

DOING BUSINESS

IN COLOMBIA



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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 95 countries in the world.

Business partners work together through the network to carry out transnational operations for clients as well as offering specialized knowledge and experience within their own national borders. Global specialists in various industries and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in **Error! Reference source not found.** has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is available since December 2017.

We look forward to help you doing business in Colombia

2 – BUSINESS ENVIRONMENT

The Republic of Colombia is located in the north-west of South America and is the only South American country with coastlines on the Pacific and Atlantic Ocean.

Colombia is divided geographically into five regions; the Andean highlands, the Caribbean coastline, the Eastern plains, the North Pacific coastline and the Amazon Rain Forest. These regions exhibit a complete range of weather, during the year and have a extent array of both renewable and non-renewable natural resources.

Under Colombia's Political Constitution of 1991 (which democratically replaced the 1886 Constitution), the Colombian government has three branches –the Executive (president, ministries and associated executive and administrative offices), Congress (Chamber of Representatives and Senate) and the Judiciary.

The president of the Republic and all members of the Congress, governors and mayors are all directly elected by popular vote for four year periods. All citizens over 18 years can vote.

POPULATION

In 2017, Colombia's estimated population is 49.3 million people, of which over 8 million people (16.23%) live in Bogotá D.C. (Colombia's capital city), 2.5 million (5.07%) in Medellin, 2.4 million (4.87%) in Cali and 1.2 million (2.43%) in Barranquilla. The unemployment rate for the current year is 12.5%.

AREA

Colombia is located in the north-west corner of South America and is the fourth largest country in the sub-continent after Brazil, Argentina and Peru. The total area of the country is 1,138,910 square kilometres, about the size of France, Spain and Portugal combined. (The land area is around 708,000 square kilometres with territorial waters covering another 579 square kilometres).

Mainland frontiers are shared with Venezuela, Brazil, Ecuador, Peru and Panama. The 1000-mile Caribbean coast and the 800-mile Pacific coast are a gateway to two oceans.

Colombia is in the north of the tropical belt, with varied geography and topography offering all kinds of ecosystems and climates. Two thirds of the country is flatland, while the rest is mountainous. Variations in altitude provide wide changes of temperature up and down the three ranges of the Andes which cross the country.

Colombia is commonly divided into five major natural regions:

- The coastal plains, which are tropical, with dry weather and occasional arid conditions
- The Pacific plains to the west, with coastal jungles and plains which are hot and very wet
- The Andean region in the interior, which is the source of many rivers. The weather can be hot and humid, with cold conditions on high plateaus and perpetual snows.
- The Orinoco plains to the east, with extreme seasons of rain and drought.
- The Amazon basin to the south, with the typical humid climate of the tropics.

POPULATION DENSITY

The population is 42.98 inhabitants per square kilometre.

CURRENCY

The currency is the Colombian peso (COP). The annual inflation rate for 2011 was of 4.2%. Colombia has a free-floating exchange regime. As of the date of this publication, the exchange rate was of approximately 2,993 COP per US dollar.

Although there are multiple factors that will influence the behavior of the US currency in 2018, analysts emphasize that the currency will be governed by the price of oil, the decisions of the Federal Reserve and, in the local area, by the presidential elections and the fiscal situation of the country. These catalysts would lead the currency to operate with an upward trend that would be on average between \$ 3,089 to \$ 3,200 at the end of 2018.

LANGUAGE & RELIGION

The official language is Spanish, but English is widely spoken in the business community and make part of all private and public school programs. The predominant religion is Roman Catholicism at 58.21%; Evangelicals at 30.08%; Protestants at 3.63%; Protestant traditional or non-evangelical Protestant at 2.63%; Jews, Muslims, Buddhists, Hinduists, Taoists in 1.01% and no religion 4.44%.

THE ECONOMY

It is forecast that Colombia's economy will grow between 2.4% and 2.7% in 2018. It is expected that the next year the Colombian economy will receive an additional boost generated by higher external demand due to the expectation of greater growth of the main trading partners from the country.

A slight increase in the international prices of some of the main export products is estimated and the credit directed to households continues to decelerate although it maintains increases that exceed inflation and the nominal GDP increase.

UNEMPLOYMENT

Unemployment expected at the end of 2017 will be 9.4% and for 2018 it will be 7.6%.

PRICES AND INTEREST RATES

During the year, 2017 banks have lowered the rates of commercial loans to reactivate the business sector. On the other hand, the Bank of the Republic, due to the impact of the tax reform, lowered the interest rate by 0.25 points, leaving the official interest rate at 7.5%. It is expected that the inflation rate for 2018 will be 4%

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

The projections suggest that the country's external deficit should continue to be corrected, as a result of a better dynamics of exports of goods and the good behavior of current transfers.

A deficit in the current account is estimated at around 3.7% of GDP in 2017. By 2018, a current account deficit of around 3.6% of GDP is projected.

Exports were approximately US \$ 3,130.7 million FOB, while in the past year, foreign sales had been US \$ 2,719.5 million FOB, due to the above, they fell by 3.4%, this variation was in the external sales of fuels and products of the extractive industries, which were US \$ 1,691.0 million FOB, that is, they had a rebound of 22.5%.

The group of manufactures reached US \$ 704.8 million FOB, increasing by 3.3%. However, the external sales of materials and chemical products decreased by 26.3%.

The United States was the main destination for Colombian exports, with a 24.6% share in the total FOB value exported. They followed him in their order: Panama, China, the Netherlands, Ecuador, Brazil and Peru. 11.6 million tons were exported with a variation of 12.5%, while the last year, exports in metric tons were 10.3 million with a variation of 4.2%

Projects were carried out with investments of \$ 2.1 trillion dollars, which will continue to comply with the commitments made and the modernization of the national road infrastructure.

FINANCIAL INSTITUTIONS

The Colombian financial sector consists of public and private entities engaged in activities related to the management, use and investment of resources in the country.

There are four types of entity:

- Financial institutions
 - Activity: capturing legal currency from the public in demand deposits or term, loans for housing construction or for free consumption, discounts, advances or other credit transactions.
 - Entities comprise:
 - Commercial and mortgage banking institutions (ex the West Bank, Banco de Bogota, Banco Popular etc.)
 - Financial corporations
 - Savings and housing corporations
 - Commercial finance companies (trade finance)
 - Higher-level cooperative organisations (where the customer becomes a saver and partner)
- Other financial institutions
 - Activity: stimulate saving by incorporating capital money for single or periodic payments, with the possibility of early repayment through raffles
 - Entities comprise:
 - Capitalisation companies, which raise money through bonds/CD's (certificates of deposit) and put them into investment projects.
 - Financial services companies, where there is no input of public money, working with their own capital instead and managing the money they receive from their customers
 - Entities comprise:
 - Trusts (manage assets and investments, where they can receive letters, changes or turns)
 - Leases (leasing of machinery or buildings in which the first option is obtained by the client –Ex: Leasing the West)
 - Factoring (buying a customer base and becoming responsible to collect from them)

- General warehouse deposit (retain, manage, distribute and guard the goods and the purchase/sale transactions of customers)
- Insurers and insurance intermediaries
 - Activity: assuming the losses as a risk under insurance cover to pay out on any losses suffered by their clients
 - Entities comprise:
 - Insurance and reinsurance companies or cooperatives
 - Insurance agencies
- Companies with a special regime
 - Activity: performing credit functions according to the specific purposes designated in the law which created them
 - Entities comprise:
 - Finagro
 - IIF, EIF Bancafé FINDETER, ICETEX BANCOLDEX, FONA

FINAGRO

The Fund for Agricultural Financing, FINAGRO, was founded on 22 January 1990. It was felt there was a special need for those living in rural areas, which required autonomous and specialised resources to handle credit. This is spread over several agencies which have been assigned under a complementary alternative macro-economic policy, essentially in the hands of the Colombian Central Bank (Banco de la Republica).

STOCK MARKET

The history of the stock market in Colombia changed on July 3rd of 2001. On that day, as a product of the integration of stock exchanges in Bogotá, Medellín and Cali, the Bolsa de Valores de Colombia (BVC or Colombian Stock Exchange) was born. Today, this consolidated institution is there to administrate stock markets, foreign exchange, derivatives and fixed income.

Today, the BVC is registered in the stock market as an entity and has private customers. Stock exchanges in Bogota provide markets for government securities, public and corporate bond issues and shares in leading Colombian companies.

3 – FOREIGN INVESTMENT

The legal framework developed from early 1995 opened the economy to private investments in all major sectors of the economy. It promotes competition and fosters foreign investment into the country.

Recent foreign investment incentive programs have been developed, including the enactment of the so-called 'Legislative stabilisation regime', which allows, under certain conditions, the signing of a contract with the government to stabilise (secure) specific identified legal provisions and interpretations by authorities for a period of three to twenty years.

