Colombia

Summary

- Tax revenues in Colombia increased by 2.4% of GDP for the period from 2003 to 2012. This was largely due to an increase of 2.2% of GDP in the last two years of the period. Tax revenues prior to 2010 remained generally stable, with an uptick of 1.3% of GDP during 2003-2008 and a decline of 1.1% of GDP during 2008-2010. The composition of tax revenue changed over the past ten years as revenues from taxes on income and profits and on goods and services increased by 2.2% and 0.3% of GDP respectively, while revenue from taxes on international trade declined by 0.3%.
- A recent study[1] found Colombia's tax effort[2] to be relatively high as compared to other countries in Latin America and the Caribbean (LAC). Colombia's tax effort is 69.2% of tax capacity, whereas the average of the surveyed LAC countries is 61.1%. Colombia's tax capacity, at 28.3% of GDP, however, is lower than the tax capacity of all other surveyed LAC countries, the average of which is 33.5%.
- During the past decade, Colombia has undertaken tax policy and administration reforms to simplify its tax system and improve its tax administration. Most notably, Colombia's far-reaching tax reforms of late 2012 are expected to have an impact on the entire fiscal framework and increase the country's revenue effort.
- Personal income tax revenue effort and productivity figures in Colombia are broadly in line with the regional averages, but modestly below the income group and world averages. Personal income tax rates are well above the regional, income group, and world averages.
- Colombia's corporate income tax revenue effort and productivity figures are well below the corresponding regional, income group, and world averages. Colombia's corporate income tax rate is significantly above the regional, income group, and world averages.
- Colombia's value added tax (VAT) revenue effort and productivity figures are moderately below the regional, income group, and world averages. Colombia's VAT rate is slightly above the regional, income group, and world averages.

[1] Pessino, Carola and Ricardo Fenochietto (2010), "Determining countries' tax effort", *Hacienda Pública Española / Revista de Economía Pública*, 195-(4/2010): 65-87, Instituto de Estudios Fiscales. "Tax capacity" is the maximum tax revenue that can be generated given the country's economic, social, institutional, and demographic characteristics. "Tax effort" is the ratio of actual revenue to tax capacity.

[2] The definition of "tax effort" employed in the aforementioned study differs than the definition of revenue effort employed further below in this paper.

- Suggested areas for further investigation include:
  - The impact of 2012 VAT and income tax reforms.
  - Colombia's relatively low tax capacity.
  - Colombia's low corporate income tax productivity.
  - The relationship between the 2011 mining tax changes and the 2012 revenue increase and the sustainability of recent revenue gains.

Major Developments and Features of Current Tax System

Evolution of Revenue

Colombia's total tax revenue has increased by 2.4% of GDP between 2003 and 2012. Largely, however, this is due to an increase of 2.2% of GDP in the last two years of the period. Although revenues rose by 1.3% between 2003 and 2006, they declined following the financial crisis by 1.1% of GDP between 2008 and 2010. The recent revenue gains are primarily from taxes on income and profits (1.9% of GDP in 2010-2012) and other taxes[3] (0.4% of GDP in the last two years).

During the past decade, the composition of revenue has changed. Taxes on income and profits, taxes on goods and services, and other taxes increased as percent of GDP (by 2.2%, 0.3%, and 0.2% respectively), while taxes on international trade decreased (0.3%).

