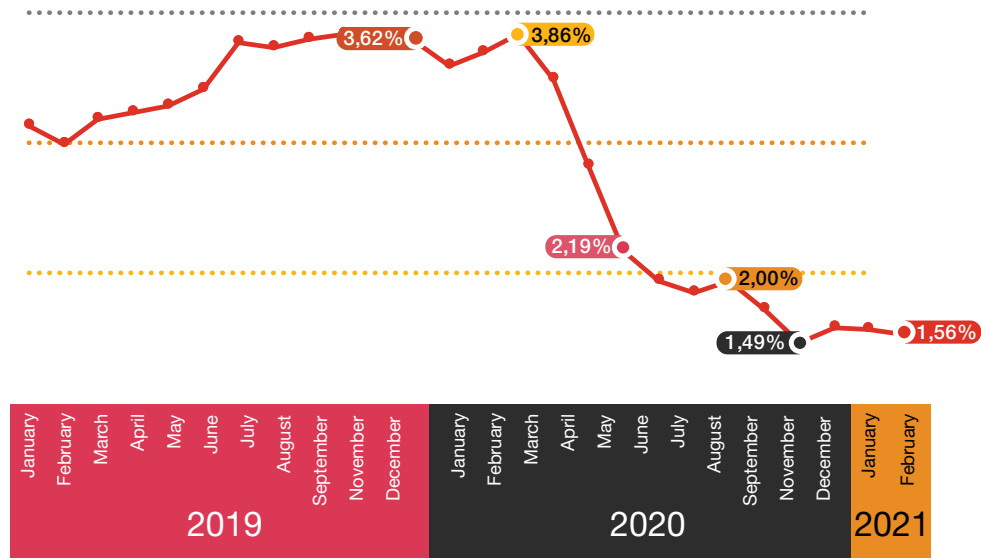


Figure 4

Source: Prepared by PwC. Data: Banco de la República. Updated as of February 2021.

5. Inflation limits, which by monetary policy must fluctuate between 2% and 4%, and with an inflation target of 3%.  
6. Consumer Price Index.



Although part of the fall in total inflation would be transitory and should reverse in the second quarter of 2021, several downward price factors have been accentuated and would continue to be in force in the coming year. In 2021, it will be an environment of possible mobility restrictions, in the hypothetical case of an increase in Covid-19 infections in the country. Another factor is the low inflation registered at the end of 2020 and, consequently, the low adjustments that this would imply in the prices of certain indexed services with great weight in the CPI basket, such as rents and some public services. Added to this is the decrease in inflation expectations and the weakness in the labor market, in terms of salaries and other costs for companies.

All these factors would keep inflation below the target over the forecast horizon and at lower levels than estimated. Thus, inflation would continue to decline until March to levels close to 1%, and then increase and end at 2.3% and 2.7% in 2021 and 2022, respectively.

## Monetary Policy

During 2020, the public health situation resulting from the pandemic made different monetary policy measures needed to guarantee the level of liquidity in the market and economic reactivation; among these were: i) reductions to the intervention rate, ii) reductions in the bank reserve requirement that provides a liquidity effect in the economy, increasing the reserve of money available by banks, which is transmitted in the loan market as an increase in the placement in bonds and loans to individuals and companies, and iii) injection of liquidity in the



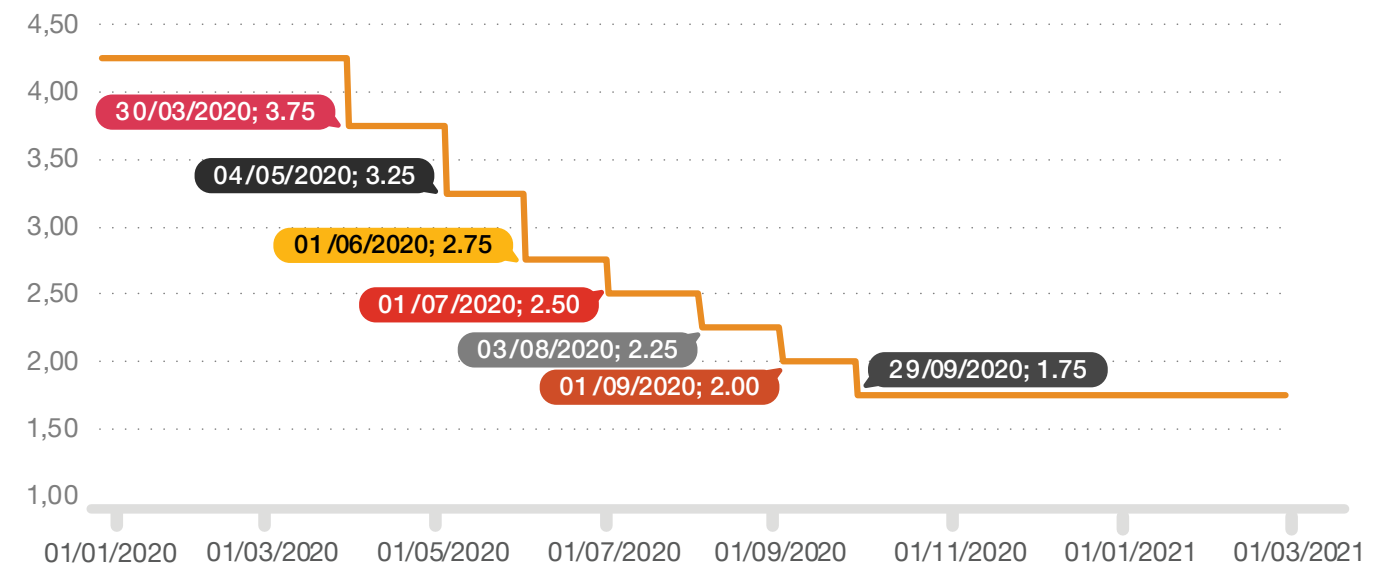
Colombian Peso market through instruments such as increases in the quota and term to transact repos<sup>7</sup> with public and private debt securities and purchase of treasury bonds by Banco de la República, among others.

## Interest rates

During 2020, the Board of Directors of Banco de la República (JDBR acronym in Spanish) lowered the intervention interest rate by 250 basis points, taking it from 4.25% that it had held since April 2018 to 1.75% in September 2020. This reduction looked to relieve the

financial burden of debts indexed to variable rate, encourage consumption through indebtedness and discourage the placement of investments or capital reserve. Also, this reduction was gradual, considering its low effect on spending in the short term and the risks that still exist regarding the external financing of the economy and the exchange rate.

## Monetary policy interest rate in Colombia<sup>8</sup>



**Figure 5**

Source: Prepared by PwC. Data: Banco de la República. Updated March 2021.

The reduction in rates has a positive impact on the money market, increasing agents' appetite for bank deposits. On the other hand, it encourages banks to place their assets more in bonds than in loans where interest rates are agreed; this leads to a contraction in their supply, which is finally expressed as a lower propensity to lend on the part of banks, enhanced by the fact that the demand for reserves depends on the revenue of consumers

and companies, being impacted in the midst of the crisis by the Covid-19.

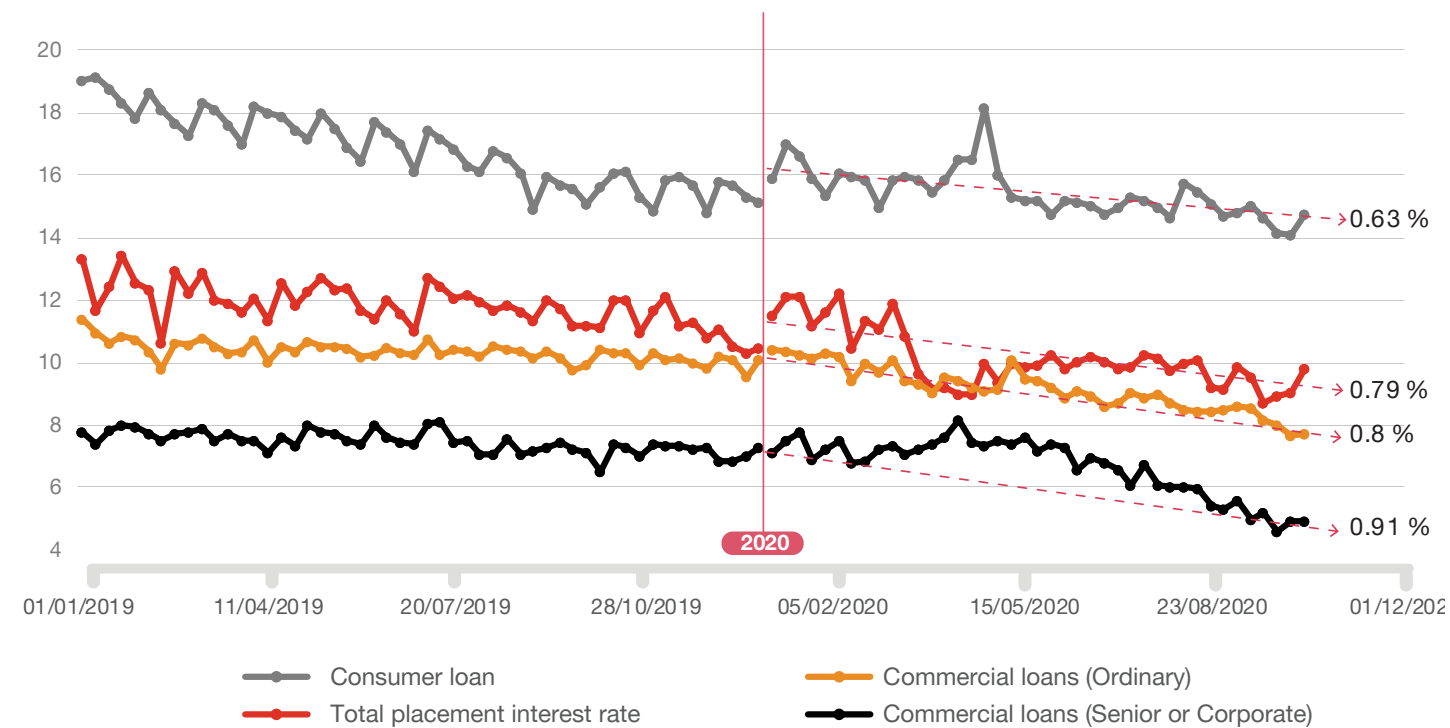
7. Repo: A repurchase transaction in which a financial institution sells an asset to an investor with a commitment to purchase it on a specified date at a specified price. This operation is also known as Repurchase Agreement or Sale and Repurchase Agreement.

8. January 1, 2020 to March 1, 2021 series, left axis in basis points.



The reduction in commercial interest rates, both active (deposit) and passive (placement), has been mainly noticeable due to the health contingency. Credit rates for personal consumption decreased on average 0.63% so far in 2020, standing at 14.75%; this reduction was not as pronounced as in commercial loans (ordinary 0.79% and preferential 0.91%) for the same period, due to the higher probability of non-payment.

## Interest rates in Colombia 2019-2020<sup>9</sup>



**Figure 6**

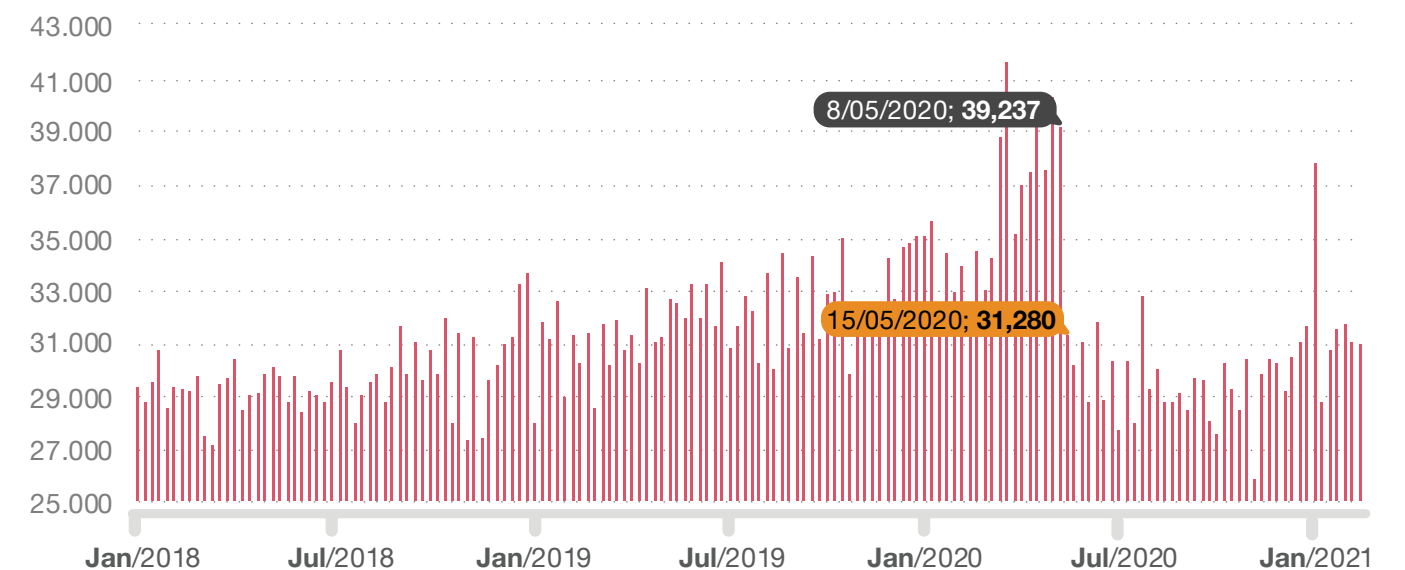
Source: Prepared by PwC. Data: Banco de la República. Updated to November 2020.

As part of the measures to reduce the negative effects of the current economic situation in the country, Banco de la República decided to reduce the bank reserve requirement, which provides a liquidity effect in the economy, freeing a greater fraction of the resources captured by the banks to increase credit to households and companies. This generates

lendable resources to a broad group of entities, thus increasing the reserve of money available to banks and is transmitted to the market as an increase in the placement of bonds and loans by them. This measure reduced the level of bank reserve requirements by 20.28%, injecting approximately \$9 trillion COP into the market.



## Bank Reserve in Colombia, Weekly Series 2018-2021<sup>10</sup>



**Figure 7**

Source: Prepared by PwC. Data: Banco de la República. Updated to November 2020.

9. Weekly frequency (left axis in percentages).  
10. Left axis in billions of COP.





The measures imposed and mentioned above, given their nature (expansive), inject liquidity into the economy and make the flow of payments more flexible; likewise, they are measures for various time horizons; although the increase in the interest rate does not have a short-term impact on investment and consumption decisions, it allows anticipating decreases that would be needed in the future, when the incentive of low interest rates for corporate and household spending is reestablished.

With respect to the public debt market, in 2020, the rates of securities issued by the Colombian government (TES) presented decreases, mainly due to the economic situation and the interest rate cuts by Banco de la República; however, they had a strong increase at the moment when the JDBR announced that it would collect bonds in the market for \$2.8 trillion Pesos to increase the liquidity of banks and pension funds. In 2020, Banco de la República earned a profit of \$7.4 trillion Pesos (\$335 billion Pesos more than 2019, i.e. an increase of 4.7%), derived from revenues of \$9.8 trillion Pesos (annual increase of 4.4%,) and expenses of \$2.4 trillion Pesos (annual variation of 3.6%).

Zero Coupon Interest Rate, Colombian Treasury Securities 2019-2021<sup>11</sup>

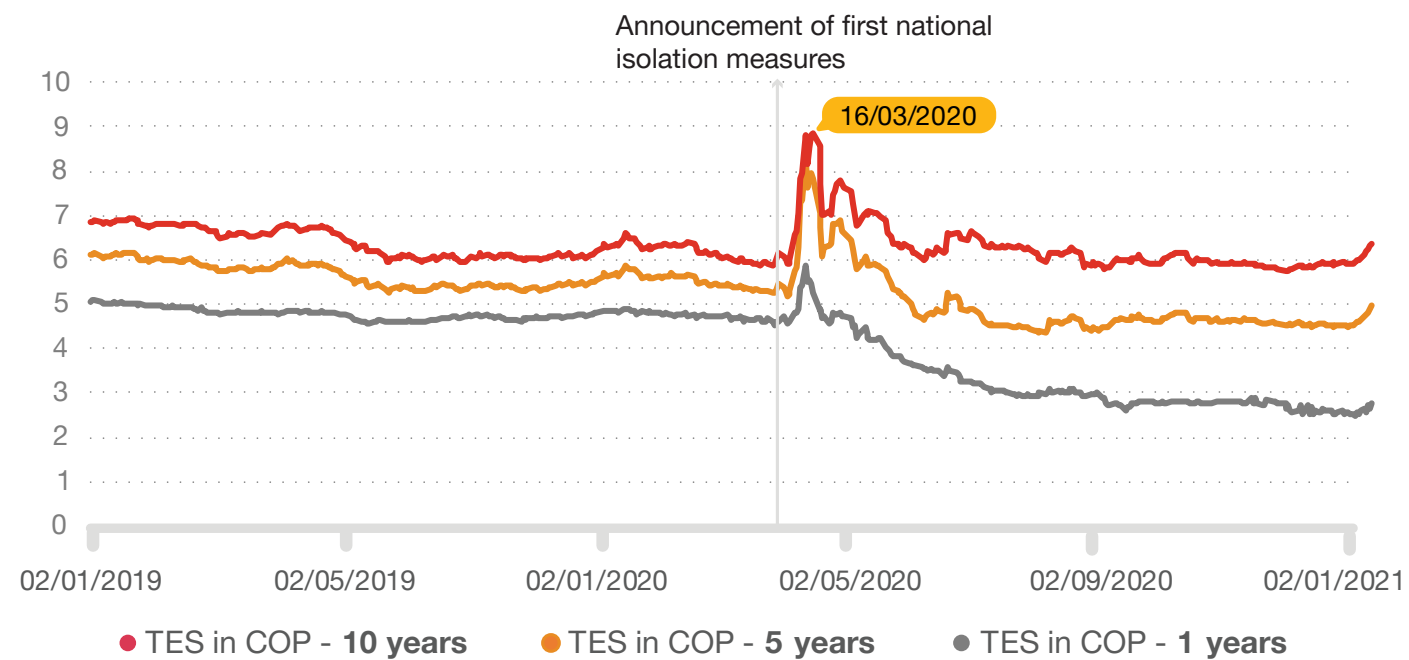


Figure 8

Source: Prepared by PwC. Data: Banco de la República. Updated as of February 2021.



## Exchange Rate

The representative market rate (TRM) is defined by Banco de la República as the number of Colombian pesos per one US dollar. The TRM is calculated based on the purchase and sale of foreign currency between financial intermediaries that trade in the Colombian exchange market, with compliance on the same day when the foreign currency is traded<sup>12</sup>.

2020 closed as a year of high volatility in the TRM, leading the Dollar to reach highs of \$4,000 Pesos and to gain up to \$155 Pesos with respect to the TRM with which it closed 2019 (\$3,277 Pesos); in January was the only time in 2020 where the TRM had its lowest quotation (\$3,250 Pesos). Additionally, and as a secondary factor, there were volatilities in oil prices, which allowed the shock to the TRM and the economy to be even more significant.

The pandemic was the cause of the volatility in the exchange rate, since in January 2020 uncertainty began to grow exponentially at a global level thanks to the appearance of a virus of which there was no knowledge and which was spreading rapidly through China, one of the main global financial markets and a determining factor in world demand. This generated the first movements towards the

11. Five year series left axis in percent.  
12. Taken from Banco de la República. <https://www.banrep.gov.co/es/estadisticas/trm>





devaluation of emerging currencies. Investors with a conservative profile began to withdraw their capital from economies with a certain degree of risk, such as Colombia, and at the end of February, when the pandemic declaration was already imminent, the highest levels of upward volatility of the dollar were recorded in the Colombian market. There were two main reasons for this: capital outflows, seeking refuge in dollars, and increased uncertainty in the financial markets regarding the possible impact of the virus on the economies.

Stock market prices fell sharply and assets such as gold, U.S. treasuries and especially the dollar as currency, were quickly demanded to the detriment of other riskier assets, such as shares and other securities, especially those denominated in currencies such as the Colombian peso, which, at the time, was among the five most devalued currencies in 2020.

In May and June 2020, uncertainty gave way somewhat and risk investments began to gain strength; some of the determining factors for this change in perspective were the strong economic stimuli at global level for the reactivation of economies, especially by the FED, so that the TRM began a downward trend, in addition to the progressive lifting of mobility restrictions, the gradual economic opening and the hope placed in the development of the vaccine against Covid-19.



Representative Market Rate 2019-2020 monthly average and end-of-month series

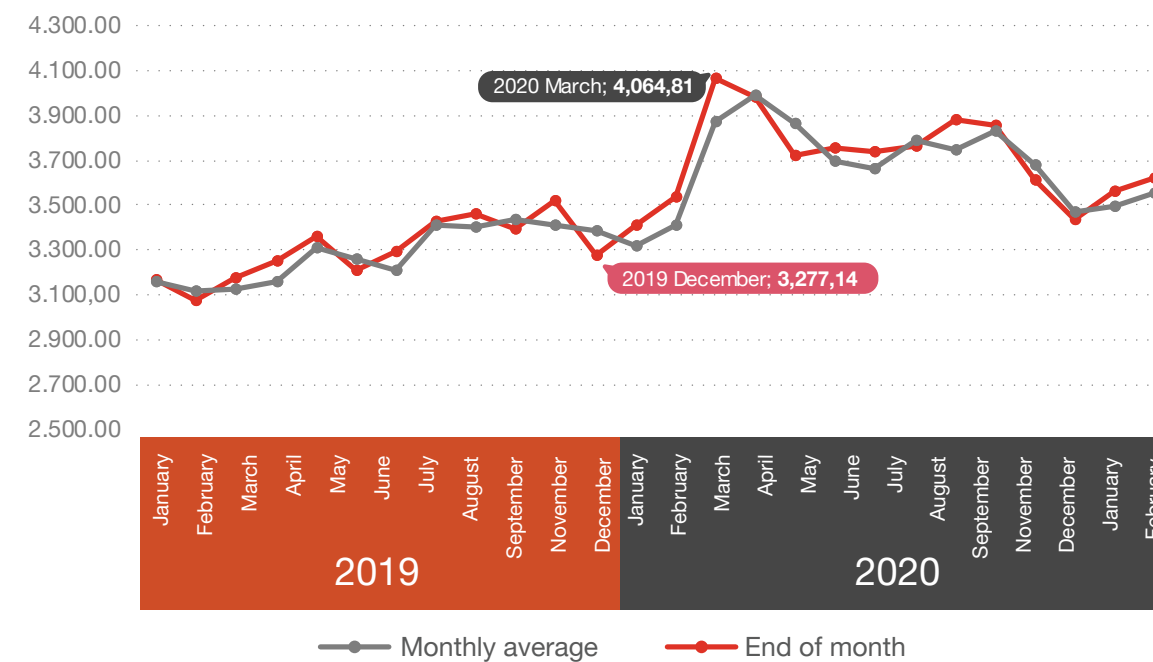


Figure 9

Source: Prepared by PwC. Data: Banco de la República. Updated as of March 2021







## Payment balance

During 2020, the current account of the country's payments balance recorded a deficit of US \$9,083 million, US \$5,201 million lower than a year earlier. As a proportion of GDP, the deficit was estimated at 3.3%, lower by 1.1 percentage points (pp) versus the 2019 estimate. This reduction originated from the decrease in dollar terms of the current deficit (1.6 pp.), which was partially offset by the contraction of nominal GDP (0.2 pp.) and by the effect of the peso's depreciation against the dollar on the nominal GDP measurement in dollars (0.3 pp.).

The 2020 financial account, including a US \$4,328 billion increase in international reserves, recorded net capital inflows of US \$8,092 billion, lower by US \$5.148 billion versus what was reported in 2019. In terms of GDP, capital inflows represented 3.0%, lower by 1.1 pp. than those observed a year earlier. Errors and omissions were estimated at US \$992 million.

For 2020, the current account went from -4.3% in 2019 to -3.4% of GDP; this is due to weak domestic consumption that reduced demand for imported goods, lower profits of companies with foreign capital (primary revenues) and a slight drop in remittances (secondary revenues). This change in the current account does not imply an improvement in Colombia's relationship with the rest of the countries, but rather a generalized decrease in the outflow of domestic currency and, to a greater extent, in the inflow of foreign currency through goods and services.



### Exports by macro sector, 2018-2020, in millions of dollars FOB

	2018	2019	2020	Tendencia	var 2018-2019	var 2019-2020
Total Exports	41,905	39,489	31,056		-5.764%	-21.357%
Agriculture, cattle raising, hunting and forestry sector	2,726	2,910	3,024		6.730%	3.917%
Mining sector	20,481	17,980	10,806		-12.214%	-39.901%
Industrial sector	18,583	18,502	17,160		-0.433%	-7.256%

Source: Prepared by PwC. Data taken from DANE: international trade, exports.



### Imports by macro sector 2018-2020, in millions of dollars CIF

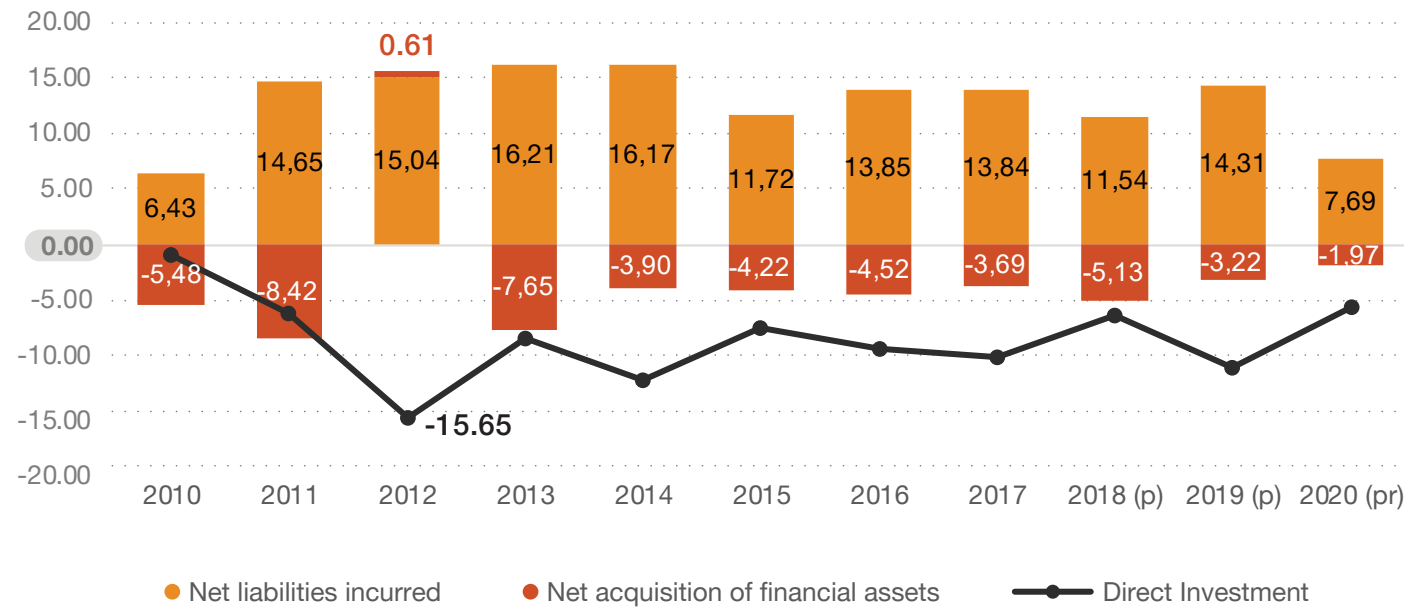
	2018	2019	2020	Tendencia	var 2018-2019	var 2019-2020
Total Imports	51,231	52,703	43,489		2.873%	-17.483%
Agriculture, cattle raising, hunting and forestry sector	2,432	2,578	2,636		6.031%	2.227%
Mining sector	309	312	180		1.167%	-42.251%
Industrial sector	48,328	49,615	40,512		2.663%	-18.347%

Source: Prepared by PwC. Data taken from DANE: international trade, imports.



On the financial account side of the payments balance, the decrease in foreign direct investment (FDI) stands out, from US \$14.3 billion in 2019 to US \$7.7 billion in 2020.

Foreign direct investment 2010-2020 annual periodicity, in billions of dollars



**Figure 10**

Source: Prepared by PwC. Data: Banco de la República. Updated to 2020

On the other hand, portfolio investments presented an atypical behavior for the conjunctural moment, where the net acquisition of financial assets went from US \$541 million in 2019 to US \$6,169 million in 2020. Indeed, while portfolio investment represented US \$291 million worth of financial assets for the country in 2019, in 2020 the accumulation of these assets amounted to US \$7,515 million. This

outflow was based on increases in financial assets by the private sector, and on the reduction in the placement of debt securities in international markets by these same economic agents.

In relation to loans and other credits, they have practically become the main financiers of the current account deficit balance. In this result, the main protagonist has been the Government, which has made disinvestments and acquisitions of liabilities to finance its activities.

## Why is it attractive to invest in Colombia?

### Incentives to invest in technology in Colombia

#### Tax benefits

The national government has developed a variety of instruments in order to foment the investment on Investigation, Development and Innovation (I+D+I) and through this, promote the competitiveness of companies and the development of high impact investigations for the country. Within these instruments it's the creation of tax benefits, which seek to be an effective incentive for the development of Science, Technology and Innovation (STel) projects, where tax deductions and discounts are granted for investors and/or executors.

#### What are the tax benefits?

1.

##### Tax benefits for Investments

It is granted to companies that execute STel projects in alliance with an actor recognized by the Ministry of Science, Technology and Innovation, taking into account the defined criteria and conditions by the National Council of Tax Benefits through agreements



and the document of typology of scientific, technologic or innovation projects

**a.**

##### Tax deduction and discount for investments on STel projects

Investments made in research, technological development and innovation, will be deductible in the taxable period in which they take place, according to the established criteria and conditions. These investments will also have the right to deduct 25% of the invested value from



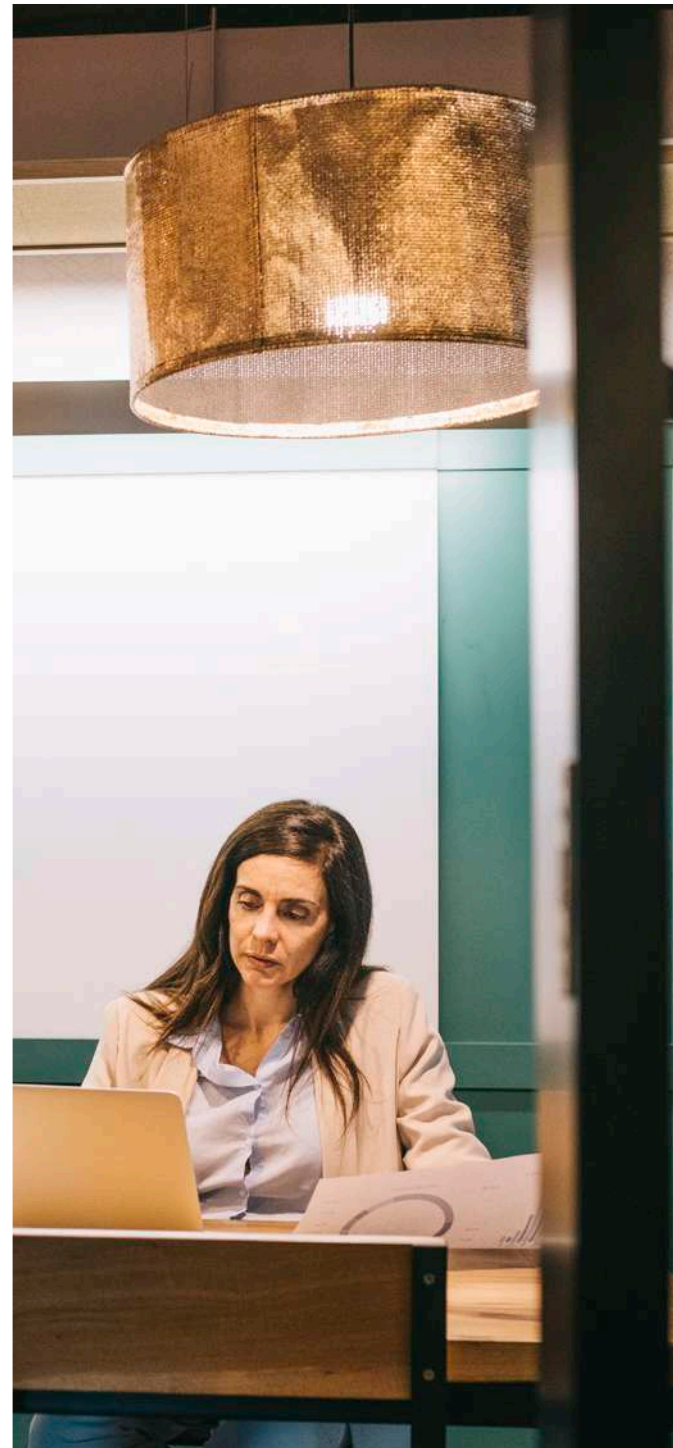
their income tax in the taxable period in which the investment was made, as long as it does not exceed 25% of the total payable tax.

## b.

### **Tax credit for investments in science, technology and innovation**

The investments made by micro, small and medium sized companies in research, technological development and innovation, according to the established criteria and conditions, may access a tax credit for 50% of the investment made applicable for national taxes compensation.

In cases where micro, small and medium sized companies have current tax credits higher than one thousand TVU (1000 TVU) for investments in projects classified as research, technological development and innovation, may request tax refunds titles - TIDIS for the value of the tax credit, which are freely tradeable.



## 2.

### **Tax benefits for high level human capital vinculation in companies**

Companies that vinctuate personnel with doctorate for the development of activities related to research, technological development and innovation, and that meet the established criteria and conditions, will be able to access the tax benefit of 25% deduction and discount of the effectively paid remuneration to the personnel with a doctorate. In the case of MSMEs, they will be able to access the tax credit mechanism for 50% of the remuneration of personnel with a doctorate.

## 3.

### **Non constitutive income of rent and/or occasional gain**

This tax benefit allows investigators to discount from the income that constitutes their taxable base, the value of fees received for the development of Science, Technology and Innovation within the framework of a project qualified under the established conditions. This benefit is also applicable to the resources received by the taxpayer to be used for the development of projects classified as scientific, technological or innovative, according to the criteria and conditions established.

## 4.

### **VAT exemption for the import of equipment and elements**

Technological research and development centers recognized by the Ministry of Science, Technology and Innovation, as well as institutions of basic primary, secondary, middle or higher education recognized by the National Ministry of Education, may obtain exemption from VAT at the moment of nationalization of imports of equipment and elements required for the development of science, technology and innovation projects.

## 5.

### **Tax benefits for donation in Science, Technology and Innovation**

Donations received in cash by the National Financing Fund for Science, Technology and Innovation, Francisco José de Caldas Fund, and that are destined to the financing of programs and/or projects of science, technology and innovation, according to the criteria and established conditions, will give the donor the right to deduct the donated value and also access to a tax discount of 25% of the donated value, as long they comply with the processes and procedures for this purpose.





## Typology of STel projects

The definition of Science, Technology and Innovation projects is very broad and also involves efforts made by companies and the academic sector to generate new knowledge and materialize it into products or services, organizational models and processes that allow them to be more competitive. and generate a social and economic impact.

STel projects are classified into three types:

1.

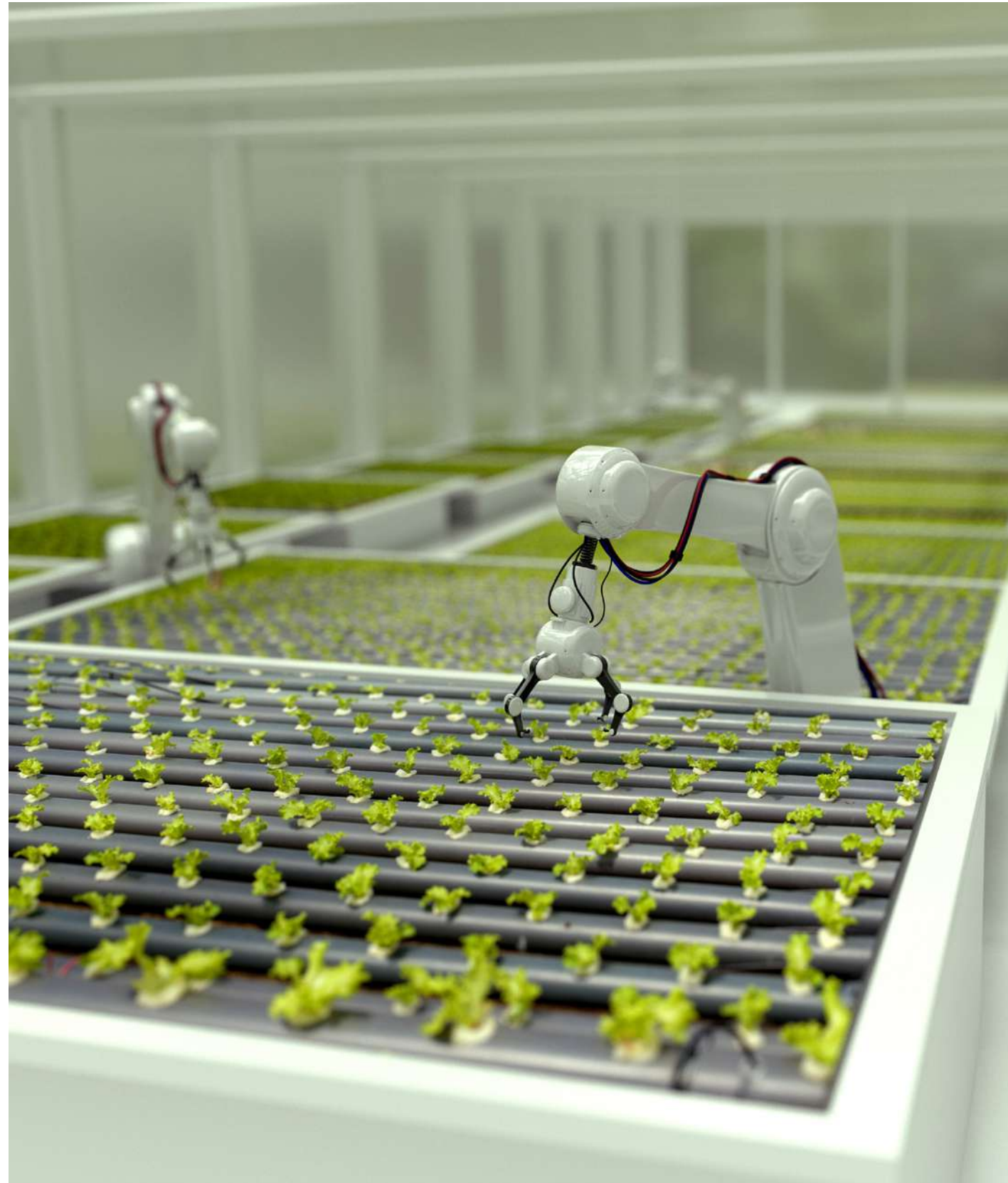
### Scientific research projects

Scientific research comprises the creative work carried out in a systematic way to increase the volume of knowledge of man, culture and society, and the use of this knowledge to create new applications.” (OCDE, 2002)28: The term scientific research encompasses three modalities: basic research, applied research and experimental development.

2.

### Technological development projects

Technological development is understood as the application of the results of the investigation, or any other type scientific knowledge, for the



manufacturing of new materials, products, for the design of new processes, producing systems or providing of services, as well as the Substantial technological improvement of pre-existing materials, products, processes or systems. This activity will include the materialization of the results of the investigation on a plan, scheme or design, as well as the creation of non commercial prototypes and initial demonstration projects or pilot projects, provided that they are not converted or used in industrial applications or for commercial exploitation.

3.

### Innovation projects

Una innovación es la introducción al uso de un producto (bien o servicio), de un proceso, nuevo o significativamente mejorado, o la introducción de un método de comercialización o de organización nuevo aplicado a las prácticas de negocio, a la organización del trabajo o a las relaciones externas.

Para que haya innovación hace falta, como mínimo, que el producto (bien o servicio), el proceso, el método de comercialización o el método de organización sean nuevos o significativamente mejorados para la empresa. De esta forma podrán calificarse como proyectos de innovación los siguientes: Innovación en Producto, Innovación en Proceso o Innovación Organizacional.

Source: [minciencias.gov.co](http://minciencias.gov.co)



## Technology growing sector

The information technology and creative industries sector in Colombia is characterized by having one of the largest workforce of the region as well as highly qualified. Also, its connectivity and technology infrastructure make Colombia a great destination for this type of project.

Within the most relevant subsectors in this field are the IT software and services industry, data centers, SSC shared services centers and BPO services outsourcing.

## Software and IT Services

Colombia has a solid and growing software and IT services industry, experienced in developing specialized IT solutions in different verticals such as Fintech, health, agroindustry, oil and gas, energy, telecommunications, logistics, government, digital marketing, virtual and augmented reality, businesses, and big data, among others. This position it as one of the main technology based service suppliers in the whole region.

In 2019, Colombia has positioned itself as the fourth largest IT market in Latin America, after Brazil, Mexico and Chile; exceeding 8.200 million dollars. IT services exports experienced an average growth of 3% between 2015 and 2019, reaching 229.1 million dollars, positioning the country as a platform to reach different markets, including the



There is a solid network of accelerators, incubators, investment funds and technological parks that complement the initiatives and contribute to the strengthening of the innovative business tissue of the country.

World-class technology companies such as Amazon Web Services, Microsoft, and Accenture have invested in the country, recognizing the potential of the software and IT services industry in Colombia.

According to the IMD World Talent 2019 report, Colombia has the biggest workforce of the region, and the first with the highest growth and training, surpassing countries like Perú, México and Brazil. The country has 4 universities on the 500 in the world and 12 on the top 100 in latin america, according to a QS World University. Between 2001 and 2018, 690,492 students graduated.