Various mechanisms operate in Colombia to promote investment and export activity through a series of special incentives. Free Trade Zones (FTZ) are geographical areas in which special incentives operate. They can have an emphasis on trade, services or industrial activities. There are currently 13 approved zones, one of the most recent being 'Ciudadela de la Salud', a health services oriented zone in the Sopó region. Within these zones, there are more than 325 businesses. The main requirement is that operation within the FTZs is aimed mainly at export production. The main incentives offered are:

- Tax incentives – exemption from income tax on all export earnings, from all custom duties and VAT on goods and services brought into the zone, and from all taxes on profit distribution.
- Foreign exchange benefits – the right to exchange, hold or negotiate foreign currency and to open domestic or foreign bank accounts in foreign currency. There are also several procedural and logistics incentives. For example, Colombia has nearly five million square metres of modern facilities designated as free trade zones. Some foreign companies are already installed in the Free Trade Zones.

SPECIAL ECONOMIC EXPORT ZONES (SEZ)

There are special geographical areas located in selected cities, within which certain incentives operate under special conditions. A presidential decree, currently complemented with a Congressional law pending approval, has granted the border cities of Buenaventura, Valledupar, Ipiales and Cúcuta with this special status.

The main purpose of this recently created regime is to attract investment in order to strengthen national export volumes by creating special conditions favouring the entry of private capital to the zones and facilitating the exportation of Colombian goods and services. According to the initial draft proposed to Congress, in order for a project to be eligible, it must meet the following requirements:

- Economic activities must be limited to the SEZ exclusively.
- Projects developed by national or foreign investors are both eligible
- Investment must be new
- There must be investment of at least USD 2 million and exports must represent a minimum of 80% of production.

Once approved, an admission contract shall be signed between the government and the interested investor. Operating incentives in these areas are similar to those of the FTZ. The proposal in Congress also includes special labour market flexibility regimes.

THE BANKS

There are a large number of banks whose solid equity position offers good guarantees for savers and investors alike, as well as strong defences against temporary problems with lending.

Technical equity, as a proportion of risk-weighted assets, averages 14%. For the investment banks, the average is 15.6%, for mortgage savings banks 12.4%, for consumer finance companies 12.4% and for leasing companies 14.2%.

One of the most interesting features of the banking system is that, since 1990, it has been open to Colombian and foreign private investment. The change of climate was started in the year when the state began to sell off some of its interests in the sector, a process that has now been consolidated.

The Colombian financial system is made up of credit institutions, financial services and insurance services. All insurance companies belong to the insurance services system, as do capitalisation societies, general insurance companies, life insurance companies and cooperative societies of insurance.

All credits and account receivables on the side of clients of the financial system are qualified at certain risk levels, including normal, subnormal, deficient, difficult, and unrecoverable. These required categories will be open to consultation by any financial intermediary, before offering a new credit or service. As stated before, it is possible to obtain new credits or financial services only if those obtained beforehand have been or are being looked upon under the agreed terms.

FOREIGN EXCHANGE CONTROLS

Foreign investors under the foreign investment regime are subject to the same treatment as domestic investors as a general rule and there are no limits for foreign investment entry. A foreign investor may hold up to 100% of the capital of a Colombian company.

Foreign investment is welcome in all economic sectors except in activities related to defence and national security, and the processing and disposal of toxic or radioactive waste not produced in Colombia. All foreign capital investments must be registered with the Central Bank (Banco de la República).

Colombia is a member of several multilateral organisations and agreements for the protection of foreign investment. These are:

- Overseas Private Investment Corporation (OPIC) – Colombia has been covered by OPIC since 1985. OPIC was formed to promote United States investment in developing countries
- Multilateral Investment Guarantee Agency (MIGA) – MIGA is a multilateral institution which offers guarantees against non-commercial risks, such as foreign currency inconvertibility, discriminatory expropriation, war and civil unrest
- International Center for Settlement of Investment Disputes (ICSID) – the Articles of Agreement of ICSID were ratified by the Colombian Congress to provide a mechanism for international conciliation and arbitration.

Colombia has also signed several Bilateral Investment Treaties that aim to protect foreign investment originated by another party. Currently, there are signed treaties with:

1. Free Trade Agreement between the United Mexican States and the Republic of Colombia signed on June 13, 1994 and entered into force on January 1, 1995, through the Law of the Republic of Colombia No. 172 of 1994. Denounced by the of Venezuela on May 22, 2006 the G-3 FTA without effect between Colombia and Venezuela. This Treaty was celebrated with the character of Economic Complementation Agreement (ACE) in accordance with the provisions of the Treaty of Montevideo 1980 and Resolution No. 2 of the Council of Ministers of Foreign Affairs of the signatory Parties.

The Agreement was registered with the Latin American Integration Association (ALADI) as Economic Complementation Agreement (ACE) No. 33. The FTA-G3 included a significant opening of markets for goods and services and established clear and transparent rules on trade and investment, contemplating a tariff reduction program for most of the tariff universe in a period of 10 years, excluding the largest part of the agricultural sector. Currently, 97% of the tariff universe meets 0% tariff.

In August 2009 and after two years of negotiations, Colombia and Mexico completed the work of adapting the FTA and signed five decisions contained in a modification protocol referring to market access, adjustments to the rules of origin, the Regional Committee of Inputs, the additional powers to the Administrative Commission and the name change of the Treaty. This deepening of the Agreement is effective as of August 2, 2011.

2. Free Trade Agreement between the Republic of Colombia and the Republics of El Salvador, Guatemala and Honduras, Colombia and the countries of the Northern Triangle of Central America, negotiations began for the signing of a free trade agreement that allows the four countries to improve the conditions of access to their respective markets, take advantage of the complementarities of their economies, as well as promote mutual investments, with a view to achieving higher levels of development that benefit the population. The commercial relations of Colombia with Guatemala, El Salvador and Honduras have been framed in Partial Scope Agreements signed in 1984 within the framework of ALADI.

These agreements cover a small group of products through fixed tariff preferences. In order to strengthen regional economic integration as an essential instrument for advancing the socioeconomic development of the Latin American countries, Colombia, Guatemala, El Salvador and Honduras, began in June 2006 negotiations for a Free Trade Agreement. The negotiations of the FTA-TN took place between May 2006 and March 2007 and included issues such as: National Treatment and Market Access to Goods, Investment, Services, Cross-Border Services, Electronic Commerce, Cooperation, Settlement of Differences, Public Procurement, Trade Facilitation, Sanitary and Phytosanitary Measures, Technical Standards, Rules of Origin and Commercial Defense Measures.

The Agreement was signed on August 9, 2007 in Medellin Colombia, based in the Colombian Congress on February 20, 2008 who ratified it on June 3. He obtained a presidential sanction on July 30, 2008 with Law 1241. He was declared constitutional by the Constitutional Court on July 8 with Sentence C-446 of 2009, which was notified on September 23, 2009.

Colombia and Guatemala the FTA entered into force on November 12, 2009, Colombia and El Salvador on February 1, 2010 and Colombia and Honduras on March 27, 2010.

3. The Cartagena Agreement, which gave birth to the Andean Group, began to be delineated since 1966 with the Declaration of Bogotá. It was signed on May 26, 1969 and entered into force on October 16, 1969 when the Permanent Committee of the ALALC obtained the official ratification of the Government of Peru, after that of the Governments of Colombia and Chile.

In November of 1969, Ecuador and Bolivia ratified it and in 1973 Venezuela adhered. Chile withdrew in 1976.

The Agreement has been the subject of several important amendments to the Andean integration process, including, among others, the one made through the Trujillo Protocol, signed by the Andean Presidents on the occasion of the 8th Presidential Council held in the city of Trujillo, Peru.

In March of 1996, Protocol with which the Andean Community was created.

On April 22, 2006, Venezuela formalized its decision to denounce the Cartagena Agreement and on August 9 of the same year it signed a Memorandum of Understanding with the Member Countries of the Andean Community through which the procedure to define the regime was agreed. Transitory that would allow the exit of Venezuela from the Andean Community, in accordance with Article 135 of the Cartagena Agreement, Decision 641. Venezuela's link with CAN ended on April 21, 2011. The Andean Community is today a subregional organization with international legal personality composed of Bolivia, Colombia, Ecuador and Peru.

On September 20, 2006, through Decision 645 of the Council of Foreign Ministers and the Commission, Chile was granted the status of an Associate Member Country of the Andean Community. Likewise, the States Parties of MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) hold the status of Associate Members since July 7, 2005, provided with Decision 613.

4. Partial Scope Agreement on trade and economic and technical cooperation between the Republic of Colombia and the CARICOM Caribbean Community.

CARICOM is an organization created on July 4, 1973 with the Treaty of Chaguaramas by 15 countries of the Caribbean.

Its objectives are to raise the level of life and work of the nations of the region, to end unemployment, accelerate, coordinate and sustain economic development. Also, promote trade and economic relations with third countries and with groups of nations.

With twelve of the fifteen CARICOM countries, Colombia signed on July 24, 1994, the Partial Scope Agreement No. 31 on Trade and Economic and Technical Cooperation AAP No. 31, which entered into force on January 1, 1995.

This Agreement was signed within the framework of article 25 of the ALADI in the city of Cartagena de Indias.