Colombia Government Current Revenue
(% of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Taxes on Income & Profits	4.5%	5.3%	5.2%	5.6%	5.6%	5.1%	5.6%	4.8%	5.4%	6.7%
Taxes on Goods and Services	5.5%	5.3%	5.5%	5.8%	5.7%	5.9%	5.4%	5.6%	6.0%	5.8%
Taxes on International Trade	0.8%	0.7%	0.8%	1.0%	1.0%	0.9%	0.8%	0.9%	0.7%	0.5%
Other Taxes	1.3%	0.9%	1.0%	1.0%	1.2%	1.5%	1.1%	1.1%	1.5%	1.5%
Total Tax Revenue	**12.1%**	**12.3%**	**12.6%**	**13.4%**	**13.4%**	**13.4%**	**12.9%**	**12.3%**	**13.6%**	**14.5%**

Source: IMF Article IV Staff Reports (2004, 2008, 2012, 2013)

Summary of Reforms

Colombia has a long history of tax regime changes, and governments over the past two decades have amended the tax laws regularly since 1992.[4] Highlights of recent reforms include the following:

[3] Other taxes includes primarily revenue from taxes levied on bases other than the ones described in other categories or revenues that cannot be attributed to a single tax category. According to IMF's Government Finance Statistics Manual 2001, examples include taxes on persons that are not based on income (e.g., "head" taxes) and stamp duties that do not apply primarily to a single class of transactions or activities covered by the other tax categories (http://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf).

[4] Economist Intelligence Unit. Colombia: Tax Regulations, 2013.

- Reforms in the early 2000's helped to increase tax revenues with the introduction of a standard VAT rate of 16% and with a series of one-time taxes. Prior to these reforms, VAT exemptions allowed for nearly 10 different rates that undermined the tax base and the productivity of the tax.
- In 2005, the government implemented a new electronic system to verify taxes owed against data from the financial sector and other government agencies. By 2008, the new system reduced evasion by 25-30% across various tax types.[5]
- The 2005 Law of Legal Stability to Investors offered certain investors the opportunity to lock in tax terms with the intent of spurring growth and job creation.
- Corporate income tax reforms in 2006 reduced the nominal corporate income tax rate from 38.6% in 2006 to 33% by 2008. Reforms in 2012 reduced the 33% rate further down to 25% for Colombian-resident entities, although the reduction was effectively offset by a new 8% 'fairness tax.'[6] [7] The rate for non-Colombian entities remains at 33%.
- Reforms in 2010 eliminated the VAT zero-rating on hydrocarbon and mining exports.
- In 2011, the government passed two key fiscal reforms – a bill to balance oil and mining royalties, and legislation amending the constitution to require the state to be fiscally sound.[8]
- In 2012, Congress enacted a major reform – Law 1607, effective January 1, 2013. The law eliminated many of the VAT rates (from 1.6% to 35%) that undermined the tax base and the productivity of the tax. Only three rates remain – a 16% standard rate, 5% for specific goods and services, and 0% for exempt goods with new refund procedures.[9] Within the personal income tax, the law also introduced an alternative minimum tax and introduced new graduated rates that made the system more progressive, while at the same time reducing the 29.5% employer portion of payroll taxes to 16%. In addition, a new Minimum National Alternative Tax (IMAN) was introduced to curb deductions and loopholes and create a progressive tax rate.[10]
- In 2013, the government put in place a 33% charge on assets moved to tax havens in any of the 44 countries on the government's tax haven list by both individuals and businesses.[11]

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[5] Ibid.
[6] PriceWaterHouseCoopers Latin American Tax News Alert, January 22, 2013, http://www.pwc.com/en_US/us/tax-services-multinationals/newsletters/latin-american-tax/assets/pwc-colombian-tax-reform.pdf.
[7] The new 8% levy on profits, referred to as CREE, is designed to finance some of the government's social programs and pension system.
[8] IMF 2012 Article IV Consultation, Country Report No 13/35, February 2013.
[9] Reforma Tributaria 2012, KPMG Colombia, January 2013, https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/taxnewsflash/Documents/colombia-jan10-2012.pdf.
[10] Ernst & Young Global Tax Alert, "Colombia's President signs new tax reform law", January 8, 2013, http://tmagazine.ey.com/wp-content/uploads/2013/01/2013G_CM3124_Colombian-tax-reform-Law-1607.pdf.
[11] "Colombia minister says tax haven 'party over' with 33 percent charge", Reuters, October 8, 2013.