## Data centers

In Colombia, important investments have been made for the construction of data centers that help the strengthening and growth of the technological offer in the country. This is how more than 20 data processing centers have been established with major companies such as IBM and Hostdime Inc.

Several international companies have decided to increase their capacity to meet the growing demand in Colombia. For example, the case of the construction by IBM of a technological complex of 5000 m2 or like in the case of Claro, which tripled its space since its operations doubled in recent months, and now serves 600 large companies in the country and it is becoming a service center for 8 countries in the region. Telefónica, Level 3, and ETB are also expanding their operations in the country.

At the moment, Colombia has 11 submarine communication cables operating, placing it as the second country in the region with the higher number of cables. This allows the country to offer excellent international connectivity with fast and stable data transmission.

According to the Ministry of Information and Communication Technologies, Colombia registered 2.8 million broadband connections in 2010. In 2018 that number increased to 32.7 million connections. To date, 98% of the municipalities in the country are connected to





the world through fiber optic networks. Cybersecurity is a national commitment. Colombia became one of the first countries in the world to enact a specific law for cyberspace. Law 1273 covers areas such as illegal access to personal information, data interception, data destruction or the use of malicious software. Frost & Sullivan projects that in 2021 Colombia will be the third most important market in the region for Data Centers with a share of 8.4%.

## SSC shared services centers

Colombia has an industry of CSC Shared Services Centers, with experience in serving specialized solutions in human resources, finance, supply, logistics, technology, general and administrative services, and digital transformation, among others, ensuring the highest levels of efficiency. and the strategic support that companies need.

This sector registers growth and macroeconomic stability that generates investor confidence, Colombia is among the top 30 destination countries in offshore services (Gartner) and has a privileged strategic location, in the middle of five time zones, sharing a time slot with important business centers such as New York, Toronto and Miami. In addition, it is recognized for having a culture of natural service.

The main reason for investing in this sector in Colombia is the availability and quality of human talent at an efficient cost. According to the IMD World Talent Report 2019, Colombia has the largest workforce in the region, and the first with

the highest growth and training, surpassing countries such as Peru, Mexico and Brazil.

Colombia offers the possibility of having scalable operations available in 6 metropolitan areas with more than one million inhabitants (Bogotá, Medellín, Cali, Barranquilla, Bucaramanga and Cartagena). Global companies such as Amazon, Johnson & Johnson, Diageo, Stanley Black & Decker and SAP recognize the potential of the Shared Service Center industry from Colombia.

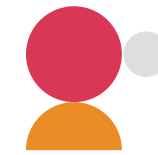


## Outsourcing of BPO services

The service outsourcing (BPO) industry in Colombia is regionally recognized and has significant experience in business areas such as contact center, collection, in-house technology provider, backoffice and others such as marketing, auditing and consulting, in such diverse industries such as banking and financial services, telecommunications, mass consumption, health, government, hydrocarbons, insurance, public services and logistics, among others

Colombia ranks third in the A.T. Kearney, with 13.1% of BPO sales in the region and is within the first markets in the region in sales, surpassing Argentina, Peru and Chile. In 2019, the contact center industry mainly served the telecommunications and financial services vertical with more than 50% operations, the contact center industry in Colombia is expected to maintain a cumulative growth rate of 3.8% from 2018 to 2022.

Global companies such as Amazon, Teleperformance, Atento, Convergys and Konecta recognize the potential of the outsourcing industry in Colombia.



## Path towards digital transformation

The country is developing several initiatives to take advantage of the new information and communication technologies to streamline procedures, expand access to education, modernize agriculture, reactivation of the economy in the short term and repowering in convergence with the sustainable development goals in the medium term.

The following are four of the main government promoted initiatives in which it is working to strengthen digital transformation:

1.

Generate people's skills through mass education, universality in access and ease of access to hardware and technological terminals, and also promoting artificial intelligence.

2.

Promote a digital business tissue by closing its gaps, deleting intermediaries and facilitating access to capital in this type of investment.

Source: PROCOLOMBIA



3.

Consolidate a digital government by accelerating a single portal of the Colombian State and a national ecosystem of innovation and digitization.

4.

Become a cashless economy, emphasizing on financial education, promoting greater competition in the field of payment systems and generating incentives for migration to electronic payments for micro businesses.

Colombia has an inclusive roadmap towards digital transformation, that considers aspects such as installation of 10 thousand digital centers in the most vulnerable areas of the country, with an investment of \$2.2 billion and the education of more than 100 thousand programmers, giving them the possibility to access to the job opportunities derived from the fourth industrial revolution. Additionally, the digital transformation of the government is under development at the sectoral level, including agriculture, transportation, justice, mines and energy, environment, health, commerce, among others.

The following are some of the most relevant aspects included in the investment agenda of the Ministry of Information and Communication Technologies for 2021:

- Expansion of the National Social Telecommunications Program
- National internet access massive development
- Implementation of community access to National Information and Communication Technologies
- Use and promotion of public access technological solutions in the regions of the National territory
- Assistance, training and support service for the use and appropriation of ICT, with a differential approach and for the benefit of the community to participate in the national digital economy
- Strengthening the IT National Industry
- Strengthening of digital transformation of national companies
- Strengthening the quality and availability of the information for decision making in the ICT sector and national citizens.

In order to execute these digital transformation plans, it is required the coordinated participation of businesses, state entities, the education institutions, specialized companies and investors in technology for the closing of the identified gaps:



Data generation and analysis for problem solving or for predicting changes in people, societies or the market.



Email



Artificial intelligence that from data analysis allows optimization and increases efficiency in the operations and processes of different industries using technologies such as voice and image recognition or process automation



Appropriation of emerging technologies such as blockchain or internet of things in a disruptive way, in order to achieve significant improvements in efficiency, productivity and competitiveness.



## Proposed wording

During the past decade, Colombia has stood out thanks to its alignment with the implementation of relevant international agendas, such as the UN Sustainable Development Goals (SDGs), the country's commitment to global pacts against climate change such as the Paris Agreement, and for the adoption of good practices, such as those established by the Organization for Economic Cooperation and Development (OECD).

When it comes to the SDGs, Colombia was one of the 193 countries that voluntarily agreed in 2015 to commit towards 17 Goals and 169 objectives that pursue solid progress in caring for the planet and its people, the scope of prosperity and peace, and towards the materialization of alliances for sustainable development by 2030. To make the commitment viable, in 2018 the National Council for Economic and Social Policy (CONPES, by its acronym in Spanish) issued an implementation strategy for the SDGs in the country (CONPES document 3918 - link), which considers a multiparty approach, acknowledging the private sector as a key component in the materialization of the agenda.

Although there are no mandatory guidelines for the private sector in the CONPES document, the National Government expects organizations in the business field to provide quantitative and qualitative reports of their work in the fields of the environment, economy and society. An example would be the use of sustainability reports. Additionally, they are expected to promote and communicate good practices, extending innovative management and production models, using technology to improve efficiency, productivity and competitiveness among businesses in the country.

Concerning the commitments towards climate change, Colombia signed and confirmed its agreement with the Paris Agreement, a binding international treaty adopted during the United Nations Framework Convention on Climate Change (COP21) in 2015. The agreement established, among other global objectives, to maintain a temperature increase under 2°C, and

to exert the greatest efforts possible to keep the increase under 1.5°C.

To this end, Colombia initially committed to reduce its absolute Greenhouse Gas emissions by 20% by 2030 throughout its territory (or by 30% if the country received international financial support) (link). More recently, in November 2020, the Colombian Government announced an update (link) to its objective in the projected emissions by 2030, going from a 20% reduction to 51%, in line with a Neutral Carbon strategy by 2050, a challenge to be achieved through an energy transition, clean transportation, countering deforestation, planting 180 million trees, paying for Environmental Services, and by safekeeping the Amazon rainforest and the moors (link).

Although Colombia contributes only 0.57% of the greenhouse gas emissions at the global scale, based on the second Update Report on Climate Change, which includes the National Inventory of greenhouse gas emissions, in 2014 Colombia emitted 236.7 Mton CO<sub>2</sub> q., and this is the most recent data for the country (Link), thanks to the fact that 68% of the country's installed capacity comes from renewable electric power sources (link), to its geographical location, its extended shorelines, three mountain ranges and six natural regions, making Colombia a country that is highly vulnerable to the effects of climate change (link). The "El Niño" and "La Niña" climate phenomena, including their waves of winter, intense droughts, forest fires, and the lack of water in various parts of the territory represent a

present and future risk for companies operating in the country, given the challenges brought by planning, management and scoping of economic results resulting from the mentioned events.

The recent joining of Colombia as a formal member of the OECD has led the country to adopt and empower practices in environmental matters, including the implementation of economic instruments to improve the efficient use of natural resources and the social costs from using those resources, as well as handling waste and pollution. The National Strategy for Green Growth established in CONPES 3934 (2018) is a show of recent progress, resulting from the recommendations of the OECD (Link).

In order to fulfill the environmental, social and economic commitments of the country, the Government has defined strategies, policies and regulatory frameworks that allow Colombia to attract foreign investment, promoting industrial development, caring and protecting the environment, and motivating change in the way people and organizations behave in the territory.

Concerning the mitigation of climate change, it is worth noting Act 1931 for Climate Change, enacted in 2018, which includes the National Program of Exchangeable Emission Bonds; the Integrated Climate Change Management Plans at the sector (PIGCCS) and territorial (PIGCCT) levels; the national tax on carbon and its exemption if carbon neutral status is achieved (Act 1819/2016 and Decree 926/2017); Act 1715 of 2014 on Renewable Energy Sources;





Resolution 1447 of 2018 from the Ministry of the Environment and Sustainable Development on the system to monitor, report and verify actions for mitigation at the national level; Act 1964 of 2019 on Electric Transportation; Act 1972 of 2019 on Air Quality; also with significant political instruments, such as CONPES 3874 for the Integrated Management of Solid Waste, CONPES 3019 for Sustainable Construction, CONPES 3934 for Green Growth, the National Strategy for a Circular Economy of 2019, among others (link).

Concerning the reduction of deforestation and the protection of ecosystems, it is worth noting the delimitation of the agricultural borders in 2018; the creation of the National Council Against Deforestation and other Environmental Crimes in 2019; the leadership and signing of the Leticia Agreement in 2019; Act 1930 on the protection of moor ecosystems; Decree 870 of 2017 and Act 1007 of 2018 on Payments for Environmental Services. There is also the implementation of the “REDD+ Visión Amazonía” Program starting in 2016, the Low Carbon Sustainable Development Program for Orinoquia, and the signing of the Joint Declaration of Intent with Norway, the United Kingdom, and Germany for the Reduction of Deforestation and Sustainable Development in 2015, renewed in 2019, among others (link).

Concerning climate change, Colombia has established a National Plan for Adaptation to Climate Change (PNACC), with a general reference framework and actions to reduce the negative long-term impacts for the population, the productive sector and the ecosystems. The national plan has allowed the country to assess the threats to vulnerable communities, preventing impacts on territories, ecosystems and economies (Link).



From the regulatory and institutional framework mentioned before, the most relevant aspects to be considered by foreign investors in Colombia would be as follows:



## Tax benefits for investing in renewable energies

On May 14, 2014, the national government, foreseeing possible barriers against the incorporation of non-conventional energy sources (FNCEs) into the national electric grid, signed Act 1715. Its purpose includes, among others, the promotion of investment, research and development in the field of FNCEs and their use, mainly for those that are renewable. Additionally, the Law seeks to promote the integration of FNCEs into the national power system, participating in disconnected areas as a mean towards sustainable economic development, the reduction of greenhouse gases, and the ensured power supply.

To this end, corporate persons or individuals interested in investing on FNCE-related projects may access tax benefits that translate into deductions in the income tax by 50% of the investment amount for a period of 15 years, as well as the accelerated depreciation of investment assets, VAT exclusions for goods and services, and exemptions from tariff encumbrances. On the other hand, those who are interested in making investments on efficient energy management may also access tax benefits that translate into discounts in the income tax up to 25% of the investment made, with VAT exclusions for equipment, machinery, and elements related to the energy efficiency project (Link).

Act 1715 has allowed a transition from 0.1% of the installed capacity to 10% leading into

2022, and 20% looking towards 2030 in matters related to renewable energy. (Link).





## Tax benefits for environmental investments

Legal persons or individual who directly invest in control, conservation, and improvement of the environment may access tax incentives that translate into discounts in the income tax of up to 25% of the investments made during the corresponding tax period, and also VAT exclusions for the acquisition of equipment, machinery, and elements required for environmental control and monitoring systems. (Link).

## Circular economy strategy

In November 2018, the Colombian Government presented the “National Strategy for a Circular Economy”, which aims to create a new culture, new business models, a productive transformation, and the closing of the loop for materials.

This strategy expects to generate economic growth, optimizing the use of resources, increasing the useful life of products and reducing waste and negative environmental impacts. The circular economy strategy allows savings, cost optimization for waste, and the generation of new revenue.

Said strategy was established to go beyond the simple promotion of recycling. It incorporates innovative concepts to generate new products, business models, and services that, in addition

to being profitable, promote the re-circulation of materials throughout the value chain (Link).

In addition to the above-mentioned benefits, the Colombian Government demands compliance with the requirements associated to environmental licensing for the construction and operation of projects, as indicated below:

## Environmental licensing

The environmental license in Colombia was established by way of Article 50, Act 99 of 1993 as “the authorization granted by the corresponding environmental authority to develop a work or an activity, subject to compliance by the licensee with the requirements established by said authority for the prevention, mitigation, correction, compensation, and handling of the environmental effects of the authorized work or activity” (Link).

Decree 2041 of 2014 adopts the considerations in relation to the scope of projects, works or activities, including the planning, positioning, setup, construction, mounting, operation, maintenance, decommissioning, abandonment and/or termination of all activities,

use of spaces, actions and infrastructure in relation and association with their development (Link).

In Colombia, environmental licenses are an instrument to manage environmental politics and one that allows the anticipation and prevention of possible environmental effects, while also setting requirements for interested parties, demanding the internalization of environmental externalities, promoting the reduction of pollution and the use of clean technologies (Link).



Finally, the Colombian Government, through its strategy and policies to transition towards a low carbon economy, and also with the initiatives, actions, alliances and tax incentives implemented under the framework of environmental sustainability, conservation of biodiversity with participation from businesses and the community, has provided a favorable and attractive environment to stimulate interest in investors to develop projects and new businesses under a sustainable and responsible context leveraged by technology.



# 07

## Fraud Prevention

### Corruption in Colombia

The crisis caused by COVID-19 and its multiple impacts on the economy have generated a series of fraud risks within organizations, which, in principle, have materialized due to the omission and/or weakening of controls and prevention systems.

According to Transparency International and its most recent Corruption Perceptions Index publication, corruption is one of the key barriers to achieving the United Nations Sustainable Development Goals, and the COVID-19 pandemic is making this task harder. Corruption is coming in multiple forms, such as bribery around tests, treatments and other health services, irregular procurement of health supplies and inadequate emergency preparedness in general. However, in times of crisis, the risk of fraud and corruption persists and tends to increase regardless of the industries or markets companies are from.





## What risks and threats does Colombia face?

### Corruption Risks:

The Corruption Perceptions Index 2020, published by Transparency International in January 2021, provides an interesting source of information on the level of corruption experienced in 180 countries around the world.

In 2020 Colombia obtained a score of 39 out of 100 points, two points above the Index published in 2019, under which the country obtained a score of 37. However, statistically this variation should not be considered as a significant advance. Colombia was positioned at number 92 in the ranking of the 180 countries that are part of the index (180 being the country with the highest perception of corruption).

Transparency International referred to Colombia's rating as follows:

“ (...)Colombia has an alarming concentration of executive power, evident in the government's growing proximity to the majorities in Congress and the state of economic emergency declared due to the COVID-19 pandemic”, indicating that: “in the response to the pandemic, irregularities in the use of public resources have already become evident and questionable decisions have been made regarding direct aid to large companies”.



The main types of corruption in Colombia are: Undisclosed conflicts of interest, solicitation or payment of gifts/bribes/ bribes/kickbacks, influence peddling, irregular contracting (e.g. bid manipulations, bid tailoring, bid splitting, among others), payments for goods/services not received, among other crimes against public administration.

### Money Laundering and Terrorist Financing Risks

According to a report published by the Colombian Attorney General's Office (known by its initials in Spanish, FGN) in December 2019,

during this same year, movements related to money laundering were detected in Colombia for over 6.3 billion pesos - (\$1.86 million USD<sup>13</sup>). However, the most recent Colombia's 2018 Mutual Evaluation Report (2018 MER) by the Latin-American FATF (known by its Spanish initials, GAFILAT) indicates that there are a number of calculations and estimates of the total amount of money laundered annually in Colombia. The report indicates that the laundered amount corresponds to around 5.4% to 7.5% of GDP (\$14,650 - \$20,347 million USD<sup>14</sup>).

According to the 2019 National Risk Survey (known by its initials in Spanish, ENR 2019) of the Financial Information and Analysis Unit

(known by its initials in Spanish, UIAF), it was identified that the crimes that represent the highest threat to Colombia in terms of Money Laundering (ML) are those that threaten public administration, such as: embezzlement, perverting the course of justice, bribery and extortion, illicit enrichment, drug trafficking and front man<sup>15</sup>. Crimes classified as medium threat are smuggling and financial crimes, and finally, low threat crimes are hydrocarbon trafficking, migrant smuggling, human trafficking, extortion and kidnapping.

On the other hand, and regarding Financing of Terrorism (FT), the 2019 ENR established that the highest level of threats in Colombia comes mainly from the ELN (National Liberation Army) and Residual Organized Armed Groups, such as the dissidents of the FARC (Revolutionary Armed Forces of Colombia - who accepted the Peace Agreement in 2016). The ENR 2019 identified as a medium-high threat at the local level, the Clan del Golfo, followed, at a medium threat level, by the criminal groups Los Pelusos and Los Caparros. At the regional level, as low threats there are the Sinaloa Cartel and the Jalisco Cartel - New Generation. Finally, at an international level, the survey rated Daesh (Islamic State) and Hizballah as medium and low impact, respectively, indicating that Colombia may be used by the latter as a transit point.

The most used mechanisms to repatriate illicit proceeds to Colombia, mainly derived from drug trafficking, are, among others: casinos,

13. December 2019 average TMR: \$3,378 COP Retrieved from: <https://www.banrep.gov.co/estadisticas/trm>

14. December 2020 average TMR: \$3,693 COP Retrieved from: <https://www.banrep.gov.co/estadisticas/trm>

15. Front man (testaferro in Spanish) is penalized under Colombian law (art. 326 - Colombian Penal Code, which indicates the crime by which a subject lends his name in order to receive goods from money obtained through drug trafficking or other related crimes.



the money order market, cash smuggling, wire transfers, remittances, electronic currency and prepaid debit cards.

Lastly, it is worth noting that there is a trend in international trade, which appears to be used by criminal organizations to carry out crimes such as counterfeiting and smuggling products to be placed on black markets in Colombia's major cities. For example, the Colombia-Venezuela border region has historically been a hub for the movement of black-market products.

## Laws that criminalize corruption and other crimes that are a source of money laundering

Currently in Colombia, the criminalization of Money Laundering is established on the new Criminal Code - Law 599 of 2000 which stipulates that:

The natural person who incurs in this conduct may be imprisoned between

 **10 and 30 years**

and fined between **1,000 and 50,000 SMMLV** (<sup>16</sup>**0.26 - 12.84 million USD; TRM 19/02/21**).

For omission to the Money Laundering control mechanisms, there may be a penalty of

 **38 to 128 months imprisonment**

and a fine of between **133.33 to 15,000 SMMLV** (**0.03 - 3.85 million USD; TRM 19/02/21**).

Whoever has knowledge of the commission of the conduct, and in one way or another helps to evade the action of the authority or to hinder the corresponding investigation, shall be sentenced to

 **16 a 72 months imprisonment**

If the conduct is carried out with respect to the crimes of genocide, forced disappearance, torture, forced displacement, homicide, extortion, illicit enrichment, extortive kidnapping, trafficking in drugs, narcotics or psychotropic substances, the penalty shall be

 **64 to 216 months of imprisonment**

On the other hand, to date there is no criminal liability for legal entities in Colombia, this legal responsibility falls on the administrators and beneficial owners of the organizations. Although, Colombia has implemented the following laws as anti-corruption measures:

### Law 1474 of 2011:

establishes a series of administrative measures aimed at preventing and combating corruption, with the understanding that the Public Administration is structural entity for the adoption of measures to fight corruption.

### Law 1778 of 2016:

whereby rules are issued on the liability of legal persons for acts of transnational corruption and other anti-corruption provisions.

The sanction for non-compliance of persons who have been declared judicially responsible for the commission of crimes against the Public Administration or any of the crimes or misdemeanors contemplated by these laws, will be an inability to contract with the state, which will be extended for a term of 20 years, fines of up to 200,000 SMMLV (51.36 million USD; TRM 19/02/21), as well as the publication in widely circulated media and an extract of the sanctioning decision for a maximum period of one (1) year on the website of the sanctioned legal person. The sanctioned legal entity will assume the costs of such publication and will be prohibited from receiving any type of

16. The current legal monthly minimum wage for Colombia is \$908,526 COP for the year 2021.





incentive or subsidy from the Government for a period of 5 years.

The foregoing extends to natural persons and companies of which such persons are part as administrators, legal representatives, members of the board of directors or controlling partners, their parent companies and their subordinates and branches of foreign companies, except for open corporations<sup>17</sup>.

Finally, in order to confront criminal activities related to ML/FT/FPWMD<sup>18</sup> through local laws and regulations, Colombia has ratified, among others, the following United Nations conventions:

- Vienna Convention of 1988: United Nations Convention Against Traffic in Narcotic Drugs and Psychotropic Substances (Approved by Law 67 of 1993 Judgment C-176 of 1994).
- United Nations Convention for the Suppression of the Financing of Terrorism of 1999 (Approved by Law 808 of 2003 Ruling C-037 of 2004).
- Palermo Convention of 2000: United Nations Convention Against Organized Crime (Approved by Law 800 of 2003 Ruling C-962 of 2003).
- Merida Convention of 2003: United Nations Convention Against Corruption (Approved by Law 970 of 2005 Ruling C 172 of 2006).

For at least two (2) years, different sectors of politics in Colombia have promoted at least two (2) bills related to the prevention of corruption, as follows:

- Bill No. 149 of 2020 that seeks to give criminal liability to legal entities.
- Bill No. 008 of 2019 that seeks to provide protection to whistleblowers of acts of corruption.



## Ethics and Compliance Programs in Colombia

The Ethics and Compliance Programs (ECP) to be implemented by companies in Colombia include a series of guidelines and recommendations of international standards and best practices that may vary according to different factors, such as the sector or industry, total revenues and/or total assets of the Company.

In Colombia, the ECPs may have different names: in relation to the prevention of Money Laundering, there are a series of systems such as: SAGRILAF (System of Self-Control and Management of the Integral Risk of Money Laundering and Financing of Terrorism), SARLAF (System of Administration of the Risk of Money Laundering and Financing of Terrorism) or SIPLA (Integral System for the Prevention and Control of Money Laundering), while associated with the prevention of corruption are the Business Ethics Programs (known by its initials in Spanish, PEE) and the Anti-Corruption and Citizen Service Plan that must be implemented by Public Entities.

Although each regulatory body designs and determines programs adjusted to the reality and expectations of each sector, they all agree on some key points:



### Policies and procedures

It involves documenting the design of the Compliance Program, including the activities to be carried out, the methodologies used, as well as the main roles and responsibilities associated with the ECP.



### Organizational structure

or corporate governance that allows for the proper functioning of the ECP. This includes the designation of a Compliance Officer to ensure the monitoring and effectiveness of the Program.

<sup>17</sup>. ESociedad Anónima Abierta: is roughly equivalent to a public limited company in United Kingdom company law and a public company in United States corporate law.  
<sup>18</sup>. The acronym ML/FT/FPWMD stands for: Money Laundering/Financing of Terrorism/Financing the Proliferation of Weapons of Mass Destruction.





Processes of identification, control and monitoring of risks associated with the ECP

This part includes applying a risk-based approach to the most critical typologies for companies in terms of Money Laundering, Terrorist Financing, Corruption, Conflicts of Interest and transnational bribery events.



Application of methodologies and alert systems

that allow the easy and quick identification of unusual and suspicious transactions, as well as the implementation of procedures to report these transactions to the competent authorities in a timely manner.



Procedures for knowledge of counterparties

Based on the design of a third-party segmentation model by risk factors (channels, jurisdictions, products and types of third parties), the most critical third parties in terms of risks associated with the ECP must be identified. In all cases, beneficial owners should be identified and basic and enhanced due diligence procedures should be performed for higher risk third parties, such as PEPs (Politically Exposed Persons). Companies should document these processes in risk matrices.



## Suspicious Transaction Report - STR

Colombia has decided to implement the forty (40) recommendations of the Financial Action Task Force (FATF) to prevent money laundering and other related crimes. One of these recommendations states that countries should implement the proposed guidelines of the Financial Actions Task Force (FATF) through the country's local laws to enforce these in the companies.

In Colombia, the Financial Information and Analysis Unit (UIAF) is the entity that performs these functions. The UIAF centralizes, systematizes and analyzes the information provided by reporting entities and open sources, to prevent and detect possible money laundering operations, financing of terrorism and its related crimes.

The UIAF administers the Online Reporting System (known by its initials in Spanish, SIREL) which is a web tool that allows reporting entities to upload and/or report online the information of the obligations established in the regulations of each sector. The Compliance Officers of the companies subject to these laws, regardless of the sector of the economy, must register in SIREL and report Suspicious Transactions (STRs) to the UIAF when they detect them in the ordinary course of their business or activities or when the Unit so requests, in the manner and opportunity that it may indicate.

STRs do not constitute a criminal complaint; therefore, for reporting purposes, it is not

necessary for companies to be certain that it is a criminal activity, nor is it necessary to identify the type of crime or verify that the resources have an illicit origin. However, since it is not a criminal report, neither the companies nor their managers are exempted from the obligation to report, when applicable. Thus, any suspicious transaction must be reported at the same time as it is identified.

If a quarter elapses without the companies detecting a suspicious transaction that requires reporting, the Compliance Officer, within ten (10) calendar days following the expiration of the respective quarter, shall file a report of absence of suspicious transactions (known by its initials in Spanish, AROS).

Some sectors must submit additional reports to the UIAF, such as cash transaction reports, import and export reports, among others. We recommend companies to check in the "Reporters" section of the UIAF website ([www.uiaf.gov.co](http://www.uiaf.gov.co)), which is the rule issued by the UIAF with respect to other reports to be made according to the regulatory body that supervises them.



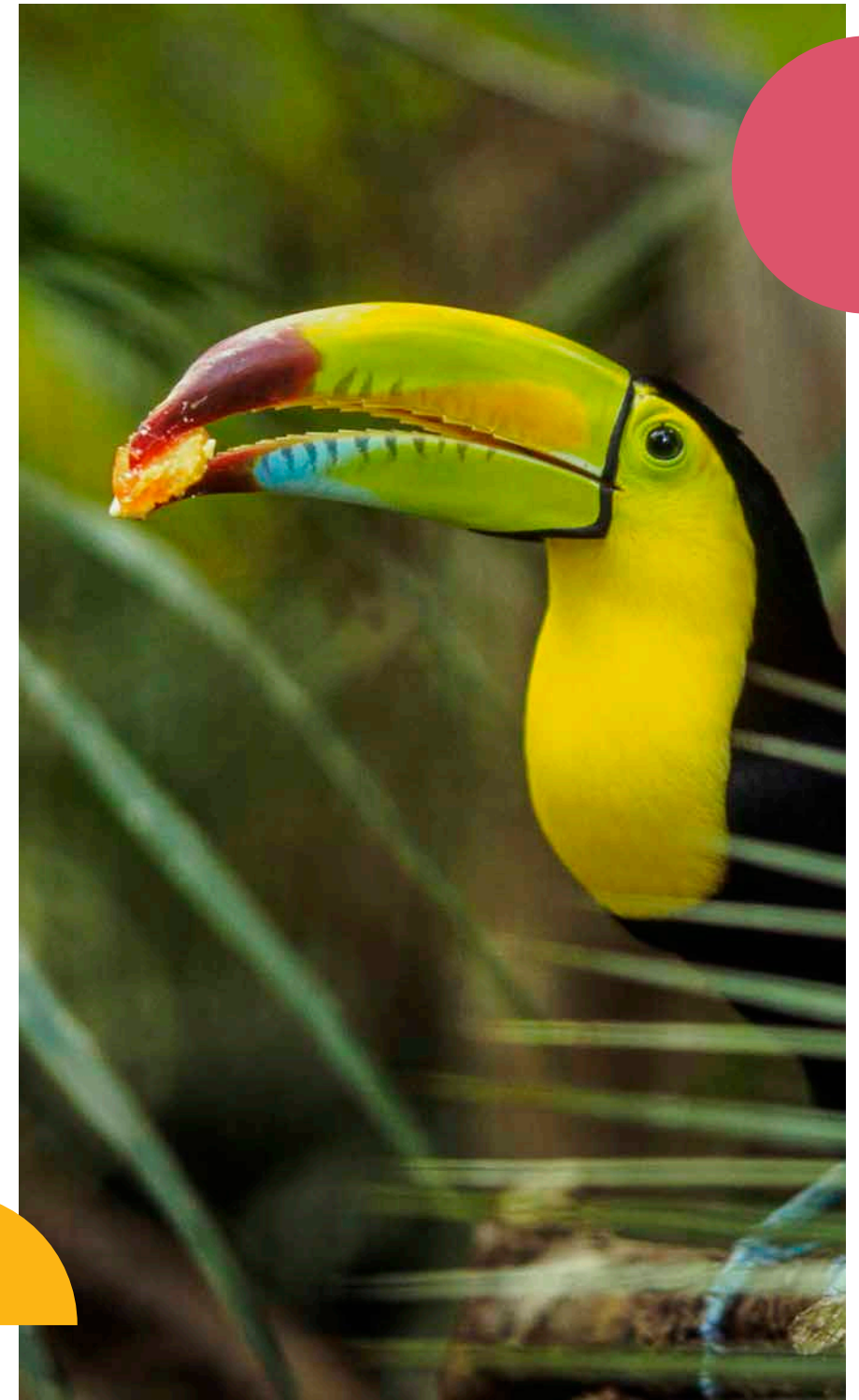


# 08

## International Investments and Foreign Exchange Regime

All foreign investments in Colombia must be registered before the Colombian Central Bank, as well as Colombian investments abroad.

Only the compensation account holder has the faculty to make foreign exchange operations using the account. Imports and exports are operations that must be channeled through the Colombian foreign exchange market, as well as the foreign investments, external debt operations, guarantees in foreign currency, and derivatives operations.





In order to prove the correct channeling of the mentioned operations, the movement of foreign currency may be carried out through an Intermediary of the Exchange Market (Colombian Local Bank) or through an account abroad that is registered with the Banco de la República (Central Bank). They are obliged to comply with the foreign exchange formalities in Colombia:

- All foreign or Colombian natural persons who stay 183 continuous or discontinuous days during a period of 365 consecutive days and;
- All legal entities that are legally constituted in the country, including the Branches of Foreign Companies.

## International Investments

International investments include (1) investments of foreign capital in Colombia (both direct and portfolio investments) and (2) investments of Colombian capital abroad.

### 1.

## Foreign investment Colombia

### 1.1 Types of foreign investment in Colombia

#### 1.1.1 Foreign direct investment

An investment type performed on any of the following assets, on the condition that such assets have been acquired by a non- resident in any capacity, by virtue of a lawful act, contract or legal operation:

- Equity participation in a company resident in Colombia, in shares, social quotas, capital contributions, or BOCEAS (convertible bonds), as long as these are not registered in the National Registry of Securities and Issuers (RNVE) or in any Foreign Securities Quotation System.
- The participations mentioned in the previous point, made in a company resident in Colombia, registered in the National Registry of Securities and Issuers (RNVE), provided that the investors declare that they have been acquired with the intention of permanence.
- The rights or interests in fiduciary businesses entered into with fiduciary companies, which are subject to the inspection and supervision of the Colombian Superintendence of Finance, the purpose of which does not constitute investment portfolio.
- Real estate located in Colombia, acquired

under any capacity, either directly or through the execution of fiduciary businesses, or as result of real estate or construction projects, so long as such projects are not registered in the National Registry of Securities and Issuers (RNVE).

- Participations or economic rights derived from acts or contracts, such as those of collaboration, concession, administration services, licensing, joint ventures or those involving technology transfers, when these do not represent a participation in a company, and if the income generated by the investment depends on the company's profit.
- Participations in the assigned capital and supplementary investments to the assigned capital of a foreign company's branch established in Colombia.
- Participations in private capital funds.
- Intangible assets acquired with the purpose of being used to obtain an economic benefit in Colombia.

#### 1.1.2 Portfolio investment

Investment made on securities registered in the National Registry of Securities and Issuers (RNVE) or listed in Foreign Securities Quotation Systems; participations in collective investment funds and in negotiable securities certificate programs.





## 1.2 Registration of foreign investment in Colombia

All foreign investments in Colombia must be registered directly in the Colombian Central Bank, through a foreign exchange market intermediary IMC – intermediario del mercado cambiario (for its acronym in Spanish) or through a compensation account, as a necessary condition for the foreign investor to have the foreign exchange rights conferred by the law.

This registration can be done directly by the foreign investor, their attorneys or any person who represents their interests:

Other direct investment registries: these investments will be automatically registered by submitting the minimum requirements for international investments (exchange declaration), presented at the time of channeling currencies through the Colombian exchange market (through an intermediary bank or compensation account).

Other direct investment registries: investments made by virtue of a lawful act, contract or legal operation (different from currencies) must be registered, at any time, by submitting Form No. 11, “Declaration of International Investment Registration”.

When dealing with sales of the investments to a Colombian resident, total or partial liquidation of

the investment, equity decrease, repurchase of shares, social rights or real estate sale, the holder of the investment must cancel the corresponding international investment registration within the six months following the date of the operation, so long as there is prior record of the investment in the Central Bank.

For capital reorganization instances resulting in an increase or decrease in the number of shares, without modifying the equity value, the reorganization must be notified to the Central Bank.

Likewise, changes in the investment holders for other non-resident investors, or for a change in the recipient company or in its destination must be reported to the Central Bank through a substitution process, which must be carried out within the six months following the date of the operation.

## 1.3 Foreign exchange rights

Once the investment is registered, its holder has the following foreign exchange rights: Periodically sending abroad net profits generated by their investments.

- Reinvesting profits or to retain the surplus of non- distributed profits with the right to be remitted.
- Capitalizing sums with rights to be remitted, resulting from obligations derived from the investment.
- Sending abroad, in convertible legal currency, the funds resulting from the investment sales within the country, from the liquidation of the company or portfolio, or from its equity decrease.

## 2.

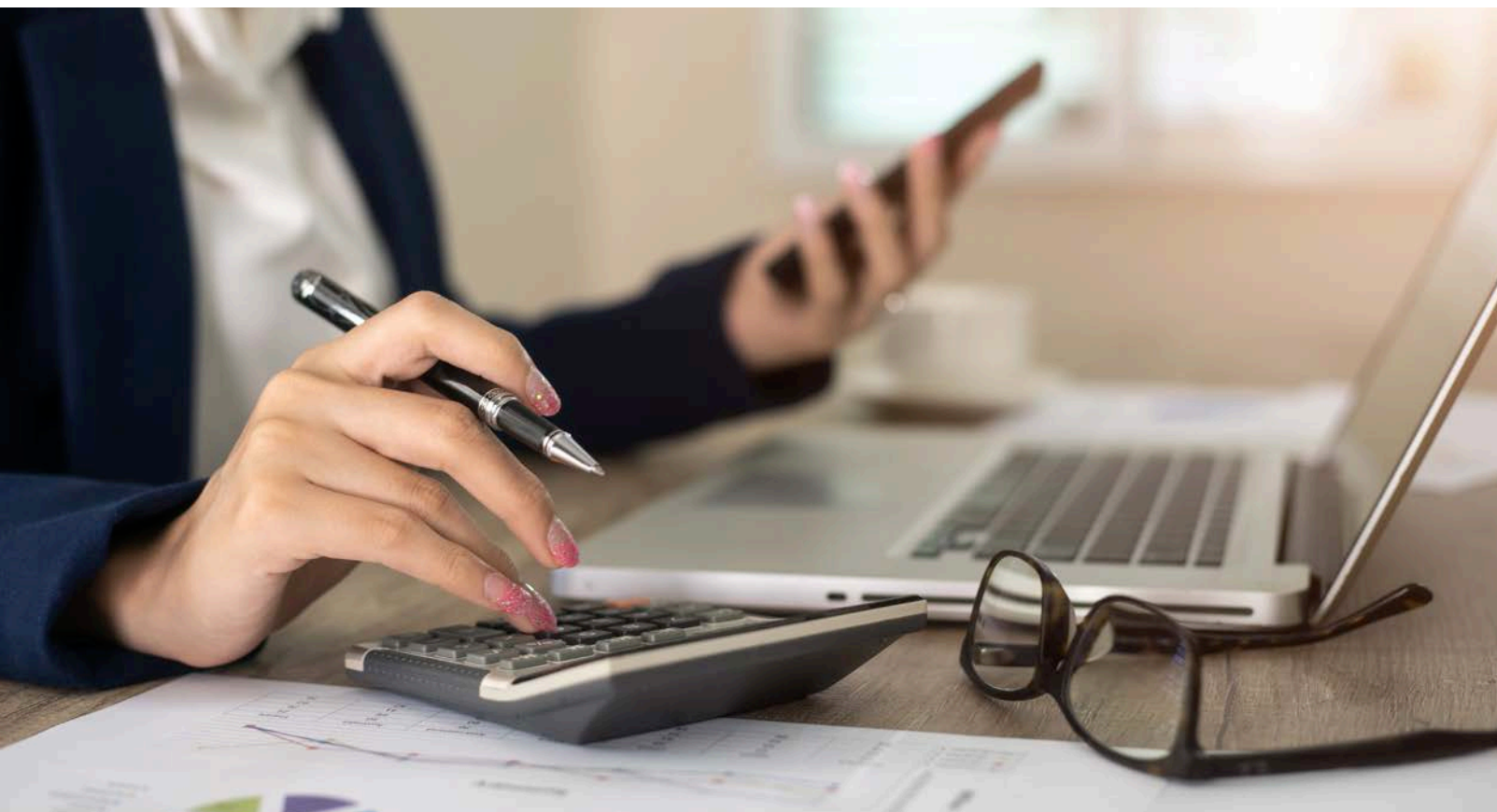
## Colombian capital investment overseas

These correspond to investments made by Colombian residents, destined to a company's equity, a branch or any other type of foreign company, acquired by a resident in virtue of a lawful act, contract or legal operation. How to register this investment will depend on whether it was made through currencies or as a result of a lawful act, contract or legal operation.

### 2.1 Investments, either financial, or in assets abroad

#### This type of investment includes:

- Purchase of securities issued, or assets located abroad.
- Purchase of external private obligations, external public debts, and bonds or securities of external public debt.
- The transfers originated in the placement of securities to residents in the country, issued by foreign companies and governments, or guaranteed by these, authorized by the Colombian Superintendence of Finance.





A close-up, shallow depth-of-field photograph of a person's hand typing on a black laptop keyboard. The hand is in sharp focus, with fingers pressing down on the keys. In the background, a laptop screen is visible but heavily blurred. On the screen, there are colorful data visualizations: a bar chart at the top with bars grouped by year (2011, 2012, 2013, 2014, 2015) and two pie charts below it. The colors of the bars and pie charts include red, green, blue, yellow, and purple. The overall lighting is soft and warm, suggesting an indoor setting with natural light.

Payments to settle the value of imports or refunds for exports made by residents in the country must be channeled through the foreign



exchange market, i.e., through foreign exchange market intermediaries or compensation accounts.

### 1. Importation of goods

The completion of the minimum data information for the importation of goods will depend on the supports of the import subject to payment and the channeling must be made by the importer. In this regard, it is important to note that in the matter of imports, the compensation or crossing of reciprocal obligations is not admissible and, as a rule, the Colombian importer is required to transfer abroad the foreign currency corresponding to the import of goods, under penalty of incurring penalties of 100% of the value of the transfer.

### 2. Export of goods

The completion of the minimum data information for exports of goods will depend on the supports of the export object of the refund and the channeling must be carried out by the exporter. The payment of exports may also be received in Colombian legal currency, through exchange market intermediaries or by means of an international credit card. In the case of exports, the compensation or crossing of reciprocal obligations is not admissible either and, as a rule, it is required that the foreign currency corresponding to the foreign payment be remitted to the Colombian exporter by its foreign customer, under penalty of incurring penalties of 100% of the value of the transfer.

### 3. Credits in foreign currency

Foreign currency incomes and expenses from foreign currency credit operations obtained or granted by residents in the country must be channeled through the foreign exchange market.

Residents and foreign exchange market intermediaries may obtain foreign currency credits from IMCs and non-residents duly registered with Banco de la República. These external credits must be stipulated in foreign currency, but their disbursement and payment may be made in foreign currency or in legal currency. In the latter case, it must be made through legal currency accounts exclusively used for these operations.

All external credits (assets or liabilities) granted or obtained by residents in the country must be reported to Banco de la República prior or simultaneously to their disbursement by filling out and submitting the corresponding form to an exchange market intermediary.

## 5.

### Special foreign exchange regimes

Outflows to pay the value of imports or refunds for exports made by residents must be channeled through the exchange market, through IMC or compensation accounts.

The special foreign exchange regime allows:

- Wire transferring currencies for the equivalent to the foreign capital in case of liquidation of the branch office or for the equivalent in currencies of the resources in legal currency on occasion to the internal sales of oil, natural gas or inherent services to the Oil & Gas sector. In addition, these branch offices can receive currencies that they require to meet expenses in legal currency.

- Receiving from abroad, directly from headquarters, their revenue.
- Signing and paying of contracts in foreign currency, as long as these currencies come from their operations.
- Accounting as supplementary investment to the assigned capital, in addition to the availability in foreign currencies, equity available as goods and services.

These branch offices must register the supplementary investment to assigned capital by submitting Form No. 13 “Record of supplementary investment to the assigned capital and updating of equity accounts - branches of the special regime”.