In development of this agreement, a First Protocol that modifies the rules of origin was signed on May 21, 1998 and includes for the first time products with tariff preferences in favour of Colombia of an immediate nature as of June 1, 1998 and gradual (25 % every year) initiating the first 25% as of January 1, 1999. The twelve CARICOM member countries that participate as AAP Signatories No. 31 are: Trinidad and Tobago, Jamaica, Barbados, Guyana, Antigua and Barbuda, Belize, Dominica, Grenada, Monserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines Bahamas, is outside the Agreement with Colombia, for not participating in the CARICOM Common Market; Suriname and Haiti are not yet included in this Agreement, as their involvement as CARICOM members occurred after the negotiations.

Within the region, the countries with the highest development are: Barbados, Guyana, Jamaica and Trinidad and Tobago.

This agreement was incorporated into Colombian national legislation. The validity of the agreement is from January 1, 1995 through Decree No. 2891 dated December 30, 1994, and from June 1, 1998 and January 1, 1999, through Decree No. 793 of May 28, 1998.

The Agreement and the modifying protocol includes a general article related to: Programming and Release of Tariffs, Treatment of Imports, Rules of Origin, Technical Standards, General Exceptions, Commercial Promotion, Trade Financing, Trade in Services, Transportation, Clauses Safeguarding, Unfair Trade Practices, Economic Cooperation, Technical Cooperation, Private Sector Activities, Dispute Resolution, Evaluation of the Agreement, Accession and Transitory Provisions.

Under this Agreement, Colombia receives 100% tariff preferences in 1,074 products from Trinidad and Tobago, Jamaica, Barbados and Guyana. For its part, Colombia grants the twelve CARICOM countries 100% tariff preferences to 1,128 products in the Nandina nomenclature. Among the products in which Colombia receives 100% preferences on tariffs, we can mention: Tobacco, polystyrenes, agricultural machinery, ammonium sulphates, potassium chloride, polyvinyl chloride, calcium sulfates, polypropylene, corn starch, textiles, among many others.

And among the products to which Colombia grants 100% preferences on tariffs, we find: Gasoline, Oils for lubricants, wire rod, waste and scrap foundry, natural gypsum, nutmeg, fish, acids, salts and esters, among many others.

5. Economic Complementation Agreement No. 72. ACE-72, signed between the Governments of the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Eastern Republic of Uruguay, States Parties to Mercosur, and the Government of the Republic of Colombia, signed on July 21, 2017, has not yet entered into force.

Economic Complementation Agreement No. 72 (ACE-72) is an Agreement of Partial Scope of Economic Complementation (AAP.CE) that maintains the same objectives and scope of ACE-59 and that was also subscribed within the framework of the Treaty of Montevideo 1980 (TM80).

The ACE-72 will replace the ACE-59. Therefore, the signatory parties decided to maintain the tariff preferences established in 2004 in the ACE-59. The conditions of access of the original goods of the five signatory parties were not negotiated in this treaty, and only punctual deepening previously agreed between some of the signatory parties for industrial products such as textiles, apparel, metalworking and vehicles were incorporated.

6. Free Trade Agreement Chile-Colombia, The Trade Agreements of Colombia and Chile, began with the Latin American integration processes since the Treaty of Montevideo of 1980 - ALADI, through bilateral agreements of Partial Scope, which were the basis of the Agreement of Economic Complementation ACE24 signed on December 6, 1993 and effective as of January 1, 1994 through decree 2717 of 1993.

Parallel to this agreement, in relation to the development of actions towards economic complementation in productive areas and the promotion of the development of joint investments both in Colombia and in Chile, the signatory countries signed the Agreement for the Promotion and Reciprocal Protection of Investments on January 20, 2000 in Cartagena de Indias.

Counting on 98% of the free trade, in the following 12 years the Free Trade Agreement was signed on November 27, 2006, through which its disciplines are deepened under the framework of the WTO. The FTA was incorporated into national legislation with Law 1189 of 2008, approved by the Constitutional Court on January 27, 2009 and entered into force on May 8, 2009.

The ACE24 was the first trade agreement of Colombia that includes the tariff universe in a tariff reduction program based on the complementarity of its economies and addressing sensitivities, seeks the establishment of an expanded economic space between countries, allowing the free movement of goods, services and productive factors.

7. The Free Trade Agreement between the Republic of Colombia and the European Free Trade Association EFTA States (EFTA) was signed on November 25, 2008 and approved by Law 1372 of January 7, 2010. On July 1, 2011, the Agreement entered into force of Free Trade between Colombia and two of the member countries of the European Free Trade Association, Switzerland ratified the treaty on October 29 and Liechtenstein on November 26, 2009.

In the case of Norway and Iceland, the Agreement entered into force on September 1, 2014 and October 1, 2014, respectively. Although the negotiation was developed in conjunction with the four EFTA States (Switzerland, Liechtenstein, Norway and Iceland), the implementation of the Agreement required ratification by the Parliament of each country.

8. Commercial Promotion Agreement between the Republic of Colombia and Canada, their attached letters and their understandings were signed in Lima, Peru, on November 21, 2008, and "the exchange of notes that corrects the free trade agreement between Colombia and Canada" on February 18 and 20, 2010. The agreement was approved through Law 1363 of December 9, 2009 by the Colombian Congress.

The process of incorporation into the Colombia domestic legislation was supplemented on July 24, 2010, when the Constitutional Court through ruling C-608/10 found consistent with the constitutional order of the country to this Agreement, as well as Law 1363 of 2009, approving the same.

Likewise, the agreement was approved in consensus by the Canadian Parliament on June 21, 2010, and later signed by the general governor of this country.

The agreement entered into force on August 15, 2011. On November 21, 2008, the Free Trade Agreement between Colombia and Canada was signed, which consolidates an initiative of greater commercial integration reached after five rounds of negotiations that took place since July 2007.

At the same ceremony, to the signing of the Labor Cooperation Agreement and the Environmental Cooperation Agreement.

9. Commercial Promotion Agreement between the Republic of Colombia and the United States of America, its attached letters and its understandings were signed in Washington, on November 22, 2006.

The process of incorporation into Colombian domestic legislation was completed through the approval of the Law 1143 2007 by the Colombian Congress, and was supplemented by Judgment C-750/08 of the Constitutional Court whereby the agreement and the aforementioned law were found in accordance with the constitutional order of the country.

With the same luck, the "Modifying Protocol" of the Agreement was executed, signed in Washington on June 28, 2007, and approved by Law 1166 of 2007, whose exequibidad was declared in Sentence C-751/08.

On October 12, 2011, the United States Congress approved the Agreement, which was followed by the approval of the approval law by President Obama on October 21, 2011. This was the start of the regulatory implementation stage of the Agreement in Colombia, which was intended to verify that adjustments are made to ensure that the Agreement is compatible with our legal system.

Exhausted this stage, the exchange of notes between the two governments, which was made at the last Summit of the Americas in Cartagena de Indias, in which the date of entry into force of the FTA was established.

The process culminates with the publication of Decree 993 of May 15, 2012, by means of which the "Agreement of commercial promotion between the Republic of Colombia and the United States of America", its "Adjunct Letters" and its "Understandings" are promulgated. , the Proclamation is a necessary requirement for the entry into force of the Treaty.

10. Agreement of Partial Scope of Commercial Nature AAP.C No. 28 between the Republic of Colombia and the Bolivarian Republic of Venezuela, was signed on November 28, 2011 by the Presidents of Colombia and Venezuela.

The annexes were signed on April 15, 2012. The process of incorporation of the Agreement into Colombian domestic legislation was fulfilled through the approval of Decree No. 1860 of September 6, 2012, which allows its provisional application, while the process in the Congress approves the approval of the Law, as established by Article 224 of the National Constitution.

For its part, on August 20, 2012, the National Assembly of the Bolivarian Republic of Venezuela published in the Official Gazette Extraordinary No. 6,082 of August 20, 2012 the Law approving the Agreement.

The step to follow for the entry into force of the Agreement, as established in Article 11 of the Agreement, was the submission by the countries of the communications to the General Secretariat of ALADI, notifying compliance with the internal legal provisions for the application of the Agreement. Colombia made the shipment on September 24, 2012 and Venezuela did it on October 16, 2012.

After this stage, the Secretary General of ALADI made an official act of Delivery of the Agreement and its respective registration on October 19, 2012. This legal instrument corresponded to No. 28 within the category of Partial Scope Agreement of a Commercial nature, under Article 10 of the Montevideo Treaty 1980.

Because of the foregoing, the Parties agreed to apply the Agreement validity from 19 October, 2012. Subsequently, once the process for approving the commercial agreement in Congress was completed, the Act was sanctioned by the presidency on July 3, 2014 and assigned Number 1722.

By means of Sentence C-210/16 of April 27, 2016, the Constitutional Court declared law 1722 of 2014 and the commercial agreement with Venezuela to be enforceable. On August 29, 2016, the Ministry of Foreign Affairs of Colombia, through its embassy in Montevideo, sent Diplomatic Note to the General Secretariat of ALADI, informing of compliance with the internal requirements.

11. Economic Complementation Agreement No. 49 concluded between the Republic of Colombia and the Republic of Cuba, is subscribed since 2000 under the framework of the ALADI, Economic Complementation Agreement No. 49, which entered into force on July 10, 2001 and has two modifying protocols.