Tax System Profile (2010-11)

The tables in Annex 1 provide a high-level description of Colombia's tax system and comparisons with the Latin America and Caribbean (LAC) region, upper-middle-income (UMI) countries,[12] and the rest of the world. The data in this section are from the 2012-2013 release of USAID's Collecting Taxes database.[13] **The most recent comparative data in this section are from fiscal year 2011, and do not reflect the most recent reforms or data discussed above.**

Revenue Effort

- "Revenue Effort" is the amount of revenue as a share of GDP.
- Colombia's overall tax revenue effort, at 13.6%, is below the world average of 17.9%, and significantly below the LAC regional and income group averages of 19.5% and 19.4% respectively.
- Colombia's revenue effort from personal income tax, at 3.8%, is slightly below the LAC regional average of 4.1% and below the income group and world averages of 4.8% and 5.5% respectively.
- It is estimated that the revenue effort from the corporate income tax is 1.4%.[14] This number is well below the corresponding regional, income group, and world averages, which are 3.7%, 3.7%, and 3.3% respectively.
- The revenue effort from VAT, at 5.3%, is below the regional and income group average of 6.4% and below the world average 6.1%.

Tax Structure

- The maximum personal income tax rate in Colombia, at 33%, is above the income group, regional, and world averages, which are in the 24% to 28% range.
- Colombia's corporate income tax rate, at 33%,[15] is well above the LAC regional average of 27.2% and significantly above the income group and world averages by roughly 10 percentage points.
- The VAT rate, at 16%, is slightly above the regional, income group, and world averages, which are in the 13.5% to 14% range.
- The tax wedge on labor income, at 47.6%, is more than two times the regional, income group, and world averages, which range between 20-24%. A major factor is Colombia's comparatively high social contribution rate of 45%.

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[12] Derived from the World Bank's Country and Lending Group classifications, http://data.worldbank.org/about/country-classifications/country-and-lending-groups.
[13] USAID's Collecting Taxes Database, http://egateg.usaid.gov/collecting-taxes.
[14] Data on the revenue effort from Colombia's corporate income tax are not available. The value shown is the difference between Colombia's revenue from taxes on income and profits and the revenue effort from the Colombia's personal income tax.
[15] The 33% rate includes the 25% regular rate and the 8% fairness tax introduced in 2012.

Revenue Productivity

- "Revenue productivity" measures the revenue share of GDP mobilized for each point of the tax rate.
- Personal income tax productivity, at 0.13, is broadly in line with the LAC regional average of 0.15 and significantly below the income group and world averages of 0.23 and 0.22 respectively.
- The productivity of Colombia's corporate income tax, at 0.04, is significantly below the regional, income group, and world averages at 0.15, 0.16, and 0.15 respectively.
- Colombia's VAT productivity, at 0.33, is well below the regional, income group, and world averages of 0.47, 0.45, and 0.42 respectively.

Tax Administration Structure

- The *Direccion de Impuestos y Aduanas Nationales* (DIAN) is responsible for administration of all taxes and customs in Colombia.
- The DIAN is organized along functional lines and includes a Large Taxpayer Unit (LTU).
- The DIAN's ratio of active taxpayers to staff is not available.

Taxpayer Burden and Corruption Evidence

- The 2010 World Bank Enterprise Survey indicated that the percentage of Colombian business taxpayers "expected to give gifts in meeting with tax officials" was 1.5%, which was well below the LAC regional average of 6.1% and significantly below the world average of 14.1%.
- The 2014 World Bank Doing Business survey estimates that the average time to pay taxes expended by a medium-sized company in Colombia is 203 hours per year, which is well below the LAC regional average of 369 hours and moderately below the world average of 285 hours per year. Colombia has improved significantly since reaching 456 hours in 2007.