Branch offices that do not wish to belong to the special regime must inform the Central Bank in order to be exempt for 10 years counting from the date of the resignation. Consequently, all exchange operations will be regulated by the ordinary exchange regime.







## International investment agreements

As a result of the Colombian strategy to improve commercial relations, the country is currently negotiating and subscribing Agreements for the Promotion and Reciprocal Protection of Investments - APPRI - and Free Trade Agreements - FTA - that include chapters related to foreign investment.

APPRI are international agreements that regulate international investments. Both the APPRI and foreign investments chapter within FTAs have the main purpose of establishing ground rules for national investments that work for both parties, based on justice and transparency principles and on international standards. Additionally, they contain treatment and protection obligations that must be granted to the investments and their integral problem-solving mechanisms, including the possibility of arbitrating differences between foreign investors and governments, in relation to violations of the treaties.

Currently, Colombia has subscribed FTAs with the Andean Community – CAN, EFTA (Switzerland, Liechtenstein, Norway and Iceland), Canada, Chile, United States of America, Mexico, the Northern Triangle (Guatemala, El Salvador, and Honduras), the European Union, Pacific Alliance, South Korea, Costa Rica, the Caribbean Community - CARICOM -, Cuba, MERCOSUR: ACE-59 y ACE-72, Nicaragua and Venezuela. The country has signed FTAs that include chapters on foreign investment with Israel and Panama, and are still negotiating others with

Japan, Australia, New Zealand and Singapore. In addition, Colombia has signed APPRI with Canada, Brazil, Chile, United States of America, India, Mexico, the Northern Triangle, the Pacific Alliance, Costa Rica, China, Spain, Switzerland, Japan, Peru, and the United Kingdom. The country subscribed APPRI with France, South Korea, Singapore and Turkey which are still in the corresponding legislative due diligence.

Finally, the country has Investment Cooperation Agreements with Qatar, Kuwait and the United Arab Emirates.

## Foreign Trade and Customs

In 2019 a new Customs Code was enacted, integrating all the standing customs regulations. This new code is expected to provide more legal certainty and stability to importers and exporters.

Colombia has been structuring an open integration policy. Therefore, it enjoys access to free markets in Latin America. To promote trade, investment, and the creation of jobs in the country, there are special free-trade zone regulations.

### General Aspects

1.

#### Foreign trade and customs rules

Colombian legislation has focused on facilitating customs transactions involving imports, exports, and the transit of merchandise by controlling the various types of foreign trade transactions and operations.

Our legislation is aligned with the guidelines of the WTO Treaty, approved as part of Act 170 of 1994, which seeks to promote and support several benefits to companies that are a part of the exporting sector in Colombia.

Since 2005, Colombia has implemented and continued to use the Single Foreign Trade Dealing Office – VUCE (the Spanish acronym for “Ventanilla Única de Comercio Exterior”) This is an electronic online system developed by the Ministry of Commerce, Industry and Tourism of Colombia. Through that system, the government consolidates all procedures and proceedings that relate to foreign trade transactions.

To this end, the VUCE has three separate sections: imports, exports and Single Foreign Trade Form – FUCE, for its acronym in Spanish), which allow online transactions such as online payments, which are designed to accelerate procedures and processes. Please go to [www.vuce.gov.co](http://www.vuce.gov.co) to obtain more information about the VUCE system.



2.

## Customs qualifications

a.

### Authorized Exporter

Any person who is qualified as an authorized exporter may certify the origin of their merchandise or goods by way of a statement in the sales invoice, or in a declaration of origin under any foreign trade agreements that require this condition to be met (e.g. the free trade agreement with the European Union and the EFTA countries). This is allowed provided that the declaration of origin of the exporter continues to be valid and in force at the time the certificate of origin is issued.

A certificate of origin is acquired at the request of an interested party and after the customs authority (DIAN) evaluates compliance with the requirements it has set, after having performed the corresponding risk assessment.

b.

### Authorized Economic Operator – OEA (for its acronym in Spanish)

A natural or legal person based in Colombia that, as a part of an international supply chain, carries out activities that are regulated by customs regulations, or is a person subject to surveillance and control by the Office of the Superintendency of Ports and Transportation, the General Maritime Directorate or Civil Aeronautics. By meeting the minimum requisite

conditions set by Decree 3568 of 2011, this operator guarantees safe and reliable foreign trade transactions; hence, it is authorized as such by DIAN.

c.

### Customs user with simplified procedures

This figure was created through Decree 360 of April 7, 2021 and replaces the figure of eligible users. It is defined as those customs users authorized to make use of the treatments granted by the Special Administrative Unit of the National Tax and Customs Directorate (DIAN), subject to compliance with the conditions set forth in Article 773-2 of Decree 360 of 2021.

Importers and/or exporters may be considered eligible according to the DIAN's risk management criteria. This qualification is automatic for Public Law Entities and Mixed Economy Companies.

3.

### Special import and export programs

To promote foreign trade transactions, Colombia has established special import and export programs in its customs law. Through such programs, a person may import property or equipment with tax and duties benefits. The person may have access to the benefits only if the services or finished good export agreements are fulfilled.

a.

### “Plan Vallejo” for raw materials and commodities

Under this plan, a person may pass specific products marked for total or partial export through national customs territory within a certain period after the products have been transformed, finished, or repaired. This includes materials required for these operations. The benefits of Plan Vallejo are granted through a direct operation to importers of goods, commodities or supplies who produce and export finished products; or through an indirect operation to the importer or producer of intermediary goods sold to the exporter or to whoever provides the services associated to the production of goods for the exporter.

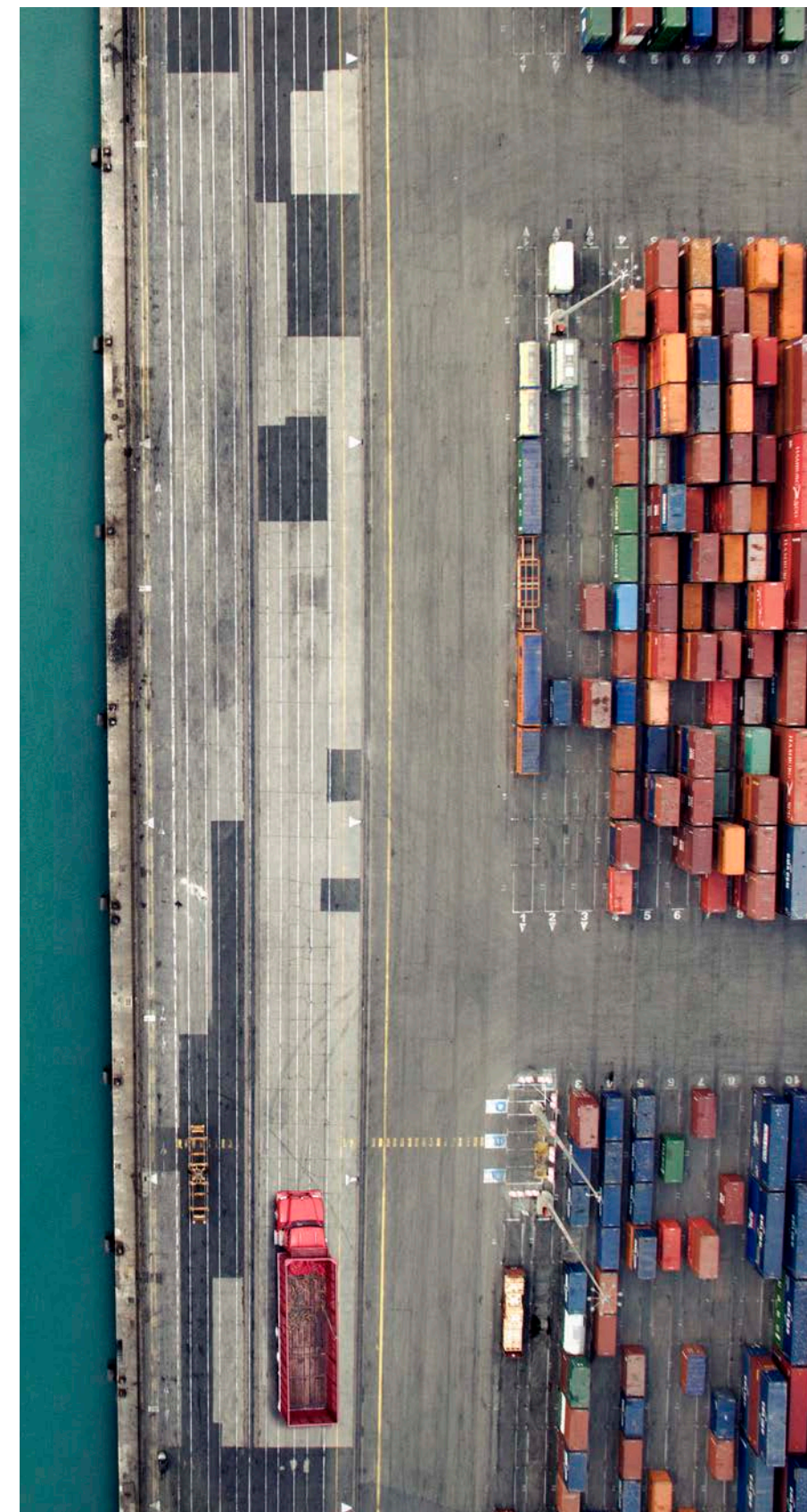
4.

### Imports

According to the current customs laws, an import is the entry of merchandise from foreign territory into “national customs territory”<sup>19</sup>.

The introduction of merchandise from a free-trade zone into national customs territory also

19. Decree 2685 of 1999 – Article 1. “National customs territory: limit within which customs laws are applied; it covers the entire national territory, including the subsoil, the territorial sea, the adjacent area, the continental platform, the exclusive economic zone, the airspace, the geostationary orbit segment, the electromagnetic spectrum, and the space where the Colombian State acts in conformity with international law or with Colombian law if international law is not applicable.





qualifies as an import, if processed with the purpose of remaining for a definite or indefinite period of time in said territory to achieve a specific purpose.

According to the Merchandise Designation and Codification Harmonized System approved by the WTO, imported merchandise is classified using a 6-digit subheading (the international code). Two (2) additional digits are added for the exclusive use of the Andean Community (CAN) countries, and two (2) final digits that are set for use in Colombia.

The resulting 10-digit subheading is presented in the Colombian customs tariff classification, as established in Decree 2153 of 2016, and it reflects the general tariff of the applicable customs duty. The value-added tax, which is also a part of import taxes, is regulated in the Colombian Tax Code at a general rate of 19% for most cases.

## a.

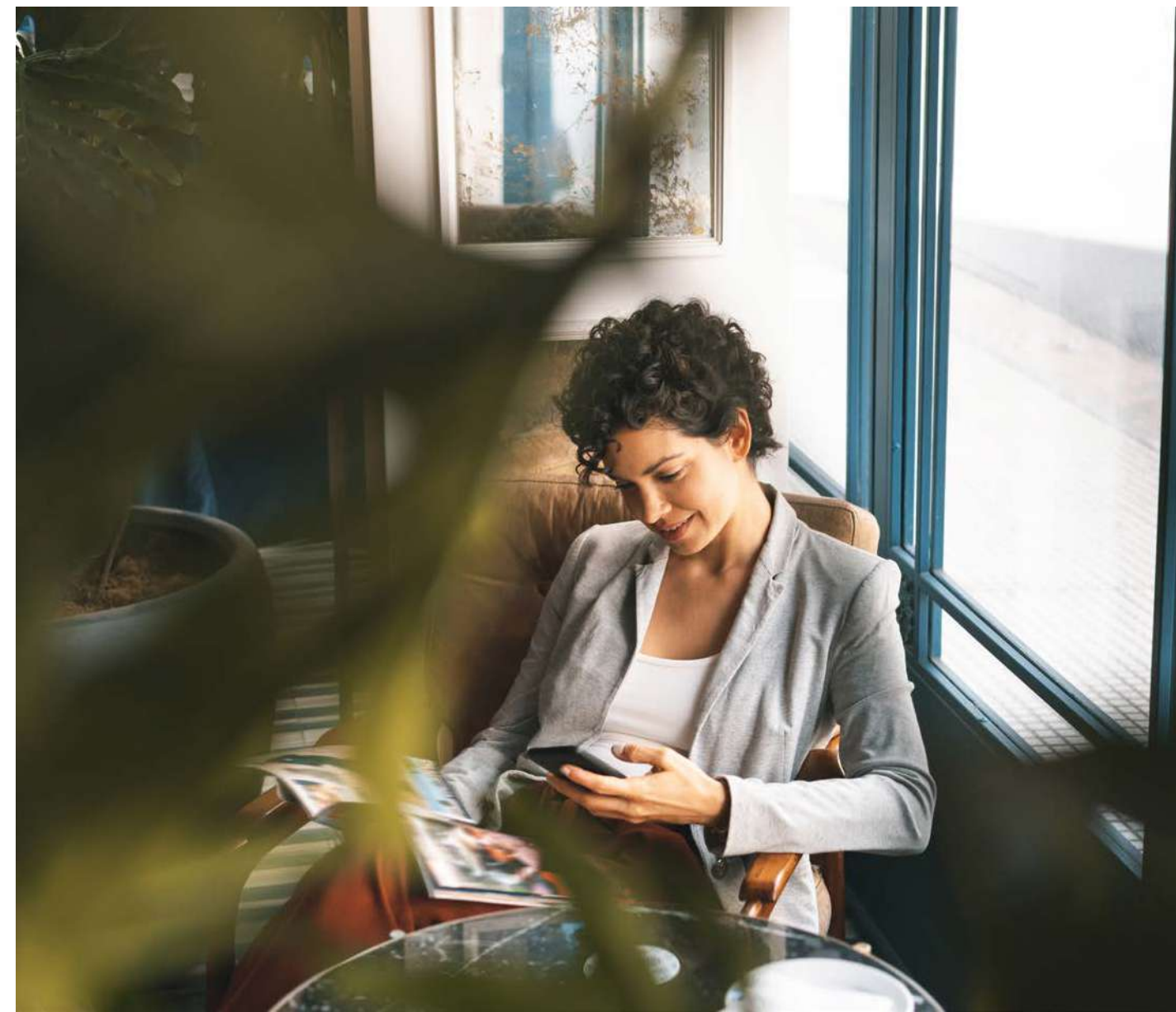
### Ordinary import

This is the most used import method. With this method, the importer in Colombia receives the goods as freely disposable property after the customs authority has issued its approval electronically or manually.

The obligations include filing a goods declaration (on the forms established by the customs authority through the electronic system), meeting labeling requirements (indicating reference numbers and filling out prior licenses depending on the quality of the imported goods), paying the total applicable

import taxes (including duties and value-added taxes, and antidumping and compensatory duties, if applicable) and securing clearance (an OK) on each import declaration.

The evaluation of imported goods is processed in accordance with the method set in the Valuation Agreement established by the WTO, which is based on article 7 of the General Accord on Customs and Trade of 1994 (GATT), which is regulated by the CAN and internal legislations. This is a part of the documents that prove the legal introduction of merchandise into national customs territory.



## b.

### Temporary imports – Temporary imports for re-export to the same state.

Temporary imports are those with exempted or deferred customs duties (mainly duties and VAT) for a specific period, for certain products. At the end of the specified period, the relevant product must be exported in the same conditions in which they entered the national customs territory. Sale or disposal of the goods

is restricted while they are within the Customs National Territory. These imports are classified into several types, including the following:

1.

#### Short-term imports:

Applicable to merchandise imported to fulfill a specific function. The maximum import term is 6 months, which can be extended for 3 extra months. Customs rights and taxes on import for this type of temporary import are suspended permanently, unless the importer decides to change the model to a long-term import, or for customs to clear the merchandise for it to remain permanently in national customs territory.

2.

#### International leasing:

the concept of international leasing can be applied to the long-term financing of temporary imports of capital goods, which can remain in the national customs territory for over 5 years. Under this concept, a foreign company (foreign supplier, foreign financial institution, or leasing) grants the right to use the capital goods imported into Colombia to a Colombian resident in exchange for periodic payments by the latter.

Payments must be processed through mechanisms authorized in the exchange regulations and considering the procedure established for passive external debt operations, since the operation is considered a financed import.



5.

## Exports

Exports of goods are foreign trade transactions that relate to the outflow of goods or property from the national customs territory to other places around the world, or to a free trade zone inside Colombia, mainly of raw materials, supplies, or finished goods devoted to the development of the activities performed by qualified free trade zone users.

Fishing of tuna and tuna-like species caught by Colombian or foreign companies, domiciled or with representation in Colombia, owners of Colombian flag vessels, which carry out operations outside Colombian maritime territory, is also considered an export.

The procedure for making an export from Colombia starts with the filing and acceptance of a Request for a Shipment Permit – SAE (for its acronym in Spanish) following procedures established by customs regulations (mainly online procedures).

In Colombia, exports are not subject to any customs duties or export charges. There is no general drawback program implemented in Colombia for the exportation of property or goods that have been previously imported.

If an importer needs to export products or parts that need to be repaired or replaced outside Colombia, they may use the temporary export rules to reimport the products or parts without paying any customs duties or VAT.

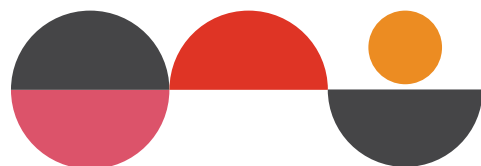
DIAN may request the importer to file an importer declaration for the products or parts that are being exported [and reimported later on] to prove that they have legally entered the national customs territory.

3.

### Temporary import to perfect assets:

temporary imports permitted under customs legislation, including the types presented below: nacional. El plazo máximo de diferimiento de los derechos e impuestos a la importación es de 5 años, sin perjuicio de que la mercancía pueda permanecer por un tiempo superior en el territorio aduanero nacional.

- Temporary import for the perfecting of capital assets and goods: under this type of import, capital assets may be temporarily imported, to be re-exported after a period no longer than 6 months – which may be extended for another 6 months –, to be repaired or renewed. During this period, the payment of customs duties will be suspended, and the open disposal of the goods will be restricted.
- Temporary import in the development of special import and export programs.





## Customs valuation

For Customs Valuations, Colombia applies the regulations of the WTO, specifically the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade (GATT). Additionally, Colombia applies the regulation of the Andean Community, Andean Decision 571 of 2003, and Resolution 1684 of 2014.

The customs value of imported merchandise is equal to the transaction value, i.e., the price actually paid or payable for the merchandise when they are sold as specific items of property for export to the importing country. If the transaction value may not be applied to the customs valuation of the merchandise, other customs valuation methods, pursuant to the international regulations, have to be used, such as using the transaction value of identical goods, and the transaction value of similar goods, among others.

Pursuant to the specifics of every international trade operation, adjustments to the customs value of goods might have to be made, for example in cases of royalty payments from the buyer, fees paid as a condition for sales or any value that accrues to the seller.

Customs duties are settled and paid based on the customs value of imported goods, and the VAT is offset based on the customs tariff classification of the goods.

For some specific cases provided for in the customs regulations, it is not necessary to file an Andean value declaration.



## Customs obligations

Registration is mandatory for those who import products or those subject to compliance with technical regulations. This is the case of reconditioned products, which the Superintendency of Industry and Commerce oversees and controls.

- Registration must be processed online, at the SIC's website [www.sic.gov.co](http://www.sic.gov.co); and it may take around one hour.
- The registration is processed using Company information such as commercial registration number, company name, address, telephone number, etc. The information provided must match the information of the commercial registration of the company to continue with the registration procedure.
- A password is required to make changes and updates, which must be processed yearly. The password is known because it is associated to the commercial registration number that appears on the certificate of good standing and legal representation. This ensures that only the person authorized by the company may alter the information in this registry.

This requires compliance with technical regulations for imperfect, used, repaired or refurbished products, in regard to which the government has previously authorized the import, assembly, distribution use or sale.







## Free-trade zones

To promote commerce and trade, investment, and the generation of jobs in the country, there is a free-trade zone regulation system in Colombia that applies to specific geographical areas within the national territory but considered as outside the national customs territory for customs purposes. The boundaries of said free-trade zones are set by the Ministry of Industry and Commerce. No customs duties apply within these areas; and, in most cases, the income tax applies at reduced rates. To operate within a free trade zone, an authorization from the operator user from such is required, and once authorized it is not possible to leave the free-trade zone or to relocate to a different one without going through the corresponding prior authorization procedures.

1.

### Labor requirements

Employees of the users must have:

- A formal and direct open-ended labor contract.
- Relation to the production or service provision process.
- Making payroll and Social Security contribution payments.

2.

### Partial processing of raw materials, supplies and intermediate goods

The law has not defined a partial processing percentage for a manufacturing process to be completed outside a free-trade zone; this is agreed-upon with the operating user. The maximum term of duration for property to be held outside a free-trade zone is 3 months plus a 3-month extension.

Likewise, in the case of operations carried out by mixed economy companies of the national order, linked to the Ministry of National Defense, which are qualified users of the free zone and whose corporate purpose is the assembly, repair, maintenance and manufacture of ships or aircraft or their parts, the term of stay outside



the free zone shall be in accordance with the terms of the contract signed.

3.

### Lands and buildings

They may be owned or leased depending on the operations and the negotiations with the operating user.

4.

### Investment in real productive fixed assets

Only new assets are considered as part of the investment commitment, and they turn into part

of the income-producing activity. Additionally, they are depreciated for accounting purposes.

5.

### New investment in intangible assets

In order for an intangible asset to be recognized as part of the new investment, it must have been generated or formed by the industrial user after the authorization or qualification of the same in the free trade zone, and must participate directly and permanently in the income producing activity. The intangible assets must correspond to those defined and recognized as intangible assets in the respective technical accounting framework in force.

6.

### Main types of free-trade zones

**Permanent free-trade zone – ZFP** (for its acronym in Spanish) are zones for several users, including industrial and commercial users. Additionally, there is a special type of ZFP, called off-shore permanent free-trade zone, devoted exclusively to activities related to technical evaluation, exploration and production of off-shore hydrocarbons and other related activities.

**Special permanent free-trade zones – ZFPE** (for its acronym in Spanish) or one-single-company free-trade zones, which must meet various investment commitments and job creation commitments within a 3-year term. There are several types of ZFPE, depending on the activity they are used for:





7.

## Incentives

Free-trade zones offer the following incentives to their users for periods up to 30 years, with possible 30-year extensions:

a.

Income tax: single 20% flat tax rate for all users of free-trade zones, and 32% for commercial users.

b.

Import taxes exemption (VAT and customs duties) This applies to the introduction of goods coming from abroad, so long as they remain in the free-trade zone.

c.

Possibility of customs clearing goods manufactured in free-trade zones.

d.

Using the tariffs subheading of the finished product and paying taxes over the added value of finished products; or clearing the raw materials through customs before they are incorporated into the production process, with their specific tax rate, in order not to be considered as a national exported component and for its value not to be added to the taxable base of the finished product.

e.

Possibility of storing foreign goods for an indeterminate period Industrial users have the possibility of storing in their facilities goods

coming from abroad that are necessary to produce the final goods that they manufacture.

f.

Possibility of importing secondhand goods without a prior license Goods in special market conditions (used, imperfect, repaired, rebuilt, refurbished, restored, of low quality.

-substandard- remanufactured, re-powered, discontinued, recovered, second-hand, second-use, second, third, out of season or other similar condition) entering a free trade zone do not require a license.

If the goods are intended for import into the rest of the national customs territory, they must obtain the corresponding license. The permanence of the goods may be indefinite if the user maintains his qualification.

8.

## Types of free-trade zone Users

### Operating User

The operating user is a company that is dedicated to managing and controlling customs duties matters.

### Industrial users of goods

Users that manufacture, produce, transform, or assemble goods or products within the free-trade zone.

For products to be exported from a free-trade zone to the rest of Colombia, the importer will have to file an import declaration and apply for any required license or registries, during the import process.

### Industrial users and providers of services

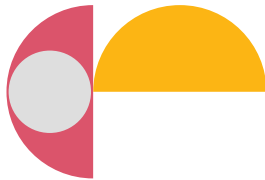
Users that provide services within the free-trade zone area or from the free-trade zone area to perform activities concerning logistics, transportation, distribution, telecommunications, scientific and technological research, medical assistance, dental health services and general health services, tourism, technical support, naval and air equipment, consulting, or similar services, among others.

### Commercial users

Users that store, sell and preserve products within the corresponding free-trade zone. They can occupy up to 15% of the total free- trade zone area. They cannot be located within any one-single-company free-trade zone and they do not qualify for the special income tax tariff of 20%.







Real productive assets	New Investment	Employment
From 0 to 12.326 UVT	No new investment requirements for new investments	Start-up: 3 direct and formal jobs. The following year: 2 additional jobs. Third year: 2 additional jobs. Total: 7 jobs
12.327 to 123.263 UVT	Within 3 years after qualification: 20,092 UVT	Start-up: 20 direct and formal jobs
123.264 UVT to 739.576 UVT	Within 3 years after qualification: 100.459 UVT	Start-up: 30 direct and formal jobs
739.577 or more UVT	Within 3 years after qualification:: 231.068 UVT	Start-up: 50 direct and formal jobs

The Tax Value Unit for the year 2021 is COP 36,308 (approximately USD 9.69).



## Customs preferential treatment

Trade agreements: Colombia has been structuring a policy of open integration, and so today it enjoys free-trade markets in Latin America within the framework of the Latin American Integration Association – ALADI (for its acronym in Spanish), as well as within the framework of the Andean Community of Nations (CAN for its acronym in Spanish). Additionally, the country has signed several trade agreements, already subscribed and enforceable with other states such as Canada and the United States, as well as with commercial blocks such as the European Union and MERCOSUR.

Below we present a list of the various agreements or treaties that Colombia has signed:

### Free-trade agreement with Costa Rica

This treaty grants preferential access for Colombian manufactured products in particular, which compete today at a disadvantage against third countries in one of the most attractive markets of the region. Costa Rica is one of the most dynamic and stable economies of Latin America. Colombia has held strong cultural, commercial and diplomatic ties with Costa Rica over many years.

The FTA with Costa Rica is a fundamental and natural step in our consolidation of commercial ties with Central America. This is so because it will supplement the agreements included in the treaty that we subscribed with the countries of the Northern Triangle (El Salvador, Guatemala, Honduras and Panama).

### Canada-Colombia Free Trade Agreement

The FTA between Colombia and Canada entered into force on August 15, 2011. The treaty includes a calendar for the asymmetrical elimination of customs duties; and it seeks to level out the customs duties of the different sectors over a period of 10 years.

The treaty establishes mechanisms to avoid the decrease or weakening of internal measures for the protection of health, intellectual property, employment, the environment and consumers where such measures involve human, animal and vegetal life.

### Free-trade agreement between Mexico and Colombia (the G2 FTA)

This treaty entered into force in 1995 with Colombia, Mexico and Venezuela being the initial signatories. Currently it includes only Colombia and Mexico, given that Venezuela withdrew from the treaty in November 2006.

The treaty includes an asymmetric elimination calendar for customs duties; and it seeks to level the customs duties of both countries over a period of 10 years, providing special treatment for the agricultural and automobile industries.



## United States - Colombia Trade Promotion Agreement

The FTA between Colombia and the United States entered into force on May 15, 2012. The treaty includes a calendar for the asymmetrical elimination of customs duties; and it seeks to level out the customs duties of the different sectors over a period of 10 years.

The treaty establishes mechanisms to avoid the decrease or weakening of internal measures for the protection of health, intellectual property, employment, the environment and consumers where such measures involve human, animal and vegetal life.

## Economic complementation agreement N° 49 between de Republic of Colombia and the Republic of Cuba

This agreement entered into force on July 10, 2001 and it has two amendment protocols. It includes topics concerning market access; non-customs restrictions; rules of origin; agreement on safeguards; unfair practices; services trade; transportation; technical standards; investment; commercial cooperation; and industrial property among others.

Cuba grants preferential treatment for more than 4,600 Colombian customs lines. This includes customs preferential treatment for agricultural and farming sectors, including beef, seeds, cacao, coffee preparations, fruits, and fish, among others. On the other hand, it includes preferential treatment in the industrial sector for textiles and confection products, the automobile industry, soaps and cosmetics, letter, electrical appliances, shoes, metallurgical products, construction materials, among others.

## Economic complementation agreement – ACE (for its acronym in Spanish) between Chile and Colombia – Free-Trade Agreement (FTA) with Chile

An economic zone is created between Colombia and Chile in the form of an ACE, in order to move forward in the progressive elimination of customs duties and non-tariff barriers. 95% of

duties on bilateral trade are eliminated, which corresponds to 96% of the Colombian tariffs. The remaining percentage was fully released with zero tariffs in 2012.

The ACE with Chile was strengthened and both countries decided to start negotiating a free trade agreement. As a result, on November 27, 2006, the final text of the FTA was signed and entered into force on May 8, 2009.

## Free Trade Agreement between the Republic of Colombia and the Republics of El Salvador, Guatemala and Honduras (Northern Triangle)

With the purpose of strengthening the regional economy as an instrument for social and economic development in Latin American countries, Colombia, Guatemala, El Salvador and Honduras initiated in June 2006 a process for negotiating an FTA. The trade treaty was signed on August 9, 2007 and it came into force on the following dates: November 12, 2009 with Guatemala, February 1, 2010 with El Salvador and March 27, 2010 with Honduras.

This FTA includes matters such as: National treatment and market access; investment services; trade of international services; electronic commerce; cooperation; conflict resolution; public bidding; commercial facilitation; sanitary measures; technical standards; the rules of origin; and trade defense measures.

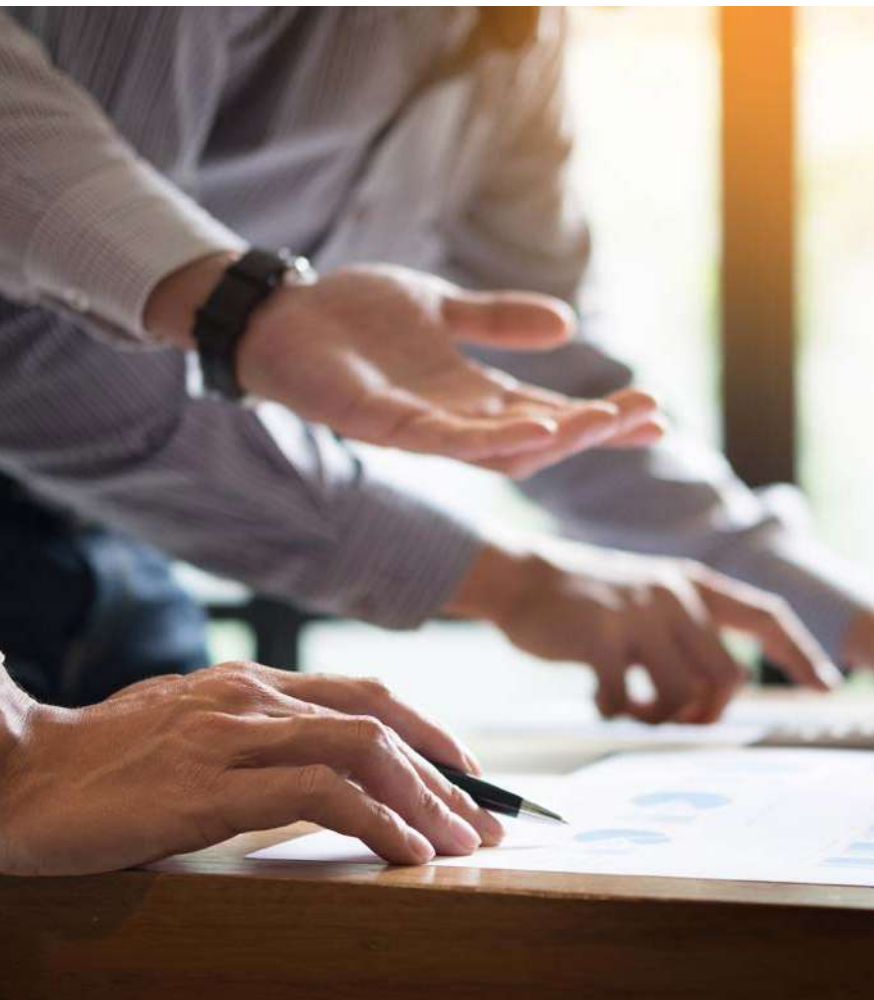
## Partial agreement between the Republic of Colombia and Caribbean Community (CARICOM).

This agreement entered into force on January 1, 1995. The agreement and the amendment protocol provide general clauses that relate to the following: Customs duties scheduling and elimination; treatment of imports; rules of origin; technical standards; general exceptions; commercial promotion; commerce financing; service trade; transportation; safeguards stipulation; unfair trade practices; economic cooperation; technical cooperation; and other matters that are very important for our country.

## Commercial Agreement between the European Union, Colombia and Peru

The Free Trade Agreement between Colombia and Peru, on the one hand, and with the European Union on the other, were signed in 2012, and began provisional application in 2013. On November 5, 2014, the national government issued decree 2247, by way of which the agreement signed by the parties entered into force.

This agreement covers several aspects that relate to foreign trade and it includes commitments that go beyond the framework of multilateral trade relations. An essential element of this agreement is a commitment between the parties to respect human rights and the development of sustainable economies based on the protection and promotion of employment and environmental rights.







## Commercial Agreement between the Republic of Colombia and the EFTA states

On November 25, 2008, the Republic of Colombia signed a free trade agreement with the European Free Trade Association, a commercial group composed by Switzerland, Norway, Iceland and Liechtenstein. The treaty entered into force on July 2011, but it was only until October 1, 2015 that the treaty was ratified by the Icelandic Parliament.

In this agreement a customs tariff relief was negotiated, affecting agricultural, industrial, marine, and processed agricultural products. Likewise, matters related to market enhancements, investment expansion and diversification, and strengthening of the integration with European countries were negotiated.

## Additional Protocol to the Framework Agreement of the Pacific Alliance

The Pacific Alliance was born in 2011 as a regional integration initiative for the Latin American Countries in the Pacific Ocean. Started by Colombia, Peru, Mexico and Chile, its objectives are the promotion of free trade, free movement between countries, cultural and academic promotion, and cooperation in trade and diplomatic relations with the Asian countries in the pacific coast.

With the framework agreement of the Pacific Alliance, an additional protocol was signed in

2014 for the establishment of a free trade area between the member countries seeking the customs tariff reduction, market access, trade ease, and customs cooperation; furthermore, this additional protocol contains matters related to investment, financial services, telecommunications, maritime services, amongst others.

## Economic supplementation agreement 72 (ACE72) between the Republic of Colombia and MERCOSUR member states

On July 21, 2014, an economic supplementation agreement was signed between Argentina, Brazil, Paraguay and Uruguay (the countries that make up MERCOSUR) and Colombia.

This agreement had a provisional implementation, varying from every country member of MERCOSUR. With the entry into force of the agreement between Colombia and Paraguay in January 29, 2019, the ACE 72 finally entered into force amongst every party, and fully replaced the former agreement, ACE 59 of 2004. The matters regarding market access of originating goods were not subject to modification and the provisions initially negotiated in the ACE 59 were maintained; nevertheless, in ACE 72, matters related to industrial, textile, and automotive products, amongst others, were maintained.

The agreement includes matters related to conflict resolution, sanitary standards and industrial safety, technical regulations and safeguards.



## Andean Community of Nations – CAN

The Andean Community of Nations is one of the strategic integration plans for Colombia. It operates under the sponsorship of ALADI. Under this agreement, Colombia is exempt from any customs duties and restrictions, and becomes a free-trade zone with Bolivia, Ecuador, Peru and Venezuela up until 2011.

Also, in September 2006, the Council of Foreign Affairs Ministries of the CAN gave Chile the condition of associated country. By doing this, it reasserted the economic commitments established with that country and expanded the integration framework in the region.

The main purpose of CAN is to improve integration through a common market regulated by supra-national monetary, tax, foreign-exchange, environmental and public utility agreements (with supra-national agreements referring to agreements that are to prevail over national, domestic legislation).

## Free Trade Agreement between the Republic of Colombia and the Republic of Korea

This commercial agreement represents the first of its kind signed between Colombia and an Asian Country. It was signed in February 2013 and entered into force in July 15, 2016. In this Agreement customs were negotiated seeking preferential treatment for a huge array of Colombian products, including coffee,

bananas, flowers, vegetables, sugar, beef, pork, dairy products, and others. Moreover, around 80% of textile products may enter the Asian Country free of customs and tariffs, and on the other hand, it allows the investment flow from Korea into Colombia, especially in the automotive, telecommunications and information sectors.

## Future Agreements

Up to this moment, Colombia has signed trade agreements with several countries that still have not entered into force. These countries are: Israel, Panama and a commercial continuity agreement with the United Kingdom for after its withdrawal from the European Union. Moreover, the Colombian Government is currently engaging in commercial negotiations with Japan and Turkey, with the intention to sign future commercial agreements with this country.



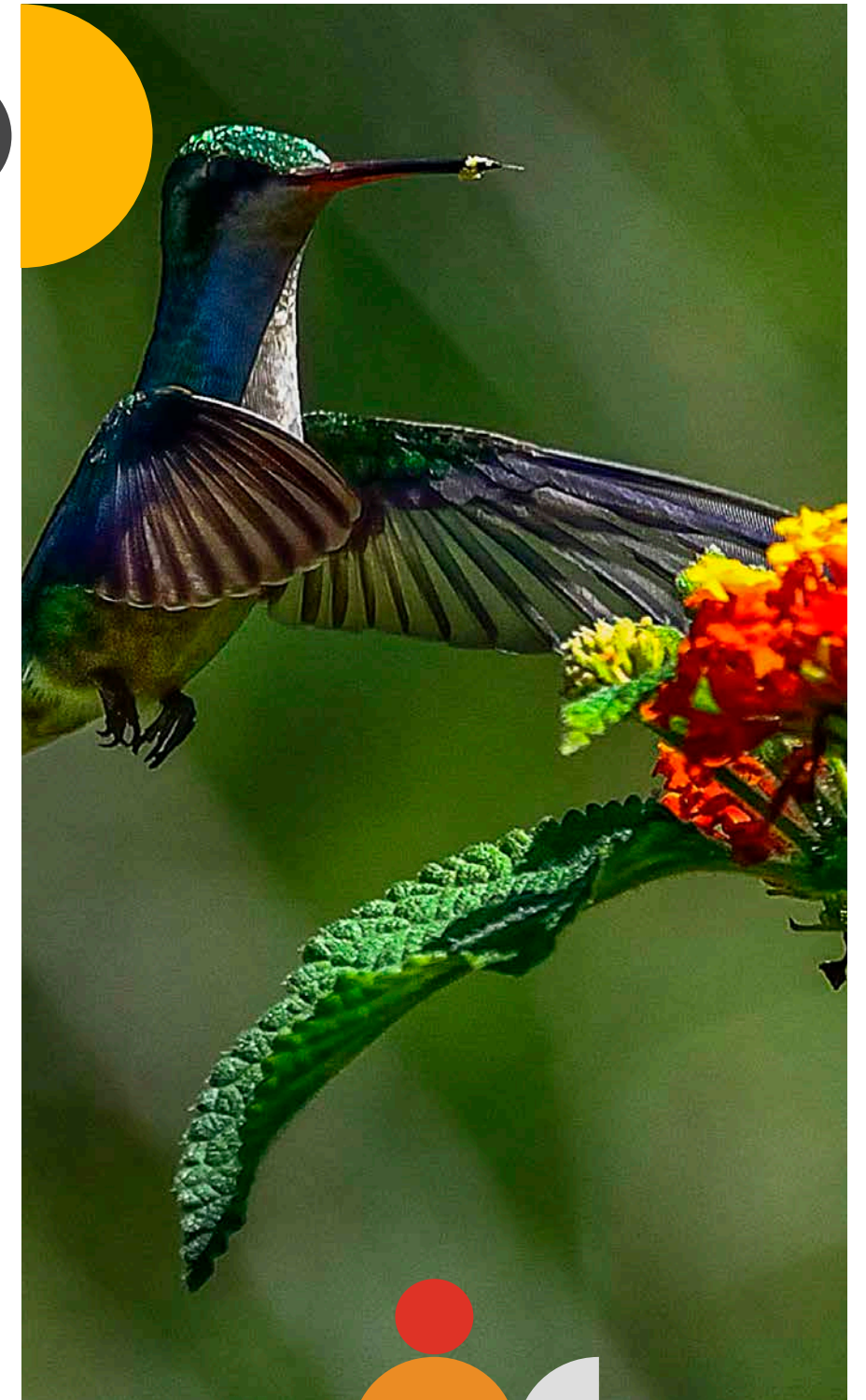


# 09

## Transfer Pricing

The Transfer Pricing regulation in Colombia has been prepared following the Guidelines of the Organization for Economic Cooperation and Development (OECD) and aims at controlling income tax evasion. The applicable regulation is contained in the Tax Code, in its Sections 260-1 to 260-11, and in the Unique Decree 1625 of 2016 (Title 2).

Income taxpayers who carry out transactions with related parties, as defined in Sections 260-1, 260-2 and 260-7 of the Tax Code, are obliged to determine ordinary and extraordinary revenues, costs and deductions and assets and liabilities, considering the Arm's Length Principle for these transactions.







# Transfer Pricing: overview

## Methods

Follows those included in the OECD Guidelines and establishes the comparability factors or preferred methods for the transaction analysis, among which are loans, commodities, sale of shares or purchase of used assets.

## Formal obligations

The formal obligations are Local File, Master File, Country-by-Country Report, Country-by-Country Report Notification and the Transfer Pricing Informative Return, provided compliance with the conditions established in the regulation for each case (Sections 260-5, 260-7 and 260-9 of the Tax Code and Title 2 of the Unique Decree 1625 of 2016, as amended by the Regulatory Decree 2120 of 2017).

## Other important considerations

Acquisition of used assets, purchase and sale of shares, corporate restructurings, payments in favor of tax havens or preferential tax regimes, the tested party, Advance Pricing Arrangements, require additional analysis or information to be carried out.

## Effects in income tax return

In the event that the taxpayer is outside the arm's length range, the price or profit margin will be considered to be the median of such range. According to the type of tested transaction, taxpayers must include additional revenues or reject costs or deductions in the respective income tax return and calculate the penalties and late payment interest to be applied.