The Agreement and the protocols incorporate a general and basic articles related to: Market access, non-tariff restrictions, rules of origin, safeguards agreement, unfair practices, trade in services, transportation, technical standards, investments, commercial cooperation, industrial property, dispute resolution, administration of the agreement.

The Agreement and its protocols entered into force in Colombia with decrees 3275 and 3800 of September 2008 and 4225 of

November of 2008. In the case of Cuba, it was by Resolution No. 8 of September 2008. As a result of the Agreement, Colombia can enter the Cuban market with 100% tariff preferences: live animals, bovine meat, dairy products, flowers, potatoes, vegetables, bananas, coffee, rice, palm oil, margarine, sweets, confetti, chocolate, bakery products, jams, mineral and aerated water, beer, among others. For its part, Cuba can sell 100% tariff preference to the Colombian market: cheeses, vegetables, processed foods, chemicals, cosmetics, leather goods, clothing, among others.

Recently, the two governments undertook a deepening exercise in Access to Markets, Origin, Cooperation, Institutional and Dispute Resolution, Trade Facilitation, OTC, Commercial Defense, Institutional, and SPS.

In view of the closing of the negotiation, in meeting of the WEF-Latam of June 17, the Ministers responsible for trade of both countries, signed the Minutes of the fourth Administrative Commission, and ordered their teams to start before the ALADI Secretariat the process for the subscription and entry into force of the third additional protocol to ACE No. 49.

When this new deepening comes into effect, Cuba will grant preferences in more than 4,600 Colombian lines, with tariff preferences for agricultural sectors such as: meat, seeds, cocoa, oilseeds, coffee preparations, fruits, as well as fish, among others. In the industrial sector, Colombia will achieve preferences in textiles and clothing, automotive (buses, cars, motorcycles, trucks, auto parts), soaps and cosmetics, leather, appliances, footwear, toys, steel products, construction materials among others.

12. Commercial Agreement between the European Union, Colombia and Peru, on the one hand, and the European Union and its Member States, on the other, was signed in the city of Brussels, Belgium, on June 26, 2012. On behalf of the European Union, the European Parliament approved the Agreement on December 11, 2012, and subsequently notified the completion of its internal procedures for the provisional application of the Agreement on February 27, 2013.

On the Colombian side, the internal procedure for approval in the Congress of the Republic began in November 2012, until June 5, 2013, ending with the sanction of President Juan Manuel Santos, through Law 1669 of the July 16, 2013. However, the Agreement continues its procedure before the Constitutional Court.

The President of the Republic through Decree 1513 of July 18, 2013 gave provisional application to the Commercial Agreement and the European Union was notified of compliance with the internal procedures required for that purpose.

Additionally, by means of the same Decree the determination was made to give provisional application to the Agreement as of August 1, 2013.

On July 31, 2013, through Decree 1636, market access commitments acquired by Colombia under the Commercial Agreement were implemented.

On November 5, 2014, the National Government issued Decree 2247, through which it is stated that our country will continue to apply, without solution of continuity, under the terms set forth in Decree 1513 of 2013, the Commercial Agreement signed with the European Union and its Member States, after having complied with all the internal requirements established in our law for its approval.

13. Agreements of the Pacific Alliance, is a mechanism of political, economic, cooperation and integration articulation between Chile, Colombia, Mexico and Peru, established in April 2011 and formally and legally constituted on June 6, 2012, with the signing of the Framework Agreement of the Pacific Alliance.

14. Free Trade Agreement between the Republic of Colombia and the Republic of Korea, this agreement means for consumers access to a greater number of goods with better prices and for entrepreneurs new opportunities for export and growth, which will generate more and better jobs. According to the Minister, all sectors will benefit from the gradual elimination of tariffs for raw materials, inputs and intermediate goods.

As for the agricultural sector, all products of export interest will have tariff benefits. 99.9 percent of the agricultural, livestock and food supply will have access to the Korean market, since only the rice and the orange were excepted from the negotiation, said Díaz-Granados.

Regarding real access, the official said that commitments were negotiated that will facilitate the access of national agricultural and food goods. Trade between Colombia and Korea increased from USD 358 million in 2002 to USD 1,510 million in 2011, which means that it increased four times in just one decade, according to the Minister's analysis.

Last year exports to this destination grew 22%. In parallel, most, almost 50% of what Colombia buys from Korea, corresponds to vehicles and their parts, to which are added machinery, communications equipment, chemicals and metallurgical products, mainly. In 2012, purchases to that Asian country exceeded US \$ 1.2 billion.

15. Treaty of free trade Between Colombia and Costa Rica, in June 2012, Colombia and Costa Rica began negotiations to sign a Free Trade Agreement, a process that lasted four rounds and ended in March 2013. The signing of the agreement took place on May 22, 2013.

It was approved with the Law 1763 of July 15, 2015 and implemented by Decree 1231 of July 29, 2016.

Costa Rica is one of the most dynamic and stable economies in Latin America, with which Colombia has sustained strong cultural, commercial and diplomatic ties for years. The FTA with Costa Rica is a fundamental and natural step in the consolidation of trade relations with Central America, since it will complement the provisions of the Agreement signed with the countries of the Northern Triangle (El Salvador, Guatemala and Honduras) and Panama.

This agreement gives preferential access, in particular, to Colombian manufactures that today compete at a disadvantage compared to third countries, in one of the most attractive markets in the region. In 2015, Colombia exported US \$ 248 million, which paid on average an MFN tariff of 5.6% (11.3% in agriculture).

16. Investment Agreement United Kingdom, the main objective of Colombia in this Agreement for the Promotion and Reciprocal Protection of investments was to establish a fair and transparent legal framework that promotes investment through the creation of a stable and predictable environment that protects the investor, its investment and related flows, without creating unnecessary obstacles to the investments coming from it.

This Agreement is based on a post-establishment model in which protection is granted once the investment has been installed in the territory of one of the States Parties. That is, the investor must comply with all the obligations of the legal system of the receiving State.

The APPRI between Colombia and the United Kingdom establishes commitments related to the treatment to be granted to the investor, including national treatment and most favored nation treatment; the standards of responsibility assumed by the States with respect to the investors of the other State (minimum level of treatment); the obligation for the parties to promote and protect investments; the establishment of rules for compensation to the investor in case of expropriation, and the transfer of the capital linked to the investment. In addition, it establishes a mechanism for the settlement of disputes between investors and the State.

17. Other agreements signed with Panama and Israel and Agreements in negotiation with: Japan, Australia, Singapore, Egypt and New Zealand

- Foreign companies not domiciled in Colombia will be subject to a tax on income for 2017 the rate will be 34% plus 6% surtax, and for the year 2018 of 33% plus 4% surcharge.
The surtax only applies to companies that have profits greater than \$ 800 million.
The companies will have a single rate of 33% as of 2019.

4 – SETTING UP A BUSINESS

The Colombian commercial and corporate law regime allows different types of legal entities by which investors can establish a business presence in Colombia.

The three most common forms of organisation in civil law-based jurisdictions are:

- Corporation ('Sociedad Anónima')
- Society with Restricted Liability ('Sociedad de Responsabilidad Limitada')
- Branch of a foreign legal entity ('Sucursal').

The aforementioned legal regime provides for three additional forms of legal entities:

- Partnership ('Sociedad Colectiva')
- Limited Partnership ('Sociedades en Comandita Simple' or 'Sociedades en Comandita por Acciones')
- Sole Owner Enterprise ('Empresa Unipersonal').

The last three corporate forms are not frequently used due to liability exposure issues for interest holders, particular management rules, and in certain cases, limitation on the ability to execute certain types of agreements with interest holders.

Societies with Restricted Liability are frequently used as a standard means for setting up a family business.

CORPORATION

A Sociedad Anonima (S.A.) or Corporation is one of the most common corporate legal forms used in Colombia.

To achieve full operational status, a minimum of five shareholders need to be identified at the time of incorporation and kept thereafter. There is no maximum limit to the number of shareholders in the case of a S.A. The shareholders or their proxies execute a notarised public deed of incorporation which normally includes a complete set of by-laws. Once executed, the S.A. is provided with a legal existence. In order to provide notice of the existence, which is restricted by third parties, the incorporation deed is further registered with the mercantile registry at the Chamber of Commerce which has jurisdiction over the place of incorporation.

Additional registration requirements may be needed, depending on the business purpose of the company. This is normally in exceptional circumstances, because a S.A. becomes fully operational from the time the public deed has been executed.

The main characteristics are as follows:

- Limited liability – shareholders' liability is limited to the amount of their capital contributions.
- Centralised management – through shareholders meetings, Board of Directors and Chief Executive Officer (General Manager).
- Control – a Statutory Auditor ('revisor fiscal') is mandatory.

- Transfer of interest – the transfer of shares is normally unrestricted. However, in non-public companies, the by-laws may provide a pre-emptive right in favour of the other shareholders and/or the Corporation.
- Capital concentration – no shareholder may own more than 94.9% of subscribed shares, otherwise the Corporation will have legal cause for dissolution.
- Continuity special causes for dissolution – these can be the accumulation of losses that reduce the net equity below 50% of the subscribed capital and a reduction in the number of shareholders to less than five. Dissolution due to any of the aforementioned causes can be reversed, provided that the competent corporate authority takes corrective actions within a six-month period from the time the dissolution cause becomes apparent.