ANNEX 1: Colombia's Collecting Taxes Indicators

Total Tax Revenue	TAXY[16]
	Tax Revenue as % of GDP (%)
Colombia	13.6
Latin America and the Caribbean[1]	19.5
Upper-Middle-Income Economies[2]	19.4
World	17.9

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate (%)	Revenue as % GDP (%)	Revenue Productivity
Colombia	33.0	1.4	0.04
Latin America and the Caribbean[1]	27.2	3.7	0.15
Upper-Middle-Income Economies[2]	23.5	3.7	0.16
World	24.1	3.3	0.15

Income Taxes on People	PITMINR	PITMAXR	PITMINL	PITMAXL
	Minimum Tax Rate (%)	Maximum Tax Rate (%)	Minimum Income Level (Multiples of GDP per capita)	Maximum Income Level (Multiple of GDP per capita)
Colombia	19.0	33.0	0.13	0.50
Latin America and the Caribbean[1]	13.4	27.5	0.52	3.58
Upper-Middle-Income Economies[2]	11.5	24.2	0.29	2.63
World	10.9	27.8	0.40	6.38

[16] A glossary of terms for the selected indicators is found in Annex 2.

Personal Income Tax	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP (%)	Revenue Productivity	Mandatory Combined Social Contribution Rates (%)	Combined Rate of Personal and Labor Taxation (%)
Colombia	3.8	0.13	45.1	47.6
Latin America and the Caribbean[1]	4.1	0.15	17.1	20.1
Upper-Middle-Income Economies[2]	4.8	0.23	22.2	24.1
World	5.5	0.22	20.8	22.4

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate (%)	Revenue as % GDP (%)	Gross Compliance Ratio (%)	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Colombia	16.0	5.3	53.4	0.33	37,210
Latin America and the Caribbean[1]	13.5	6.4	66.2	0.47	34,149
Upper-Middle-Income Economies[2]	13.7	6.4	69.8	0.45	61,098
World	13.8	6.1	65.9	0.42	57,598

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization (1 = Yes, 0 = No)	Large Taxpayer Unit (1 = Yes, 0 = No)	Customs and Tax Administration Combined (1 = Yes, 0 = No)
Colombia	0.20	N/A	1.00	1.00	1.00
Latin America and the Caribbean[1]	0.33	982	0.80	0.78	0.30
Upper-Middle-Income Economies[2]	0.57	589	0.88	0.82	0.37
World	0.65	677	0.88	0.81	0.30

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.
2. Upper-Middle-Income Countries include: Albania, Algeria, Angola, Azerbaijan, Belarus, Belize, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, China, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, Fiji, Gabon, Grenada, Hungary, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Lebanon, Libya, Macedonia, Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Montenegro, Namibia, Palau, Panama, Peru, Romania, Serbia, Seychelles, South Africa, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Tunisia, Turkey, Turkmenistan, and Venezuela.

ANNEX 2: Collecting Taxes Indicators Glossary

CITR is the general rate applied for the corporate income tax. In most countries, only one corporate income tax is applied to corporate profits. In most countries, business enterprises that are owned by sole proprietors or unincorporated partnerships pay tax under the personal income tax system.

CITY is the level of corporate income tax collections as percentage of GDP.

CITPROD represents how well the corporate income tax does in terms of revenue collection, given the tax rate. CITPROD is the portion of GDP in revenue that is mobilized for each point of CIT rate.

PITMINR is the lowest non-zero positive tax rate applied to the lowest income group in the personal income tax system.

PITMINL is the lowest level of income at which the lowest marginal personal income tax rate (PITMINR) is imposed, expressed as a multiple of per capita GDP.

PITMAXR is the highest tax rate applied under the personal income tax system.

PITMAXL is the lowest level of income at which the top marginal personal income tax rate is imposed, expressed as a multiple of per capita GDP.

PITY is the level of personal income tax collections as percentage of GDP.

PITPROD provides an indication of how well the personal income tax in a country does in terms of producing revenue. PITPROD is the portion of GDP in revenue that is mobilized for each point of the average PIT rate.