## Formal penalty regime

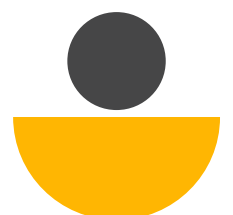
Formal penalties for the transfer pricing regime are contained in Section 260-11 of the Tax Code. These penalties are triggered by late filing, inconsistencies, failure to file or omission in the Local File, in the Master File and in the Informative Return.

## Attribution of income and capital gains

The taxation of Permanent Establishments (PE) and branches in the country will be with respect to the income and capital gains of national and foreign source attributable to them. The attributions will be made under the criteria of functions, assets, risks assumed and personnel involved, as well as by other parts of the company of which the PE or branch is part in obtaining such income and capital gains, for which a study must be prepared, in accordance with the arm's length principle. Among the considerations for the attribution of income, the following are highlighted: Separate accounting for the attribution of income and capital gains to the PE and branches of foreign companies.



Application of the tax regulations in the attribution of income and capital gains to PE and branches: Once the attribution of income and capital gains has been made, the tax obligation will be determined in accordance with the provisions of the Tax Code.

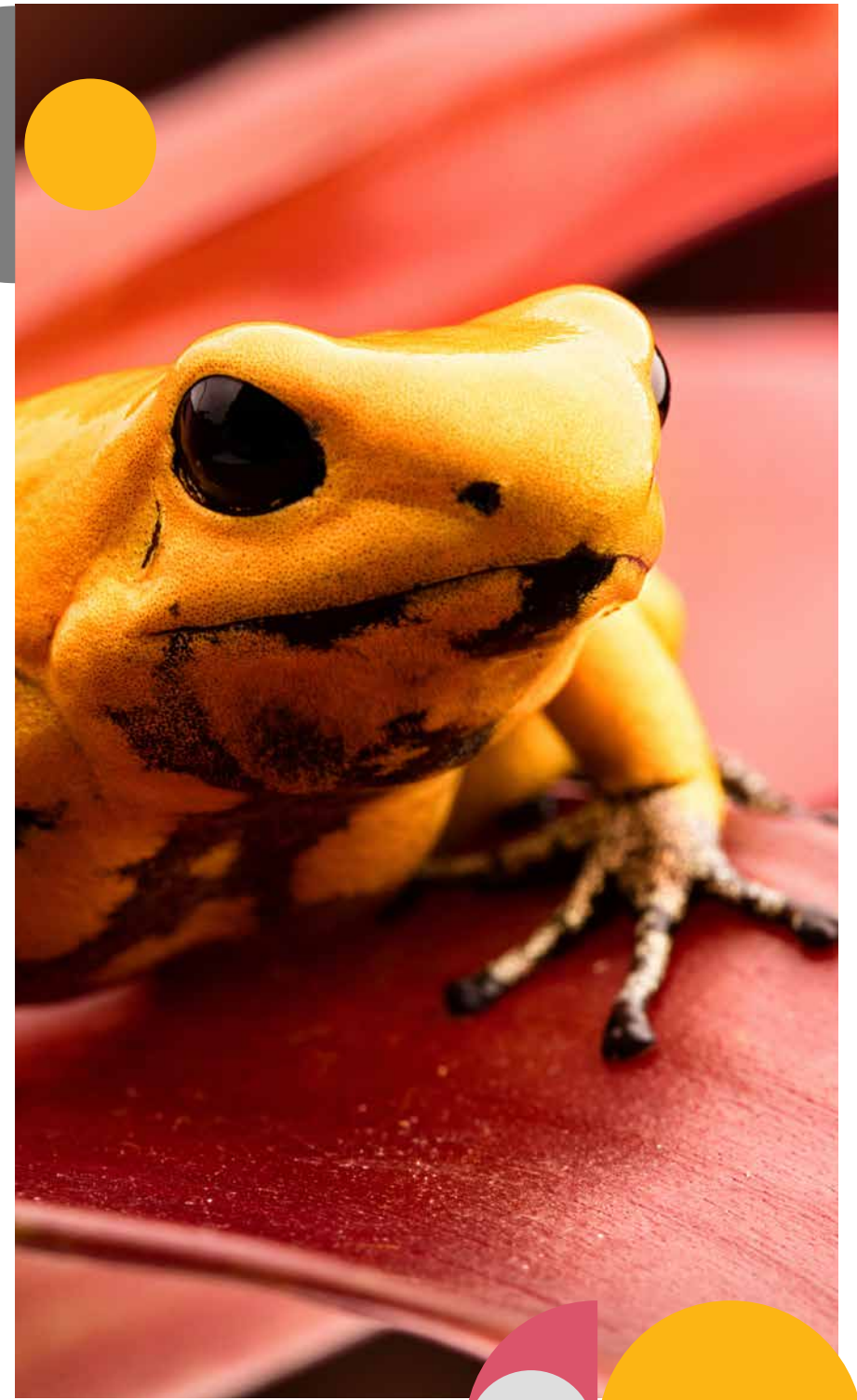




# 10

## Conflict Resolution

- The Colombian legal system establishes different conflict resolution mechanisms for disagreements between private citizens and the state, operating in accordance with the Constitution and the law.
- Conciliation and arbitration have been broadly developed in our legislation. Because of this, everyday more and more people resort to these mechanisms to settle and resolve their conflicts in a quick and reliable manner.
- International arbitration rules in Colombia have been created in accordance with the CNUDMI Model Law on International
- Commercial Arbitration. In this way, arbitration originates more under contracts than under procedural law.
- On the other hand, it is worth mentioning that Colombia ratified and adopted as internal legislation the 1958 New York Convention on the Recognition and Execution of Foreign Arbitral Awards, and the 1975 Inter-American Convention on International Commercial Arbitration.

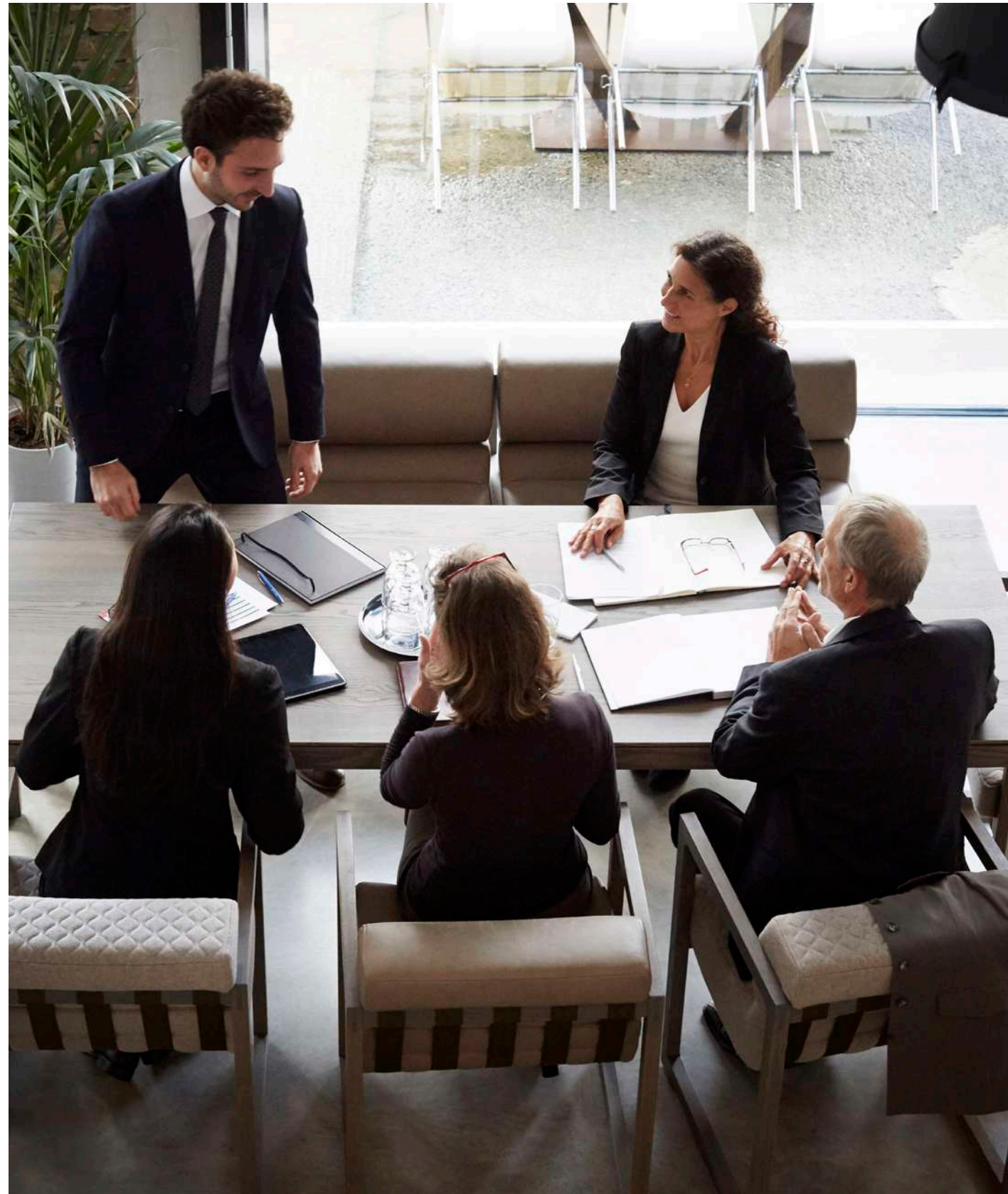




## Context

Under Colombian law we have several instances of judicial competence, through which conflicts between private parties and conflicts between private parties and the state may be settled. As a general rule, conflicts between private parties are settled before regular courts of law and regular judges; whereas conflicts between private parties and state agencies must be settled before contentious administrative courts of law.

The state also allows private citizens to exert the function of administering justice transitorily as peace/justices judges, reconciliation agents or arbiters, so that they can hand down decisions based on equality or on the law, in accordance with the guidelines and restrictions that the law establishes for each specific case.



## Regular Courts of Law

Regular courts of law are in charge of settling conflicts between private parties in civil, commercial, labor, agricultural, criminal and family matters. Regular courts of law include of all-inclusive competency courts, municipal courts, circuit courts, Higher Tribunals and, finally, the Supreme Court of Justice, the highest tribunal in Colombian Law.

For these courts of law, the rules of procedure are framed under Act 1564 of 2012, the so-called General Rules of Procedure. These rules are provided for civil, commercial, agricultural and family matters. Also, under Legislative-Decree 2158 of 1948, the so-called Labor and Social Security Procedural Code, as well as Act 906 of 2004, the so-called Code of Criminal Procedure.

## Contentious Administrative Courts of Law

Contentious administrative courts of law are in charge of settling conflicts between private parties and the state, or conflicts between state entities. This system of courts includes administrative circuit courts, administrative tribunals and the so-called Council of State, the highest administrative court of law in the country. The rules of procedure for these courts of law are framed under Act 1437 of 2011, the so-called Code of Administrative Procedure.





## Special Courts of Law

In Colombia there are three special courts of law through which certain and exceptional conflicts are resolved, these are: The Indigenous Court, the Peace Court and the Special Court for Peace (JEP in Spanish).

The Indigenous Court is in charge of resolving disputes among indigenous people through their internal cultural law. The Peace Court is in charge of resolving certain minor conflicts between subjects that voluntarily submit to this court, and finally, the Special Court for Peace, established temporarily, is responsible for knowing the conflicts related to the Colombian peace process.



## Constitutional Courts of Law

Constitutional courts of law are in charge of interpreting the constitution and ensuring its supremacy in the Colombian legal system. Its principal organ is the Constitutional Court, which is made up of 9 magistrates specialized in constitutional matters.

Through the mechanism of guardianship, multiple controversies can be known by the Constitutional Court in situations where violations of fundamental rights are verified.

In principle, all Colombian judges are constitutional judges, so they have a duty to ensure compliance with the constitution in all cases.

## Alternative Conflict Resolution Mechanisms

Because of the high levels of judicial congestion in Colombia, settling a case before the regular and the contentious administrative courts of law may take several years. As a result, Article 116 of the Constitution provides the possibility to private parties being temporarily invested with the power to administer justice acting as conciliation agents and arbiters.

Conciliation and arbitration in Colombia are already amply developed. As such, more and more people resort to these mechanisms in an attempt to settle their controversies in a quick and reliable manner.

## Conciliation

Conciliation is a mechanism for the resolution of conflicts, through which two or more persons directly work on solving their differences with the help of a qualified, neutral third party known as the conciliation agent (conciliador in Spanish). Any matters settled as a result of compromise and settlement agreements, which may be abandoned in the course of legal proceedings, may be settled through conciliation, in addition to other specific matters determined by the law.

The effectiveness of conciliation lies in the fact that when the parties reach the point of a total or partial compromise agreement, said agreement turns into *res judicata*, and the record written to set it down on paper is valid

as a supporting document to initiate collection proceedings.

This alternate conflict resolution method is being used more and more in Colombia. Today, there are 364 active conciliation centers, and 95,000 conciliation applications or requests were filed before those centers.

Information taken from <https://conciliacion.gov.co/portal/Estadistica/Estadisticas> 2015





## Arbitration

Arbitration is an alternate conflict resolution mechanism, by which the parties leave it to arbiters to settle a controversy. Such controversy must relate to matters or rights which the parties may dispose of freely or to any other matters authorized by the law. Arbitration can be national or international.

1.

### National arbitration

National arbitration will be ad hoc if the arbiters carry out arbitration directly, or it will be institutional, if managed by a center of arbitration. In lack of an agreement between the parties concerning the nature of the arbitration, it will be institutional.

Where the controversy is about contracts entered into with a public or state entity or with a private entity that carries administrative duties, then the proceedings will be regulated by the rules set forth in Act 1563 of 2012 for institutional arbitration.

2.

### International arbitration

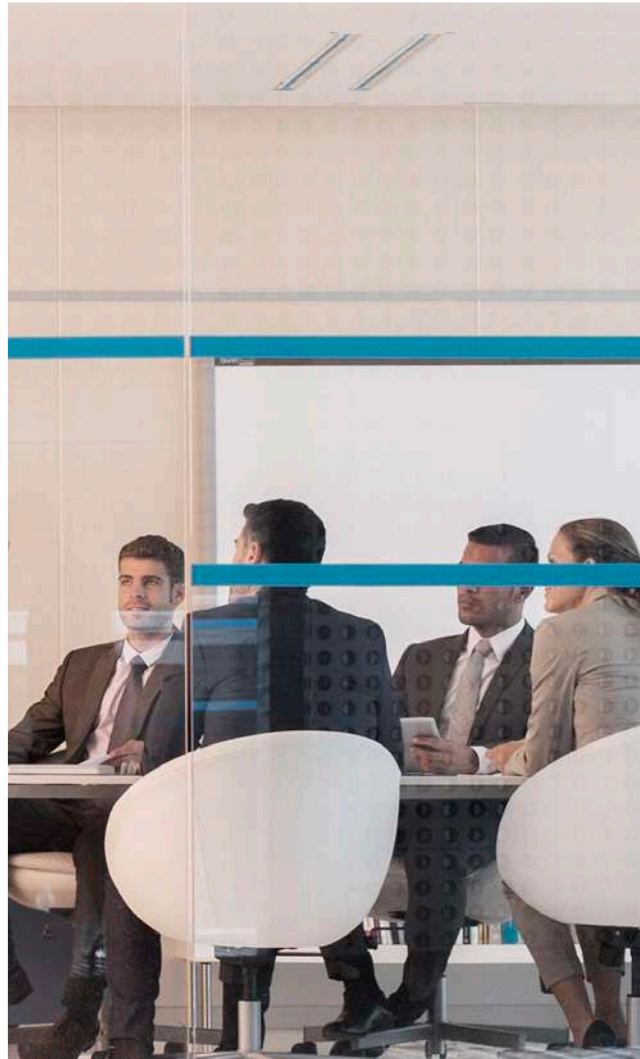
The arbitration is understood to be international when: (i) the parties are located in different States, (ii) the place where the obligations related to the controversy are fulfilled, or where the controversy itself takes place, are places out of the State where the parties are located, and (iii) when the controversy submitted to arbitration affect international trade interests.

It is worth noting that Colombia ratified and adopted as internal legislation the 1958 New York Convention on the Recognition and Execution of Foreign Arbitral Awards, and the 1975 Inter- American Convention on International Commercial Arbitration.

3.

### Investment arbitration

Since August 14, 1997, Colombia is a member of the International Center for the Settlement of Investment Related Conflicts – CIADI (for its acronym in Spanish) –, which was created to provide solutions to problems arising between governments and foreign investors.





# 11

## Tax Law

Under Decision C-481 of 2019, the Constitutional Court of Colombia declared that most of the Articles of Act 1943 of 2018 were unconstitutional. This was so because Congress disregarded the principles of publicity and consecutive connection in the legislative procedures that led to the approval of said law.

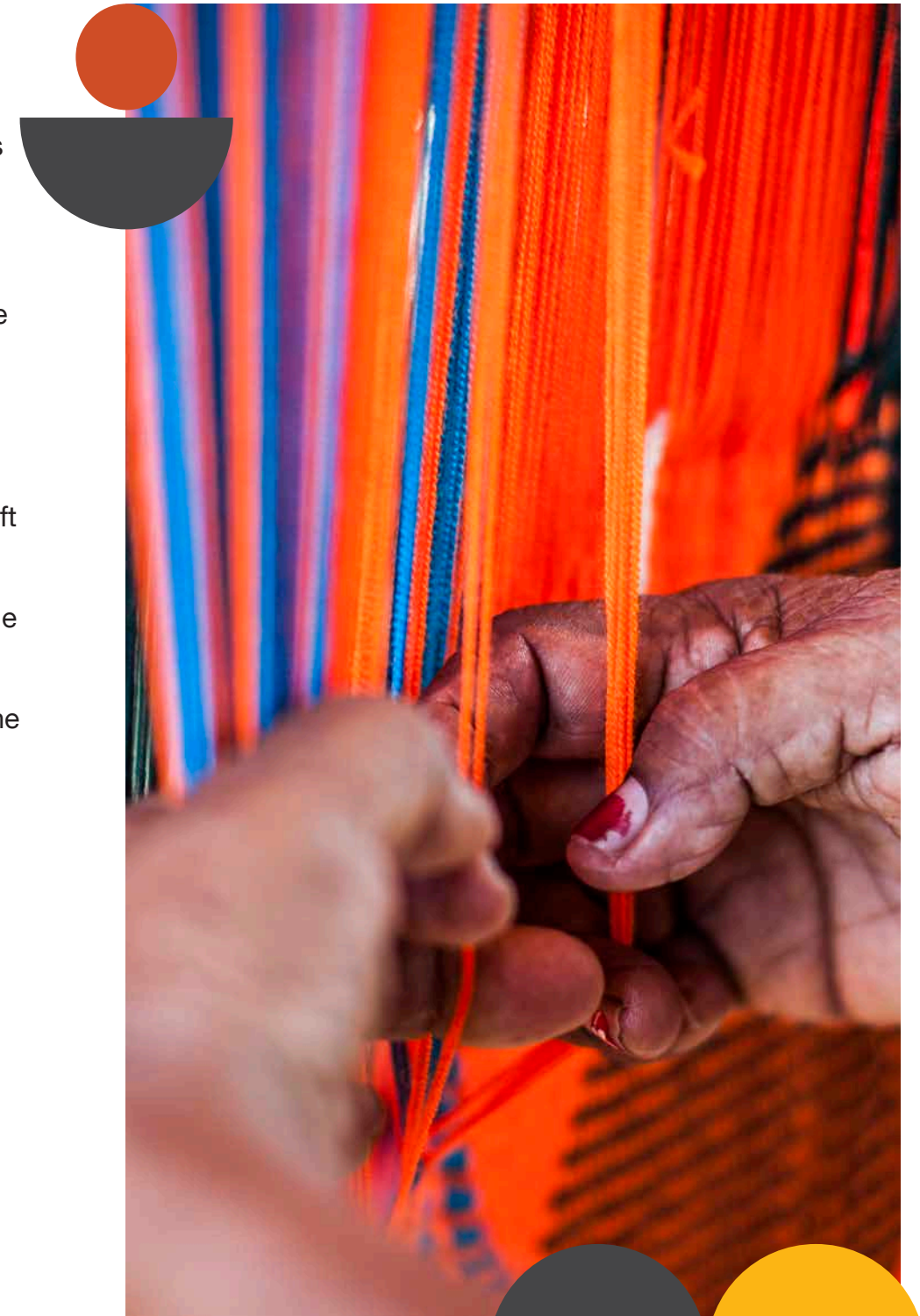
According to the Court, the proposal that closed the debate during the session in the Chamber of Representatives was not complete and did not fulfill the requirement of sufficient publicity so that “the legislator may offer its consent in the approval of a law containing substantial tax-related contents, which demands broad democratic features in the application of the principles of literality, with no tax being left without proper representation”.

However, the Court decided that its decision was to become effective only as from January 1, 2020; and it held that in case no new law had been enacted to replace Act 1943 of 2018 within the proposed term, then all the regulations in the law that Act 1943 of 2018 had repealed would resuscitate and all the regulations of the law added to the tax system would be treated as inadmissible and ineffective.

On December 27, 2019, Act 2010 of 2019 – known as the Economic Growth Act – was promulgated. This law replicated many of the regulations in Act 1943 of 2018. Likewise, during 2019 the National Development Plan was issued, as contained in Act 1955 and Legislative Decree 2106 of 2019, both of which include tax regulations. Lastly, during 2020, Acts 2068 (Tourism Law) and 2069 (Entrepreneur Law) of 2020 were enacted, implementing relevant tax measures.

Note\*

TU: UVT is the Colombian tax unit, for the year 2020, 1 UVT is equivalent to 36,308 COP.  
This document will use TU to reference the UVT.





# Income tax

## General aspects

The income tax is a charge on the revenue that leads to increases in the gross equity of individuals and corporations. Colombia's tax system is based on a worldwide taxation system, which is used to determine the source of income. This is so because resident individuals are taxed based on their worldwide income, whereas non-residents are taxed on their Colombian source income and capital gains only.

In line to the above, the principle of domicile applies for national companies. In other words, they must report both their Colombian and foreign source income. On the other hand, foreign companies are subject to this tax only based on their Colombian source income and capital gains. Finally, permanent establishments and branch offices must pay income taxes on any Colombian and foreign source income attributable to them.

Concerning the tax period, for income tax purposes, it corresponds to the calendar year, running from January 1 through December 31. Nevertheless, there are certain exceptions, mostly when a taxpayer has not existed during the full calendar year, this is the case of companies created or liquidated during the year. In such cases, the income tax is reported and paid for the corresponding fraction of the full year.

## General tax rate and special tax rates

### For corporations

Income tax rate, for resident and non-residents subject to tax filing requirements, was reduced to 31% for 2021 and 30% for 2022 and going forward.

Likewise, the law established an income tax surcharge for financial institutions. These

taxpayers must pay income taxes at a rate of 34% in tax year 2021 and 33% in tax year 2022.

It is worth indicating that the surcharge was not applicable to tax year 2019 because the Constitutional Court declared the unconstitutionality of the surcharge by way of

Decision C-510 of 2019.

Regarding the special income tax rates that were included in Act 2068 of 2020 (Tourism Law), we have the following:

Rate	Type of activity/income
27%	Mega-investments: income taxpayers that generate at least 400 new direct jobs; or income taxpayers that generate at least 250 new direct jobs in mega investments made in sectors with a high technological component, in sectors with emerging and exponentially growing technologies, and in the field of e-commerce.  Additionally, these taxpayers must make new investments within the national territory for an amount equal to, or greater than 30,000,000 TU (COP 1,089,240,000,000). To be eligible for this benefit, the taxpayer must meet the requirements established in Article 235-2 of the tax code.
20%	Industrial users of Free-Trade Zone goods and services.
15%	Users of the newer free-trade zones created in Cúcuta between January 2017 and December 2019 that (i) have more than 80 hectares and (ii) have over 40 users, whether national or foreign companies.





Rate

Type of activity/income

9%

- (i) Hotel services provided in municipalities with 200,000 inhabitants or less: (a) for new hotels built within the 10 years following the effective date of Act 1943 of 2018, the tax rate will apply for a period of 20 years; and (b) for remodeled or expanded hotels, the terms will be the same, but the special rate will apply prorated to the value that represents the cost of the remodeling or expansion within the total tax basis of the property.
- (ii) Starting in 2019, hotel services provided in municipalities with 200,000 habitants or more: (a) for new hotels, this rate will apply if the hotel is built within the subsequent 6 years, and for a term of 10 years; and (b) for remodeled or expanded hotels, the terms will be the same, but in this case the cost of the remodeling or expansion cannot be less than 50% of the property acquisition cost.
- (iii) New theme parks, ecotourism parks, agricultural tourism parks and nautical wharves built in municipalities with 200,000 inhabitants or less within the 10 years after the law goes into effect, for a term of 10 years.
- (iv) New theme parks, ecotourism parks, agricultural tourism parks and nautical wharves built in municipalities with 200,000 inhabitants or more within the 6 years after the law goes into effect, for a term of 10 years.
- (v) Services provided in parks that are remodeled or expanded within the subsequent four years after the date on which the law goes into force, for a term of 10 years.
- (vi) Services related to the care, feeding, nursing, accommodation, physiotherapy, recovery and other assistance services provided in centers for elderly tourists, which started operations before January 1, 2020, for a term of 10 years.
- (vii) State-owned industrial and commercial enterprises and departmental, municipal and district mixed economy companies where the state owns 90% or more of the equity interests and which exert monopolies in liquor and alcoholic beverage industries.
- (viii) Publishing enterprises established in Colombia as legal entities, with an exclusive line of business in the publishing of scientific or cultural books, magazines, booklets, or collectible serialized issues.

For Individuals

The income tax for people (to be paid by Colombian resident individuals, the estates of Colombian resident and their descendants, and special-purpose legacies or bequests) will be determined in accordance with the following tax table starting from tax year 2020:

TU ranges		Marginal	Tax
From	To	Rate	
0	1090	0%	0
>1090	1700	19%	(Taxable Base in TU minus 1,090 TU) *19 %
>1700	4100	28%	(Taxable Base in TU minus 1,700 TU) *28 % plus 116 TU
>4100	8670	33%	(Taxable Base in TU minus 4,100 TU) *33 % plus 788 TU
>8670	18970	35%	(Taxable Base in TU minus 8,670 TU) *35 % plus 2,296 TU
>18970	31000	37%	(Taxable Base in TU minus 18,970 TU) *37 % plus 5,901 TU
>31000	and above	39%	(Taxable Base in TU minus 31,000 TU) *39 % plus 10,352 TU





# Determination of the taxable basis of the income tax

Colombian law establishes two ways of determining the taxable basis for the income tax. The regular system and the alternate system, also known as the presumptive income system.

Every year, the taxpayer must compare the amounts of taxable income that derive from applying these two systems, to determine the one that results in the highest amount. Based on the highest amount, the taxpayer will compute the income tax liability for the tax year.



## Regular system

Under this system, the taxpayer includes all revenue obtained in the year to the extent they can generate a net increase in equity at the time of realization. These revenues are then netted as indicated in the table below:



**Gross revenue less:** discounts, returns and rebates

**Net revenue less:** non-taxable revenue  
Taxable net revenue less: deductible costs



**Gross income less:** deductible expenses (or “deductions”)

**Taxable income less:** exempt income  
Net taxable income times tax rate



**Basic income tax less:** tax credits  
Net income tax

## Presumptive income tax system

The so-called presumptive income tax system corresponds to the minimum estimated profitability of an income taxpayer for which the regulators expect this taxpayer to pay income taxes. It is worth noting that presumptive income does not correspond to natural income generated from the activity of the taxpayer. It operates by law (as a rebuttable presumption) and under the parameters established by the law.

The following amounts (among others) may be deducted from the liquid equity:

- Net asset value of any shares and equity interests held in Colombian companies.
- Net asset value of any property affected by force majeure or unforeseen, uncontrollable events (or “Acts of God”).
- Net asset value of any property associated with enterprises undergoing the initial unproductive stage.
- Net carrying amount of any property directly associated with companies the exclusive line of business of which is mining, other than the production of liquid and gaseous hydrocarbons.
- The first 19,000 TUs worth of the taxpayer’s property used in agricultural and farming activities.
- The first 8000 TUs worth of the taxpayer’s personal home.

- Net asset value of any property exclusively used in sports activities for social and sports clubs.

If the resulting presumptive income is greater than the regular taxable income, that excess corresponds to a “presumptive income excess” (or PIE). PIE amounts can be carried forward to be offset against the net taxable income reported by the taxpayer in any of the subsequent 5 tax years.

Certain taxpayers are exempted from applying the presumptive income alternate computation method because of their corporate purposes. This is the case for residential public utility companies. Likewise, companies undergoing liquidation are not subject to this PI alternate computation method during the first 3 years.

Taxpayers that are registered under the so-called SIMPLE tax system will not be subject to the presumptive income computation.

For individuals, the pension and dividend baskets of income will not be subject to the alternate presumptive income computation.

Under Act 2010 of 2019 the gradual phase-out rates for the presumptive income computation were modified. For year 2020, the rate was set at 0.5%; and the 0% rate was kept, for application starting in 2021.



Method 2020	Presumptive 0.5%
Method	Presumptive 0%

## Nontaxable income

Tax law establishes certain special treatments that allow taxpayers to exclude certain items of income or revenue from the computation of taxable income.

- Voluntary social security contributions to the private pension system continue to be non-taxable income in the rates that do not exceed 25% of the annual income or up to a maximum of 2500 TUs, whichever is lower.
- Dividends and shares in profits distributed by Colombian companies (if they are paid from earnings already taxed at the corporate level) and the value of casualty insurance compensation to the extent they correspond to the direct loss suffered by the taxpayer.
- Additionally, Act 2010 of 2019 reestablished several articles of the Colombian Tax Code (CTC), indicating that the inflationary component of financial income is becoming applicable again. As such, this inflationary component is once again treated as nontaxable income.

## Deductible costs, deductible expenses, and other deductions

Costs are deductible for income tax purposes if they fulfill the general requirements as follows:



- Cause and effect relationship with the income producing activity
- Necessity: It refers to the imperative requirement to incur in the expenses
- Reasonability: The expenses must be proportionate within the taxpayer's overall activity.
- The necessity and the reasonability of the expense must meet commercial standards, based on expenses incurred in similar business activities.
- Finally, the deduction must be claimed for the taxable year in which it is incurred.

### a.

#### Salaries and payroll taxes

Salaries accruing as due or paid to employees are deductible provided that the employer is up to date in the payment of all payroll taxes (ICBF, SENA and family compensation funds) and social security contributions, also if they have collected the required withholding taxes. Payroll taxes and social security contributions are also deductible for income tax purposes.

The following employers are exonerated from paying any payroll taxes for employees who earn 10 minimum monthly legal wages or less: (i) corporate income taxpayers, (ii) individuals who have 2 or more employees and (iii) consortiums, temporary unions, and trusts where the members are exonerated from paying payroll taxes.



## b.

### Taxes, fees, and contributions paid

100% of taxes, fees and contributions effectively paid (or accrued as due for taxpayers required to keep accounting books) are deductible for income tax purposes provided they are “causally connected” with the taxpayer’s income-producing activity. This includes affiliation fees paid to professional associations.

50% of the financial transactions tax (or GMF, from its acronym in Spanish) may be deducted for income tax purposes without this tax needing to be causally connected with the taxpayer’s income-producing activity.

Taxpayers will be entitled to claim 50% of the industry and commerce tax and related billboards tax that they pay as an income tax credit. In 2022, the tax credit will increase to 100%.

Please note that neither the wealth tax nor the normalization tax may be deducted for income tax purposes.

## c.

### Interest

As a rule, the taxpayer may deduct any interest paid on debts or liabilities.

Nevertheless, we have undercapitalization regulations in Colombia. Under these rules, deductions for interest expenses that derive

from loans received from national and foreign related parties are limited. The limitation will apply where the total average debt amount exceeds the result of multiplying the taxpayer’s liquid equity of the last tax year by two (2).

The law has established exceptions under which this limitation does not apply. This is the

case of business ventures undergoing the initial unproductive stages and the financing of utilities infrastructure projects, among others.

## d.

### Expenses incurred abroad

Taxpayers may deduct any expenses incurred abroad that are causally connected with their

Colombian incomes, provided that they have collected the applicable withholding taxes if the payment comes from Colombian source.

For expenses incurred abroad to obtain Colombian source income, which are not subject to withholding taxes in Colombia, the corresponding deduction cannot exceed 15% of the taxpayer’s taxable income computed before deducting such costs or expenses. The above is applicable except for certain cases expressly established in the tax law. This limitation may be lifted by a tax treaty.

## e.

### Inversión en desarrollo científico y tecnológico

Income taxpayers that make investments in projects that qualify as research, technological development, and innovation projects (as defined by law) may deduct those investments in the tax year in which they were made. It is worth noting that taxpayers may claim this deduction and claim at the same time the tax credit that is available for making this type of investments.

A deduction is also admissible for donations made through higher education institutions or through the Colombian Institute of Educational Loans and Technical Studies Abroad (ICETEX, from its acronym in Spanish) that are earmarked to finance scholarships or condonable loan programs approved by the National Ministry of Education. In this case, taxpayers may claim the





deduction and claim, at the same time, the tax credit that is available for making the investment mentioned above (Article 256 of the Tax Code).

f.

Offsetting tax losses

Taxpayers may carry forward net losses to offset them against any regular taxable income obtained in future tax years, notwithstanding the computation of the current year’s alternate, presumptive taxable income. These net losses cannot be allocated to the company’s shareholders or members.

Under the initial regulations, taxpayers could carryforward net losses over the subsequent 5 tax years, with no limit on the carryforward amount. Then, Act 788 of 2002 set a term of 8 years, where each annual carryforward could not exceed 25% of the total net tax loss. After that, Article 5 of Act 1111 of 2016 – which modified Article 147 of the Tax Code – did not set any limitations concerning the timing or the amount of the allowable carryforwards. Finally, under Act 1819 of 2016, losses incurred in tax year 2017 and thereafter may be carried forward against the income from the subsequent 12 tax years only. For losses that were incurred before 2017, there are transition rules established to determine the carryforward amount under a formula set by the law.

Regarding mergers and spin off processes, the absorbing company or the company derived from the spinoff may offset the net tax losses of the merged or spun-off companies against regular, future net income, but only up to a limit

equal to the percentage of the equities of the merged or spun-off companies, represented in the equity of the absorbing company or the company resulting from the spinoff process.

g.

Amortization of investments

Amortization is the process of allocating the cost of intangible property to the useful life of the property or throughout any other period determined under valid criteria.

The following are deductible items:



**Prepaid expenses:** These are deducted periodically as the taxpayer receives the corresponding services.



**Incorporation and startup disbursements:** These are deducted using the straight-line method at an annual rate of 20% of the tax basis, deducted in equal shares during the life of the contract from the point when the taxpayers start generating income.



**Research, development, and innovation:** As a rule, this starts from the point where the

research and development and innovation project come to an end, regardless of success or failure. The cost will be amortized in equal shares over time until the moment when the taxpayer expects to obtain income; but, in any event, the deductible amount cannot exceed 20% of the corresponding tax basis per year.

For intangible property, taxpayers may deduct 20% of the tax basis of investments made in intangible property for the purpose of the business or activity, under certain rules established by the law.

h.

Depreciation

Taxpayers may deduct reasonable amounts of depreciation accruing from the normal wear and tear or the obsolescence of fixed assets used in any income-producing business activities, as per the table below:

Assets	Annual tax depreciation
Constructions and buildings	2.22%
Aqueduct, plant, and networks	2.5%
Thoroughfares	2.5%
Air fleet and equipment	3.33%

Assets	Annual tax depreciation
Railroad fleet and equipment	5%
Armory and vigilance equipment	10%
Electrical equipment	10%
Land transport fleet and equipment	10%
Machinery and equipment	10%
Furniture and office elements	10%
Scientific medical equipment	12.5%
Containers, packaging, and tools	20%
Computer equipment	20%
Data processing networks	20%
Communication equipment	20%

The useful life of assets is determined in accordance with the IFRS (international financial reporting standards), but it is possible to use other methods.

Annual depreciation rates will range between 2.2% and 33%. Other depreciation rates may be used, the above notwithstanding.

The application of any excess depreciation rates may generate timing differences.





i.

## Exchange gains and losses

Any revenues denominated in foreign currencies, as well as costs, deductible expenses, assets, and liabilities must be measured on the date of their initial recognition in Colombian pesos at the representative market exchange rate (TMR, from its acronym in Spanish).

Any variations in the COP value of any foreign-currency denominated assets and liabilities will not have any tax effects until the assets are sold or when there is a credit to the asset account or until the liabilities are settled or paid partially. Where the asset is sold or where a credit is entered in the asset account, or where the liability is settled or paid partially the variation is recognized at the TMR of the initial recognition.

The taxable exchange gain or the deductible exchange loss on any of the above events corresponds to the difference between the TMR of the initial recognition and the TMR of the date of the credit to the account or payment (realized exchange gain or loss).

j.

## Limitations and prohibitions concerning deductions

As a rule, the following limitations apply to income tax deductions:

- The maximum deductible amount for the concepts of customer service, providers, and employees, such as presents, tokens of courtesy, parties, celebrations, and social gatherings, is 1% of the net, effectively realized tax revenues.
- Any payments for salaries and labor benefits that result from labor litigation are deductible at the time of the payment, provided that the taxpayers prove that they have met the full requirements set for the deduction of salary payments.

k.

## First job deduction

Income taxpayers that are also income tax return filers may deduct as much as 120% of the total salary payments made to employees under 28 years of age hired by them, when it can be proven that this is their first job.

This deduction will be allowable in the tax year in which the employee is hired by the taxpayer and cannot exceed 115 TU, monthly, per employee. Finally, the Ministry of Work must issue a certification attesting to the fact that the job of the person under 28 years of age is indeed their first job, as a requirement for the deduction to be admissible.

l.

## Losses and accounts receivable from utility companies

Intervened companies may offset tax losses against their ordinary liquid income outside of the established limitations. It is also possible to assign accounts receivable, with the right to claim the deductions established under Articles 145 and 146 of the Tax Code.

m.

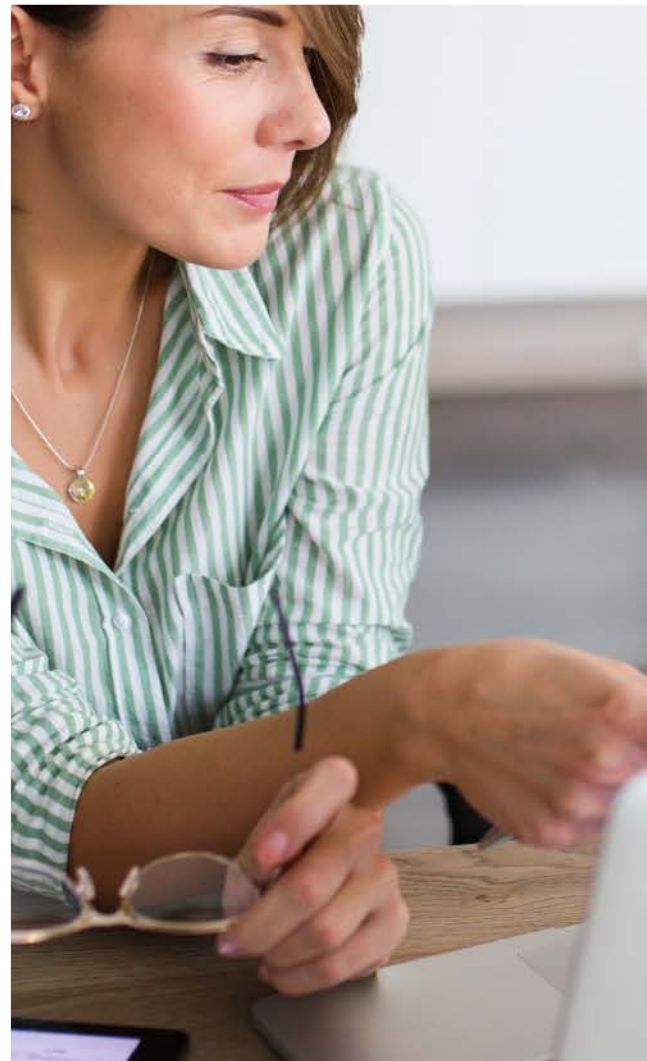
## Deduction of costs and expenses for independent professionals

Independent professionals may deduct their costs and expenses in connection with their work income earned as professional fees and compensation for personal services. However, under the rule of law, the taxpayer must choose this treatment or must instead choose the 25% exempt income benefit established under Article 206 (10) where the taxpayer meets the requirements set in paragraph 5 of that article.

m.

## Other deductions

Under Act 2010 of 2019, the following items may still be deducted as employee education allowances:





## A.

Payments made to fund full or partial scholarship programs and condonable educational loans established by corporate entities for the benefit of their employees or the employees' families.



## B.

Investment payments made for schooling programs or attention and stimulation and comprehensive development schooling programs or preschool programs for boys and girls under 7 years of age, established by companies for their employees' children exclusively.



## C.

Contributions made by companies to elementary, junior, and high school institutions recognized by the Ministry of Education; and contributions made to technical, technological, and higher education institutions that meet the requirements established by the Ministry of Education. These qualify for the benefit if they benefit local communities and areas of influence where the legal entity carries out its productive or commercial operations.



The following is nondeductible:

- Any expenses originating from conducts normally categorized as criminal.
- Royalties paid to foreign related parties or to any parties operating in free-trade zones as compensation for the exploitation of intangible property created in the national territory.
- Any royalties realized during the tax year when they are associated with the acquisition of finished products.