SOCIETIES WITH RESTRICTED LIABILITY

Societies with restricted liability require a minimum of two and a maximum of twenty-five quota-holders. A society with restricted liability issues no shares but parts of the interest or 'quotas'. The setting-up procedures are the same as those for corporations.

The main features for these type of entities are:

- Limited liability in certain types of obligations – quota-holders' liability is limited to the amount of their capital contributions in all cases, except for labour and tax (including taxes, interests and penalties) obligations in respect of which they are jointly and severally liable. Higher responsibilities for quota-holders exist when so established in the by-laws, in case of failure to pay the capital contribution at the time of the company's organisation, or in case of an improper denomination of the company.
- Possible centralised management – there are quota-holders meetings and a Chief Executive Officer (or general manager, if the administration duties corresponding to all quota-holders are delegated).
- Control – a statutory auditor ('revisor fiscal') is mandatory only if certain levels of assets and/or revenues are reached.
- Transfer of interest – the transfer of interest is regarded as an amendment to the company by-laws and thus, it is subject to the approval of the quota-holders, the execution of a notary public deed and further registration in the Chamber of Commerce's mercantile registry. A pre-emptive right in favor of the quota-holders is established by law, unless otherwise stated in the by-laws.
- Capital concentration – there is no restriction on capital concentration as long as there are at least two quota-holders at all times.
- Continuity special causes for dissolution – these occur through the accumulation of losses that reduce the net equity below 50% of the capital, and when the number of quota-holders is reduced to less than two or exceeds twenty-five. Dissolution due to any of the aforementioned causes can be reversed, provided that the competent corporate authority takes corrective actions within a six-month period from the time the dissolution cause becomes apparent.

BRANCH

Procedures for registering a branch of a foreign company are similar to those applicable to the establishment of a corporation. A duly apostilled copy of the main (home) office's resolution deciding the registration of the branch in Colombia as well as an apostilled copy of the main office's by-laws and a certificate of good standing (translated into Spanish), are incorporated into a notarised public deed and then registered with the mercantile registry of the Chamber of Commerce which has jurisdiction in the place where the branch operates. The main office should grant a power of attorney to undertake all the necessary procedures to register a branch, including the execution of the notary public deed on its behalf.

Branches may not be converted into any other form of entity. Given that branches and their main office constitute the same legal entity, a branch may not have legal capacity beyond its main office's legal capacity and thus may not enter into contractual relationships with each other. For the same reason, the main office is jointly and severally liable for all of the branch's activities in Colombia.

OTHER CORPORATE MATTERS

MERGERS AND SPIN OFFS.

Companies may merge or be divided by the shares or quota-holders of the companies involved. Mergers are executed with the drawing of a notarised public deed, while spin-offs are created by the registration of the notarised public deed with the Chamber of Commerce's mercantile registry. Shareholders or quota-holders can agree on a specific agreed-upon execution date for accounting purposes.

For income and tax purposes, mergers and spin-offs do not implicate a change in ownership of assets and debts; therefore they are not considered taxable events in Colombia. This so-called 'tax neutrality' only applies to the companies and not to their stockholders or partners. Mergers and their spin-offs allow the use of existing tax net operating losses (NOLs) within certain prescribed limitations:

- Legal reserve companies and branches must allocate 10% of their net profits after tax and other deductions, up to a limit equivalent to 50% of the capital, to create a legal reserve. Current year losses may be compensated against the legal reserve, in which case the same amount must be reinstated from future profits.
- Dividend distribution – profits can only be distributed on the basis of a year-end balance sheet duly approved by the competent body and showing the existence of profits or a year-end balance sheet which demonstrates surplus-retained earnings and only as long as the equity is not less than the capital. Notwithstanding the above, distributable profits may be accumulated for a later dividend distribution if a certain majority is in favour, given that a minimum 50% (70% in certain cases) dividend distribution exists.

CHECK-THE-BOX-REGULATIONS

Under the 'check-the-box' regulations issued by the United States Internal Revenue Service (IRS), the only Colombian entity which qualifies as a 'per se corporation' for U.S. tax purposes is a Corporation or 'Sociedad Anónima'. Other types of entities are regarded as 'eligible entities' and as such may elect whether to be treated as a corporation or as a pass-through entity. A 'Sociedad Anónima' wanting to be considered as a 'pass-through entity' for U.S. tax purposes would have to be transformed into another other type of entity under Colombian law, eg a society with restricted liability ('Sociedad de Responsabilidad Limitada') etc.

CAPITAL MARKETS

The Superintendence of Securities is a technical state entity, which organises, regulates and promotes the Colombian Securities Public Market, and exercises the oversight and control duties constitutionally assigned to the president of the Republic of Colombia.

Under Colombian capital market regulations, the Superintendence of Securities regulates all the procedures regarding stock exchange registration, public trading and the public offering of shares, bonds and securities in general. Under Law No. 27 of 1990, Law 35 of 1993 and Decree 1133 of 1.999, Law 964 of 2005, and under certain circumstances listed in Resolution No. 400 of 1995 issued by the Superintendence of Securities, the issuance and purchase of shares and bonds must be made through a public offer (OPA).

5 – LABOUR

Pursuant to articles 2 and 3 of the Labour Code, labour legislation is applied to all inhabitants of the territory, regardless of nationality, who have been hired by means of an employment agreement to be performed in Colombia.

In accordance with the Labour Code, a labour contract exists whenever an individual, called an employee, agrees with an individual or corporation, called an employer, to render a certain personal service in exchange for remuneration. The existence of a labour relationship is presumed whenever the following are present:

- Personal activity of a worker, that is, he who performs the service
- A continued dependence or subordination of the employee with respect to the employer
- A salary as compensation for the service.

Depending on the labour contract executed between the employer and the employee, different obligations and duties should be observed. Employment contracts in Colombia may be for an indefinite period, for a fixed term, for the period required to carry out a certain task or work, or for performing occasional, accidental or transitory work over a period of less than one month.

WAGES

Wages may be paid in Colombian currency on a monthly, weekly, or daily basis, or by piecework. The parties can agree to pay the salary in cash and in kind, but the latter (salary in kind) may not exceed 50% of the total salary. If the employee earns the minimum salary, salary in kind may not exceed 30%.

INTEGRAL SALARY

When an employee earns an ordinary salary which exceeds the equivalent of ten legal minimum monthly wages, it will be valid to stipulate in writing that such a salary, in addition to paying for the ordinary work, also compensates for fringe benefits, surcharges and allowances, such as those corresponding to night work, extraordinary work, work on Sundays and holidays, legal and extra-legal bonuses, severance pay and interest thereon, subsidies and allowances in kind. In general, these benefits included in such an agreement, other than vacations, constitute an 'integral salary agreement'.

A whole salary may not be less than the equivalent of ten legal minimum monthly wages, plus any corresponding benefits may not be of less than 30% of the amount (USD 3,205). This salary shall not be exempt from social security contributions and payroll taxes, which will be calculated on 70% of the amount paid.

ORDINARY SALARY AND FRINGE BENEFITS

Colombian workers or foreign inhabitants who are hired through an employment agreement performed in Colombia and have an ordinary salary (as opposed to an integral salary agreement), are entitled to receive, in addition to the monthly salary, an extra pay for working on holidays as well as during the nights. They may receive the following fringe benefits:

- Service Bonus –except for whole salaries, companies must pay a bonus of one month per year of service (15 days by June and 15 days before December 20) to all employees who have worked or work for this time, or proportionally to the time worked
- Vacation – every year, employees who complete one year of service are entitled to 15 remunerated rest days or in proportion to the time worked
- Severance Pay ('cesantías') – except in the case of integral salaries, an employee is entitled to a severance payment consisting of one month of salary for every year of service (and proportionally to fractions thereof worked). If the salary is variable (eg if it includes commissions or incentive bonuses) or has changed in the last three months, the basis for severance is the monthly average over the last year. If total employment time has been less than one year, the entire time of service is used to make the calculation.

For employees whose labour contracts are dated after 1 January 1991, a final calculation of severance payment is made each year, based on the last monthly salary if the salary did not change in the proceeding three months. This amount is deposited on a yearly basis (before 15 February) in an interest-earning Private Severance Fund of the worker's choice. Workers whose contracts began prior to 1 January 1991 may also choose to participate in the Private Severance Fund system.

If the employee retires from the company or the contract terminates, the employer is obliged to pay the employee the accumulated amount of severance payment on the said year, which has not been deposited into the Private Fund. Likewise, the employee is entitled to withdraw the deposited amount.

Except in the case of integral salaries, in January of each year, employers are bound to pay a 12% annual interest rate on severance accruals, based on the liability as of 31 December of the year immediately prior.

WORKING HOURS

Working day hours are ordinarily from 6am to 10pm, while night-time hours are from 10 p.m. to 6 a.m. However, the legal agreed duration of an ordinary working day is eight hours and for the week is 48 hours. If the employee works more than this established amount of time, or works during the night, he/she will be entitled to receive additional payments to the ordinary salary.