SSR is the combined rate for employer and employee social security contributions.

WEDGE is an estimate of the overall taxation of labor income, represented as a percentage of gross salary. It combines social contributions with personal income tax. The tax wedge represents the ratio of total labor taxes to total labor costs to the employee.

VATR is the general rate at which most goods and services are taxed under the value added tax system. Most countries have a variety of reduced rates for certain basic goods, such as basic food stuffs. Also, all countries have a zero rate on exported goods.

VATY is the level of VAT collections as a percentage of GDP.

VATGCR is the VAT gross compliance ratio which is the ratio of potential VAT collections—if all final household consumption had been taxed at the standard rate--to actual VAT collections.

VATPROD is a measure of how well the VAT produces revenue for the government, given the VAT rate. It is the portion of GDP in revenue that is mobilized for each point of VAT rate.

Threshold indicates the amount of annual turnover, in US $ terms above which taxpayers must register for VAT and file regular VAT returns.

Functional Organization is a binary indicator where 1 indicates that the tax administration is organized along functional lines.

Large Taxpayer Unit is a binary indicator where 1 indicates that there is a large taxpayers unit.

Customs and Tax Administration Combined is a binary indicator where 1 indicates that revenue is administered jointly by a single customs and tax administration.

Colombia Highlights

Currency: Peso (COP)

Foreign exchange control: Foreign exchange that is to be used for foreign direct investment may enter the country without central bank registration. However, the exchange market in Colombia comprises authorised exchange intermediaries through which most foreign currency transactions by foreign investors must be transferred. Foreign capital investments, the import of goods, exports and currency used to repatriate profits must be directed through the exchange market. "Foreign residents" (a category distinct from foreign investors) in Colombia also must use the authorised exchange market for investments outside the country.

Accounting principles/financial statements: Colombian GAAP. Financial statements must be prepared annually. Colombia has accepted IFRS, with those standards expected to apply as from 2014.

Principal business entities: These are the joint stock corporation, limited liability company, partnership, simplified stock corporation and branch of a foreign company.

Corporate taxation:

Residence – A corporation is resident if it is organised under Colombian law or has its main domicile in Colombia.

Basis – Colombia taxes resident companies on worldwide income. Foreign companies and entities and branches of foreign companies are taxed only on their Colombia-source income.

Taxable income – Taxable income is defined as gross income less returns, rebates, discounts, all ordinary costs incurred in obtaining net income and all allowable deductions. Corporate taxpayers may deduct costs that are "necessary and proportionate to the activities performed" in computing taxable income.

Taxation of dividends – Dividends are taxed at the 33% corporate rate if the profits from which the dividends are paid were not subject to tax at the corporate level. Otherwise, the dividends are exempt.

Capital gains – Capital gains derived from the sale of assets held for 2 years or more are subject to capital gains tax. Otherwise, gains are treated as ordinary income.

Losses – Losses may be carried forward without limitation. No carryback is allowed.

Rate – 33%

Surtax – No

Alternative minimum tax – A presumptive minimum income is calculated annually at a rate of 3% on the taxpayer's net worth held in the year immediately preceding the taxable year. Certain assets, such as shares in Colombian companies, may be excluded from this calculation.

Foreign tax credit – A taxpayer may credit tax paid on foreign-source income, provided the foreign tax does not exceed the Colombian tax that would have been due on the same income received from abroad. For the credit to apply, the taxpayer must be a company resident in Colombia, its foreign income must be taxable in Colombia and the income tax paid abroad may not exceed the Colombian tax attributable to the income.

Participation exemption – See under "Taxation of dividends" for the treatment of domestic dividends. The participation exemption does not apply to foreign dividends; foreign dividends distributed or credited to a Colombian resident company are includible its taxable income.