## Tax credits

Under tax law, certain amounts may be credited directly against the income tax liability computed by the taxpayer. These include, among others:

- Foreign tax credits for taxes paid abroad by resident taxpayers earning foreign source income.
- Investments made in the control, preservation, and improvement of the environment (25%, with a prior certification from the environmental authority).
- 25% of the amount donated to non-for-profit entities that belong in the special tax system.
- Investments in technological research and development and innovation.
- VAT collection agents may claim the sales tax (or VAT) paid on the import, formation, construction, or acquisition of real productive fixed assets as an income tax credit in the tax year in which they pay the VAT or in any subsequent tax years.
- In no case may the tax credits exceed the total amount of the income tax liability. In no case may the net income tax, as

determined after all tax credits, be less than 75% of the tax determined using the alternate presumptive income tax computation method before any tax credit.

- Investments made in research projects, projects for technological and innovation, or for the retention of highly qualified human resources, for investments made by micro, small and medium-sized enterprises.
- Investments made in the control, preservation, and improvement of the environment for touristic infrastructure.

## Exempt income

New items of exempt income and conditions to apply:

### a.

#### Orange economy

Any income resulting from the activities of technological value-added industries and specifically listed creative activities will be income tax-exempt for a term of 7 years. Requirements: (i) The main domicile must be within the national territory, and the line of business must be one exclusively dedicated to these industries. (ii) These activities must be carried out by companies that are established and start economic operations before December 31, 2021; (iii) the activities must correspond to those included in the list set by the law; (iv) they must create a minimum number of three (3) jobs, which must relate to the industries referred to above; (v) the project must be submitted to the Ministry of Culture; and (vi) a minimum amount of 4400 TU must be invested within a term under 3 years.

For any payments above 100 TUs to be deductible for income tax purposes or to be creditable for tax purposes, or acceptable as valid tax debts, the payments must be made through the financial system.



## b.

### Development of Colombian rural areas

Any income resulting from investments made to increase productivity in the farming sector will be income tax-exempt for 10 years. Requirements: (i) the line of business must be exclusive; (ii) the company must be established and needs to have begun economic operations before December 31, 2022; (iii) the project must create a minimum number of ten (10) jobs and it must meet a minimum investment amount of 25,000 TU; (iv) the project must be submitted to the Ministry of Agriculture. Other requirements: this exempt income will benefit entrepreneurial, investment or business schemes.

## c.

### New jobs

The following are additional requirements established by law for the relevant taxpayers to claim exempt income for activities that increase their productivity in the farming sector. (i) Proving that they have hired a certain minimum number of permanent employees that carry out functions that relate to activities that increase productivity in the farming sector through standard labor contracts. (ii) The number of employees required to access the benefit is causally related to the gross revenue obtained in the tax year; a minimum investment in property, plant, and equipment over a term of 6 years is also required. (iii) The taxpayer must be registered in the unified tax register system with a RUT form showing that they are regular income taxpayers. (iv) The taxpayer must prove that the minimum required employees are neither managers of the company nor

members, partners, shareholders, associates, cooperative partners, joint holders, or joint venture partners. (v) The benefit will not apply when the new employees have worked during the year in which they are hired or during the prior year for any company that is a related company of the taxpayer, or employees who came from a merger or spinoff process carried out by the taxpayer. (vi) To prove that the jobs meet the minimum required time to qualify as permanent jobs as of June 30 of each year, the taxpayer must file the statement referred to in the corresponding article and prove that the employees are still under contract at December 31 of the same year.

## d.

### Revenue of Magistrates, Judges, Prosecutors, and Court Representatives

The Law of Economic Growth resuscitated this benefit. Thus, under the law, 50% of the so-called representation expenses of Magistrates, their Prosecutors and their Court Assistants qualify as exempt income; in the case of regular Judges of the Republic, 25% of their salary payments qualify as exempt income. The limitation set in Article 336 of the Tax Code does not apply to this exempt income.

## e.

### Other exempt income

The items of income described below qualify as exempt income under the law, provided that the

taxpayer meets the requirements to claim the exemptions:



Any gains from sales of property earmarked for public interest projects or social interest projects (social interest housing projects).



The provision of fluvial transportation services with shallow draft vessels for 15 years.



The tax incentives set for orange economy literary creations, under Article 28 of Act 98 of 1993.



Income derived from new forestry plantations, including *guadua*, rubber and marañón.



Resources from the General Social Security System.



Income generated by the stabilization reserve established by pension and severance pay fund management companies under Article 101 of Act 100 of 1993.

## The capital gains tax

As a supplementary tax for the income tax, the capital gains tax is applied to certain items of income that are obtained in certain transactions

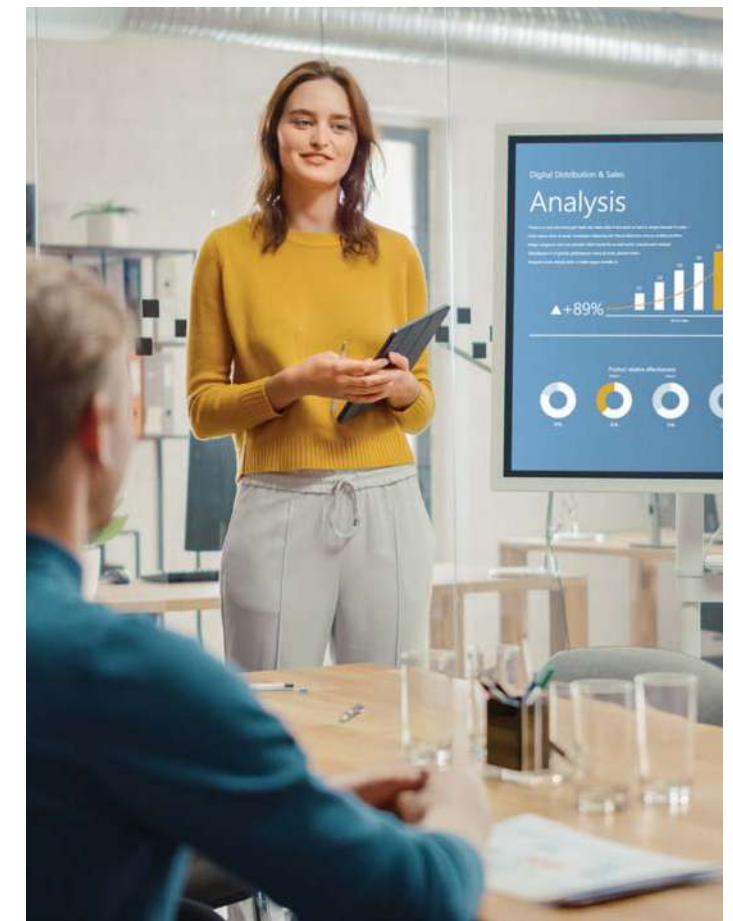
defined expressly by the law. Capital gains may not be reduced by the regular deductible costs and expenses of the taxpayer; and capital losses may not be used either to offset the regular taxable income of the taxpayer.

The current, general capital gains tax rate is

# 10%

The special tax rate for capital gains originating from lotteries, raffles, betting, and similar games is

# 20%







# Withholding taxes

Under Colombian tax law, withholding taxes are used as a mechanism to collect taxes in advance. Under the law and government regulations, this mechanism authorizes a private or public person to collect certain taxes or to self-collect certain taxes based on certain special characteristics. Under the Colombian Tax Code, among other persons, the following are withholding tax collection agents: All those who are parties to transactions in which, under the rule of law, they must collect withholding taxes.

The main obligations of withholding tax collection agents are as follows: to collect the applicable withholding tax amounts; to deposit the amounts collected from financial institutions or banks on or before the deadline set by the government; to file monthly withholding tax returns; and to issue withholding tax collection certificates.

Because there are many different withholding tax rates on local payments and on payments made abroad, the specific withholding tax rates depend on the specific nature of the items being paid.

Act 2010 of 2019 modified the withholding tax rates that apply to labor payments and payments received for retirement, disability, old age and surviving spouse/kin pensions (exceeding 1000 TUs), as well as labor risk related payments made to individuals. These

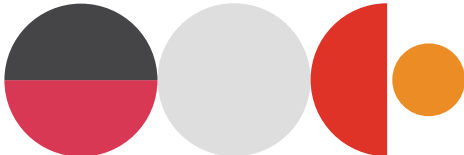
modified rates apply under the rule of Article 206 of the Tax Code and are as follows:

TU ranges		Marginal Rate	Withholding Tax
From	To		
0	95	0%	0
>95	150	19,0%	(Taxable labor revenue stated in TU minus 95 TU)*19 %
>150	360	28,0%	(Taxable labor revenue stated in TU minus 150 TU)*28 % plus 10 TU
>360	640	33,0%	(Taxable labor revenue stated in TU minus 360 TU)*33 % plus 69 TU
>640	945	35,0%	(Taxable labor revenue stated in TU minus 640 TU)*35 % plus 162 TU
>945	2300	37,0%	(Taxable labor revenue stated in TU minus 945 TU)*37 % plus 268 TU
>2300	En adelante	39.0%	(Taxable labor revenue stated in TU minus 2300 TU)*39 % plus 770 TU

# Regulations for mega investments

The purpose of these regulations is to foster investment and the generation of jobs by granting tax incentives to taxpayers that make investments and meet the requirements established by the law.

1.
- The income tax rate is 27%.
2.
- Depreciation of fixed assets over minimum terms of 2 years.
3.
- Exoneration from presumptive income regulations.
4.
- If the investment is made through national companies or permanent establishments, the following rules will apply in respect to the tax on dividend distributions:
  - oIf the dividends are paid from earnings that were taxed at the level of the company making the distributions, the dividend distributions will not be subject to the tax.
  - oIf the dividends are paid from earnings that were not taxed at the level of the company making the distributions, a flat 27% rate will apply.





5.

Mega-investments will not be subject to the wealth tax.

6.

Taxpayers making mega-investments may qualify for legal stability contracts under the following conditions:

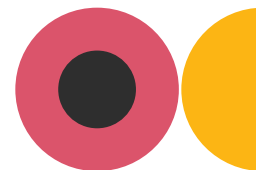
- This stability applies to the tax benefits and their related conditions. The qualification procedure is carried out before the Ministry of Commerce, Industry, and Tourism in accordance with the regulations issued by the national government. The legal stability contract is signed with DIAN. The taxpayer must pay a premium equal to 0.75% of the investment value made every year, which cannot be less than 30,000,000 TUs.



**Requirements:** i) Create a minimum of 400 jobs. For investments in the sectors of high technology components and emerging and exponential technologies, the requirement is to create a minimum of 250 jobs. (ii) The minimum investment amount is 30,000,000 TUs. (iii) The investments must be made in property, plant, and equipment. (iv) The investment must be made within a term under 5 years, counting from the date on which the mega investment project is approved.

(i) These rules will apply to investments made before January 1, 2024, over a term of 20 years. (ii) The Ministry of Commerce, Industry, and Tourism is the agency in charge of qualifying any given project as a “mega-investment”. (iii) These rules will not apply for any investments

made in projects related to the evaluation and exploration of nonrenewable natural resources. (iv) Taxpayers will be allowed to sign legal stability contracts so that these benefits are guaranteed. (v) Lastly, the law establishes that there an investment can be made in free-trade zone areas that are covered by the same regulations.



## International Taxation

### Rules on Colombian Holding Companies

Taxpayers that qualify for this tax system

Any national companies that have as their corporate purpose the holding of securities or negotiable instruments, investments in, or holding of shares of stock and equity interests in Colombian or foreign companies, and/or the management of such investments.

Requirements to qualify for the benefit

1.

Direct or indirect equity holdings of at least 10% of the corporate capital of Colombian or foreign companies for a minimum of 12 months.



2.

Having at least 3 employees and a fixed address in Colombia. Proving that strategic decisions regarding the investments and CHC assets are made in Colombia. To this end, the mere formal requirement of holding the annual shareholders meeting in the country will not be enough.

3.

Submitting a communication to DIAN using the forms established by regulation. The special CHC regulations will apply starting in the tax year in which the taxpayer submits this communication to DIAN. The benefits will be lost in any tax year in which the taxpayer fails to meet any of the requirements, or when these are rejected by DIAN. It will be understood that decentralized state companies that hold equity interests in other companies will be covered by the CHC rules.

## Benefits of the CHC rules

- Any dividends or profits share-based distributions made by nonresident entities to a CHC will be income tax exempt and will be reported as such (exempted income).
- Any dividend distributions from the CHC to a nonresident shareholder, individual or corporate, will be treated as foreign source income.
- Any income or gains derived from the sale or transfer of any CHC holdings in

foreign companies would be income tax exempted.

## Indirect transfers

Indirect transfers correspond to the transfer of an ownership share held over an asset, either where this share is transferred fully or partially, with the transfer taking place between related or unrelated parties.

Where a subsequent indirect transfer is made, the tax basis of the underlying asset will be the prorated value paid for the shares or equity interests of the foreign entity that holds the underlying assets located in Colombia.

Likewise, the law establishes that the provisions in Article 319-8 of the Tax Code will apply to mergers and spinoffs between foreign companies where the above scenario occurs.

Regarding this matter, if the value of the assets held in Colombia does not exceed 20% of the value of the total group assets according to the consolidated financial statements of the parent company of the entities involved in the transaction, then the transaction will not be taxable in Colombia.

Otherwise, the transaction will be treated as a transfer that is taxable in Colombia, and the regulations on indirect sales will therefore apply.

## Foreign assets return

Only taxpayers that hold assets abroad, where the patrimonial value of the assets exceeds 2000 Tus, will be required to file a foreign asset return. Additionally, the penalties set for the late filing of these returns are reduced as follows:

### Time of filing/Item

Taxpayer files return before receiving a request to file the return.

Act 1943 of 2018

**1,5%**  
of total asset value

Act 2010 of 2019

**0.5%**  
of total asset value

Taxpayer files return after receiving a request to file the return and before the respective resolution that imposes a penalty for failure to file return is issued.

**3%**  
of total asset value

**1%**  
of total asset value

In any event, the amount to the penalty may not exceed:

**25%**  
of the asset value of the foreign assets

**10%**  
of the asset value of the foreign assets





Payments to tax havens (“non-cooperating jurisdictions”, “jurisdictions of low or zero taxation”) and to entities in preferential tax systems

a. Criteria used to identify the above

Non-cooperating jurisdictions and low or zero taxation jurisdictions are determined by the government based on the following criteria:		Entities that belong in preferential tax systems
A.	Non-existence of tax rates, or existence of low-income tax rates compared to those that would apply in Colombia for similar transactions.	Non-existence of tax rates, or existence of low-income tax rates compared to those that would apply in Colombia for similar transactions.
B.	Lack of an effective exchange of information; or existence of legal rules or administrative practices that limit this exchange.	Lack of an effective exchange of information; or existence of legal rules or administrative practices that limit this exchange.
C.	Lack of transparency at legal or regulatory levels or in the way the Administration works.	Lack of transparency at legal or regulatory levels or in the way the Administration works.
D.	The requirement of an actual substantial presence does not apply, nor that of the exercise of a real activity with economic substance.	The requirement of an actual substantial presence does not apply, nor that of the exercise of a real activity with economic substance.
E.	Besides the above criteria, the national government will use as reference internationally accepted criteria for the determination of non-cooperating jurisdictions or low taxation or zero taxation jurisdictions.	These are tax regimes open only to persons or entities that qualify as non-residents when it comes to the jurisdiction in which the preferential tax regime functions (ring-fencing practice).

b. Effects of this classification

Any account payments or credits made to any of the above taxpayers/entities will be subject to withholding tax collections at the general corporate income tax rate.

Any payments or credits to account to non-cooperating jurisdictions or low tax or zero tax jurisdictions or payments or credits to account made to entities belonging in any preferential tax regimes qualified as such by the national government will not be deductible, unless withholding income taxes have been collected from them (when applicable).

On the other hand, in addition to general deductibility requirements, the payments or credits to account made to these jurisdictions must meet the following conditions:

- The transactions must be subject to transfer pricing rules and the taxpayer is required to file a transfer pricing study and a transfer pricing information regardless of whether their gross assets as at year end or their gross revenue of the corresponding year are below the required threshold amounts.
- The taxpayer must document and show in detail the functions carried out, the assets used, the risks assumed, and the total costs and expenses incurred by the mentioned person or company to carry out the activities that generated the mentioned payments; otherwise, these payments will be treated as non-deductible for income tax purposes. The “mentioned person

or company” is the person or company located or residing in the noncooperating jurisdiction or the low tax or zero tax jurisdiction or the entity belonging in a preferential tax system.



C. Beneficial owner or effective beneficiary

Subsidiaries of foreign companies, as well as any permanent establishment of foreign companies, trusts and collective investment portfolios are required to provide detailed information about the effective beneficiaries of their account payments or credits. The tax reform includes the definition of an effective beneficiary, as follows:



- Those who exert effective, direct, or indirect control over a national company, an agent, a trust, a collective portfolio investment, or a permanent establishment of a foreign company.
- The direct or indirect beneficial owner of the transactions and activities carried out by the national company, the agent, the trust, the collective portfolio investment, or the foreign company with a permanent establishment in Colombia.
- Effective beneficiary is the individual that ultimately holds, controls or who benefits, directly or indirectly, from a legal entity or an unincorporated vehicle or structure that fulfills the following criteria:



An individual that holds 5% or more, directly or indirectly, of the equity interests or the voting interests of the legal entity or unincorporated vehicle or structure.



An individual who, individually or jointly with their kin to the fourth degree of consanguinity or affinity, exerts direct or indirect control over the legal entity or unincorporated vehicle or structure. The following procedure applies to determining whether this control exists:

- The individual that ultimately holds, directly or indirectly, substantial control or the controlling equity interests in the property.

- If there is no certainty about who such individual would be – the effective, ultimate, or real beneficiary –, then the individual who holds control over the legal entity or unincorporated vehicle or structure by any other means. If it is still not possible to identify the effective beneficiary, then the individual holding the highest executive management position in the legal entity or unincorporated vehicle or structure will be the effective beneficiary.



An individual who benefits from 5% or more of the earnings, profits or assets of the legal entity or unincorporated vehicle or structure.

Additionally, the law created the Unified Register of Effective Beneficiaries – ultimate or real –, RUB (from its acronym in Spanish), which DIAN will operate and manage. This register will be implemented by way of a resolution.

### Presumptions for controlled foreign companies (CFC)

In case the active income or the substantial economic operations of controlled foreign companies represent more than 80% of their revenue or income, their entire revenues, the deductible costs and expenses, will originate active income. On the other hand, where the passive income of the CFC represents 80% or more of their total income, then the entire

revenue, deductible costs and expenses of the CFC will originate *passive income*.

### Transfer pricing regulations

Colombian transfer pricing regulations were drafted based on the guidelines set by the Organization of Economic Cooperation and Development (OECD), and they came into force as part of the Colombian tax system in 2004.

Under these regulations, all income taxpayers who enter transactions with foreign related parties must determine their revenues and deductible costs and expenses based on the prices and profit margins that would have been used in comparable transactions with or between unrelated parties.

### Withholding taxes for payments made abroad

Act 2010 of 2019

Type of payment

20 %

Interest, commissions, royalties, rentals, compensation for personal services, industrial property, or know-how.

20 %

Technical services, technical assistance, and consulting services.

20 %

Computer software royalties.

33 %

Management services.

15 %

Loans for a term of 1 year or more; financial lease payments (transition).



Act 2010 of 2019

Type of payment

5 %	Loans for the financing of PPA projects for more than 8 years.
1 %	Financial leases of aircraft, helicopters, and other airplanes.
15 %	Film royalties.
1 %	Cession of reinsurance premiums.
5 %	International transport.

# Taxation of dividend distributions

Dividends and profit share-based distributions to Colombian corporate residents qualify as non-taxable income if they correspond to earnings that were reported and taxed at the corporate level. If that is not the case, the following withholding taxes will apply for any dividends or profits distributions that are paid from earnings realized as from tax year 2019 (without detriment to the application of any double taxation treaties subscribed by Colombia):



## Individuals

a.

Dividends paid from profits already taxed in the hands of the company

TU Ranges	From > 0 to 300	300 and above
	Marginal Rate 0%	Marginal Rate 10%
Taxes	0	(TU dividends minus 300)*10%

b.

Dividends paid from profits that were not taxed in the hands of the company

These are taxable at the general income tax rate depending on the tax year in which they are paid or credited to account. In this case, the 10% rate will apply after the tax has been deducted (31% for 2021, and 30% for 2022 and thereafter).





Corporate entities /Legal entities

Tax year	2020	2021	2022
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Dividends paid from profits already taxed in the hands of the company that distributes them

10 %

Dividends paid from profits not taxed in the hands of the company that distributes them

32%	31%	30%
(on the net)	(on the net)	(on the net)

The following rules will apply for Colombian companies:

- The withholding tax will only be collected from the first dividend distribution paid to the Colombian company.
- The credit will be allocated down through the individual who is the final beneficiary.
- Any dividend distributions that were declared and were due and payable as of December 31, 2018 will be treated under the regulations that were in force before this law came into effect.

Double Taxation

Colombia has been negotiating double taxation treaties to avoid double taxation and prevent tax evasion for income taxes and equity taxes, particularly concerning cross-border transactions.

At the level of the Andean Community of Nations, Colombia adopted Decision 578, which contains the new Andean Community regulations designed to avoid double taxation and prevent tax evasion between the member countries of the CAN (Colombia, Peru, and Ecuador). In regulating the taxing power of the member states, this decision favors the criterion of source-based taxation above residence-based taxation.

The double taxation treaties signed by Colombia to date seek to avoid international double taxation and prevent tax evasion; additionally, they seek to eliminate barriers against the flow of capital, goods, technologies,

and people between the signatory countries.

They also help countries to better implement transfer pricing regulations; they recognize the principles of nondiscrimination of nationals and non-residents who carry out activities in any other countries; they implement procedures of reciprocal cooperation between taxing authorities for the resolution of conflicts, performing consultations, the exchange of information, and assistance in tax collection efforts.

The following double taxation treaties are in force as of this date. DTT with Spain, Chile, Portugal, Korea, India, Mexico, Czech Republic, Canada, Switzerland, Italy, and the United Kingdom. Double taxation treaties were also ratified by law with France, Italy, and the United Emirates. The treaty with Japan is still under legislative procedures.





# Sales Tax or VAT

General aspects

This is a national tax applicable mainly to the following:



Sale of tangible personal property or real estate that have not been exempted expressly.



Imports of personal property that have not been exempted expressly.




Sale or assignment of industrial property rights.




Gambling and other similar games, except for lotteries and gambling and similar games that are operated on the Internet exclusively.

Save for a few, quite particular exceptions, the sales tax has been structured as a value-added tax. This means that VAT collection agents may credit the amount of the VAT paid for the goods and services that they buy to generate revenue from VAT taxable transactions against the VAT payable on their sales to determine the net VAT payable to the government.

The VAT collection agent required to collect and pay the tax to the government is any person that realizes any of the taxable events. This is so even though it is the end-user who assumes the economic burden of the tax.



Provision of services in the national territory or from abroad, except for services that have been exempted expressly.



Gambling and other similar games, except for lotteries and gambling and similar games that are operated on the Internet exclusively.

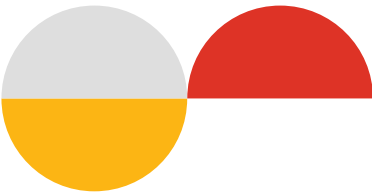
Generally, the taxable base is the total value of any sales and service transaction. The taxable base of the VAT comprises the property or services acquired in the name of the purchaser of the goods or services provided. Additionally, there are special taxable bases for certain types of goods and services.

The general VAT rate applicable to most transactions is currently 19%; and there is a special 5% rate.

The VAT liability is determined as the excess of VAT charged on taxable transactions over and above the total admissible VAT setoffs.

Under Act 2010 of 2019, the list of items of property and services that are VAT exempt, zero-rated and taxed at the rate of 5% was modified as follows:

Property	Departments	Treatment
Human and animal food, clothing, cleaning elements and medication for human or veterinary use, construction materials.	Introduced and sold in the departments of Guaviare, Guainía, Vaupés, and Vichada, provided that they are sold exclusively for consumption within the department.	Exempt
Human and animal consumption food, clothing, cleaning elements and medication for human or veterinary use, construction materials.	Introduced and sold in the Department of Amazonas.	Zero rated





Bicycles and their parts, motorcycles and their parts, and motorbike-cars and their parts.	Introduced and sold in the departments of Amazonas, Guaviare, Guainía, Vaupés, and Vichada, provided that they are sold exclusively for consumption within the department, and provided that the motorcycles and motorbike-cars are registered in the Department. The property indicated above will also be VAT zero-rated if they are imported into national customs territory and are subsequently destined for these departments exclusively.	Zero rated	<ul style="list-style-type: none"> <li>Regular permanent imports made by ultra-frequent exporters (ALTEX from its acronym in Spanish) of industrial machinery that is not manufactured in the country, earmarked for the transformation of raw materials.</li> <li>All sales of real estate.</li> <li>Sales of certain articles, such as human and animal consumption foodstuffs, clothing, cleaning elements and medication for human or veterinary use, etc. that are introduced and sold in the departments of Guaviare, Guainía, Vaupés, and Vichada.</li> <li>Commissions earned by stock exchange brokers for the management of mutual funds.</li> <li>Bicycles, electrical bicycles, electrical motorcycles, skateboards, electrical skateboards, scooters, and electrical scooters, of up to 50 TUs, as VAT exempt property.</li> <li>Sales of property invoiced by merchants whose exclusive line of business is the sale of scientific or cultural books, magazines, booklets, or collectible series, where these are sold at commercial establishments legally qualified and open to the public consumer (booksellers).</li> </ul>	<ul style="list-style-type: none"> <li>Transportation of gas and hydrocarbons.</li> <li>Interest and financial income on loan transactions and financial leases.</li> <li>Medical, dental, hospital, clinic and laboratory human health services and beauty treatments.</li> <li>Public utilities including electric power, water, sewage, street cleaning, garbage collection and residential gas supply.</li> <li>Inbound or outbound tourism air transport to and from the Department of Guajira and the municipalities of Nuquí (Department of Chocó), Mompox (Department of Bolivar), Tolú (Department of Sucre), Miraflores (Department of Guaviare) and Puerto Carreño (Department of Vichada).</li> <li>The first 325 monthly minutes of local telephone services provided to users in social strata 1, 2 and 3.</li> <li>Food services engaged with public resources for the Military, the National Police, child development centers, nursing homes, public hospitals, and community service diners.</li> <li>Hotel and tourism services that are provided in any of the municipalities included in the following special customs' duties regime areas:</li> </ul>
Bicycles, electrical bicycles, electrical motorcycles, skateboards, electrical skateboards, scooters, and electrical scooters, of up to 50 TUs.	N/A	Exempt		
Electrical motorcycles (including mopeds) the cost of which exceeds 50 TUs.	N/A	Taxed at 5%		

## VAT exempt goods and services

Several articles that are basic household consumable goods (or a part of the so-called canasta familiar in Spanish – or “family products”) are VAT exempt, as well as many agricultural and farming products. We highlight the following goods which are also VAT exempt:

- National and imported equipment and elements earmarked for the construction, set up, mounting, and operation of environmental monitoring and control systems.
- Personal desktop computers or personal laptops, where their value does not exceed 50 TUs.
- Smartphones and tablets, where their value does not exceed 22 TUs.

Regarding VAT exempt services, we highlight the following:

- Reinsurance brokerage services.
- Public or private cargo transportation, both national and international.
- Public land, maritime, or fluvial transportation of passengers within the national territory.
- National air transportation of passengers to national destinations that have no established land transportation systems.

Urabá, Tumaco and Guapi

Inírida, Puerto Carreño, La Primavera and Cumaribo

Maicao, Uribá and Manaure



## Goods and services that were VAT exempt and are now VAT taxable

Under the changes enacted by the so-called Financing Act and The Economic Growth Act, the following goods and services are now VAT taxable:

- Franchise contracts.
- Remote maintenance services for software and hardware.
- Commissions earned by investment management companies, life insurance sales, and capitalization made by securities' management companies.
- Remote maintenance services for hardware and software.

## VAT zero-rated goods and services

Under the new Act 2010 of 2019, the following formerly VAT taxable goods and services now qualify as VAT zero-rated goods and services (this rule repeals another under Act 1943 and includes other additional goods and services):

- Whole public passenger transport motor vehicles; the chassis and the motor, and the car body, acquired separately to assemble new whole public transport passenger motor vehicles.
- Whole public or private cargo transport service motor vehicles; the chassis and the motor, and the car body, acquired separately to assemble new whole cargo transport motor vehicles weighing more than 10.5 gross vehicle weight.



Those who qualify for this beneficial tax treatment must do the following: (i) maintain the mentioned property as fixed assets; (ii) if the seller of these vehicles – a tax collection agent – is a [merchant] [distributor] [marketing agent], the procedure for the refund or offset of the tax established in the law may apply; and (iii) this benefit extends to taxpayers that acquire the equipment under financial lease contracts having a non-revocable purchase option. In case of non-compliance, payment of the corresponding tax will be due.

- Products in the following customs tariffs positions: 29.36 (pro-vitamins and vitamins, among others); 29.41 (antibiotics); 30.01 (glands and other organs for opotherapeutic uses, among others); 30.02 (human blood, animal blood, among others); 30.03 (medications – except for products of the positions 30.02, 30.05 or 30.06 – made up of products that are mixed for therapeutic or prophylactic uses, without being broken down into doses nor conditioned for retail sales); 30.04 (medications - except for products of the positions 30.02, 30.05 or 30.06 - made up of products that are mixed for therapeutic or prophylactic uses, without being broken down into doses nor conditioned for retail sales); and 30.06
- Human and animal consumption products, clothing, cleaning elements

and medication for human or veterinary use, construction materials, in the Department of Amazonas, provided certain requirements are met.

## Special VAT zero rated treatment

The tax reform created a special window of three days in the year where the following pieces of personal property that are sold within the national territory will qualify for the VAT zero-rated treatment:

**a.**

**Clothing accessories:** The per-unit sales price must be 10 TU or less, VAT excluded.



**b.**

**Household electrical appliances:** The per-unit sales price was be 40 TU or less, VAT excluded.

**c.**

**Sports elements:** The per-unit sales price must be 10 TU or less, VAT excluded.

**d.**

**Toys and games:** The per-unit sales price must be 5 TU or less, VAT excluded.

**e.**

**Clothing:** The per-unit sales price must be 10 TU or less, VAT excluded.

**f.**

**School elements:** The per-unit sales price must be 3 TU or less, VAT excluded.

On the other hand, the regulation indicates that this property must be sold at physical stores, and that it applies to retail sales, within the periods set by DIAN in the resolution. This measure could start as from July 1, 2020 and would be in force through June 30, 2021. At that time, the government will determine whether this measure will continue.



## Creditable VAT

The VAT invoiced to the VAT collection agent on the acquisition or import of tangible personal property and services is a creditable VAT. For these purposes, VAT collection agents must keep in mind that the only creditable VAT is the one that they pay on acquisitions of personal property and services (imports of personal property included) where the underlying value is computable as a deductible cost or expense for income tax purposes and if they are earmarked for VAT taxable transactions.

Additionally, the law allows the tax collection agent to credit the value of raw materials and services for which the collection agent has already paid the VAT, according to the integration certificate, as follows. This credit applies to determine the taxable base on which VAT is computed on imports of finished products that are produced abroad or produced in a free-trade zone with national components, or products which are exported or introduced or made with imported raw materials.

The VAT collection agent may book the creditable VAT in any of the following VAT periods:



**For those who file bimonthly VAT returns,** in the term in which the VAT accrues or in any of the 3 subsequent VAT periods.



**For those who file quarterly VAT returns,** in the term in which the VAT accrues or in the subsequent VAT period.





No credit may be claimed for any VAT paid on any of the following transactions:

- Uncollectible credits and debts.
- Acquisitions from unregistered suppliers.
- Acquisitions from insolvent or fictitious suppliers.
- Acquisitions of fixed assets.

## New rules for VAT collection and non-VAT collection agents

### Non-VAT collection agents

The so-called simplified VAT regime was eliminated. Instead, a new regime was established where following are considered non-VAT collection agents or persons not responsible for the tax: individuals who are businessmen and merchants, craftsmen and artisans, small farmers and individuals who provide services, provided that they meet the following conditions:

1.

Their total gross revenues for the prior or current year earned in their trade are under 3500 TUs.

2.

They do not have more than one commercial establishment, office, base, store, or business point where they carry out their activity.

3.

No activities under franchises, concession contracts, royalty, authorization, or any other system entailing the exploitation of intangible property are carried out in their commercial establishment, office, base, store, or business point.

4.

They are not customs duties users.

5.

They have not entered any contracts for the sale of taxable goods or the provision of taxable services where the individual contract value is equal to or greater than 3500 TUs, either in the current year or in the previous year.

6.

The total amount of their bank deposits or financial investments in the previous or current year of monies earned in taxable activities does not exceed 3500 TUs.

Additionally, for individuals who provide personal services under contracts with the State, the thresholds on revenues, the signing of contracts, and bank deposits, above which they would qualify as VAT collection agents, were established by the law at 4000 TUs (the general ceiling for these purposes is 3500 TUs).

### VAT collection agents

The so-called VAT system was eliminated, and the system of VAT collection agents was established. VAT collection agents are those that do not meet the requirements to qualify for the above system of non-VAT collection agents.

Concerning the obligation of issuing invoices for those who provide services from abroad and who are not Colombian tax residents, the law established that they are not required to issue invoices for electronic or digital services.

### VAT withholding tax

The national government may establish VAT withholding taxes under regulations, for as much as 50% of the tax value. Where there are no regulations establishing a special VAT withholding tax rate, then the rate will be 15% of the tax's value.

The VAT withholding tax rate will be 100% for digital services and services contracts that local VAT collection agents enter with non-residents.

### Digital services

Those who provide digital and electronic services from abroad may file bimonthly VAT returns or may choose to pay through withholding tax collection under the following standards:



## Which services are included?

**a.**

Audiovisual services (music, videos, movies and any type of games, and the broadcasting of any type of events, inter alia).

**b.**

Services provided through digital platforms.

**c.**

Online advertising services.

**d.**

Remote education or training services.

**e.**

Assignment of intangible property use or exploitation rights.

**f.**

Any other electronic or digital services for users located in Colombia.

## What would be the taxable base?

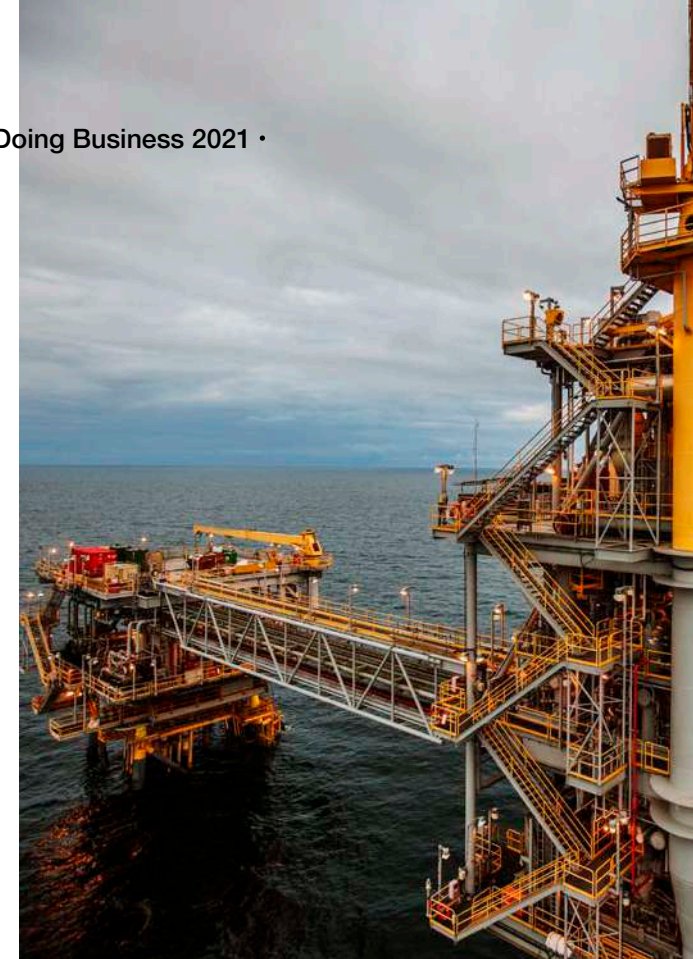
The amount invoiced or charged to or demanded from users located in Colombia.

## Who would collect the withholding tax?

Credit and debit card issuing entities; prepaid card sellers; those who collect cash from third parties; and any others as designated by DIAN.

## Who can choose the withholding tax system?

Those who carry out one or more of the above activities exclusively, those who fail to meet the VAT bimonthly return system, or those who choose this alternate tax payment system voluntarily.



A specific rate applies based the carbon dioxide issue factor (CO<sub>2</sub>) for each specific fossil fuel; it is expressed in a volume unit (CO<sub>2</sub> kilograms) per power generating unit (terajoules) based on the fuel volume or weight.

Additionally, starting in 2017 a motor fuel tax was created. Its taxable event is the sale in Colombia of any regular motor gasoline or diesel fuel by the refiner or importer to the wholesale fuel distributor, based on the price established for the purpose by the Ministry of Mines and Energy. In case the importer in record is also the wholesale distributor, the taxable event will be the withdrawal of each product unit for wholesale distribution.

The national carbon tax zero rate applies in the Departments of Caquetá, Guaviare, and Putumayo (in addition to Guainía, Vaupés, and Amazonas).

## Who must file VAT returns?

Those who do not elect the withholding tax payment system voluntarily and those who do not appear in the list of service providers from whom the VAT must be collected.

## The Carbon Tax

This tax is levied upon the carbon content of all fossil fuels including any oil derivatives that are used for power generation. The taxable event is the sale, withdrawal, import for own use or for resale of any fossil fuels; and it is a tax that accrues on a single phase on the taxable event that occurs the first.

## The National Excise Tax

The taxable event of the national excise tax is the provision or sale to the end-user or the import by the end-user of the following services and goods, which are taxed at the following rates:

- Mobile telephone services, Internet, mobile web surfing and data services:

4% 



- The sale of certain items of luxurious personal property such as automobiles, motorcycles, yachts, and hot air balloons:

8-16% 

- The sale of prepared foods and beverages at restaurants, cafeterias, self-service stores, ice cream and fruit parlors, cake stores, bakeries, bars, and catering services:

8% 

Any taxpayers that carry out beverages and food sale operations under franchise contracts are not subject to the national excise tax but to the VAT instead. These taxpayers may choose this treatment through June 30, 2019.

The national excise tax has been incorporated into the new overall simplified tax system – the optional, all-inclusive SIMPLE tax system with annual returns and bimonthly estimated tax payments –, for excise taxpayers who choose to implement the SIMPLE system.

## The Financial Transactions Tax – GMF (from its acronym in Spanish)

The financial transactions tax is a single event tax. Among others, the taxable event is the processing of financial transactions in which the taxpayer disposes of resources held in savings or checking accounts, as well as in

special deposit accounts before the Bank of the Republic, and the drawing of cashier checks. Because it is a single event tax, the tax accrues at the time the resources are disposed of through the financial transaction.

The tax rate is four per thousand (4 x 1000 or 0.4%) of the total value of the financial transaction in which the taxpayer disposes of their resources. 50% of the GMF paid is deductible for income tax purposes regardless of whether the tax is causally connected with the income-producing activity of the taxpayer.

This tax is collected and paid through the withholding tax collection carried out by the Bank of the Republic and all other financial institutions at which the corresponding checking, savings, deposit, or collective-portfolio accounts are held; or where accounting

movements are made entailing the transfer or disposal of resources. Under the law, there are certain transactions that are exempt from this tax such as factoring transactions, the purchase or discounting of receivables and movements and withdrawals of severance pay deposits and their related interests processed through account deposits, cash payments or payments with cashier checks, among others.

## Wealth tax

This is a tax levied upon owners of assets worth 5,000,000,000 COP or more at January 1 of 2020, for years 2020 and 2021.

The former wealth tax was reenacted with Act 1943 of 2019, and Act 2010 of 2019 replicated

The following are new rules that apply to those who are non-excise restaurant-and-bar tax collection agents, which replace the rules from the former simplified tax system:

- Once a restaurant or bar has been registered as an excise tax collection agent, it may request to be removed from the register only after proving that the conditions of non-tax collection agents were met for the previous 3 tax years – and specifically in each one of those 3 years.
- In case non-excise tax collection agents do business with excise tax collection agents, they must register their condition as such in their unified tax registration form (or RUT) and deliver a copy of the form to the party acquiring their services.







the tax in point of its essential elements (taxpayer, the taxable event, taxable base and tax rate).

However, it establishes that those who are taxpayers under the so-called SIMPLE tax system are also taxpayers of the wealth tax. Likewise, the law maintained the rule that allows taxpayers to subtract 50% of the so-called “normalized” property from the taxable base of the wealth tax. This applies to those who elected to pay the supplementary “normalization” tax in 2019 and those who elect to pay this tax in 2020, provided that they have repatriated their property in Colombia and invested it here with the expectation of keeping it here permanently.

Lastly, the law established that 75% of the revenue collected from the wealth tax will be destined to finance investments in the farming sector.

## The SIMPLE taxation system

### General aspects

This is an optional tax system where the tax accrues annually and is paid in bi-monthly [estimated tax payments]. It replaces the income tax and consolidates the following taxes: the industry and commerce tax and the related billboards tax; and the excise tax for restaurants and food service providers.

The taxable event is the accrual of revenues that can lead to increases in net assets or equity.

The taxable base includes the total gross revenues, whether regular or special, earned by the taxpayer in the corresponding taxable period. We should note the following in regarding these tax elements: the municipalities retain their authority to define the taxable events, taxable bases and rates of the consolidated industry and commerce tax – or ICA from its acronym in Spanish.

Regarding the consolidated ICA, the municipalities retain their authority to define the essential elements of this tax. In each municipality, the main municipal regulatory body, or City Council (a kind of local legislature) must issue ordinances on or before December 31, 2020 to establish consolidated ICA rates.

### SIMPLE taxpayers

Under the so-called Financing Act, for a person to qualify as a unified, SIMPLE taxpayer, the person needs to meet the following requirements, among others:



Being an individual that carries out a business enterprise; if the person is a legal entity, their shareholders must be individuals that are Colombian residents.



Having earned gross revenues of less than 80,000 TUs in the previous tax year. If it is a new company, its qualification for the tax system will be conditioned upon meeting this requirement.