However, the employer and employee may agree on flexible work, in which the working day may vary from a minimum of four hours to a maximum of ten hours. In this case, the employer is not obliged to pay additional payments, provided that the weekly working hours do not exceed 48 hours per week.

TERMINATION OF EMPLOYMENT AGREEMENTS

When terminating an indefinite duration labour contract without just cause, the employer must indemnify the employee in the following terms:

- For employees who earn the equivalent of less than ten minimum monthly wages
 - 30 days of salary when the employee has been hired for a period not exceeding one year
 - If the employee has been continuously hired for more than one year, he/she will be entitled to 20 additional days of salary (on top of the basic thirty days for the first year)and in a proportional way for every year.

- For employees who earn the equivalent of more than ten minimum wages
 - 20 days of salary when the employee has been hired for a period not exceeding one year
 - If the employee has been continuously hired for more than one year, he/she will be entitled to 15 additional days of salary on top of the basic 20 days for the first year, and in a proportional way for every year.

When terminating a fixed term contract, the employer has to pay an indemnity equal to the amount which corresponds to the wages remaining to the end of the original employment agreement or the amount corresponding to the wages for the time remaining for the task to be done.

SOCIAL SECURITY

Foreigners, who by virtue of an existing employment agreement, remain in the country and are not covered by a pension regime in their country, may not require a mandatory enrollment in the social security system for pensions, insofar as a foreign pension regime protects them.

With regard to health care, Colombian law has provided that all persons residing in the Colombian territory shall be enrolled in the social security health care regime.

Regarding the professional risk regime, it is important to mention that the purpose of this regime is to prevent, protect and take care of any effects derived from work accidents or professional disease of workers, Colombian or foreign, hired under an employment agreement to be performed in Colombia.

The enrollment and payment of contributions to the professional risks regime is the exclusive responsibility of the employers and their amount will depend on the degree of risk of the company, stipulated by the relevant regulations.

Social security services may be provided by public and private institutions, which may be freely chosen by the employees, except for professional risks, which are exclusively chosen by the employer.

The obligation to contribute to social security and payroll taxes are summarised in the following table.

TABLE 1

Social security contributions

CONTRIBUTION	EMPLOYEE BASIS	RATE		EMPLOYER
Pension	Salary (1)(2)(5)	16%	12%	4%
Health care	Salary (1)(5)	12.5%	8.5%	4%
Professional risk	Salary (1)(3)(5)	0.522%	0.522%	N/A
SENA (national service of learning in English) , ICBF (welfare service in English)	Salary (4)(5)	5%	5%	N/A
Compensation fund (payroll contributions)	Salary (4)(5)	4%	4%	N/A

- (1)** Contributions to the social security system (pensions, solidarity fund, health care and professional risks) shall be calculated using the ordinary salary earned by the employee. Nevertheless, if the monthly salary is more than twenty five times the minimum legal wage, contributions to the social security regime will be calculated on the maximum basis of 25 minimum legal wages (approximately USD 6,162 per month)
- (2)** Contributions to the pension social security regime involve the employer paying 75% of the total rate, whilst the employee pays the remaining 25%.
- (3)** The rate depends on a legally established scale based upon the degree of risk represented by the economic activity undertaken by a company. The Social Security office stipulates the classification at the time of enrolment. Note that contributions to professional risk funds also have a ceiling equivalent to 25 minimum legal wages.
- (4)** Contributions to SENA, ICBF and Family Compensation Fund (payroll contributions) shall be calculated on the ordinary salary earned by an employee. Payroll contributions do not have any ceiling.
- (5)** In the case of employees earning an integral salary, the salary base will be 70%. However, if 70% of the integral salary is more than twenty five times the minimum legal wages, contributions to the social security regime will be calculated on the maximum basis of 25 minimum legal wages (approximately USD 6,162 per month in total). In the case of contributions to SENA, ICBF and Compensation Funds, there is no ceiling but the calculation base for contributions will always be 70% of the integral salary.

6 – TAXATION

CORPORATE INCOME TAX

CORPORATE TAXPAYERS

Companies located in Colombia (i.e. incorporated under Colombian law) are taxed on their worldwide income. Colombian-registered branches of foreign corporations are taxed on their Colombian sourced income (as defined) only.

CORPORATE INCOME TAX RATE

The corporate income tax rate for Colombia is for 2017 the rate will be 34% plus 6% surcharge, and for the year 2018 of 33% plus 4% surcharge.

The companies will have a single rate of 33% as of 2019.

TAX YEAR AND DUE DATES FOR CORPORATIONS

The tax year is the calendar year. Annually, the government sets due dates for filing income tax returns and making tax payments. Income tax is paid in five instalments for 'large taxpayers' and in two instalments for all other corporate tax payers. Each year, the tax authorities identify and list those companies they consider large taxpayers, as well as those companies which will be removed from that list. Delayed filings are subject to a monthly penalty of 5%, calculated on taxes due plus late payment interest.

TAXABLE INCOME

The basis for the calculation of the payment of annual income tax is the highest rate between ordinary taxable income and 'presumptive income'.

Ordinary taxable income is calculated by subtracting deductible costs and expenses from net revenues (taxed revenues minus rebates and discounts). If this results in a loss, it may be offset in subsequent years.

Presumptive income is calculated as a 3,5% rate of the prior tax year's tax equity (tax assets minus tax liabilities).

EXEMPT REVENUES

The exempt income tax is generated by the following activities: Sale of electricity generated with wind resources, biomass or agricultural waste; river transport services with vessels and shallow slabs; payment of interest and other financial returns by government entities in the framework of a specific cooperation agreement.

COSTS AND EXPENSES

In general terms, costs and expenses may be deducted from income tax as long as they are necessary to the generation of taxable Colombian sourced income and of a proportionate amount.

PAYMENTS ABROAD

Subject to certain exceptions, payments abroad are deductible if incurred to generate taxable income in Colombia. Applicable tax withholdings are made on the payments and if the amounts charged comply with applicable transfer pricing rules.

Withholding for payments abroad in 2017 is 10% and in 2018 it will remain at 15%. In the case of royalties, it will decrease from 33% to 15%.

PROVISIONS

As a general rule, provisions are not deductible, except for those related to accounts receivable and subject to special rules and provisions for the payment of pensions.

DEPRECIATION

The depreciation will be established according to the accounting technique, provided that it does not exceed the maximum rates determined by the Government and must be supported for tax purposes, with technical studies, user manuals, reports, among others, supports. The depreciation rates will be those established in accordance with the accounting technique, provided that it does not exceed the fixed maximum rates by the National Government, and that they will range between 2.22% and 33%. In the absence of such regulation the rates will vary between 2.22 and 20% according to the table established in the Law. The deduction that exceed the established limits will be deductible in the periods following the end of the useful life of the asset. The treatment of depreciable assets that are different from land should be analyzed.

The concept of partial obsolescence is introduced, which would be understood as the partial loss of the good, and would not be deductible until the moment of its disposal. It is clarified that the total obsolescence of the assets would be deductible with respect to its fiscal cost less the deductions that have been applied, in the part that has not been covered by indemnities or insurance. The effects on movable and immovable property must be evaluated.

Accelerated depreciation for additional shifts, tax depreciation could be increased by 25% when it is possible to demonstrate that the machinery is used daily for 16 hours or more, and proportionally in higher fractions, as long as this is demonstrated.

AMORTISATION

The investment deduction would be limited to 20% of the fiscal cost, per year. Such amortizable investments include the establishment and research and development disbursements, even if the project is not successful. Investments in financial instruments and shares, quotas or parts of social interest, are not amortized for purposes of income tax. Expenses paid in advance will be deductible to the extent that services are received.

TAX WITHHOLDINGS ON PAYMENTS ABROAD

Withholding for payments abroad in 2017 is at 10% and in 2018 it will be at 15%. In the case of royalties in 2017 it is 33% and in 2018 it will be 15%.

In 2017, a 10% rate of income and remittance retention is applied to payments for technical services, technical assistance and consultancy services provided by a foreign entity without a domicile in Colombia, regardless of where the service is provided and provided that they are met certain requirements and in 2018 it will remain at 15%.

Payments for the exploitation of computer programs are also subject to 33% and in 2018 it will be 15%.

DIVIDENDS AND PARTICIPATIONS

The so-called classic or double taxation theory is proposed as a model for Colombia, which starts from the basis that society is a person different from the partners, and as a consequence it is possible to tax the income obtained independently.

Dividends for natural persons, a modification is proposed in the way of determining the income tax of natural persons. In this sense, it is established that this will be calculated in a schedular manner, and the debugging of each of these cards will be carried out independently. In accordance with the foregoing, income from dividends and participations is considered as a certificate for the determination of the income tax of natural persons.

Certificate of dividends and participations, to determine what income is considered part of this card, are understood as taxpayers resident natural persons and illiquid successions of taxpayers who at the time of death were residents, dividends and participations, from companies and entities nationals, and foreign companies and entities and this card, in turn, is divided into two sub-certificates that are intended to determine the tax base and the applicable rate.