Holding company regime – No

Incentives – Incentives include a special free trade zone regime with a corporate income tax rate of 15%; a 40% tax deduction for investment in fixed assets; the availability of legal stability agreements; and deductions for environmental and scientific investment.

Withholding tax:

Dividends –Dividends paid to a foreign company or entity not domiciled in Colombia may be remitted abroad free of tax if the profits from which the dividends are paid have been taxed at the corporate level. Otherwise, tax is imposed at the 33% corporate tax rate.

Interest – Interest paid to a nonresident is subject to a final withholding tax of 33%. Interest derived from the following, however, is exempt: short-term import credits and overdrafts; credits to finance or pre-finance exports; credits obtained by financial corporations and authorised banks; credit for trade transactions obtained through financial corporations or authorised banks; and credits obtained by foreign, mixed or domestic companies whose activities are considered beneficial to national economic development under guidelines set by the National Council on Economic and Social Policy.

Royalties – Royalties paid made to a nonresident company are subject to a final withholding tax of 33%. Royalties derived from the exploitation of software are subject to the 33% tax, but only on 80% of their amount.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No (but see registration tax under "Other", below).

Payroll tax – An employer must contribute 4% of its monthly payroll to a family subsidy and 3% to the Institute of Family Welfare, together with an additional 2% contribution to the National Apprenticeship Service. The contribution is deductible and may be reduced if the company operates its own training program.

Real property tax – Real estate is subject to municipal taxation, usually levied at rates within a band based on the value of property without regard to the number of owners or the taxpayer's personal wealth.

Social security – The employer's contribution for pay-related social insurance is 8.5% of salary for health insurance, 11.625% for the general pension scheme and a percentage (which varies by job type) for work accident insurance. The employer also must withhold and remit the employee's share of the social security contributions.

Stamp duty – 0%

Transfer tax – See under "Stamp duty".

Other – Registration tax applies to documents (e.g. legal acts, bylaws, etc.) registered with the Chamber of Commerce (0.3% to 0.7%) or the Registry of Public Deeds (0.5% to 1%), calculated on items such as subscribed capital, transaction amounts stated in the document to be registered or the appraisal value of immovable property. Relief is available if a document or act is subject to both registration tax and stamp duty (stamp duty will not be levied) or to registration in both the Chamber of Commerce and the Registry of Public Deeds (the public deeds levy is imposed).

A municipal industry and trade tax ranging from 0.2% to 1% is levied on gross receipts derived from carrying out industrial, commercial and service activities within a municipal territory. A taxpayer with assets valued above COP 3 billion is assessed a 1.2% assets tax.

A 0.4% financial transactions tax is imposed on withdrawals from checking and savings accounts, including accounts with the central bank.

Anti-avoidance rules:

Transfer pricing – The transfer pricing regime is based on the OECD transfer pricing guidelines, with the arm's length principle applying in setting base prices and profit margins on transactions with foreign related parties. Taxpayers engaged in related party transactions must file an annual return and, as a general rule, prepare a study.

Advance pricing agreements may be negotiated with the local tax authorities.

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – Calendar year

Consolidated returns – Consolidated returns generally are not allowed (except for the transfer pricing return).

Filing requirements – A self-assessment system applies, under which a company must complete a tax return and compute its own liability. The return must be filed by a deadline that is set annually (generally April-May) and that varies depending on the type of taxpayer and the last digit of the taxpayer's tax ID number.

Penalties – Late filing penalties amount to 5% per month of delay up to 100% of the tax or withholding tax due. The penalty increases to 10% per month, with a 200% ceiling for late filing and a summons by the tax authorities. Late payment interest also is charged. The penalty for amendments is 10% of the additional tax per month.

Rulings – A ruling is available on direct tax issues and APAs may be negotiated under the transfer pricing rules.

Personal taxation:

Basis – A resident individual is taxed on worldwide income; a nonresident is taxed only on Colombia-source income. A foreign resident individual will be taxed on worldwide income as from the 5th year residing in the country.