On the other hand, the following are classified as persons that cannot be SIMPLE taxpayers: any foreign legal entities or their permanent establishments; any companies whose shareholders, members or managers have a labor relationship with the contractor – as it is the case of personal services –; financial institutions; any natural or legal entities dedicated to asset management activities, asset sales intermediation, asset rentals and leases, etc.

Additionally, the following formal obligations must be met for a person to be eligible for this system:

a.

Again, the law establishes transition rules and allows taxpayers to register through July 31, 2020.

b.

Starting in 2021, registration must be made before January 31. Those who are already registered in the SIMPLE tax system do not need to renew their unified tax register (RUT) form in 2020.

c.

Those who elect to register in the SIMPLE system, must also choose to issue electronic invoices within 2 months following the registration.

d.

Those who have met the requirements set by law to qualify for the SIMPLE system and registered within the time limit set by Act 1943 would not be required to make the registration again in 2020. This is so provided that the taxpayer elects to continue paying taxes under the SIMPLE system.





## Tax rates

The law established progressive tax rates depending on the amount of gross revenues earned by the taxpayer. These rates depend on the activity carried out by the taxpayer as well:

Small stores, micro and mini markets, and hair salons: between

**2% and 11.6%**

(These are non-VAT collection agents.)

Professional services, consulting, and scientific services, where the intellectual factor prevails over the physical, material factor, including intellectual profession and services: between

**5.9% and 14.5%**

Commercial activities, technical and mechanical services where the physical, material factor prevails over the intellectual factor; and electricians, construction services and mechanical shops, among others: between

**1.8% and 5.4%**

Foods and beverages sales activities and transportation activities: between

**4.9% and 7%**

(in the first case, taxpayers must add 8% for the excise taxes).

On the other hand, SIMPLE tax taxpayers must make unified tax estimate payments every two months, by filing the special SIMPLE tax payment receipts. (Taxpayers must include their revenue information broken down by municipality or district in these documents.)

## Anti-Avoidance Rules

The law defined certain requirements for a person to be qualified for this special system. However, the legislature considered it was important to establish certain rules to prevent any abuses in these tax matters.

As such, certain measures have been established to mitigate the risk of avoidance by taxpayers. Among others, these include checking the levels of consolidated revenues where the individual is a shareholder or management executive in several companies.

## Withholding tax

SIMPLE taxpayers will not be subject to withholding tax collection and will not be required either to collect or self-collect withholding taxes, except for withholding taxes on labor payments.

Additionally, the law established that in the case of payments made by SIMPLE taxpayers for the acquisition of goods and services, the party receiving the payment (a regular income taxpayer and withholding tax collection agent) must collect self-withholding taxes. This is without detriment to the collection of VAT withholding taxes where a withholding tax collection agent acquires any items of VAT taxable personal property or services from SIMPLE taxpayers.

## Other matters

- SIMPLE taxpayers of groups 2, 3 and 4 are VAT collection agents or excise tax collection agents.
- The rules on procedure, tax penalties, and statute of limitations relating to tax returns provided for in the Tax Code will apply in this special SIMPLE tax system.
- SIMPLE taxpayers who have foods and beverages sales businesses may pay their excise tax liability as part of the SIMPLE tax liability.
- If any SIMPLE taxpayer fails to make the estimated tax payments required to cover the total annual tax liability, incurring in tardiness for more than 1 month, they will be excluded from the system and will be precluded from electing the system for the taxable year after the year in which they failed to meet their payment obligations.



## The Industry and Commerce Tax (ICA from its acronym in Spanish) and Billboards Tax

This is a municipal tax levied upon the revenues obtained by natural or legal persons or unincorporated associations through industrial, commercial, and service activities, directly or indirectly, in the corresponding territories of the municipalities.

The taxable base of this tax includes the total regular and special revenues realized by the taxpayer in the corresponding tax year, including any financial income, commissions, and generally any type of revenue that has not been expressly exempted by the law.

The revenues derived from exempt or nontaxable activities, sales returns, discounts, and rebates, export revenues, and the revenues from sales of fixed assets are not included in the taxable base.

As noted above, the unified SIMPLE tax system was created by the recent tax reform (Act 2010 of 2019). Several taxes, including the



industry and commerce tax, are consolidated into this SIMPLE tax. In this regard, it is worth mentioning that the new law reserved the authority of determining the essential tax elements (i.e., taxable events, taxable bases, rates, and taxpayers) to the municipalities.

City Councils set the industry and commerce tax rates within the following limits:

Activity	Industrial activities	Commercial and service activities
Rate	From 2 x 1000 to 7 x 1000	From 2 x 1000 to 10 x 1000

The supplementary Billboards Tax is also a municipal tax and works as a surcharge on the industry and commerce tax. The taxable event is the placement of billboards and other advertising boards in the public space. This means that the tax is collected from any natural or legal persons or unincorporated associations that carry out industrial, commercial, and service activities in a municipality while using the public space to advertise their businesses posting on billboards or other advertising boards. The taxable base of the tax is the amount payable as industry and commerce tax. The tax rate is 15%.

## The Unified Property Tax

The unified property tax is a charge on the ownership of real estate located in urban, suburban, or rural areas, with or without constructions or buildings. In consequence, property tax taxpayers are those who own

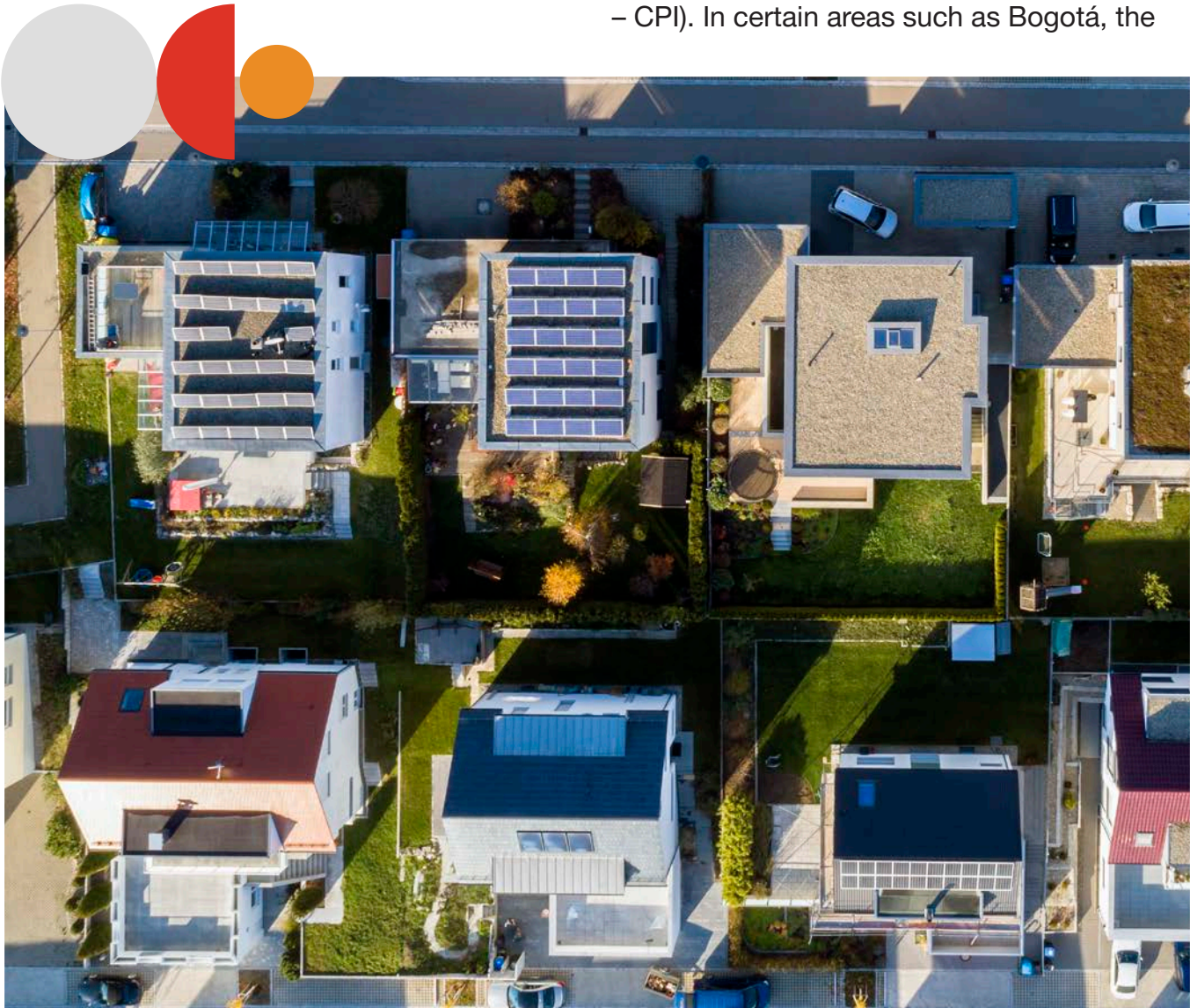
or possess real estate. The tax is justified by the fact that real estate is a sign of the concentration of income and wealth, and to that extent real estate becomes taxed.

The taxable base of the tax includes the cadastral valuation of the property, as adjusted for inflation (using the consumer price index – CPI). In certain areas such as Bogotá, the

taxable base includes the self-appraisal made by the taxpayer.

The applicable tax rate depends on the qualification of the property. In other words, if the property is rural or urban or suburban property; and the rate ranges between 5 and 16 x 1000 (i.e., 0.5% and 1.6%), considering the economic uses of each property.

Taxpayers may deduct 100% of this tax in their income tax return provided that it is causally connected with the taxpayer’s income-producing activity.



## The Registration Tax

The registration tax is levied upon all documentary legal acts, contracts or transactions that must be registered before the chambers of commerce and land registration offices. In case the act, contract or transaction must be registered with the above two agencies, then the tax will be paid exclusively to the land registration office.

The taxpayers are the private contract parties and beneficiaries of the act subject to registration.

The taxable base of this tax is the transaction value set down in writing in the document that contains the legal act, contract, or transaction. For documents with no value, the taxable base



is determined in accordance with the nature of the act:

The rate is as follows:

- Legal acts, contracts, or transactions with a value included and subject to registration before land registration offices, between 0.5% and 1%.
- Legal acts, contracts, or transactions with a value included and subject to registration before chambers of commerce, where the underlying act does not entail the incorporation of a company or the increase of share placement premiums, between 0.3% and 0.7%.
- Legal acts, contracts, or transactions with no value included and subject to registration before the chambers of commerce, where the underlying act entails the incorporation of a company or the increase of share placement premiums, between 0.1% and 0.3%.
- Legal acts, contracts, or transactions with no value included and subject to registration before land registration offices or chambers of commerce, between 2 and 4 current minimum daily wages.



## Tax procedure and formal obligations

### Electronic invoicing

As from March 1, 2020, taxpayers must obtain an electronic invoice from their vendors for their deductible costs and expenses and tax credits to be admissible, as per the table below:

Year	2020	2021	2022
Max percentage that may be claimed as deductible with no electronic invoices.	30 %	20 %	10 %

The law gave authority to DIAN to regulate sales invoices and equivalent documents (currently, this authority falls only under the National Government – Ministry of Finance). To this end, the law established that DIAN would announce the timing requirements and the taxpayers that must implement electronic invoicing during 2020.

In line with Article 1.6.1.4.1.16 of Unified Tax Regulation 1625 of 2016, the law establishes that equivalent documents issued by POS cash registers will not entitle the buying taxpayer to claim VAT setoffs and deductible costs and expenses; but, if the buying taxpayer needs so, it may require the commercial establishment to issue the corresponding invoice.

From January 1 through March 31, 2020, taxpayers required to issue electronic invoices that fail to meet that obligation will not be subject to any penalties, including the disallowance of costs and expenses, if they meet the following conditions:

They issue their invoices using traditional means – other than electronic or digital methods.

They prove that they did not issue electronic invoices because of (i) technological impediments or (ii) justified commercial reasons.



## Other matters

### New joint and severally liable third parties

The following are defined as persons who are joint and severally liable with the taxpayer for payment of the tax:

- Any persons or entities which have been parties to transactions that were purely tax driven and sought to evade or avoid taxes, for the taxes, late interest, and penalties that the tax administration did not collect.
- Any persons in charge of the custody, management, or any persons who in any way manage fund assets or business vehicles used by their owners to evade or avoid taxes and were aware of transactions that entailed abuse in tax matters or tax avoidance.

### Reconciliation contentious-administrative

The National Taxes and Customs Direction (DIAN for its acronym in Spanish) is authorized to perform reconciliations regarding tax, customs and exchange matters, with the following characteristics, which are under process by the contentious-administrative jurisdiction:

- If the process is in single or first instance: 80% of the total value of the sanctions, interests and updates can be reconciled, provided that 100% of the tax under discussion and 20% of the sanctions, interests and updates are paid.

- If the process is in second instance: 70% of the total value of the sanctions, interests and updates, provided that 100% of the tax under discussion, and 30% of the sanctions, interests and updates are paid.

In the processes of the Unit of Pension and Parafiscal Management (UGPP for its acronym in Spanish), sanctions and interests derived from administrative processes can be reconciled.

The deadline to perform the request, according to this standard, is June 30, 2020 and the agreement shall be signed no longer than July 31, 2020.

Those who sign reconciliation agreements may access payment agreements that may not exceed a 12-month term, counted from their signing. The maximum deadline for signing the payment agreements will be June 30, 2020. As of the signing of the payment agreement, any interests accrued according to the deadline granted for the payment of the tax obligations subject to negotiation will be daily calculated at the daily rate of the current bank interest for the modality of consumption and regular credits plus two (2) percentage points.

### Termination by mutual agreement of the administrative, tax, customs and exchange processes.

The DIAN is authorized to terminate the administrative processes of this nature with the following characteristics:

- If indictment or penalty decision was notified: It is possible to settle 50% of the total value of the sanctions, interests and updates, provided that 50% of the sanctions, interests and updates are paid.
- If decision that imposed a sanction for not declaring was notified: It is possible to settle 70% of the total value of the sanctions, interests and updates, provided that 100% of the tax under discussion and 30% of the sanctions, interests and updates are paid.
- If sanction for repayment or inappropriate offsetting: It is possible to settle 50% of the total value of the sanctions, interests and updates, provided that 50% of the sanctions, interests and updates, 100% of the tax under discussion, and the sanctions and interests reduced are paid.

The maximum deadline to sign the payment agreements will be June 30, 2020.

### Mutual Agreement Procedure – MAP

This is a procedure regulated by double taxation treaties entered by Colombia. Taxpayers may request that the authority resorts to this procedure by filing a formal request before DIAN, under the following conditions:

- To be admitted for this procedure, the taxpayer must abandon or dismiss any motions and appeals filed before the Administration, and the abandonment or dismissal must be accepted by DIAN.





- DIAN will establish the details of the procedure by way of a resolution.
- The competent authority will sign any agreements that are in order in furtherance of the MAP established in the corresponding double taxation treaties:



These agreements will be equivalent to a final, non-appealable court decision. Therefore, they will be valid as a supporting document to initiate forceful collection proceedings.



The agreement is final, non-appealable.



They can be implemented at any time, regardless of the statute of limitations that relates to the relevant tax return.

## Electronic notifications

Provided that the taxpayer, withholding tax collection agent or tax return filer has reported its electronic address in the unified tax registration form (or RUT from its acronym in Spanish), the tax administration may notify any administrative acts using that address. Based on this, it is understood that the taxpayer has



stated expressly that it is willing to accept electronic notifications.

This means of notification is also extended to any actions carried out by the tax authority. This includes information requests, tax inspection orders, and special requests, among others. The regulations will provide for a special box on the RUT form for the taxpayer to report the email address of its attorneys. In this way, the authority may send copies of its acts to the latter.

For legal purposes, electronic notifications are effective on the date on which the administrative act is sent to the email address. However, the taxpayer retains the right to report to the tax authority that it has been impossible for it to

access the contents of the message, within 3 days following receipt of said message.

Regarding resolutions that decide upon motions or appeals, the 10 days that the taxpayer has to appear will run from the day following the date on which the call notice is put in the mail.

These electronic notification rules apply to administrative acts issued by the UGPP.

## Special tax audit benefits

The law established – for tax years 2020 and 2021 – special tax audit benefits for taxable

years 2019 and 2020. These benefits apply for taxpayers that increased their net income tax liability by at least 30% compared to the previous year. In these cases, the taxpayer's income tax return will become non-assessable and closed to review by the authority 6 months after filing it.

If the increase of the net income tax liability is at least 20%, then the taxpayer's income tax return will become non-assessable and closed to review by the authority if none of the following events are notified to the taxpayer within 12 months following the filing date: a request to file an amended return, a proposed addition to tax, a special call (emplazamiento especial) or a provisional deficiency assessment. This rule



applies provided that the taxpayer files their return on, or before the statutory deadline and pays the tax liability on, or before the statutory payment deadlines set by the national government.

Closes to review	Requirement
6 months after filing	<ul style="list-style-type: none"><li>• The net income tax must increase at least by 30% compared to the one in the previous income tax return.</li><li>• Also, this must be processed before any requests to file a return, any proposed additions to tax, or any provisional deficiency assessments are notified to the taxpayer.</li></ul>
12 months after filing	<ul style="list-style-type: none"><li>• The net income tax must increase at least by 20% compared to the one in the previous income tax return.</li><li>• Also, this must be processed before any requests to file a return, any proposed additions to tax, or any provisional deficiency assessments are notified to the taxpayer.</li></ul>

This does not apply to taxpayers that enjoy any tax benefits because of their location in any given geographical area.

Whenever the tax return for which the tax audit benefits are claimed shows a net loss, DIAN will retain its ability to audit the return to determine whether the reported net loss may be carried forward to be offset in future years.

The following will apply to taxpayers that did not file an income tax return for taxable years prior to the year in which they purport to claim these tax audit benefits. If they meet their obligation and file the returns for taxable years 2020 and 2021, on or before the filing deadline set by the government, the regular statute of limitations set herein will be applicable. To this end, they must increase their income tax liability for the mentioned years by the percentages indicated above.

When it is proven that the withholding tax collections reported in the tax return are non-existent, the tax audit benefit will not apply.

Likewise, the Law of Economic Growth expressly establishes that the provisions of Article 105, Act 1943 of 2018 will generate the effects provided therein for taxpayers that elected the special audit benefits for tax year 2019.



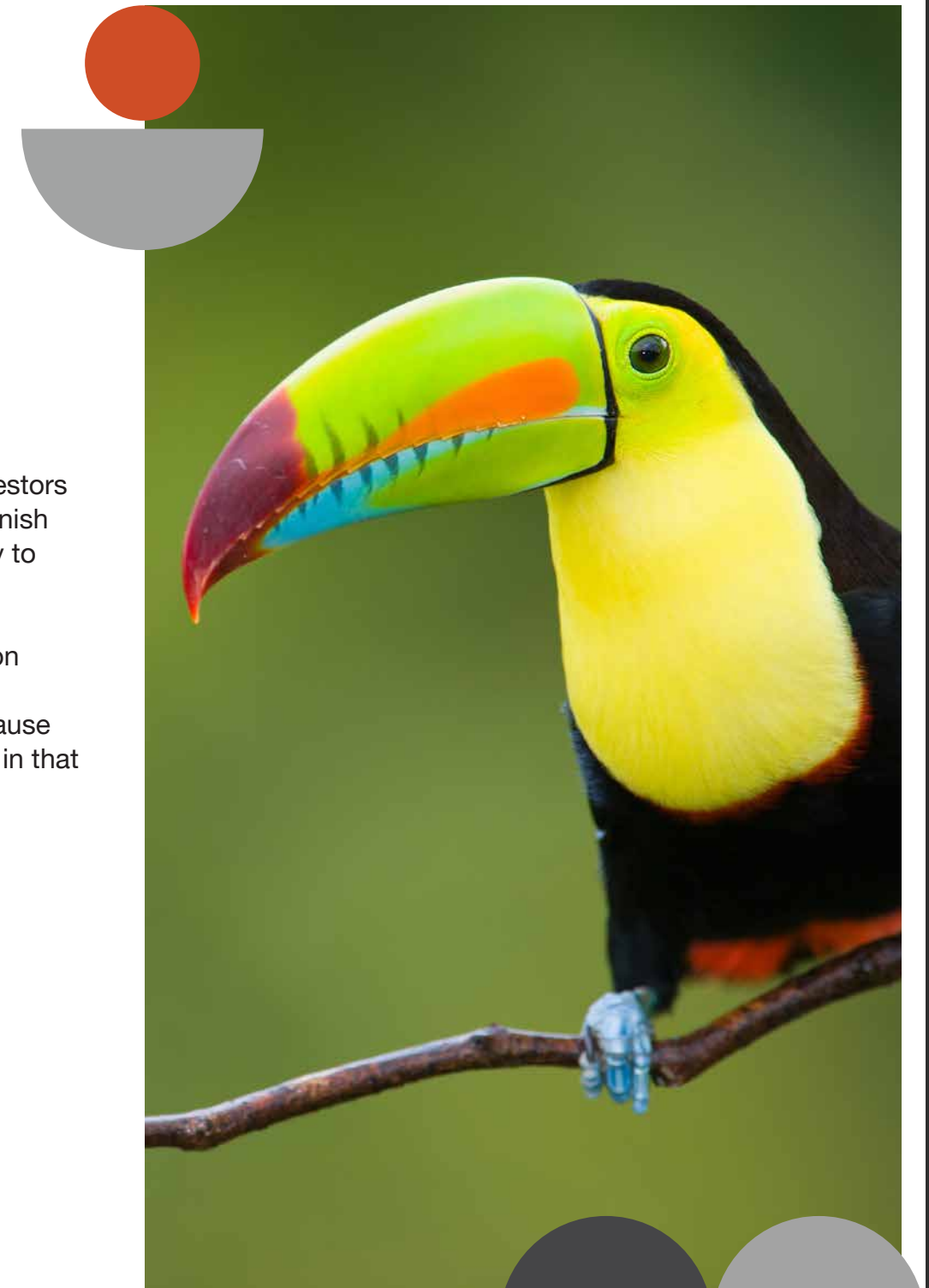


# 12

## Corporate aspects

The preferred investment vehicle for foreign and local investors is the simplified stock company, widely known for its Spanish acronym S.A.S. This is mostly because they are very easy to incorporate, and they are very functional.

Branch offices of foreign companies are also very common in Colombia as investment vehicles, especially for foreign investors in the mining and hydrocarbons industries, because of the related foreign exchanges benefits that companies in that sector enjoy.





# Investment vehicles

In Colombia, investment vehicles are supported by constitutional principles. Among these, we can mention the right to equal treatment, the protection of free enterprise and the protection of private initiatives. Below we include a summary of the most relevant legal aspects that relate to the investment vehicles that are most common in Colombia, including notes about their procedure of incorporation.

1.

## Types of Investment vehicles

- Simplified Stock Company (S.A.S.): one single shareholder or more shareholders (natural or legal persons, Colombian or foreign) may incorporate this type of company. The shareholders will be liable only up to the amount of their capital contributions. It is worth noting that an S.A.S. may be incorporated by way of a private document, and the bylaws of the company may also be amended through a private document. The company name must always be followed by the acronym S.A.S. or by the words “Simplified Stock Company”, in Spanish, “Sociedad por Acciones Simplificada”.



- Stock Company or Corporation (S.A.): This type of company must have a minimum of 5 shareholders (natural or legal persons, Colombian or foreign), who will be liable only up to the amount of their capital contributions. Those companies are incorporated by means of a public deed executed before a public notary; and bylaw amendments must be made in the same way<sup>20</sup>. The company name must always be followed by the acronym S. A. or by the words “Stock Company”, in Spanish “Sociedad Anónima”. Corporations must appoint a statutory auditor. (External Auditor)

- Limited Liability Company (LLC.): this type of company must be incorporated by way of a public deed executed before a public notary\*. These companies must have a minimum of 2 members (either natural or legal persons, Colombian or foreign persons). Members of LLCs are liable up to the amount of their capital contributions, except for labor and tax obligations, in which case they are called to answer jointly with the company. Any bylaw amendments or any transfer of company shares or equity interests must also be made by way of a public deed. The company name is always followed by the abbreviation “LLC.”, in Spanish “Limitada” or “Ltda”.

- Branch Office of a Foreign Company: under Colombian commercial legislation, the Branch Office of a Foreign Company is considered a commercial establishment, which is necessary for the foreign company to carry out permanent business operations in Colombia. In this way,

from a purely legal point of view, the branch office of a foreign company and its parent company are considered to be the same legal person. In this way, the parent company is fully liable for the entire obligations of the branch office. A branch office must be registered in Colombia by way of a public deed; and its bylaws and corporate organs are the same bylaws and corporate organs of the parent company. The branch office of a foreign company must appoint a statutory auditor. (External Auditor)

On the other hand, Colombian legislation has also provided for other types of companies; however, these are used in fewer proportion, as is the case of limited partnerships (Sociedades en Comandita) and pure partnerships (Sociedades Colectivas).

Finally, among the above mentioned investment vehicles, it is worth noting that since the enforcement of Act 1258 of 2008, the law that created the Simplified Stock Company (Sociedades por Acciones Simplificadas “S.A.S.”), this type of entity has become the investment vehicle of choice for foreign investors and also for local investors, mostly because of the flexibility in their process of incorporation and their functionality.

On the other hand, branch offices of foreign companies are also very common in Colombia as investment vehicles, especially for foreign investors in the mining and hydrocarbons industries because of the related foreign exchange benefits that companies in that sector enjoy.

20. A Corporation (S.A.) or a limited liability company may also be incorporated by way of a private document if the constituents meet the requirements established in Act 1014 of 2006.





2.

Comparative chart between Branch office of foreign company and Simplified stock company- SAS (for its acronym in Spanish)

## Members, Legal nature and Liability

### Branch office of foreign company

The branch office of a foreign company is a commercial establishment owned by the parent company. For this reason, it lacks any legal personhood other than that of the parent company. In consequence, the liabilities of the branch office in Colombia flow through directly to the parent company.

### Simplified stock company – SAS (for its acronym in Spanish)

It is a separate legal person, different from its shareholders. One or several natural or legal persons may establish a corporation. The shareholders will not be liable for any labor or tax obligations or for any other company obligations, except when the company is set up to break the law or when it damages third parties.

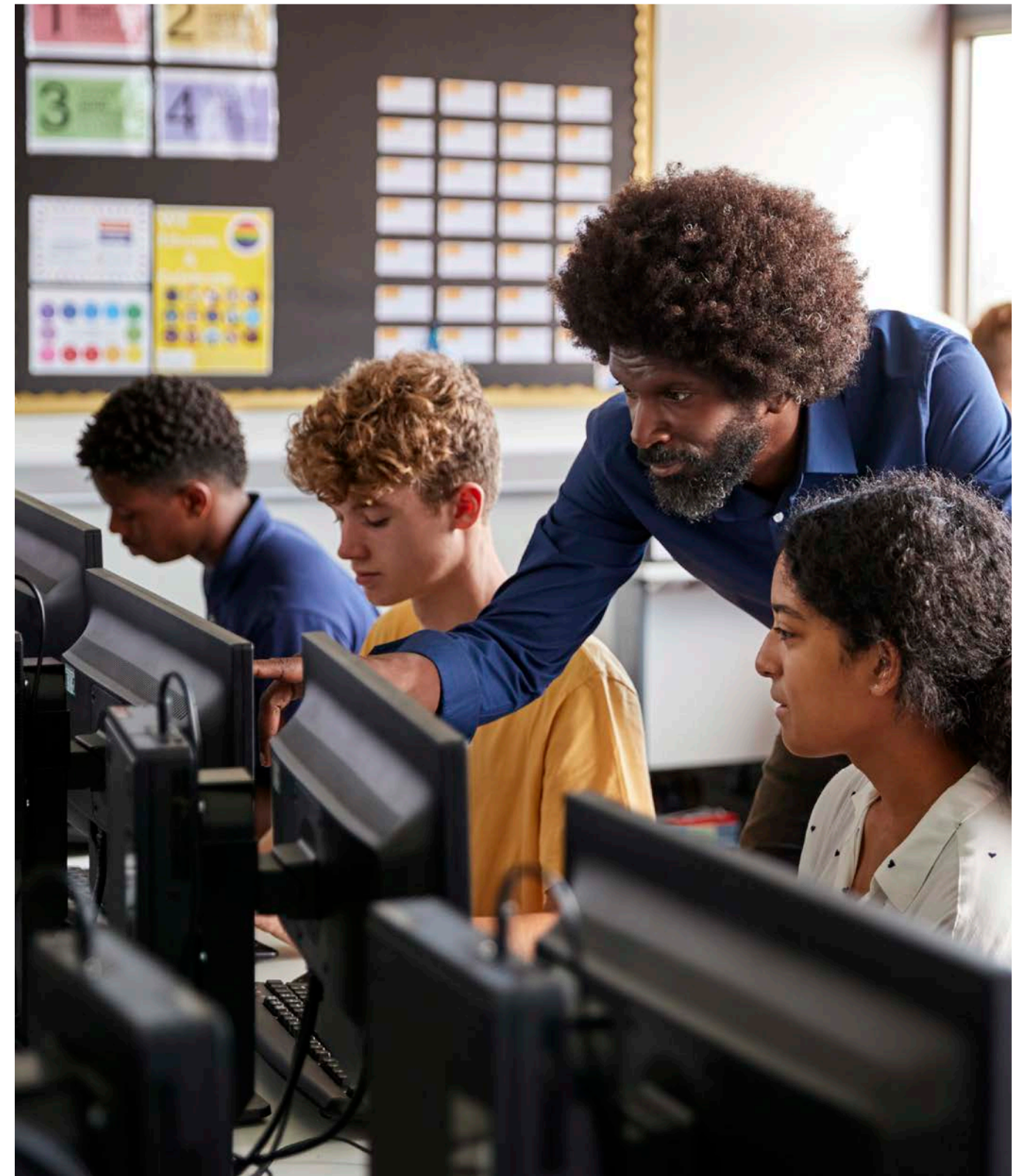
## Name, Term of validity and Business purpose

### Branch office of foreign company

As a rule, it must use the same name of the parent company, adding the expression Colombian Branch (“Sucursal Colombia”). The term of duration of the branch office must be defined, confined to specific commercial activities.

### Simplified stock company – SAS

The company name must be followed by the expression Simplified Stock Company (S.A.S.) As opposed to other commercial companies, the term of duration of an S.A.S. may be indefinite, and their purpose or line of business may be just to carry out any lawful civil or commercial transactions, without having to specify them.





## Capital

### Branch office of foreign company

In principle, the branch office of a foreign company has an assigned capital, which they receive from their parent company. As is the case for commercial companies, said capital assigned to the branch office works as a general collateral for the protection of the creditors. The assigned capital must be paid in full upon registration of the branch office in Colombia.

Additionally, the branch office of a foreign company has a “floating capital”, called the “Supplementary Investment to the Assigned Capital (ISCA as per is Spanish acronym)”. This supplementary capital can increase or decrease without any need for amending the bylaws or securing any prior approvals.

### Simplified stock company – SAS

The capital is divided into registered shares and is divided into three types: authorized capital, subscribed capital and paid in capital. The term for payment of all subscribed shares cannot exceed 2 years. The parties can establish percentages or minimum or maximum amounts of the corporate capital that one or more shareholders may control, directly or indirectly. The constituents may stipulate in the bylaws that the shares issued by the company may not be negotiated, or that a certain class of shares may not be negotiated, provided that this restriction does not exceed 10 years counting from the date of issuance. This term may be extended for additional terms of 10 years maximum, by the unanimous vote of the shareholders. Share negotiations may be subject to prior authorization by the shareholders meeting of the company.

## Special grounds for dissolution

### Branch office of foreign company

Section 4rd of Law 2069, 2020 (Entrepreneurship Law) derogated the dissolution ground for losses of companies and branches of foreign companies; this ground consisted on when companies/ Branch Office of a Foreign Company presented losses that reduced the company’s net worth to less than fifty percent (50 %) of its subscribed capital/assigned capital, they would automatically find themselves in a dissolution ground. The law gave shareholders/parent company reasonable time to take the necessary measures or policies within a period of eighteen months to get ahead the situation.

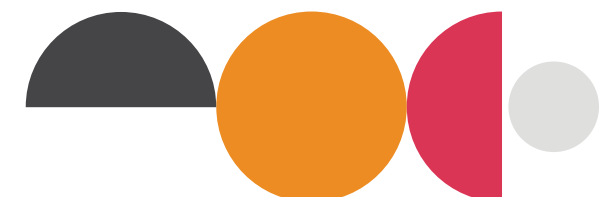
Nonetheless, the above mentioned section establishes that the non compliance of the going concern hypothesis at the end of the financial year, shall constitute a ground of dissolution for commercial companies/ Branch Office of a Foreign Company. Therefore, if its occurrence is reasonably verified, the Managers may only perform operations within the ordinary course of the business, and they will have to immediately summon a Shareholders meeting or Board of Partners to inform the situation, all this so that the main corporate body can make the decision in respect to the continuity or the dissolution and winding up of the company Otherwise, managers may be jointly and severally liable for damages caused to the companies associates or third parties.

### Simplified stock company – SAS



Branch Offices of Foreign Companies are dissolved according to the same grounds established for the parent company, considering that the branch depends entirely on the existence of the latter or on the expiry of its term.

Those stated within the bylaws.





## Profits

### Branch office of foreign company

Branches follow the same handling procedure that commercial companies. In other words, profits must be approved by the parent company.

### Simplified stock company – SAS

Unless a different majority is established in the bylaws of the company, this decision of the distribution of profits is adopted by the favorable vote of a group of shareholders representing at least one half plus one share of total shares present at the meeting of the shareholders. An S.A.S. is not required to distribute a minimum of shares.

## 3.

## Necessary documentation and procedure for the incorporation of an S.A.S. and Branch Offices of Foreign Companies

Bearing in mind that the investment vehicles that foreigners use the most in Colombia are the S.A.S. and Branch Offices of Foreign Companies, we will only review the documents required and the incorporation procedure of these two vehicles.

### 3.1. Documents required to incorporate an S.A.S.

- Certificate of good standing and representation of each of the shareholders (in case they are legal persons).
- Copy of the ID of each of the shareholders (in case they are natural persons).
- Articles of incorporation and articles of Association of the new company.
- As applicable, powers of attorney granted by each of the shareholders.
- Decree 667, 2018 has set out that when the S.A.S. to be incorporated has an individual as its sole shareholder, the company shall file, along with the incorporation documents, a form declaring the control situation being set up. The sole shareholder of the S.A.S. shall sign the abovementioned document.



### 3.2. Documents for the incorporation of Branches of Foreign Companies

- Certificate of good standing and representation of the parent company.
- Complete bylaws of the parent company and its articles of incorporation.
- Resolution deciding the registration of the branch office of a foreign company, issued by the competent corporate organ of the parent company. This resolution must indicate the items set out in article 472 of the Colombian Code of Commerce.
- Powers of attorney, as applicable, granted by the parent company.

### Requirements for legalization of documents issued or executed abroad:

- Every document issued or executed abroad must be certified by apostille or must be legalized through diplomatic channels in the country of origin.
- Every document drafted in any language other than Spanish must be translated by a translator certified by the Ministry of Foreign Affairs in Colombia.





### 3.3. Steps to incorporate an S.A.S or a Branch Office of a Foreign Company in Colombia



#### Step 1: (1 Business Days)

Signing the document of incorporation including the bylaws of the new company and appointing the legal representatives and statutory auditor (as applicable).

Notarization of signatures on documents of incorporation or acknowledgment of content before a notary, in case all the shareholders are not the ones who directly file the documentation before the commercial register.

In the case of a Branch Office of a Foreign Company, a public deed must be generated for all the documents indicated herein as necessary for the constitution of this type of entity. This may take about 4 days.



#### Step 4: (1 Business Days)

Final registration in the unified tax register - RUT - and issuance of final tax ID number - NIT - by the national tax authority. Among other requirements, the following is necessary: indicating the address of domicile of the new company or Branch Office of a Foreign Company.



#### Step 2: (1 Business Days)

Preliminary procedure for issuance of tax ID number and unified tax registration certificate - RUT - before the website national tax authority. Among other requirements, the following is necessary:  
Indicating the address of the new company or of the Branch Office of a Foreign Company  
Indicating the economic activities or lines of business. (Maximum 4).



#### Step 5: (1 Business Days)

Updating the commercial registration to include the NIT.



#### Step 3: (4 Business Days)

Registering the new Branch Office of a Foreign Company before the Chamber of Commerce. Expenses: The registration tax will be calculated at a rate ranging between 0.7 % and 1 % of the subscribed capital of the S.A.S. or of the assigned capital of the Branch Office of a Foreign Company, depending on the city of the domicile. For example, in Bogotá the authority charges 0.7 %; in Barranquilla, they charge 1%. Registration rights and commercial registration rights (calculated based on a table of values set by the Chambers of Commerce).

Both the registration rights and commercial registration rights, as well as the registration tax, will be paid to the Chamber of Commerce upon submission of the documents, either in cash, with a cashier's check, or with a debit or credit card.



#### Step 6: (1 Business Days)

For the Branch Office of a Foreign Company, once the branch is incorporated, the parent company must transfer the capital assigned to it, for which purpose it must fill out exchange form No. 4.





# Functioning of company, bylaw amendments and right to withdraw from a company

1.

## Functioning

In general, Commercial Companies do not require an authorization from any public authority to be able to function or operate. As an exception, commercial companies working on financing, stock exchange or insurance activities require a prior authorization to operate from administrative authorities such as the Superintendencia Financiera (Superintendency of Finance). This requirement also applies to any company which's work relates to the management, use and investment of resources or funds collected from the public.

2.

## Bylaws amendments

As rule of thumb, amendments to the bylaws do not require an authorization from any public authority, save for those cases where the amendment implies a corporate reorganization, as is the case of mergers and spinoffs. In these cases, special procedures of advertisement and convening or call to the shareholders or members and creditors of the companies involved in the transaction are subject to verification. Capital reductions with cash reimbursement of contributions requires prior authorization from the Superintendency of Companies.

The decision to reform the company's bylaws must be approved at a meeting of the shareholders or the board of partners, through the preparation of minutes that will record the amendments made to the bylaws. The minutes must include all legal and statutory requirements and depending on the case, they must be elevated as a public deed or simply recorded in a private document, accordingly.



3.

## Right to withdraw from company

The right to withdraw is defined as the possibility that a shareholder or partner, absent or dissenting, has to withdraw from the company, with the ensuing reimbursement of the contributed capital. This right arises when the shareholders' meeting adopts a determination entailing changes that generate a greater responsibility for the shareholder or a detriment of their patrimonial rights, which would reduce the shareholder's interest to continue being associated with the company. Among the events established in the law that would allow a shareholder to exert their right to withdraw from a Company are Company transformations, mergers or spinoffs.

Additionally, the right to withdrawal includes a protection that the law provides for shareholders, and therefore, it cannot be modified, suppressed or limited by means of private agreements in contracts, shareholders' agreements and/or bylaws. The consequence of these stipulations is that they do not produce a legal effect.



# Parent companies and subsidiaries

## Corporate groups

A company is a subsidiary or a controlled entity when its decision-making power is subject to the will or the decision of another legal person or natural person referred to as the parent company or controller. This control may be economic, political or commercial.

Mainly, control may be exerted by a majority shareholding position in respect to the capital of the subsidiary, or by way of making a contract or a special transaction creating the ability to exert dominant influence on the management organs of the controlled company.

If the subsidiary suffers the control directly, it is called a first-tier subsidiary. If it suffers the control through other subsidiaries of the parent company, it is called a lower tier subsidiary. In this regard, it is worth noting the following:

**I.** The law recognizes that a company may be subordinated to another company without any existing share in the capital.

**II.** Likewise, it is recognized that natural persons or unincorporated associations may exert control.

**III.** A majority shareholding of the capital may take place with speculation or strategic purposes, not necessarily to establish a control structure.

**IV.** To determine whether there is a natural corporate group made up of several legal persons, in addition to the above subordination ties, there must be a unified purpose and a unified direction in the commercial pursuits of the various entities.

**V.** For the above purposes, the law considers that there is a unified purpose and unified direction when all entities are pursuing a common objective or goal determined by the parent company or by a controlling entity exercising its power of control over the entire set or body. This is without detriment to the ability of each one of the companies to pursue their own specific lines of business.

**VI.** In accordance with Section 30, Act 222 of 1995, if the control or corporate group situation is not declared before the Chamber of Commerce within the 30 days following the date on which it has taken place, the Superintendency of Companies would declare the situation and order its registration in the Mercantile Register by itself or at the request of any interested parties. Additionally, section 86 of the same law set forth that the Superintendency of Companies may impose successive penalties or not, up to an amount of 200 minimum legal salaries, which for 2020 is an amount of COP \$181,705,200 (USD \$51,050).

## Financial Statements

The purpose of the financial statements is to provide information to those who do not have any access to the records of a company, so that they may learn about the controlled resources, the obligations that require a company to transfer resources, the changes that such resources have undergone and the results obtained in a fiscal year or reporting period.

In this regard, the law requires commercial companies to settle their accounts and prepare general-purpose financial statements at least once a year, stated at December 31. This is without detriment to the ability of the constituent shareholders or members to agree upon an additional account settling and reporting date for the company.

General purpose financial statements are those prepared at the closing of a determined reporting period to be disclosed to indeterminate users. This is done to satisfy the common interests of the public at large of evaluating the capacity of an economic entity to generate positive cash flows in the future; and these are the financial statements that are used as a basis to distribute earnings. The financial statements include the statement of financial position or balance sheet, the statement of income, the statement of changes in equity, the statement of changes in the financial position and the statement of cash flows.