First sub-certificate: dividends and participations from distribution of profits that would have been considered as income not constituting income or occasional gain, according to numeral 3 of article 49 of the E.T. This first sub-certificate has special progressive rates, which are listed below:

TABLE 2

Dividend table

RANKS			MARGINAL	
SINCE	UNTIL		RATE	TAX
> 0	600	(6)	0	0
> 600	1000		5%	(DIVIDENDS IN UVT LESS 600 UVT) X 5%
> 1000	ONWARDS		10%	(DIVIDENDS IN UVT LESS 1000 UVT) X 10%

(6) Applying the UVT for the year 2017 (COP \$ 31,829), this value corresponds to COP \$ 64,199,093.

Second sub-certificate: the dividends and participations from profits that would have been considered as taxed, in accordance with paragraph 2 of article 49 of the Tax Code. This sub-license will be subject to a 35% rate. At the same rate of 35%, dividends and shares received from foreign companies and entities will be taxed.

In addition to natural persons, foreign companies and entities and non-resident natural persons will also be subject to the taxation of dividends. For purposes of the determination of is, since they are not resident natural persons, can not refer to the aforementioned schedular income. In this regard, it is worth highlighting the following elements: Companies or other foreign entities without principal domicile in the country, natural persons without residence in Colombia and by illicit successions of persons who were not residents of Colombia.

For purposes of determining the tax base, two scenarios must be differentiated: Dividends and participations from profit distribution that would have been considered income that does not constitute income or occasional gain will be taxed at the 5% rate.

Dividends and participations from profits that, if distributed to a national corporation, have been considered as taxed, will be taxed at the 35% rate.

The dividends and participations received by the partners, shareholders, co-owners, associates, subscribers and the like, which are national companies, do not constitute income or occasional gain. The rules on taxation of dividends that are intended to be reformed, will only be applicable to the dividends that are distributed with a charge to profits generated as of the taxable year 2017.

THIN CAPITALISATION RULES

No thin capitalisation rules exist in Colombia

TRANSFER PRICING REGULATIONS

Transfer pricing regulations state that:

- Colombian taxpayers must follow the principle of independence in the transactions of the parties related to the border. For taxpayers whose gross equity equals or exceeds the equivalent of 5000 minimum monthly salaries or whose gross income equals or exceeds 3000 monthly minimum wages, the regulation establishes the obligation to prepare the transfer pricing documentation for each type of transaction of the share cross-border that exceeds 500 monthly minimum wages and prepare a disclosure form related to those transactions.
- For taxpayers involved in transactions with Tax Havens (which are now called Non-Cooperating Jurisdictions) whose gross estate or gross income does not exceed the amounts mentioned above, but the amount of such transactions exceeds the equivalent of 500 monthly minimum wages, the regulations establish the obligation to prepare the related transfer pricing documentation and the disclosure form, regardless of whether or not it is a related party, as it should not be considered to be "at a distance" unless proven otherwise.

Verbatim Documentation, given the commitments acquired by Colombia to participate actively in the BEPS project, the Reform includes the documentation approach in three levels proposed as follows:

- a) Master report and local report: The supporting documentation must contain, in addition to the traditional report of the local report, a "Master file" with the relevant global information of the multinational group. The specific content of this report is expected to be regulated by Decree; however, Action 13 of BEPS establishes guidelines on the information it should contain. It is noteworthy that this new formal duty must be presented and retained by all taxpayers who are subject to this regime, regardless of whether it is a controlling entity or a subsidiary or subsidiary resident in Colombia. Additionally, it includes the obligation on the part of the Legal Representative to sign the financial and accounting information used in the preparation of the supporting documentation, in addition to the one already included, that is, the Fiscal Auditor.

b) Country by country report: from the 2016 taxable year, those who consider themselves the "Last Headquarters" of multinational groups, with domicile in Colombia, with consolidated revenues of more than 81,000,000 UVT (COP 2.4 trillion), must present a "Country by Country Report" (Country by Country Report - CbCR) that will contain, among others, information related to the global allocation of income and taxes paid by each one of the entities that make up said group, together with certain data related to the activity economic activity of each entity. The norm for now does not establish the specific aspects that the CbCR should include; however, Action 13 of BEPS also establishes the minimum requirements of this report and, furthermore, indicates that in Colombia not only must these requirements be applied, but that there will be additional ones, which must also be established by Decree. The Law also opens the possibility for subordinates or permanent establishments in Colombia to present this report on behalf of their Last Headquarters, in the events in which in their country of domicile there is no CbCR legislation. Failure to submit the CbCR will be punishable in accordance with the provisions of article 651 of the E.T. Tax Statute. and the sanctions of the transfer pricing regime will not apply.

In line with the Action 10 of the BEPS project (Base Erosion and Profit Shifting Project) of the OECD, for commodity operations, the preference is to use the Comparable Uncontrolled Price method - PC3 as the most appropriate. For purposes of the analysis, the arm's length price can be determined by reference to comparable transactions made between independent third parties or by reference to quoted prices, which indicate the price of the commodity in a given period obtained in a national or international exchange market. commodities, making the comparability adjustments that can technically be applied.

In case the taxpayer, through the application of this methodology, can not prove the price based on the date or period used for its fixation, by means of reliable documents (Contracts, offers, acceptances or other documents that establish the terms of the agreement), the Directorate of National Taxes and Customs DIAN may establish the date to fix the transaction price, in accordance with normal market practices and the available evidence.

Only in exceptional cases may other methods be used for the analysis of this type of goods, provided that the economic, financial and technical reasons that are relevant and reasonable for the purposes of the analysis are included.

In this sense, the limitation is lifted for the deduction of payments not subject to withholding in non-cooperating jurisdictions making normative clarity for this type of payments. The limitation to amortize fiscally the intangible assets acquired between economic associates is also lifted.

The penalties for late submission of the Proof of Documentation and the Informative Declaration will be determined based on the days of delay and correspond to a percentage of the total of the operations subject to document. On the other hand, the maximum limits of the sanctions were increased in some cases, making the breach of the provisions of the transfer pricing sanctioning regime more onerous, with penalties that could reach up to COP 955 million (2017).

Additionally, a new sanction was included associated with the non-presentation of the Proof of Documentation, which will correspond to 4% of the total value of the operations subject to the regime, for which no supporting documentation was presented, without exceeding the equivalent of 25,000 UVT (COP 796 million).

INDIVIDUALS

The tax year for individuals is the calendar year.

Colombian citizens residing in Colombia pay taxes worldwide. Colombian non-resident citizens pay taxes only on their income of Colombian origin.

Foreigners are subject to taxes on their income of Colombian origin, however, after residing in Colombia for five years, they are also subject to taxes on a worldwide income basis.

The tax rate applicable to non-resident foreigners in Colombia is 33%. The tax rates applicable to nationals and foreigners residing in Colombia are determined according to a progressive table set annually by the national government.

The two alternative systems for debugging the tax charged, called IMAN and IMAS, were eliminated, as well as the classification of natural persons in employees, self-employed workers and others. As a result, a single system characterized by the identification of the following income was introduced: Work income, Pensions, Capital income, Non-labor income and Dividends and participations

In accordance with the foregoing, individuals must debug each card independently in the respective taxable year. A special filtering is proposed for each type of card, limiting the simultaneous recognition of costs, expenses, deductions, exempt income, income not constituting income or occasional gain and tax benefits, among the different cedulas.

By 2018, debugging will be carried out through the certificates related to capital income and non-labor income, the maximum rate will be 35%.

PERMANENT ESTABLISHMENT

Colombian tax laws do not provide a definition of a 'permanent establishment'. Despite this, Colombia's Code of Commerce provides a list of activities which qualify as a 'permanent activity'. The same Code further provides that if a foreign company undertakes a permanent activity in Colombian territory, such a foreign company must incorporate a branch in Colombia with the purpose of carrying out those activities. Even though Colombian tax laws do not provide a definition of 'permanent activities', tax law states that branches are subject to Colombian taxes as Corporations, but limited, for income tax purposes, to their Colombian sourced income only.

TAX ON FINANCIAL TRANSACTIONS

DEBIT TAX

A 0.4% debit tax is applicable on withdrawals and transfers out of bank accounts.

INDIRECT TAXES

VAT value added tax is applied in Colombia at a general rate of 19%.

The sales tax will be applied on:

- a) The sale of movable and immovable property, with the exception of those expressly excluded.
- b) The sale or assignment of rights over intangible assets only associated with industrial property.
- c) The provision of services in the national territory, or from abroad, with the exception of those expressly excluded.
- d) The importation of tangible assets that have not been expressly excluded.
- e) The circulation, sale or operation of games of luck and chance, with the exception of lotteries and games of luck and chance operated exclusively by internet. "(underline our)

In this sense, the services provided from abroad will be understood as rendered, licensed or acquired in the national territory and will cause the respective tax. When the direct user or addressee thereof has its fiscal residence, domicile, permanent establishment, or the seat of its economic activity in the national territory.

The foregoing represents an important modification in the provision of services, because up to now the general rule is that only services provided in Colombia are taxed and, by exception, some services provided from abroad.