Residence – An individual is resident for tax purposes if he/she is present in Colombia for more than 6 months in the tax year (continuous or otherwise) or, if outside Colombia, the individual's family is in Colombia (this does not apply to foreigners).

Filing status – Joint filing is not permitted; each individual must file his/her own tax return if so required.

Taxable income – Most income, including capital gains, is subject to taxation. Pension fund contributions, however, are not taxed and 25% of all labour income is exempt.

Capital gains – Capital gains (e.g. inheritances, gifts and proceeds from the sale of real estate) are subject to tax. However, gains derived from the sale of shares through a stock exchange are not considered occasional earnings and are thus tax exempt.

Deductions and allowances – Colombia provides deductions and allowances related to education and health expenditure and the purchase (and related interest) of a residence. Health allowances are solely available for employees earning less than COP 96 million, while deductible mortgage interest is limited to COP 25 million.

Rates – Taxable income ranges are based on the UVT (tax value unit) and are 0% for UVT 0 to 1,090; 19% for UVT 1,091 to 1,700; 28% for UVT 1,701 to 4,100; and 33% for UVT 4,101 and above.

Other taxes on individuals:

Capital duty – No (but see discussion on registration tax under "Other" in the corporate tax section).

Stamp duty – 0%

Capital acquisitions tax – Capital gains derived from an inheritance or a gift are treated as ordinary taxable income.

Real property tax – Real estate is subject to municipal taxation, which is usually levied at rates within a band based on the value of property without regard to the number of owners or the taxpayer's personal wealth.

Inheritance/estate tax – Gifts are treated as capital gains and subject to tax as ordinary income.

Net wealth/net worth tax – A presumptive minimum income is calculated annually at the rate of 3% on the taxpayer's net worth held in the year immediately preceding the taxable year at issue. Certain assets may be excluded from this calculation, such as shares in Colombian companies and the individual's residence (up to a certain maximum value). Taxpayers with assets valued at more than COP 3 billion also are assessed a 1.2% assets tax.

Social security – An employee contributes 3.875% and 4% of salary for pension and health contributions, respectively. The employer withholds and remits the employee's share of the social security contributions.

Administration and compliance:

Tax year – Calendar year

Filing and payment – Tax on wages is withheld by the employer and remitted to the tax authorities. A resident is required to file an income tax return unless his/her income or total net assets do not exceed a limit set annually by the government.

Penalties – The penalty for late filing is 5% per month of delay up to 100% of the tax or withholding tax due. The penalty increases to 10% per month, with a 200% ceiling in the case of late filing and a summons by the tax authorities. Interest for late payment also is charged. The penalty for amendments is 10% of the additional tax per month.

Value added tax:

Taxable transactions – VAT is imposed on the sale of goods, the rendering of services in Colombia and on imports.

Rates – The standard rate is 16%, with a preferential rate of 0% applying to exports and certain domestic supplies. Higher rates apply, e.g. to recreational and sport boats and vehicles and mobile phone services. Lower rates apply to certain essential mass consumption goods and services.

Registration – VAT taxpayers must register with local tax authorities and obtain a VAT ID number. There is no threshold for registration purposes.

Filing and payment – VAT is computed in bimonthly periods using the subtraction method, crediting taxes paid on purchases against tax liabilities arising from sales. Special rules are provided for small taxpayers.

Source of tax law: Statutory Tax Code covers income, VAT, asset and stamp taxes. Others taxes are covered by special laws, decrees or local ordinances.

Tax treaties: Colombia has double taxation agreements with Bolivia, Ecuador and Peru in accordance with Andean Community (CAN) provisions and Spain.

Tax authorities: National Tax and Customs Office (DIAN)

International organisations: CAN (Andean Community), Latin America Integration Association and WTO

SOURCE: Deloitte International Tax Source: Tax Highlights, http://www.deloitte.com/taxguides.