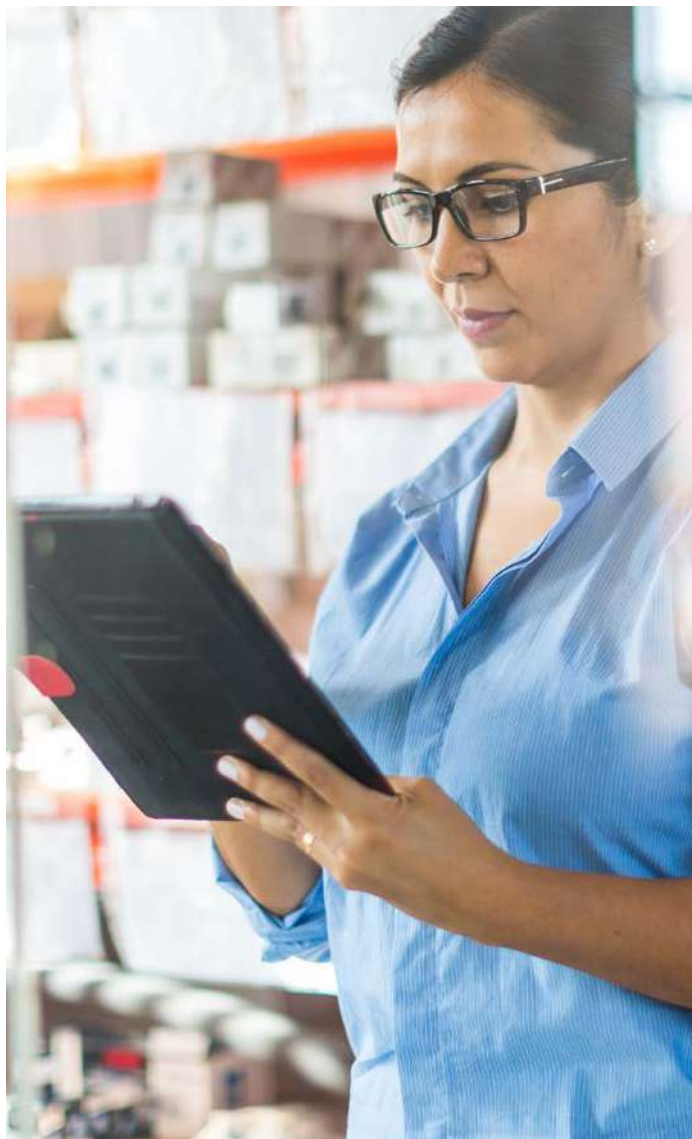




## Profits or Earnings

Profits or earnings are distributed based on financial statements prepared in accordance with the generally accepted accounting principles. They are distributed proportionally based on the paid-up portion of the par value of shares or equity interests held by each shareholder, unless otherwise stated in the contract.

If there are any stipulations that deprive any shareholder or member of their right to receive a share of the profits or earnings made by the company, such stipulations will be held as never written.



## Inspection, surveillance and control

All commercial companies are subject to a degree of surveillance by a Superintendency in Colombia. This circumstance will be determined based on the specific activity that figures as the line of business of the corresponding company.

The various degrees of surveillance are as follows:

**I.** Inspection: The Superintendency may occasionally request, verify and analyze any information it requires on the legal, economic, accounting, and administrative situation of the corresponding company.

**II.** Vigilance (or surveillance): The Superintendency may permanently verify that the incorporation and operations of the company are in conformity with the law and the company's bylaws.

Those companies that as of December, 31 of the prior year register assets, included general adjustments for inflation, equal or superior to thirty thousands (30,000) current legal monthly minimum wages, which for the year 2021 would be equivalent to COP 27.255.780.000, (USD 7,657.430) are subject to the surveillance of the Superintendency of Companies<sup>22</sup>.

Also, those Companies that on the same date record total income, including comprehensive inflation adjustments, exceeding thirty thousand (30,000) legal minimum wages in force, as well as those within any of the grounds set out in the numerals: 2.2.2.1.1.2.3, 2.2.2.1.1.2.4 and 2.2.2.1.1.2.5 of Decree 1074 of 2015.

**III.** The degree of inspection and vigilance are generally determined by the value of the company's assets.

**IV.** Control: The Superintendency may remedy a critical situation, whether legal, economic, administrative or related to accounting.

As a rule of thumb, commercial companies are subject to inspection, surveillance and control by the Superintendency of Companies. As an exception, these surveillance duties may be assigned to other agencies such as the Colombian Superintendency of Finance, the Superintendency of Healthcare, the Superintendency of Utilities, the Superintendency of Ports and Transportation, and the Superintendency of Surveillance and Private Security, among others.

22. Calculations made under the base on 2021 Colombian minimum annual wage COP\$908.526.





## Capital Reductions

Under article 145 of the Code of Commerce, a company or a Branch Office of a Foreign Company may carry out an amendment of the bylaws for the reduction of the corporate capital with a reimbursement in cash of contributions. This must be done with prior approval from the Superintendency of Companies, which will issue the authorization at the request of the company and whenever any of the following circumstances occurs:

**I.** The company has no external liabilities.

**II.** After the reduction is made, the corporate assets represent at least twice as much as the external liabilities.

**III.** The corporate creditors expressly accept in writing the reduction of capital, regardless of the amount in, or number of corporate assets.

The Basic Circular Letter from the Superintendency of Companies established general rules for the authorization of capital reductions with reimbursement of cash contributions. This applies to companies, branch offices of foreign companies and sold proprietorships that are not subject to surveillance or control by that body, nor to surveillance or control by any other Superintendency, unless they are in any of the following situations:

**a.**

Where, notwithstanding compliance with any of the conditions set in Section 145 of the Code of Commerce, the financial situation of the corresponding entity shows one or more overdue obligations, where noncompliance extends for over 90 days, and where they represent in total 10 % or more of the external liabilities.

**b.**

In the case of companies with liabilities that derive from the issuance of bonds.

**c.**

In the case of companies, branches of foreign companies or sole proprietorships that have pension liabilities.

**d.**

Where the total value of the contributions to be reimbursed represents 50 % or more of the total asset value.

**e.**

In the case of legal persons involved in a control situation, either as controlling entities or as subsidiaries and in respect to one or more different legal persons that are subject to the control or surveillance of the Superintendency of Companies or of any other Superintendency.

**f.**

In the case of companies, branches of foreign companies or sole proprietorships that are carrying out an agreement with creditors or a restructuring or reorganization agreement.

In this way, should a company fall in any of the situations that triggers the obligation to request authorization, then it must follow the corresponding procedure before the Superintendency of Companies.

It is worth noting that the same procedure applies in cases where the plan of the company is to reimburse share placement premium amounts.







## Liquidation

When a company or branch office of a foreign company liquidates based on the decision of the shareholders or members of the parent company (as the case may be), then the company or the branch office must follow the rules of articles 218 et seq. of the Colombian Code of Commerce and any other related, applicable laws and regulations. In a general, voluntary liquidation includes the following stages:

### a.

#### Dissolution

The first stage of voluntary liquidation starts at the time in which the shareholders meeting or the competent body of the parent company (as the case may be) adopt the decision of dissolving the company or the branch office and appointing liquidators. Once dissolution is approved by the top corporate body, the legal capacity of the company narrows down to acts which seek to attain immediate liquidation.

After the shareholders meeting has declared the dissolution of the company, the company needs to add the expression “in liquidation” to the company name or to the name of the branch office.

### b.

#### Liquidation

##### i. Notices and inventory.

In this stage, the liquidator carries out actions that seek to liquidate the assets of the company, pay off the liabilities and thereafter distribute any remainder among the shareholders or members, or remitting it back to the parent company. To this end, the liquidator must do the following: (i) give notice to the national tax authority –DIAN–; (ii) making the liquidation a public process, by publishing a notice in a widely circulated daily newspaper in the domicile of the company or branch office; (iii) requesting permission from the Ministry of Labor where required by law; (iv) preparing an asset-liability inventory statement within the month following the dissolution.

At this point, it is worth noting that Stock Companies and branch offices of foreign companies that are subject to surveillance and control by the Superintendency of Companies, must submit the asset/liability inventory statement for approval by that agency. If after having prepared this statement they determine that the value of the assets is not enough to pay off the external liabilities; or if at the time of dissolution or termination of business affairs in the country they have retirement pensions payable, or pension bonds or certificates payable.

##### ii. Realization of assets and payment of liabilities.

By realizing the assets, the need of changing the total corporate assets or the total asset for the branch office into cash is served, so the company still has enough funds to pay for any obligations and debts with third parties.

### c

#### Final liquidation statement, remainder, and extinguishment of the legal personality

The final stage of the liquidation procedure requires the liquidator to prepare the final liquidation statement. This statement will indicate the way in which any remaining assets will be distributed among the shareholders or remitted back to the parent company, in case one exists, and how the legal personhood or existence of the company or branch office will be extinguished. All this, after preparing provisions for the payment of obligations that the company may have.

It shall be highlighted that, the liquidation proceeding may have some variations depending on the company / branch office of a foreign company corporate purpose and and to the Superintendency that surveillance it.



# Legal Compliance

Under the law, commercial companies and other legal entities are required to meet 6 periodical obligations:

1.

Renewing the mercantile registration.

2.

Holding annual meetings.

3.

Submitting financial statements to the Chamber of Commerce of the main domicile.

4.

Reporting of financial statements.

5.

Registering the control situation or business group.

6.

Appointing a statutory auditor.



In Colombia, despite the specific obligations applicable to each sector, there are certain special obligations that must be met before certain surveillance and control agencies.

1.

Reviewing and implementation of the Self-control and Assets Laundering Management Risk and Terrorism Financing System, (SAGRILFT or SAGRILFT as per its Spanish acronym)

2.

Transparency and business ethics programs and international corruption prevention mechanisms.

3.

Protection of personal data.










1.

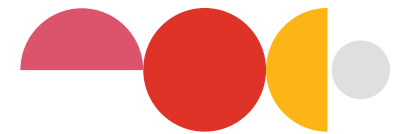
## Compliance with periodical obligations

According to the law, companies must meet the following periodical obligations:

		Renewing Mercantile Registration	Annual meetings	Filing of the financial statements before the Chamber of Commerce of the principal domicile
	<b>Obligation</b>	Before March 31 of every year, every registered business must renew its mercantile registration and that of its commercial establishments.	The Shareholders' Meeting, the Board of Partners (depending on the company type) and, if applicable, the Board of Directors, must hold at least one ordinary meeting per year.	Companies must file a copy of their general purpose financial statements (with their accompanying notes and the opinion of the statutory auditor) before the Chamber of Commerce of the corporate domicile.
	<b>Who must do this</b>	Every commercial company and branch offices of foreign companies.	Every commercial company.	Every commercial company, except where the company is required to file the financial statements before the office of the Superintendency of companies.
	<b>Amount</b>	The amount payable for the renewal of the mercantile registration is calculated based on the assets reported in the financial statements as of December 31 of the preceding year.	Not applicable.	Cost: 21,600 COP or approximately USD 6.5 per financial statement filled.
	<b>Time limit for compliance</b>	Within the first 3 months of the year, on March 31 at the latest.	On the dates set in the bylaws or if these are silent, within the 3 months following the closing of every reporting period. In any case, the meeting must be held on the first working day of April at the latest.	Within 1 month following the date of approval.
	<b>Penalty</b>	Fines of up to 17 minimum monthly legal salaries (COP \$15,444,942 / USD \$ 4,339 approx) imposed by the Superintendency of Industry and Trade and 200 minimum monthly legal salaries (COP \$181,705,200 / approx. USD \$51,050) imposed by the Superintendency of companies.	Penalties or fines of up to 200 minimum monthly salaries (COP \$181,705,200/ approx. USD \$51,050) imposed by the Superintendency of companies.	Penalties or fines of up to 200 minimum monthly salaries (COP \$181,705,200/ approx. USD \$51,050) imposed by the Superintendency of companies.








2.







## Compliance with periodical obligations

According to the law, companies must meet the following periodical obligations:

	Reporting of financial statements	Declaración de situación de control y grupo empresarial	Appointment of a statutory auditor
 <b>Obligation</b>	Any company subject to surveillance and control by the Superintendency of Companies must report its financial statements for the closing of the fiscal year, cut-off at December 31, certified and with the statutory auditor's opinion. This obligation applies every year, without the need of specific requests from the entity.	Companies whose decision-making power is subject to the will of a controlling third party must register this situation of subordination before the Chamber of Commerce. Additionally, if there is unity of purpose and direction between different subordinate entities, the status of business group must be declared.	For certain companies, appointing a statutory auditor is mandatory, either at the time of company inception or when they reach the legal threshold for compliance.
 <b>Obligation</b>	Every commercial company and branch offices of foreign companies that are subject to surveillance and control from the Superintendency of Companies.	<p>All commercial companies that meet the following requirements:</p> <ol style="list-style-type: none"> <li>1. When over fifty percent (50 %) of the capital belongs to the controller, directly or indirectly.</li> <li>2. When the controller and the subordinates jointly or separately have the right to cast the votes constituting the minimum decision-making majority at the shareholders meeting or board of directors meeting, or when they have the number of votes necessary to elect the majority of the board of directors, if applicable.</li> <li>3. When the controller, directly or through the subordinates, by reason of an act or business with the controlled company or its partners, exercises dominant influence in the decisions of the management bodies of the company.</li> </ol>	<p>Branch offices of foreign companies must always do it. Corporations must always do it.</p> <p>Companies in which whether there is compliance with the regulations or with the company bylaws or not, the management is not in the hands of all shareholders. In such cases, any number of shareholders that are not a part of the management and represent no less than 20% of the total capital may request the appointing of a statutory auditor.</p> <p>Commercial companies with assets worth 5,000 minimum monthly salaries (the 2020 rate is COP\$4,439,015,000 / approx. USD \$1,247,130 ) or more at December 31 of the previous year.</p> <p>Commercial companies with revenues worth 3,000 minimum monthly salaries (the 2020 rate is COP \$2,633,409,000/ approx. USD 739,8483) or more at December 31 of the previous years.</p>
 <b>Amount</b>	The entity does not charge for the reporting of financial information.	For the registration of the control situation and business group before the Chamber of Commerce, the corresponding registration fees and registration tax for acts without quantity for each company will be charged (166,000 COP / approx. 50 USD).	To register the appointing before the Chamber of Commerce, the entity charges a predefined registration fee and the registration tax set by law. In case the statutory auditor is a company, it shall assign individuals to perform as auditors, which leads to an additional payment for COP 166,000 / approx. USD 50.
 <b>Time limit for compliance</b>	Within the deadline set and published by the entity, which depends on the last two digits of the NIT of each company.	Within the 30 days following the occurrence of the event that originated the control situation.	Once the company becomes obligated as indicated above.
 <b>Penalty</b>	Penalties or fines of up to 200 minimum monthly salaries (COP \$181,705,200/ approx. USD \$51,050) imposed by the Superintendency of companies.	Penalties or fines of up to 200 minimum monthly salaries (COP \$181,705,200 / approx. USD \$51,050) imposed by the Superintendency of companies.	<ol style="list-style-type: none"> <li>1. Penalties or fines of up to 200 minimum monthly salaries (COP \$181,705,200/ approx. USD \$51,050) imposed by the Superintendency of companies.</li> <li>2. One (1) UVT (tax value unit) (COP \$36,308/ approx. USD \$10.20) for each day of delay in updating the unified tax registry (RUT), counting from the month following the date on which the obligation arose for the company</li> </ol>



2. Special obligations before surveillance and control agencies

	SAGRLAFT or SAGRILAFT policies implementation)	Transparency and ethics program	Personal data protection
 <b>Obligation</b>	<p>In December 2020, the Superintendency of Companies adjusted Chapter X of the Basic Legal Ruling Since then, what we previously knew as Money Laundering/ Financial Terrorism Financing Risk Prevention System has been renamed as Self-control and integral management of Assets Laundering / Terrorism and Massive Destruction Weapons Financing Proliferation System (LA/FT/FPADM as per its Spanish acronym). .</p> <p>Throughout this system, the Superintendency of Companies obliges to have a SAGRLAFT or SAGRILAFT, to certain companies that adjust within the precepts set outs withing the regulation, which shall establish a LA/FT/FPADM policy and a handbook of LA/FT/FPADM proceedings and to appoint a local compliance officer that shall perform the functions sets outs within the in force regulation.</p> <p>The SAGRILAFT shall have into account the proper risks of the obliged company and the materiality related with LA/FT/FPADM. For which it shall be analyzed the sort of business, the operation, size, the geographical areas in which operates and further striking characteristics.</p>	<p>Companies meeting the following criteria should implement a transparency and business ethics program:</p> <p>(i) It shall be surveilled by the Superintendency of Companies. (ii) That the previous year you have done international business or business transactions of whatsoever nature, directly or through an intermediary, contractors or through a subsidiary or a branch, with individuals or legal persons, foreigners of private or public law. . (iii) that businesses or transactions have been for amounts equal to or greater than 100 legal monthly minimum wages in force. (iv) That the company has had in the previous year total income or assets equal to or greater than 40,000 legal monthly minimum wages in force.</p> <p>The companies as of December 31 of each year comply with the abovementioned criteria will have until April 30 of the following year, to adopt the correspondent transparency and business ethics program.</p>	<p>Only companies and non-profits responsible for information handling with total assets exceeding 100,000 tax value units – UVT (COP \$3,560,700,000 / approx.. USD 1,079,000) must register their databases within two months following the date of their creation.</p>
 <b>Description</b>	<p>1. The surveilled or controlled companies by the Superintendency of Companies with incomes greater than or equal to 30,000 Colombian legal monthly minimum wages in force (COP \$27,255,780,000 / USD \$7,657,430 approx), as of December 31 of the prior year, which belong to the following sectors: real estate agents, trading of precious metals and precious stones, legal services, accounting services, building construction and civil engineering works, virtual assets services, special surveillance or special regime services. Additionally, it shall be verified the compliance or the specific requirements sets out to each sector particularly</p> <p>2. Surveilled and controlled companies by tge Superintendency of Companies, with incomes greater than or equal to or with assets greater than or equal to 40,000 Colombian legal monthly minimum wages in force (COP \$36,341,040,000 / USD \$10,209,900 approx) as of December 31 of the previous year.</p>		<p>If the company carries out any activities that make it responsible for the treatment of personal data, it must implement the following mechanisms:</p> <ul style="list-style-type: none"><li>• Privacy notice.</li><li>• Procedure to obtain authorization from the data owner before beginning to handle any data</li><li>• Tools that guarantee adequate safety conditions to avoid modification, loss, querying, fraudulent use or access to the information</li><li>• Technological measures to protect personal and sensitive data.</li><li>• Internal policy and procedure manual to comply with data protection laws.</li><li>• Preparing policies for the treatment of data and providing them to the national database registry managed by the Superintendency of Industry and Commerce.</li></ul>
 <b>Observations</b>	<p>If companies had a ML/TE Risk Prevention policy, it will be necessary to make a detailed study of the Basic Legal Ruling of the Superintendency of Companies, to identify which elements need to be adjusted, or implemented under the new provision.</p> <p>As of May 31, 2021, all required companies must have registered with the Superintendency of Companies the new LA/FT/FPADM policies implemente.</p>		
 <b>Penalty</b>	<p>Administrative investigations that may apply and the imposition of administrative sanctions to the obliged company, to the statutory auditor and the compliance officer or its administrators up to the amount of Penalties or fines of up to 200 Colombian minimum monthly wages (COP 181,705,200 /USD 51,050 approx.) individually or jointly without consideration of another actions that may be taken by other authorities.</p>	<p>For the non compliance with the implementation of the transparency and business ethics program, the Superintendency of Companies may impose fines up to 200,000 Colombian minimum wages (181,705,200,000 / USD 51,050,000 aprox), inability to be contracted by the State, among others.</p>	<p>1. Fines for individuals or legal persons up to 2,000 minimum monthly salaries (COP \$181.705.200 / USD \$51,050aprox.) imposed by the Superintendency of companies. 2. Suspension of the activities concerning data treatment for up to 6 months. 3. Suspension of the operations concerning the treatment of personal data. 4. Immediate and final closure of operations involving the treatment of</p>

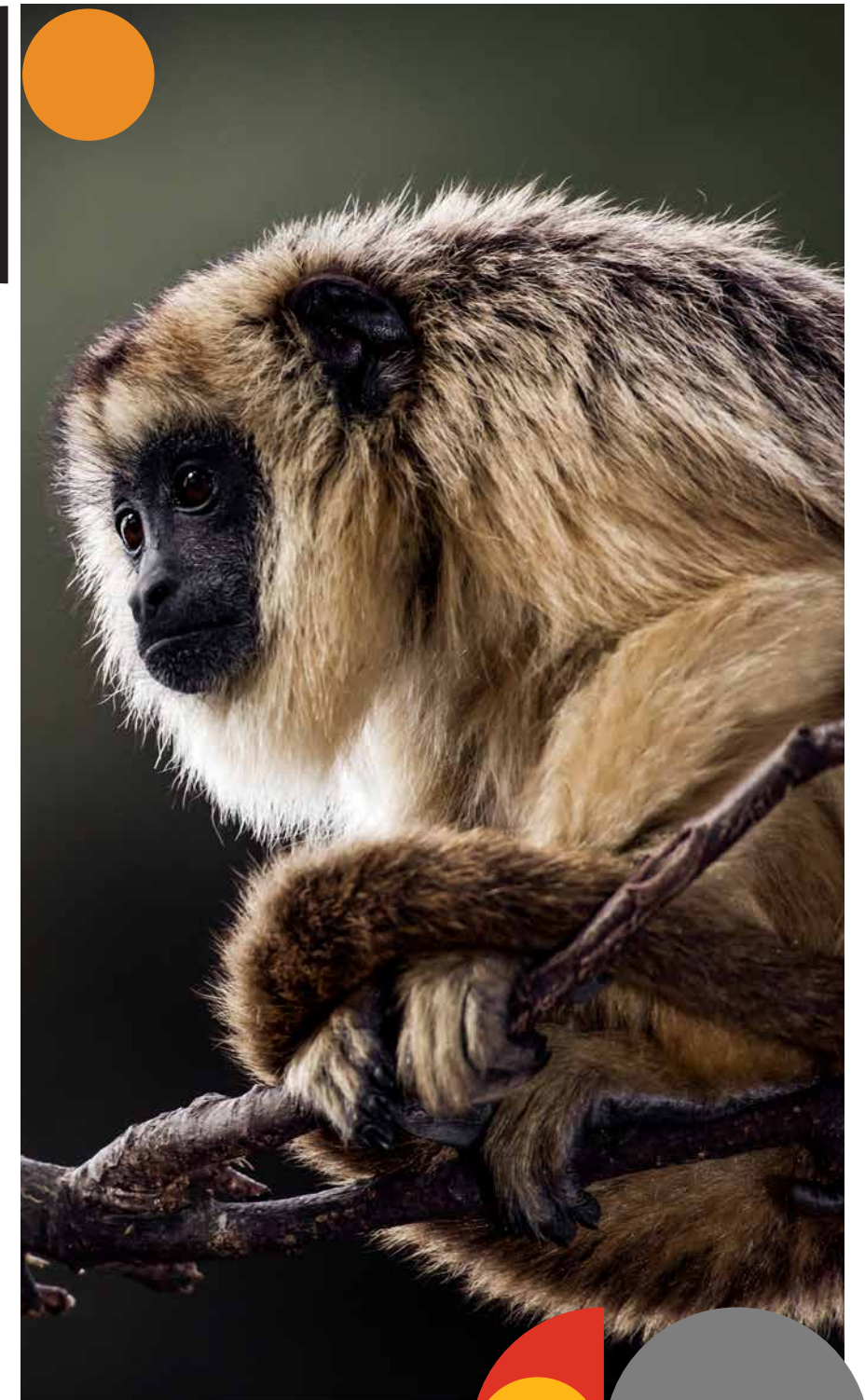


# 13

## Government Procurement

State contracting has a set of rules that regulate all procedures carried out by State entities to conclude on contracts necessary for the fulfillment of institutional functions, goals and objectives.

In Colombia, public contracting has a higher ordinance since it is a means to achieve the purposes of the State through contracts with individuals acting in their capacity as collaborators of the administration







## Scope

As a rule, State entities are governed by the General Government Procurement Statute for Public Administration, with a few exceptions, which have their own special regulations in this field. However, regardless of the contracting regime, a contract in which one of the parties is a public entity is considered a state contract, with certain exceptions such as the case of financial institutions or domiciliary public utility companies.

Colombia has a General Government Procurement Statute for Public Administration, as well as complementary laws and regulations, which set the guidelines for public contracts. In case any specific necessary rule is not established in the Statute, the general rules of the law contained in the Colombian Civil Code and the Colombian Code of Commerce will apply.

Government procurement has higher-level characteristics, which derive from the purposes of the state and what it pursues. Such purposes comprise an obligation for both the corresponding state agencies and the private parties that enter into contracts with the state, to the extent that such parties and agencies are always acting in their condition as collaborators of the public administration.



## State Contracts

In Colombia, the General Statute for Public Administration Contracts (Act 80 of 1993) has defined state contracts as legal transactions derived from the exercise of autonomy of will, where both the State and individuals are obliged to meet collective needs.

Therefore, a State contract is the legal tool through which the activity of the administration is externalized, allowing the effective execution of the activities the State oversees, giving

priority to the satisfaction of the public's interests and needs.

By legal mandate and seeking contractual security, State contracts are of a solemn nature given the fact that their completion is subject to the observance of certain special formalities that must be put in writing, except in urgent situations established by law.

With the implementation of the Fair Payment Terms Law (Act 2024 of 2020), in contracts under the General Procurement Statute of Public Administration, entered into by state entities with a micro, small or medium-sized

company, according to current regulations, payments must be made within a maximum period of sixty (60) calendar days following the acceptance of the invoice; however, compliance with this deadline will be subject to the availability of the Annual Cash Plan.

## Who can contract with the State

All natural and legal persons, whether national or foreign, considered to be legally capable under the current legislation, may enter contracts with State entities and agencies; in other words, any person who is not in grounds for inability or incompatibility.

Consortiums and temporary unions may also enter contracts with the state. The Colombian Government Procurement Statute recognizes these figures, which are normally and internationally known as Joint Ventures.





## Unified Registry of Proponents – RUP

(by its acronym in Spanish)

It is a registry created by law and delegated to the Chambers of Commerce throughout the country, designed for the registration of natural or legal persons, national or foreign, who seek to enter contracts with state agencies for the execution of civil works, the provision of goods or services, save any specific exceptions expressly set by the law.

The purpose of the RUP is to verify the requirements that qualify bidders who intend to contract with the State, in relation to their experience, legal capacity, organizational capacity and financial capacity. This is done by registering the qualification and classification that each interested party prepares, indicating the contracts they have executed before the corresponding chamber of commerce. Registration in the RUP allows, among other things:

**1.**

Providing publicity for all qualification requirements that make a proponent a qualified participant in an eventual bidding process.

**2.**

The possibility to participate in bidding processes before State entities.

**3.**

Obtaining the RUP certificate, which serves as full evidence of the information it contains, provided that the registration is valid and current.

## Methods to select a contractor

Generally, a contractor must be selected through a public bidding process. However, the law has established cases where the administration signs contracts through more abbreviated procedures that are equally transparent, equitable and objective, such as the contest of merits, abbreviated selection, direct contracting and minimum amounts. These faculties are fully regulated by the law, which has established the reasons why carrying out the selection of a contractor through a procedure other than public bidding is justified, either because of the characteristics of the subject matter, the conditions for the type of contract to be entered, the contract value or the legal nature of the contracting entity.

**1.**

### Public Bidding

It is a procedure through which the administration makes a public invitation to parties that are potentially interested in entering a contract with the administration. It invites them to submit their proposals; and then it chooses the most favorable one for

the purposes sought through a contracting procedure, in observance of the terms and conditions established by the public entity that opened the bid.

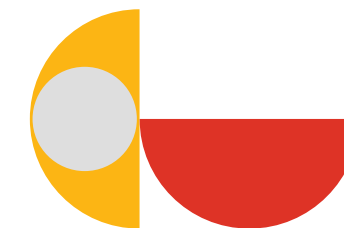
**2.**

### Abbreviated Selection

This method of contracting has been provided for cases in which, due to the characteristics of the subject matter, the contracting circumstances, the amount or the destination of the goods, services or works, a simplified selection process may be carried out.

Abbreviated selection is used based on the nature of the subject matter (for goods or services with uniform technical characteristics or those commonly used by the entity), their value (corresponding to the smallest amount, which is determined according to the annual budget of the contracting entity), the sector of the administration that requires the object to be contracted (national security, for example), whether the object of the contract refers to an activity developed by industrial and commercial companies of the State or mixed economy companies, the nature of the entity or the fact that a bidding process among others has been declared unsuccessful. (Article 2, paragraph 2, Act 1150 of 2007).





The Entrepreneurship Law (Act 2069 of 2020), Chapter III, modified the parameters of Minimum Amount Contracting, with the purpose of allowing MSMEs to participate in the Public Procurement market, which will be regulated by the national government.

In this sense, State Entities must establish differential requirements, as well as develop programs to increase the budget allocated to make the access of MSMEs to contracting with the State more real and effective.

Likewise, it is intended to guarantee that at least 2 micro, small, and medium-sized companies are part of the call for bids. Therefore, State Entities, regardless of their contracting regime, must adopt mechanisms to guarantee the identification of potential suppliers in the MSME Sector, in order to define rules that promote and facilitate their participation in the State contracting process.

The parameters to be recognized as an MSME in Colombia are those established in Decree 957 of 2019, based on the income from ordinary annual activities in tax value units (TVUs\*) and

3.

## Contest of merits

This method involves selection processes that focus on criteria such as expertise and the proponents' intellectual and organizational capabilities, among others, based on their economic criteria and applying a proprietary method to select prequalified contests and open contests.

The integration of work teams, experience and, in some cases, the development of methodologies, will be the most relevant assessment factors, leaving the economic criteria just as a factor that enables participation in the process. This aims to favor the entity with the greatest talent, experience and capability, beyond the price they quote, or the payment offered (Law 1150 of 2007, Article 2, Point 3).

4.

## Direct Contracting

Direct contracting is an exceptional selection procedure. Under this procedure, public entities, in the cases specifically and expressly established in the law, may enter contracts without the need to carry out any contest-based selection procedures. Here, a contract is prepared through a simplified, abbreviated, and quick procedure that follows objective and public interest criteria so that the offer that is most convenient for the interests of the administration is selected.

5.

## Minimum amount

The minimum amount was established as a mechanism to contract goods or services that do not exceed ten percent (10%) of the lowest amount budgeted for each entity (see Point 2, Article 2, Act 1150 of 2007), without considering the object of the contract. It involves a more expedited contracting method, in which the proposal with the lowest price is selected, provided that it complies with the regulations established in point 5, Article 2, Act 1150 of 2007, subrogated by Article 94, Law 1474 of 2011.



depending on the corresponding sectors of the economy, as follows:

Micro Enterprise: Manufacturing Sector (under or equal to 23,653 TVU), Services Sector (under or equal to 32,988 TVU), Commerce Sector (under or equal to 44,769 TVU).

Small Business: Manufacturing Sector (over 23,653 TVU and under or equal to 204,995 TVU), Services Sector (over 32,988 TVU and under or equal to 131,951 TVU), Commerce Sector (over 44,769 TVU and under or equal to 431,196 TVU).

Medium: Manufacturing Sector (over 204,995 TVU and under or equal to 1'736,565 TVU), Services Sector (over 131,951 TVU and under or equal to 483,034 TVU), Commerce Sector (over 431,196 TVU and under or equal to 2'160,692 TVU).

(\*) The value of the TVU for 2020 was COP \$35,607 and for 2021 it is COP \$36,308.

6.

## Price Framework Agreements and other agreements

This mechanism is a tool for the State to aggregate demand, coordinate and optimize the value of purchases of goods, works or services of State Entities to:

- (i) Produce scale economies
  - (ii) Increase the bargaining power of the State; and
  - (iii) Share costs and knowledge among different agencies or departments of the State.
- State entities must publish all information related to the selection processes they carry out in the SECOP in order to comply with the principles of publicity, efficiency, effectiveness and transparency.



The SECOP is an easily accessible electronic tool that allows the processes to be open to the public, so that interested parties are informed about the selection processes that are carried out by the various entities, making observations or also presenting themselves as bidders.

Therefore, the SECOP guarantees the publication of the contracting of goods and services by the Administration, thus favoring entrepreneurs or potential bidders (national and foreign) as well as State entities.

It is worth mentioning that as of January 1st, 2020, all public entities are required to publish their selection processes in accordance with Appendix 1 of the External Circular issued by Colombia Compra Eficiente in 2019, a document that compiles the regulations of the Public Procurement System.







# Public – Private Partnerships (PPP)

Another contracting method that has become relevant to develop large projects are Public Private Partnerships (PPPs), which are a mechanism to engage private capital for the construction of infrastructure and for the associated services. The PPPs are materialized in a concession contract between a State entity and a natural or legal person of private law, to provide public goods and services in different infrastructure sectors. The minimum amount of the project to be developed under the scheme of a public-private partnership is six thousand (6,000) minimum current legal monthly salaries (SMMLV).

## Types of infrastructure:

1. Transportation or productive infrastructure (road, river, rail, port and airport)



2. Infrastructure for the provision of public and social services (housing, aqueduct, sewage and basic sanitation, electricity, telecommunications, education, prisons, health, recreation and sport, and urban renewal).



3. Energy infrastructure (mining, gas and oil).



## PPPs by origin:

PPPs can originate from (i) public initiatives or

(ii) private initiatives. The difference between the two lies in the originator, and therefore gives rise to a different procedure for each type:

- Public Initiative PPPs: Under this model, the State Entity invites individuals to participate in a public bidding process to carry out its execution.
- There are two stages in this model:
- The first one, in which the structuring is carried out by the Entity with the collaboration of that must interact with it.

## Private Initiative PPPs:

Under this model, the individual, also known as the Originator, structures the project following the terms indicated in the terms and conditions up until the pre-feasibility studies and presents it to the Entity, which must decide if the project is rejected or if it is approved. Then the Feasibility Stage can continue.

## Standard Documents in PPPs:

Decree 342 of 2019 regulated the mandatory application of Standard Documents for the specification of the terms and conditions of the bidding processes for public works concerning transportation infrastructure.

This Decree has been applicable starting April 1st, 2019, for transportation infrastructure projects.

Additionally, the Law on Standard Specifications (Act 1882 of 2018 as amended by Law 2022 of 2020) establishes that the Standard Documents will be of mandatory use in the contractual activity of all entities subject to the General Procurement Statute, for the selection processes of public works, supervision for public works, supervision for consulting of studies and designs for public works and engineering consulting for works.





## Public Utilities and Services

The state may provide public utilities directly or indirectly; for organized communities or for private citizens; but in every case, the state will retain surveillance, control and regulation over such services, ensuring that service delivery to all inhabitants is efficient.

The Colombian state has chosen to develop the figure of the “public utility concession” as the most useful means to ensure the efficient provision of public utilities, in the form of a contract or license through which the state provides a person (known as the concessionaire) the right to provide, operate, exploit, organize and manage, fully or partially, a certain public utility or service, defining the term for the provision of their services, the geographical territory in which they will be provided, the regulations on service rates and fees and the operating conditions, and regulations on the utilization of state or private property for the provision of such public utilities.

Act 1508 of 2012 enables the state to provide, operate and maintain public services infrastructure. The use of this contract model by the State has become more common, given the benefits that they can obtain in terms of technology and innovation, distribution of risks, infrastructure development, maintenance, among other factors.



### Domiciliary Public Services

Act 142 of 1994 established the rules that apply to residential public utilities, which include water, sewage, cleaning and garbage collection, electric power, distribution of combustible gas, basic telephone services and local mobile services in rural areas.

Any person who purports to provide residential public utilities must incorporate a joint-stock company, the purpose of which is the provision of residential public services and said company must subject to a special regime contained in the law.

National and foreign investors can contribute and invest in these companies. The Superintendency of Public Utilities will regulate those investors, and the name of their company

must include the words “empresa de servicios públicos” (Public Utilities Company) or the acronym “E.S.P.”, right after the S.A. or S.A.S. acronym.

In order to operate, public utility companies must obtain, as applicable, the required permits, authorizations, and licenses for operation based on the type of activities that they carry out.

### Direct Provision of Services

This happens when the State signs a contract with a private company to directly operate the entirety or a part of the project. This model is used for projects involving water supply, TV services, mobile communication, local communication, and power generation and distribution.

### Acquisition of Public Utility Companies

Private investors may acquire a portion or the entire outstanding shares of public utility companies, acquiring a shares package or important assets owned by the company.





## Privatizations (sale of state-owned shares)

Act 226 of 1995 establishes the procedure by which private individuals will be given access to (i) shares owned by the State, (ii) bonds compulsorily convertible into shares owned by the State; and (iii) in general to any State interests in the capital of any company. This process includes several distinct stages:

**1.**

The decision to sell the shares, which takes the form of a disposal program adopted by decree, containing the essential elements such as the stages, structure, and technical studies for the valuation of the shares, among others.

**2.**

An exclusive offer at a fixed price must then be presented to the social sectors that have preference according to Section 60 of the Political Constitution.

**3.**

Once the offer to the social sectors is completed, the rules of the disposal program will be followed for the rest of the private interested parties.

**4.**

Afterwards, the contract will be awarded, concluded and perfected.

**5.**

Subsequently, necessary measures must be taken to change the owners of the shares.

**6.**

Finally, it is necessary to analyze the need to change the bylaws, review the termination of the entity's obligations since it is public, or change the liability regime if applicable.

In these stages, there is an inherent public interest to protect on behalf of all the authorities that are a part of the Colombian State, such as the review by the Ombudsman's Office of the disposal program.

Thus, we find a constitutional and legal framework where private participation within State institutions is consistently developed by the legislator, under an economic model that makes the entry of private capital, both national and foreign, feasible under the supervision and control of State entities.



## Legal Regulations for oil and gas exploration and exploitation

According to Section 76 of Act 80 of 1993, exploration and exploitation contracts for the production and marketing of non-renewable natural resources such as oil and gas, are subject to a special applicable legislation.

Under Decree Act 4137 of 2011 it was established that National Agency for Hydrocarbons (ANH, for its acronym in Spanish) is the integral administrator of the Nation's hydrocarbon reserves, in charge of the promotion and optimal, sustainable use of these resources. With the modification of its legal nature, the current contracting regime for the exploration and production of hydrocarbons in Colombia was implemented.

Under this scheme, private entities authorized for the exploration and production of gas and oil and Ecopetrol S.A. enter a competition under the same conditions, without the need for an association contract as previously required. However, in some cases, the previous association regime is still in force as the contracts were agreed with a duration of up to 30 years.

This type of contract has the following characteristics:

**a.** It is a state contract governed by special rules, and it is not subject to the contracting rules in Act 80 of 1993.



**b.** The contract must be negotiated with and approved by the ANH.

**c.** The contractor undertakes 100% of the work programs, assets, costs and risks.

**d.** The contractor has full autonomy and operating responsibility.

**e.** The contractor is entitled to the full production after deduction of the applicable royalties, which must be paid to the ANH based on the volume and quality of the produced hydrocarbons.

**f.** In addition to the above, the Contractor must process and obtain the corresponding environmental licenses before the National Authority of Environmental Licenses – ANLA (for its acronym in Spanish).

The ANH has the dual function of managing the nation's resources, following up on contracts, and allocating the royalties received under them. In addition, it functions as a regulatory body.



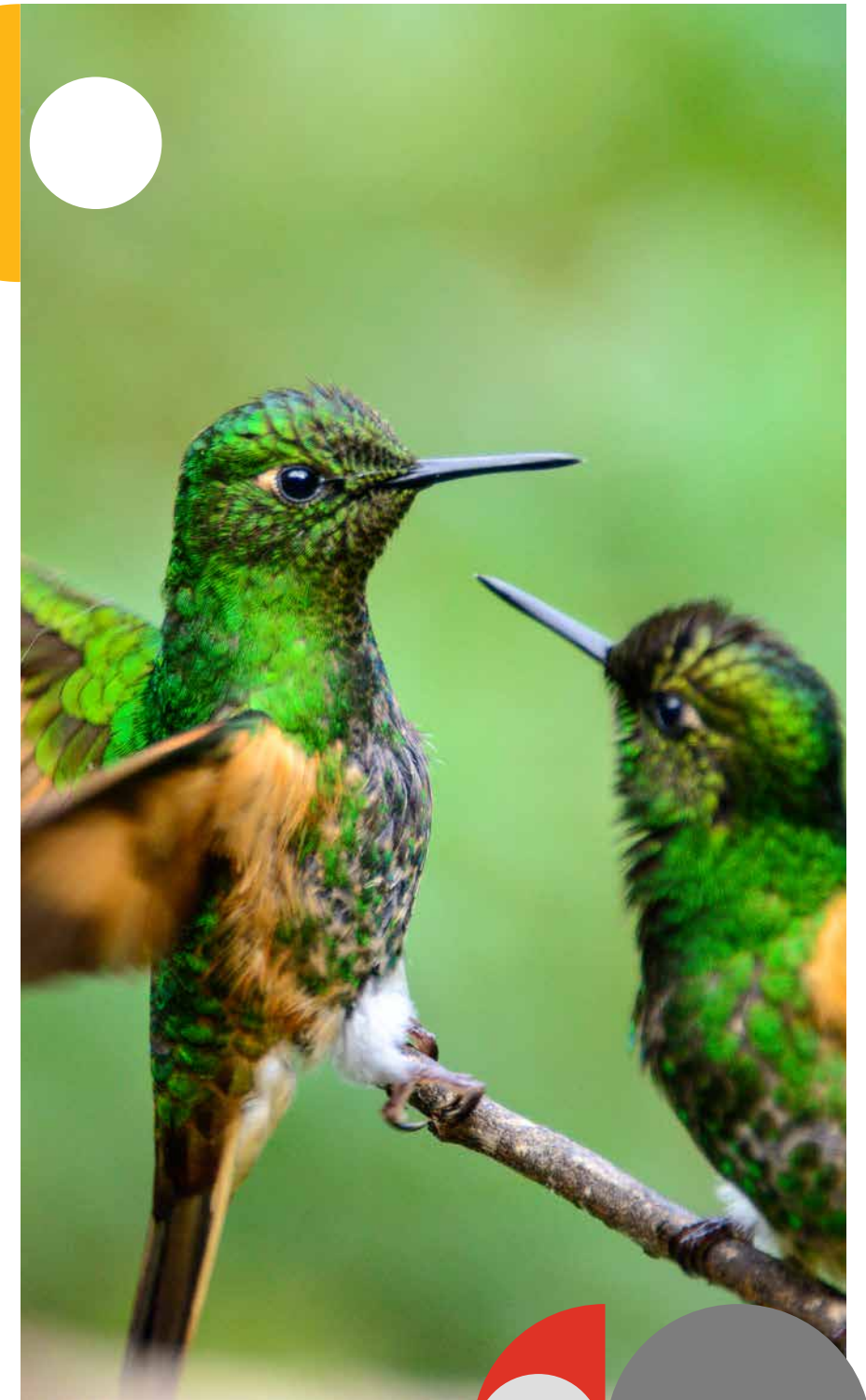
# 14

## Labor Law

Labor Law in Colombia is regulated by the Constitution of 1991, the international treaties and conventions signed by Colombia, and by the Colombian Labor Code.