Within the services provided from abroad that began to be taxed, are the so-called "electronic services", which include the following:

- a. Provision of audiovisual services (among others, music, videos, movies and games of any kind, as well as the broadcasting of any type of event).
- b. Service of digital distribution platform of mobile applications.
- c. Provision of online advertising services.
- d. Provision of teaching or distance training.

For these services in particular, the reform establishes a series of special measures to collect VAT, which we indicate below.

New sales tax withholding agents, to the extent that people living abroad who provide services to those who have their fiscal residence, domicile, permanent establishment, or the seat of their economic activity in Colombia will be responsible for VAT, the norm indicates that the DIAN will establish the procedure by which these people will fulfill their obligations. In other words, it will be the DIAN that establishes how those foreign residents must comply with the VAT payment when they provide services to those who have their fiscal residence, domicile, permanent establishment, or the seat of their economic activity in Colombia.

Thus, there are two types of services that are expected to be provided:

1. Services in general: For these services a retention system is established in which the people resident in Colombia who belong to the common system and who contract with persons or entities without residence or domicile in the country the provision of taxed services, will have to effect the withholding of the tax at the time of payment or credit to the account. This withholding will be equivalent to 100% of the tax value and will take effect immediately, since the procedure is similar to the one currently handled.

2. Electronic or digital services: For the so-called electronic or digital services mentioned above, it is also established that the withholding agents will be the issuers of credit and debit cards, the sellers of prepaid cards, the cash collectors in charge of third parties, and others designated by the National Tax and Customs Directorate DIAN. This withholding will be made at the time of the corresponding payment or account credit to service providers from abroad and will be equivalent to 100% of the value of the tax, but only if the service provider fails to comply with the procedure for the payment of VAT that indicates the DIAN.

Thus, the issuers of credit cards will only have the obligation to withhold the tax, if the person who provides the service abroad does not pay or declare the tax as set by the DIAN. It should be noted that this measure will only become enforceable as of July 1, 2018, while the DIAN regulates the way that service providers from abroad comply with the obligation to pay and declare VAT.

TRADE PROGRAMS

- Free trade zones –these are geographical zones with duty and VAT exemptions at the time of the entry of goods. In addition, industrial users of free trade zones enjoy income tax benefits on the net income derived from their export of goods produced in said zones.
- Duty and VAT exemption benefits –Colombian customs laws offer duty exemption over the temporary importation of certain capital goods related to customs headings 84 to 87 of the Harmonised System where the goods are not produced in the country.

In addition, the Tax Statute offers several VAT benefits (eg exemptions, deferrals and tax credits) over the ordinary and temporary importation of certain types of capital goods:

- Government agreements (UAP, ALTEX, PEX) –the Customs Authorities (DIAN) offer several customs benefits to large exporters or importers, among which are non-customs inspections, private customs warehouses and payment deferral of import charges (for large importers).
- Short-term temporary imports–these consist of the import of certain goods for a term of up to six months, which may be extended for three additional months without having to pay customs duties or VAT at the time of entry.
- Long-term temporary imports –these consist of the importation of certain goods for a term of up to five years, with the deferral of customs duties and VAT per semi-annual installments.

TAX INCENTIVES

As a result of the armed conflict that has occurred in Colombia for more than 50 years, different areas of the country have been harmed assuming economic and social consequences that require resources and incentives from the State to promote their progress and seek to close the gap economic and social situation between those affected and the rest of the country.

Therefore, Law 1819 of 2016 in its articles 235 to 237 introduces certain tax incentives in the income tax and complementary taxes for those taxpayers who choose to have their principal domicile and develop their main economic activities in the ZOMAC22, as long as comply with the minimum amounts of investment and job creation defined by the National

Government and, moreover, are registered in the commercial registry of the Chamber of Commerce. These benefits consist of:

- I. For the new companies that are micro²³ and small companies²⁴ that carry out activities in the ZOMAC, the income tax and complementary rates will be:
 - From 0% from 2017 until 2021;
 - From 25% of the general rate from 2022 and until 2024;
 - 50% of the general rate from 2025 and up to 2027;
 - Full rate from the year 2028.
- II. On the other hand, medium-sized companies²⁵ and large companies²⁶ that operate in the ZOMAC will have the following rates in the income tax and complementary taxes:
 - 50% of the general rate from 2017 until 2021;
 - From 75% of the rate generated from 2022 and until 2027;
 - Full rate from 2028.

On the other hand, the law establishes that companies engaged in mining and hydrocarbon exploitation, by virtue of concessions legally granted, and those qualified as large taxpayers engaged in port activity by concession legally granted, are excluded from the favorable tax treatment before. Additionally, and in relation to the same regime, in article 238 of the Tax Reform, it establishes the possibility for legal entities that are taxpayers of income that in the year or taxable period obtain gross income equal to or greater than 33,610 UVT (\$ 1,070,780,990). for 2017) they will be able to pay up to 50% of the tax charged in the corresponding income statement, assigning said value to direct investment in the execution of projects of social importance in the different municipalities located in the ZOMAC.

Finally, those taxpayers who directly decide the infrastructure investment projects in the ZOMACs exceeding 50% of the tax mentioned above, may request as a discount up to 50% of income settled in the taxable year in equal installments during a period of 10 years counted from the start of project execution, unless the taxpayer throws a tax loss because it may extend the discount period for another 5 years.

ACCOUNTING INFORMATION AND POWERS OF THE DIAN TAX

The DIAN would have the power to review and verify the Financial Statements, their elements, their recognition and measurement systems; so that you can request broad and sufficient information on the bases from which the taxes are calculated.

FISCAL CONCILIATION

Anticipating the differences that may arise between the application of the new accounting regulatory frameworks and the provisions of the Tax Statute, the obligation is established for taxpayers obliged to keep accounts to maintain a system of control or conciliation of the differences that arise, the penalty of being sanctioned for having irregularities in accounting.

CURRENCY FOR TAX PURPOSES

The structural reform project establishes the obligation to take the financial and accounting information and its elements in Colombian pesos from the moment of initial and subsequent recollection, for tax purposes. In this sense, the practice of registering fiscal information in foreign currency and subsequently being re-expressed to determine the applicable tax effects is completely prohibited.

7 – ACCOUNTING & REPORTING

ACCOUNTING AND PRESENTATION OF REPORTS

Colombia has been advancing the process of convergence to international standards of accounting and financial information and information assurance as indicated in Law 1314 of 2009, with the purpose of supporting the internationalization of economic relations, with internationally accepted international standards, with the best practices and with the rapid evolution of business.

Decree 3022 of 2013, which regulates Law 1314 on the Normative Technical Framework for the financial information preparers that make up Group 2, defined the type of entities that comprise it and the standards to be applied by this group, which correspond to the Financial Reporting Standards NIF, conformed by the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued in Spanish in 2009, by the International Accounting Standards Board (IASB).

It also defined the schedule of application of the new regulatory framework as follows:

For groups 1 and 3, the mandatory preparation period must have been completed in 2013, the transition period will be 2014, and the application period will be 2015.

For group 2, the mandatory preparation period must have been completed in 2014, the transition period will be 2015 and the application period will be 2016.

Article 10 of Law 1314 of 2009 indicates to the supervisory authorities the functions of monitoring that the economic entities under inspection, surveillance or control, as well as their administrators, officials and professionals of information assurance, comply with the norms related to accounting and financial information and information assurance, and apply the penalties that may arise for infractions; and issuing special technical standards, interpretations and guidelines in accounting and financial information and information assurance, actions that must be produced within the limits set by the Constitution, in this law and in the regulations that regulate it and develop.

The Superintendency of Banks regulates the general accounting laws that must be observed by the controlled companies. Some additional regulations on specific items are included in other laws, such as the Tax and Trade Act.

In addition to the Accounting Law, entities under the control and supervision of any superintendency must comply with the additional accounting guidelines issued by them.

The Central Accounting Board carries out inspections and supervisions to ensure that the profession is only practiced by public accountants and that those who do so follow the legal provisions.

The Technical Committee of Public Accounting is the entity responsible for the development of accounting principles, as well as the general auditing standards.

As of January 1, 2018, the updated Financial Information Standards NIF should be applied.

8 – UHY REPRESENTATION IN ERROR! REFERENCE SOURCE NOT FOUND.

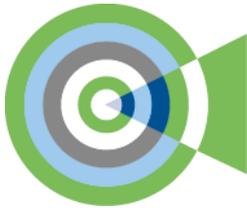
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UHY Rozo & Parra Ltda. and UHY Auditores & Consultores S.A.S. they are based in Bogotá, Colombia. The brand new signature arose through the merger of four companies to join UHY. The new company can trace its business 22 years ago and has developed skills in almost every economic field in Colombia. Several of the partners of the firm are ex Big Four or a similar experience. Currently, there is a team of 7 direct and 10 indirect people, including two partners.

In addition to its base in Bogota, the firm also has partner offices in the main departmental capitals of Colombia: Barranquilla, Cali, Medellín and Pereira. The merger brought to the firm a marketing and sales operation, as well as language skills and a solid knowledge of IT systems. The languages spoken by the members of the firm are Spanish and English.



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