Labor law is divided in two areas: Individual Labor Law, which regulates the relationships between employers and their employees, and Collective Labor Law.

Every employer must pay the following social legal benefits to its employees who earn a regular salary: severance payments, interest on severance payments, service bonus, transportation allowance, in addition to providing work equipment and apparel.







## General aspects

A labor contract in Colombia is the agreement between the employer and the employee, under which the employee personally provides specific services to the employer, permanently subordinated and dependent on the latter, in exchange for a consideration referred to as a salary.



### Types of labor contracts

Labor contracts may be classified in different ways. Based on their term or duration they are classified as follows:

#### Fixed term contracts:

Their term cannot exceed 3 years. However, the parties may extend the contract indefinitely.

#### Contracts for specific projects or works.

#### Transitory contracts:

The term cannot exceed 1 month. Made for the carrying out of activities other than those normally carried out by the employer.

#### Open-ended labor contract:

No term is established; and its duration does not depend on any specific project or work or the type of nature of the work. It does not relate either to a transitory, specific work, or task.

Likewise, the following agreements reached between the employer and the employee must be put down in writing:

#### Trial period:

initial stage of the labor contract, the objective of which is to allow the employer to understand the employee's capabilities, and the latter can also experience the working conditions. The period cannot be longer than two (2) months. For fixed term contracts set for a period under one (1) year, the trial period cannot exceed 1/5 of the initial term agreed in the contract.

#### Integrated salary:

This is a type of salary made of one lump sum payment which compensates regular work and also compensates social legal benefits, subsidies, overtime, and generally any compensation items included in the stipulation of this special salary in advanced; except for vacation days and rest compensation. An integrated salary must always be agreed to in writing.

Integrated salaries may only be agreed to be paid to employees who earn a salary amount exceeding ten (10) minimum monthly wages, which includes a social legal benefits factor that cannot be under 30% of the salary amount. For

2021, the minimum integral salary is equal to COP 11,810,828 (USD 3,489 )<sup>22</sup>.

In this type of salary, payroll fee and Social Security contributions are paid using a basis of 70% of the total integrated salary amount.

#### Exclusions:

The employer and the employee may agree in writing which benefits or payments will not be included as salary for purposes of removing them from the salary base that is used to compute social legal benefits and Social Security contributions. Nevertheless, this is limited to the extent that all payments made as direct compensation for the personal service of the employee will always be considered as salary, and no contractual stipulation that seeks to remove them from the salary base will be valid.

22. 1 USD = COP 3,489



# Working hours

Regular working hours go up to a maximum of 8 hours a day and 48 hours per week, which may be distributed from Monday through Friday or from Monday through Saturday. The law also allows the parties to agree on flexible working schedules for employees.

Day working hours cover the period between 6 AM and 9 PM, and night working hours cover the period between 9 PM and 6 AM.

# Flexible working hours

Employers may agree with employees on successive work shifts during all days of the week, provided that every shift does not exceed 6 daily hours and 36 weekly hours, without paying any nightshift fees or holiday compensations.

They may also agree that on flexible daily working hours, in a way that completes the 48 hours for a week, distributed over no more than 6 days, where the number of daily hours worked may go from 4 to 10, without paying any overtime, provided that the working hours do not exceed 48 hours per week and that the employee works during the day working hours.

Likewise, when the economic activity is carried out in shifts without a continuing activity being required, the law allows the total working hours to be extended to cover more than 8 hours per day and more than 48 hours per week, provided that the total number of hours for a period of 3 weeks does not exceed (on average) 8 hours

a day and 48 hours a week. In this case, no overtime payments are accrued either.

# Payments resulting from the labor relationship

## 1. Salary

A salary is the direct compensation that employees receive in consideration for the personal provision of their services to the employer.

### a. Types of salary

**Regular salary/ordinary salary:** This is a compensation that is paid for regular work. As every year draws to a close, the government establishes the minimum monthly salary. For 2021, the minimum monthly salary was defined as COP 908,526 (USD 260).

**Integrated salary:** This is a type of salary made of one lump sum payment, which compensates social legal benefits, surcharges and other benefits such as overtime, legal and extralegal bonuses, severance pay and their corresponding interests, subsidies and equipment; and in general any and all compensation items included in the stipulation of the salary agreement, except for vacation days and rest compensation. Integrated salaries must always be agreed to in writing, and under no circumstances shall they be under thirteen (13) minimum monthly salaries.

## 2.

## Labor benefits

Every employer must pay the following labor benefits to employees who earn a regular salary:

Social Legal Benefits		
Item	Period payment	Description
Severance pay	Annual	One monthly salary for each year of service or prorated to a fraction of a year. It must be deposited into a severance pay fund no later than February 14 of the following year, or it must be paid directly to the employee upon termination of the contract.
Interest on severance pay	Annual	12% on the annual amount of severance pay or prorated to a fraction of the year.
Service bonus	Every half-year	15 days of salary for every half-year worked or prorated to fractions. Payable in June and December.
Transportation allowance	Monthly	COP 106,454 in 2021 (USD 30). Payable to every employee who earns 2 minimum wages or less.
Work equipment and apparel	Every 4 months	Payable to every employee who earns 2 minimum wages or less COP 1,817.052 (USD 520).



### 3.

## Mandatory off days

### a. Paid day off on Sundays and holidays

Employers must give their employees the benefit of a paid day off on Sundays and on any civil or religious holidays. The remuneration is included as part of the monthly salary payable to the employee for the concept of salary.

If the employee works occasionally on Sundays, up to two (2) Sundays a month, they must be paid, prorated to the hours worked on Sundays, an additional compensation equal to 75% of the ordinary salary or, alternatively, they must be offered one (1) day off for the employee to enjoy on any working day of the following week.

If the employee works regularly on Sundays (3 or more Sundays during a month), he/she must be paid, prorated to the hours worked on Sundays, an additional compensation equal to 75% of the ordinary salary for those Sundays and, additionally, they must be offered one (1) day off for the employee to enjoy on any working day of the following week.

### b. Annual paid vacation leave

Employees are entitled to enjoy 15 working days of paid vacation leave for every year of labor. At a minimum, every employee must enjoy six (6) actual working days of paid vacation leave for each year of service. Additional days may be accumulated for up to two (2) years for regular employees, and for up to four (4) years for technical, specialized, trusted or management employees, or for foreign employees that provide their services in a location other than where their families reside.

### 4.

## Legal indemnifications

Legal indemnifications are payments derived from noncompliance by the employer of his legal or contractual obligations. The most common legal indemnifications are the following:

### a. Legal indemnification for dismissal without a fair cause

Fixed term contracts: legal indemnification for dismissal is equal to the amount of the salaries that the employee will not receive from the date of dismissal through the date on which the contract had been set to expire initially.

Specific job contracts: the legal indemnification for dismissal is equal to the time that was left to terminate the job or task; and in this case the legal indemnification may not be less than fifteen (15) worth days of pay.

In the case of indefinite term contracts, the legal indemnification is calculated as follows:

For employees who earn a salary that is less than 10 minimum monthly wages:

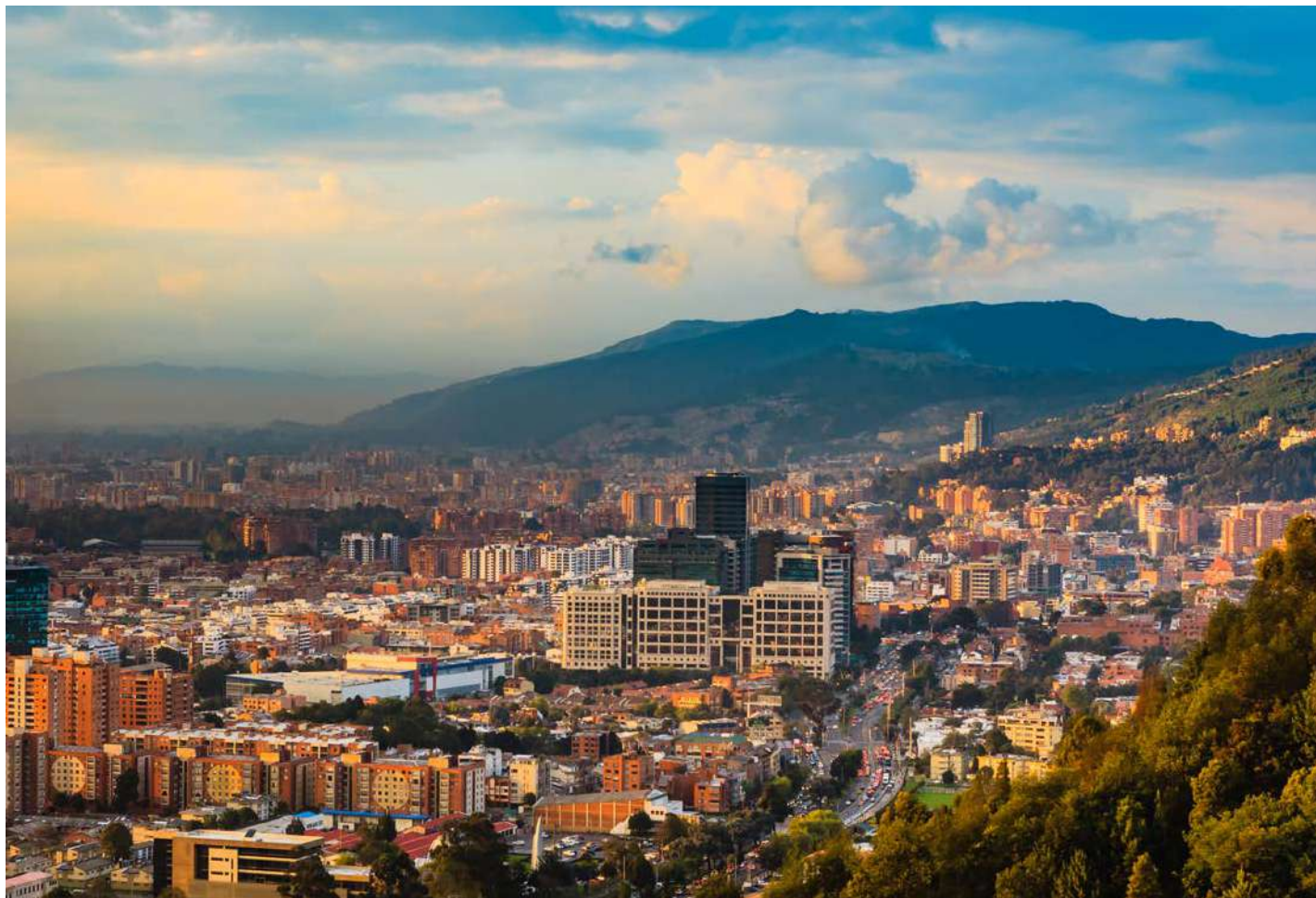
- If the employee has worked continuously for less than 1 year, he/she will be paid 30 days' worth of salary.
- If the employee has worked continuously for more than 1 year, he/she will be paid 30 days' worth of salary for the first year and 20 days' worth of salary for each one of the following years and prorated to fractions or year.

For employees who earn a salary that is equal to or more than 10 minimum monthly wages:

- If the employee has worked continuously for less than 1 year, he/she will be paid 20 days' worth of salary.
- If the employee has worked continuously for more than 1 year, he/she will be paid 20 days' worth of salary for the first year and 15 days' worth of salary for each one of the following years and prorated to fractions or year.

### b. Indemnity for failure to pay salaries and labor benefits

If at termination of the labor contract the employer fails to pay his/her employee the unpaid, earned salaries, in addition to any earned labor benefits in due manner and time, the employee will be entitled to receive an indemnity for the delay corresponding to one (1) day of salary for every one (1) day of non-compliance during the first 24 months.







5.

## Contributions to the Social Security System



### 1. Contributions to the healthcare Social Security

**Period of payment:** Monthly | The maximum contribution base is **25 minimum monthly wages**

**12,5%** This is equal to 12.5% of the monthly salary pay of the employee.

**8,5%** The employer pays 8.5%  
The employee pays 4%

**16%** 16% of the monthly salary pay of the employee.  
12% the employer pays 12%  
4% the employee pays 4%



**Monthly**

The maximum contribution base is 25 minimum monthly wages which is COP 21,945,075 for 2020 (USD 6,697).

### 2. Contributions to the Labor Risk Social Security

**Period of payment:** Monthly | The maximum contribution base is **25 minimum monthly wages**

**100%** The employer pays 100% of the contribution.

### 3. Contributions to the General Pension System.

**Period of payment:** Monthly | The maximum contribution base is **25 minimum monthly wages**

Payable to every employee depending on the level of risk of the company set as follows:

Type I risk	Initial value
I	0,522%
II	1,044%
III	2,436%
IV	4,350%
V	6,690%

Colombia has entered into bilateral Social Security treaties with Chile, Argentina, Ecuador, Peru, Uruguay and Spain. Under these treaties, the parties seek to guarantee that nationals from the contracting states validate the time contributed to the pension system in any of the signatory countries (depending on each treaty) to recognize entitlement to retirement, disability or surviving spouse pensions under the terms and conditions, and based on the characteristics set by the legislation of the employees' home country in force at the time pension payments are applied for.





6.

## Payroll fees

Payroll fees or legal contributions are payments that every employer with contracts with more than one employee must make to the Colombian Family Welfare Institute – ICBF (for its acronym in Spanish), the national apprenticeship system – SENA (for its acronym in Spanish) and Family Compensation Funds.

In accordance with the regulations, 3% of the monthly payroll is paid as ICBF contributions; 2% of the monthly payroll is paid as SENA contributions and 4% of the monthly payroll is paid as family subsidy contributions.

a. Exemption of contributions to healthcare (12,5%) and contributions to SENA and ICBF. Employers whose employees individually receive less than 10 minimum monthly salaries are exempt from making contributions to SENA, ICBF, and health contributions (at the 8.5% rate corresponding to the employers).

7.

## Types of leaves of absence

**Maternity leave:** Every pregnant employee is entitled to a leave of absence of eighteen (18) weeks, which can start two (2) weeks ahead of the foreseen birthdate. This leave of absence is paid by the Social Security Healthcare System. No employee may be dismissed as a result of pregnancy or lactation, unless there is a fair cause duly certified in advance by a work inspector. Any potential employer is forbidden from requiring a candidate to take a pregnancy test.

**Paternity leave:** The spouse or permanent companion will be entitled to eight (8) working days of paid paternity leave, regardless of whether the two (2) parents or just the father are making contributions to the Social Security system.

**Bereavement leave:** In case of death of the spouse, permanent companion, or a relative

within the second degree of consanguinity, first degree of affinity or first degree of adoption-based kinship, the employee will be entitled to a paid leave for bereavement of five (5) working days, regardless of the type of labor contract the employee has.

## Workplace regulations

Employers are required to issue the following workplace regulations:

1.

### Workplace regulations

Any commercial company with more than five (5) permanent employees, any industrial company with more than ten (10) permanent employees, or any agricultural, farming or forestry company with more than twenty (20) permanent employees must adopt workplace regulations.

2.

### Hygiene and industrial safety regulations

Any company with more than ten (10) permanent employees must adopt special hygiene and industrial safety regulations.







## Workplace harassment

Act 1010 of January 23, 2006 defines, prevents, corrects and penalizes all different forms of aggression, mistreatment and generally any attack on human dignity during the course of work relations.

This law requires employers to modify their internal workplace regulations and to create a working relations committee. This committee must establish mechanisms to prevent any workplace harassment conducts and to establish and follow an internal and confidential reconciliation procedure that is effective to overcome any labor harassment conducts occurring in the workplace.

## Foreign employees or workers

Foreign employees or workers have the same rights and obligations as Colombian workers. However, when a foreigner signs a labor contract in Colombia, both parties must meet certain additional obligations as compared to those applicable to national employees. These special obligations derive from foreign employee immigration law and the controls that apply during their stay in the country.



## Collective Labor Law

Collective labor law regulates relationships between employers and unions, collective hiring and the defense of common interests for both the employers and their workers/employees in point of managing collective labor conflicts. The purpose of collective labor law is to develop union law and the right to collective hiring in negotiation, as well as to establish the mechanisms that make the right to unionize and the right to protest effective.

### Right to Unionize

Colombian employees and workers have the right to unionize as a way to exercise collective labor guarantees. This is a constitutional right that seeks to protect the creation and development of unions, seeking to guarantee the exercise by workers of the right to defend their interests, both labor and union related.





# 15

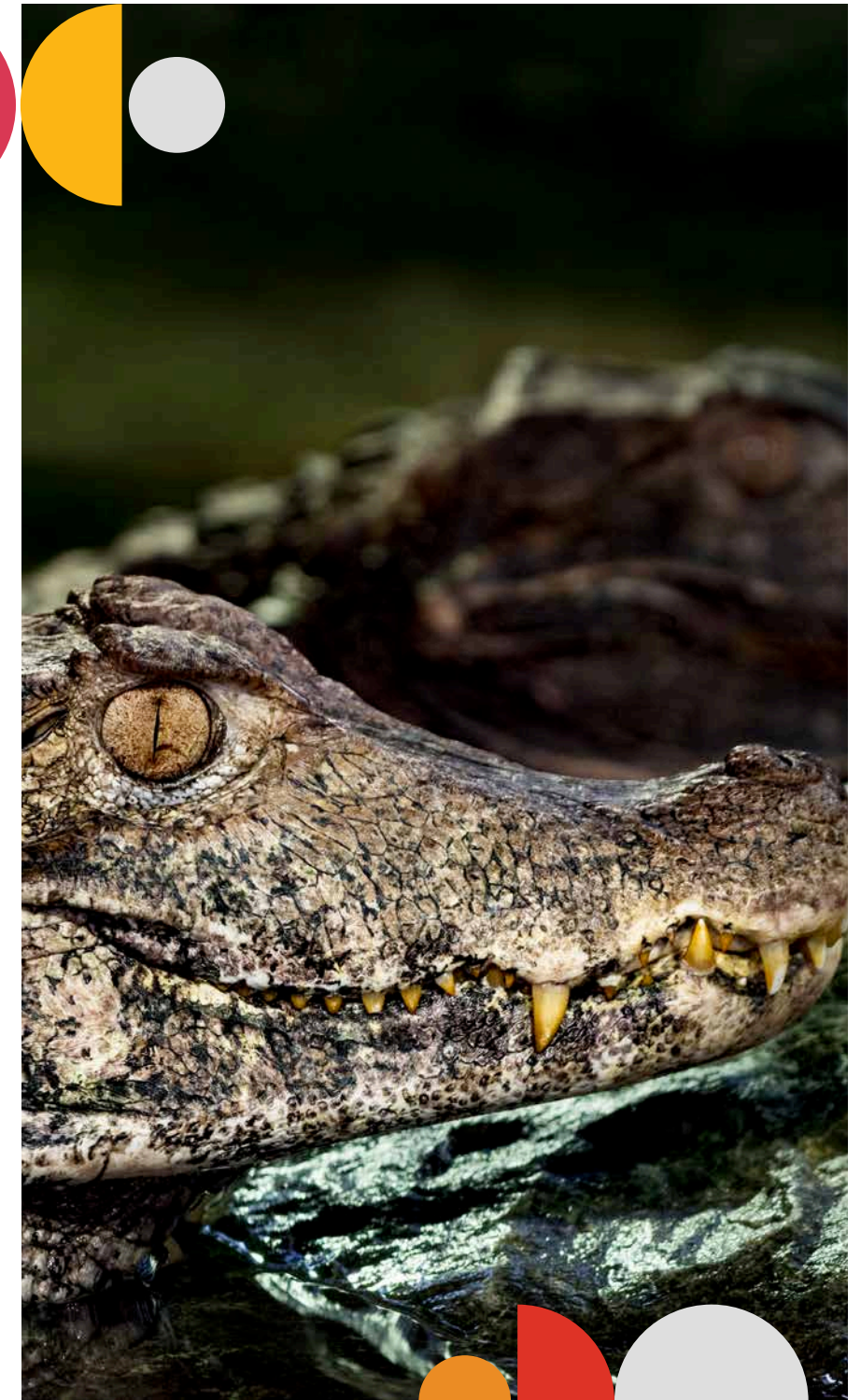
## Immigration Law – Visas

Colombian immigration law provides over twenty (20) different types of visas, which are divided into categories for visitors, migrants, and residents. Permits may be requested by foreigners to carry out any commercial, business or tourism activities in the country.

When a foreigner enters a labor contract in Colombia, both the employer and the employee must meet certain obligations so that the foreigners can legally remain in the country.

Colombia controls and regulates the entry and stay of foreigners in the country through its migratory regime. This chapter presents the regulations issued by the Ministry of Foreign Affairs regarding foreign nationals who do not require a visa to enter the country as visitors.

In addition, we will explain the three types of visas that exist in Colombia, which can be requested by foreigners depending on the activities that they will carry out in the country, such as rendering services to a Company with a labor contract, providing services or carrying out business, commercial, corporate or investment activities in Colombia.





# Countries that do not require tourist Visa

Nationals of the following countries do not require a type “V” Colombian visa to enter the country as tourist:

- A.**
- Albania
  - Andorra
  - Antigua and Barbuda
  - Former Yugoslav
  - Argentina
  - Australia
  - Austria
  - Azerbaijan

- B.**
- Bahamas
  - Barbados
  - Belgium
  - Belize
  - Bolivia
  - Bosnia and Herzegovina
  - Brazil
  - Brunei-Darussalam
  - Bulgaria
  - Bhutan

- C.**
- Canada
  - Czech (Republic)
  - Chile
  - Cyprus
  - Costa Rica
  - Croatia

- D.**
- Denmark
  - Dominica
  - Dominican Republic

- E.**
- Ecuador
  - El Salvador
  - Estonia

- F.**
- Fiji
  - Finland
  - France

- G.**
- Germany
  - Georgia
  - Grenada
  - Greece
  - Guatemala
  - Guyana

- H.**
- Honduras
  - Hungary

- I.**
- Indonesia
  - Ireland
  - Iceland
  - Israel
  - Italy

- J.**
- Jamaica
  - Japan

- K.**
- Kazakhstan
  - Korea (Republic of)

- L.**
- Latvia
  - Liechtenstein
  - Lithuania
  - Luxembourg

- M.**
- Marshall Islands
  - Malta
  - Mexico
  - Micronesia
  - Moldova
  - Monaco
  - Montenegro

- N.**
- Norway
  - New Zealand



## P.

Palau  
Panama  
Papua New Guinea  
Paraguay  
Peru  
Poland  
Portugal  
Philippines

## Q.

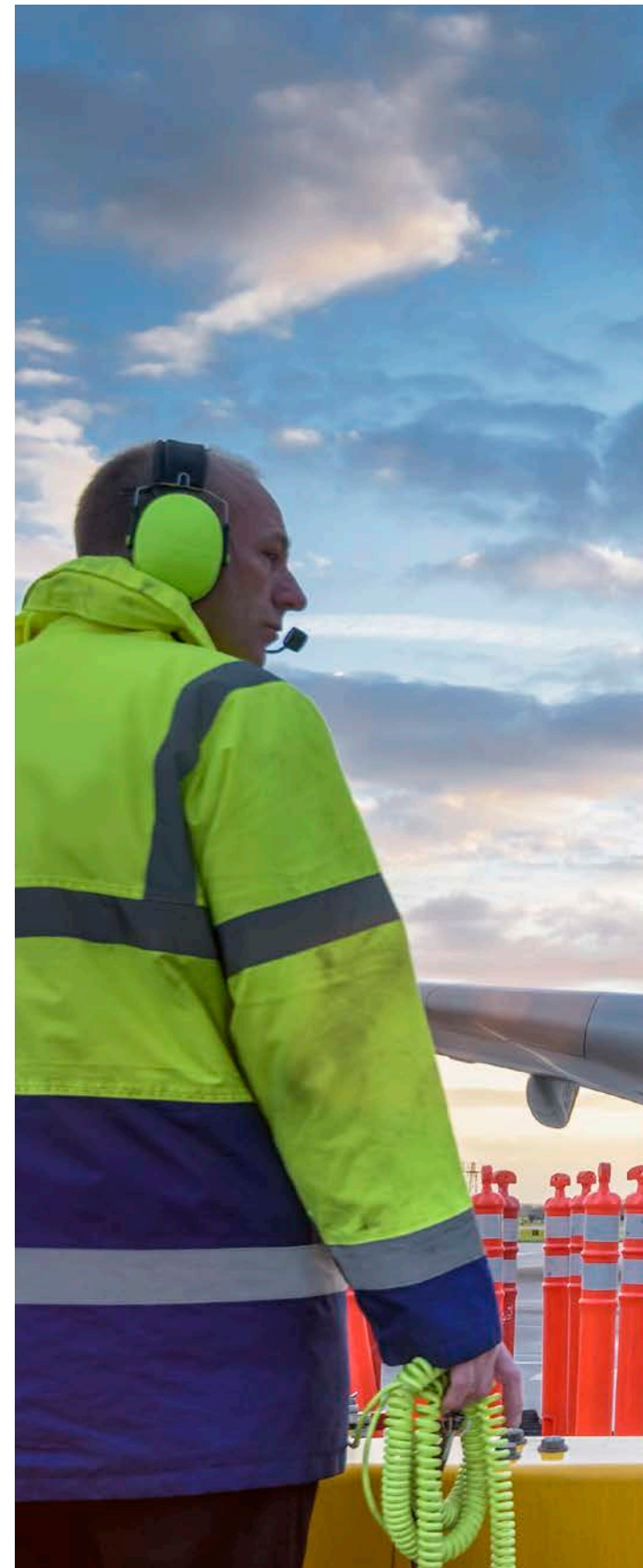
Qatar

## R.

Romania  
Russian Federation  
Republic of Macedonia

## S.

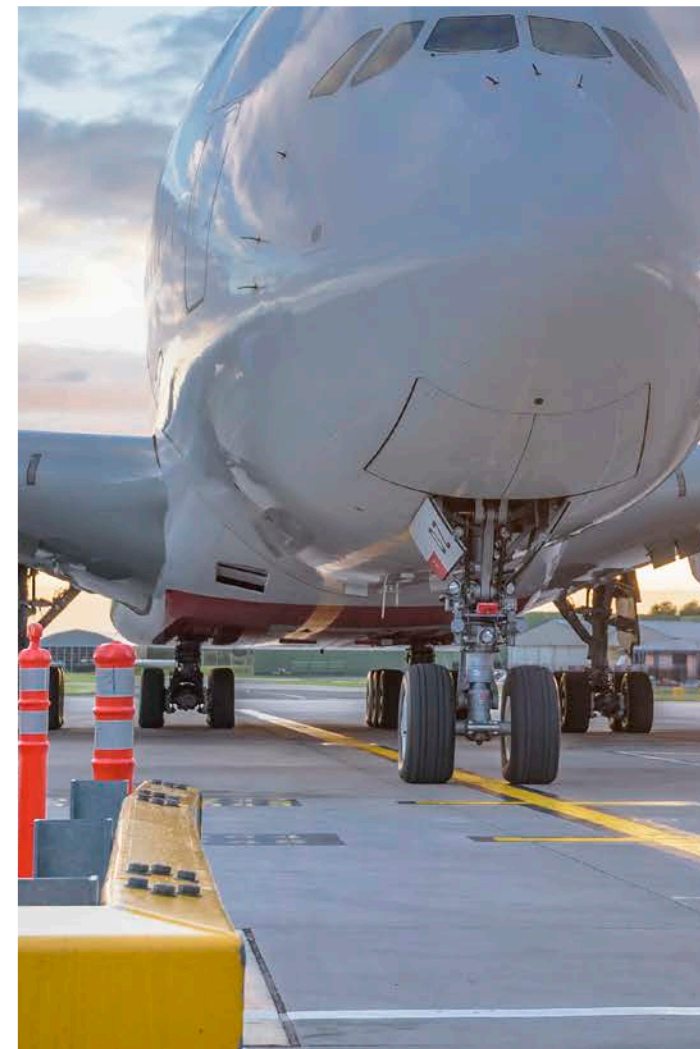
Saint Kitts and Nevis  
Samoa  
Saint Marino  
Saint Lucia  
Holy See  
Saint Vincent and the  
Grenadines  
Serbia  
Singapore



Solomon Islands  
Sweden  
Switzerland  
Suriname  
Slovakia  
Slovenia  
Spain

## T.

Trinidad and Tobago  
Turkey



## U.

United Arab Emirates  
United Kingdom of Great Britain and  
Northern Ireland  
Uruguay

## V.

Venezuela

Those bearing a passport from Hong Kong – SARG China; the Sovereign Military Order of Malta and Taiwan-China, and the nationals of the Republic of Nicaragua who prove to be nationals from the Northern Caribbean Autonomous Coastal Region and the Southern Caribbean Autonomous Coastal Region are also exempt from visa requirements to enter the country as tourists.

When foreigners enter the country, the immigration authorities stamp a seal in their passports granting a temporary permit - PIP and PTP respectively (for its acronym in Spanish) as tourists indicating the number of days authorized to stay in the country. The PIP is granted for a period of ninety (90) days, which may be extended for an additional ninety (90) days if required within the same calendar year.



# Visa classification

## 1. Visitors' Visa–Type “V” Visas

a.

Leisure or Tourism Visitors Visa:

**Applicants:** This visa is issued to a foreigner who plans to carry out leisure or entertainment activities. This visa applies for foreigners with restricted nationalities, meaning those who may not enter the country without holding a Colombian visa.

**Term:** This visa is granted for a maximum term of two (2) years with multiple entries and authorizes the foreigner to stay in the country for up to 180 continuous or discontinuous days during the 365 days that the visa remains valid.

b.

Business Visitor Visa:

**Applicants:** This visa is issued to a foreigner who plans to enter Colombia to carry out business management activities, marketing studies, direct investment plans or paperwork, or incorporation of a commercial company.

**Term:** This visa is granted for a maximum term of two (2) years with the foreigner being allowed to stay in the country for up to 180 continuous or discontinuous days during the 365 days that the visa remains valid.

c.

Visitor's visa as vessel or coastal platform crew member:

**Applicants:** This visa is issued to a foreigner who comes to work in Colombian territorial waters as a crew member of a vessel or coastal offshore platform.

**Term:** This visa is granted for a maximum term of two (2) years with multiple entries and authorizes the foreigner to stay in the country for up to two (2) continuous or discontinuous years during the term of validity of the visa. (This visa includes a work permit).

f.

Visitor's visa to participate in an audiovisual production or to produce digital content work:

**Applicants:** This visa is issued to foreigners who plan to enter the country to make an audiovisual production or produce any kind of digital content work.

**Term:** This visa is granted for a maximum term of two (2) years with multiple entries and authorizes the foreigner to stay in the country for up to two (2) continuous or discontinuous years during the term of validity of the visa.

d.

Visitor's visa to participate in any event as speaker, exposé, contestant, jury, or logistic personnel:

**Applicants:** This visa is issued to foreigners that plan to enter the country to participate in academic, scientific, artistic, cultural, or sports events.

**Term:** This visa is granted for a maximum term of two (2) years with multiple entries and authorizes the foreigner to stay in the country for up to 180 continuous or discontinuous days during the 365 days of validity of the visa. (This visa includes a work permit).

e.

Visitor's visa as an intern in a Colombian company:

**Applicants:** This visa is issued to foreigners who plan to enter Colombia to participate in a corporate internship in a company established in Colombia.

**Term:** This visa is granted for a maximum term of two (2) years with multiple entries and authorizes the foreigner to stay in the country for up to two (2) continuous or discontinuous years during the term of validity of the visa. (This visa includes a work permit).

g.

Visitor's visa to carry out journalistic reporting or to stay temporarily as a foreign news press correspondent:

**Applicants:** This visa is issued to foreigners who plan to enter the country to carry out journalistic reporting or to stay in the country temporarily as an international news press correspondent.

**Term:** This visa is granted for a maximum term of two (2) years with multiple entries and authorizes the foreigner to stay in the country for up to two (2) continuous or discontinuous years during the term of validity of the visa.



**h.**

Visitor's visa as a provider of temporary services to a natural or legal person in Colombia:

**Applicants:** This visa is issued to foreigners who plan to enter Colombia to provide temporary services to a Colombian company or to a natural person under a labor contract.

**Term:** This visa is granted for a maximum term of two (2) years with multiple entries and authorizes the foreigner to stay in the country for up to two (2) continuous or discontinuous years during the term of validity of the visa. (This visa includes a work permit).

**i.**

Visitor's visa to hold a position in a company based in Colombia under an intracompany transfer:

**Applicants:** This visa is issued to foreigners who plan to enter Colombia to hold a position in a company based in Colombia under an intra-company transfer program established in any international instrument in force with Colombia (example, an FTA).

**Term:** This visa is granted for a maximum term of two (2) years with multiple entries and authorizes the foreigner to stay in the country for up to two (2) continuous or discontinuous years during the term of validity of the visa. (This visa includes a work permit).

**j.**

Visitor's visa to visit the national territory under vacation-work programs:

**Applicants:** This visa is issued to foreigners who plan to enter Colombia to visit the national territory under a vacation-work program established in any treaty between a foreign state and Colombia.

**Term:** This visa is granted for a maximum term of one (1) year with multiple entries and authorizes the foreigner to stay in the country for up to one (1) continuous or discontinuous year during the term of validity of the visa. (This visa includes a work permit).

## 2. Migrant Visa – Type “M” Visas

**a.**

Migrant visa as spouse or permanent companion of a Colombian national:

**Applicants:** This visa is issued to foreigners who plan to enter the national territory as the spouse or permanent companion of a Colombian national.

**Term:** This visa is granted for a maximum term of three (3) years and authorizes the holder to stay during the term of validity of the visa. (This visa includes a work permit).

**b.**

Migrant visa as a refugee in Colombia:

**Applicants:** This visa is issued to a foreigner who has been qualified as a refugee by the national government, at the request of the Advisory Council for the Termination of the Condition of Refugee, in accordance with current international instruments on these matters. (This visa includes a work permit).



**Term:** This visa is granted for a maximum term of three (3) years and authorizes the holder to stay during the term of validity of the visa.





## c.

### Migrant visa as businessperson:

**Applicants:** This visa is issued to foreigners who plan to enter the country as the partner or owner of a company. Their share in it must be worth at least 100 minimum monthly salaries, which is equivalent to COP 90.852.600 (USD 25.957<sup>23</sup>)

**Term:** This visa is granted for a maximum term of three (3) years with multiple entries and authorizes the holder to stay during the term of validity of the visa. (This visa includes a work permit issued solely to work in the company that the businessperson acquired.)

## d.

### Migrant visa as a member of a religious order undergoing formation, as missionary or religious leader:

**Applicants:** This visa is issued to foreigners who plan to enter the country in their condition as members of a religious order duly recognized by the Colombian state.

**Term:** This visa is granted for a maximum term of three (3) years with multiple entries and authorizes the holder to stay during the term of validity of the visa.

## e.

### Migrant visa as real estate investor:

**Applicants:** This visa is issued to foreigners who plan to enter the country in their condition as owners of a piece of a real estate property. They must make an investment worth at least 350 minimum salaries, the approximate Colombian peso value of which is COP 317.984.100 (USD 90.852<sup>24</sup>).

**Term:** This visa is granted for a maximum term of three (3) years with multiple entries and authorizes the holder to stay during the term of validity of the visa.

## f.

### Migrant visa as the father or the child of a Colombian national by way of adoption:

**Applicants:** This visa is issued to foreigners who plan to enter the national territory as the father or the child of a Colombian national by way of adoption.

**Term:** This visa is granted for a maximum term of three (3) years and authorizes the holder to stay during the term of validity of the visa. (This visa includes a work permit).



## g.

### Migrant visa for long-term worker:

**Applicants:** This visa is issued to a foreigner who plans to enter the country under a labor contract or a services contract.

**Term:** This visa is granted for a maximum term of three (3) years with multiple entries and authorizes the holder to stay during the term of validity of the visa. (The duration of this visa depends on the term of duration of the labor contract and includes a work permit issued exclusively for the activity declared in the application).

## h.

### Migrant visa as a freelance professional:

**Applicants:** This visa is issued to foreigners who plan to enter the country as a freelance professional or worker with qualifications or experience to practice a profession.

**Term:** This visa is granted for a maximum term of three (3) years with multiple entries and authorizes the holder to stay during the term of validity of the visa. (This visa includes a work permit issued exclusively for the activity declared in the application.)

## i.

### Migrant visa as student:

**Applicants:** This visa is issued to foreigners who plan to pursue an academic program, provided that this program is taught by a certified education institution.

**Term:** This visa is granted for a maximum term of three (3) years with multiple entries and authorizes the holder to stay during the term of validity of the visa. (The duration of this visa depends upon the term of duration of the academic program).



23. 1 USD = COP 3.500  
24. 1 USD = COP 3.500



j.

Migrant visa as retiree or as capital investment income beneficiary:

**Applicants:** This visa is issued to foreigners who plan to enter Colombia as a retiree receiving a monthly payment worth no less than three (3) minimum monthly salaries, the approximate Colombian peso value of which is COP 2.725.578 (USD 779) Also issued to foreigners who prove that they are receiving income from a private or public institution for an amount worth no less than ten (10) minimum monthly salaries, the approximate Colombian peso value of which is COP 9.085.260 (USD 2.595).

**Term:** This visa is granted for a maximum term of three (3) years and authorizes the holder to stay during the term of validity of the visa.

k.

Migrant visa as national of the MERCOSUR member states:

**Applicants:** This visa is issued to citizens of any of the MERCOSUR member and associate countries. Currently, this visa may be issued to citizens of Argentina, Brazil, Bolivia, Peru, Chile, Ecuador, Uruguay and Paraguay.

**Term:** This visa is granted for a maximum term of three (3) years and authorizes the holder to stay during the term of validity of the visa.



member state for at least 2 continuous and uninterrupted years.

- When a foreigner, of legal age, has held an R-type visa for at least five (5) continuous and uninterrupted years.
- A foreign investor who has registered a foreign investment with the Bank of the Republic for an amount exceeding 650 minimum monthly salaries, the approximate Colombian peso value of which is 590.541.900 (USD 168.726<sup>25</sup>).

**Term:** This visa is granted for a term of five (5) years and authorizes the holder to stay during the term of validity of the visa. (This visa includes a work permit for any lawful activity).

In case the foreigner leaves the country and stays outside for a term of two (2) continuous years or longer, they will lose their right to this visa.

## Entry and permanence permit types

These permits are granted to foreigners who enter Colombia with no intention of settling here in the country and who, because of their nationality, do not require a tourist visa.

The Special Colombian Migration Administrative Unit - UMC (for its acronym in Spanish) is the agency in charge of issuing entry and permanence permits - PIP - and temporary permanence permits -PTP- for foreigners who do not require a tourist visa to enter the country.

I.PIPs are granted to foreigners that will enter the country to carry out any of the following activities:

### 3. Resident Visa – Type “R” Visas



**Applicants:** This visa is issued to foreigners who plan to enter the country and remain in it; it may be applied for in the following cases:

- When the foreigner is the father or the mother of a Colombian national.
- When the foreigner, having been a former Colombian national either by way of adoption or by birth, gave up his/her Colombian nationality.
- When the foreigner has been the former holder of a migrant visa as a refugee, long-term duration worker or employee, businessperson, freelance worker, member of a religious order, student, real estate investor, retiree or capital investor income beneficiary for at least five (5) continuous or discontinuous years.
- When the foreigner has been the holder of a migrant visa as spouse or permanent companion of a Colombian national, or the holder of a migrant visa as the father or the child of a Colombian national.
- By way of adoption, or as the holder of a migrant visa from a MERCOSUR

25. 1 USD = COP 3.277



a.

### Tourism Permit (PT) ↓

This permit allows tourist activities, medical treatments, attendance at cultural, scientific, sports or conventional events and for business.

to any foreigner who does not require a visa, and who has already used a PIP, and are aiming to extend their stay in the country or change the authorized activity.

PIPs and PTPs are regulated by Resolution 3167 of 2019 issued by the Special Colombian Migration Administrative Unit - UMC.

b.

### Integration and Development Permit (PID) ↓

This permit is granted to foreigners who enter the country to carry out personal procedures, to support important efforts for the National Government, to attend academic or educational courses and events among others.

c.

### Permit to develop other activities (POA) ↓

This permit is granted to foreigners that will provide specialized technical assistance, that will perform artistic presentations among others.

The term of duration of the PIP vary depending on the activity that the foreigners are going to perform. Mainly the duration is of ninety (90) days, except for those that specify a term, and except for render technical specialized assistance, which cannot exceed thirty (30) calendar days per year. Rights reserved.

ii. PTP are permits granted by the Special Colombian Migration Administrative Unit -UMC-

## Foreign Citizens' ID card

This ID card is issued to foreigners who have obtained a visa for a period over three (3) months.

- They must register the visa before UMC within fifteen (15) days following their entry to Colombia, or from the date in which the visa has been issued in case it has been issued in Colombia.
- Once the visa has been registered, the UMC will issue a foreign citizen ID card to the foreigner. The foreign citizen ID card will be issued for the same term of the visa.
- This will be the ID document of the foreigner while they remain in Colombia; it enables them to enter into contracts, open bank accounts and other different transactions. The foreigners must keep it with them during their permanence in the country.





# Leaders



06

## Colombian Market

### Económico



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07

## Fraud Prevention



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08

## International Investments and Foreign Exchange Regime



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09

## Transfer Pricing



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# Leaders

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## Tax Law



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## Government Procurement



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