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BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

With a GDP per capita of USD 5.750 in 2021 (IMF), Colombian consumers tend to have middle-class consumption habits and household debt remains quite high. The growth of private consumption remains satisfactory (+4.45% in 2019 - World Bank, latest data available). Since 2012, Colombia has experienced steady growth in the middle class which continues to expand considerably. At the national level, 35.7% of the Colombian population lives under the poverty line and around 31% of the population is considered as being part of the middle class (Departamento Administrativo Nacional de Estadística, 2019 latest data available). The profile of Colombian consumers is not homogeneous and there exists a substantial gap between urban and rural areas.

Colombian household consumption mainly concerns primary needs and education, but a change in consumer habits can be observed and Colombian consumers are increasingly willing to buy non-vital products. Colombian consumers are strongly influenced by fashion trends, brands and promotions, but there is also a strong influence of traditions on consumption habits. Colombians are currently experiencing increasing brand loyalty levels. Healthy and ethnic food categories are especially fast-growing, and organic food products are a new trend, as Colombian consumers are more concerned about ecological issues.

Consumer Behaviour

In the aftermath of the financial crisis, purchasing power has declined for the poorest households, which have struggled to buy commodities. While the development of local industry remains insufficient, Colombians have become accustomed to buying imported products. Price is an important factor in buying decisions in Colombia. However, Colombian consumers are giving increasing importance to ecological and ethical characteristics when buying a product. Colombian consumers are increasingly curious about where and how the product is made. They also pay attention to whether the product is recyclable or not.

Regarding food products, consumers take heed of the brand's reputation, the quality of nutritional information and the attractiveness of the packaging. After-sales service and consumer support are decisive factors in the purchase decision. Only a minority of Colombians has a high purchasing power, and for the majority of Colombian consumers the price remains the main criterion.

Even though online commerce remains underdeveloped, it is growing steadily and has benefited a lot from the lockdowns due to the COVID-19. The growth rate of online sales in 2020 was 34% (Statistica). In the coming years, ecommerce is expected to benefit from massive investments in network infrastructure by the Colombian government. Colombian online consumers are used to buying from foreign websites, mainly American, Chinese, Mexican and Brazilian.

Consumers Associations

[Colombian Confederation of Consumers](#)

IMPORTING & DISTRIBUTING

Import Procedures

The importer must submit an import declaration to the DIAN (Customs). This declaration includes the same information contained on the import registration form and other information such as the duty and sales tax paid, and the bank where these payments were made. This declaration may be presented up to 15 days prior to the arrival of the merchandise in Colombia or up to two months after the shipment's arrival. Once the import declaration is presented and import duties are paid, customs will authorise the delivery of the merchandise. Customs officials are responsible for inspecting merchandise to verify that the description and classification are consistent with the importer's declaration. A customs inspection group often performs after-clearance random investigations to detect fraud, foreign exchange irregularities, and tax evasion. Major customhouse brokers have a customs office in their own bonded warehouses where most clearance procedures are completed before the merchandise is delivered to the customers.

Besides the Customs declaration (SAD) 2 traditionally required for all goods dispatched, consignments sent to Colombia must be accompanied by the following documents:

- The commercial invoice in quadruplicate; it must be drawn up in Spanish for preference and indicate beside the usual details: the value or exchange value of the goods in U.S. dollars, the number of the 'registro de importacion' (the certificate of registration of import) sent to the exporter by the Colombian consignee.
- The certificate of origin. It is drawn up in the community form.
- The certificate of non-contamination by radioactivity, required for agro-food products and especially for milk, is issued by the Departmental Directorate of Veterinary Services.
- The phytosanitary certificate, required for fruit, vegetables, seeds and other plants, is issued by the Regional Service for the Protection of Plants.
- The health certificate issued by the Departmental Directorate of Veterinary Services.
- The certificate of free sale for cosmetics.

Other products may be subject to the presentation of certificates of free sale to be registered in Colombia. For more information, please visit the website of [Colombian Customs](#).

Distribution market players

All sales channels are available in Colombia, with different distribution methods depending on the type of product. These methods range from traditional wholesalers to more sophisticated methods, such as department stores and hypermarkets, which are gaining popularity. While most imported goods, especially capital goods and raw materials, are still purchased through agents and distributors, some large domestic manufacturing companies import them directly. The most important commercial areas are in large cities: Bogota, Medellin, Cali, Barranquilla, Bucaramanga, Cartagena and Pereira.

Traditional distribution, symbolised by local groceries and other small shops called 'tiendas', witnessed the arrival of modern distribution networks: supermarkets, hypermarkets and shopping centres. The leaders of mass distribution in the country are the following: [Grupo Exito](#), [Olimpica](#), [Jumbo-Cencosud](#), and [Alkosto](#).

OPERATING A BUSINESS

Type of companies

Sociedad con Responsabilidad Limitada or Ltda (limited liability company)

Number of partners: Between 2 and 25 partners.

Capital (max/min): No minimum capital.

Shareholders and liability: Their liability is limited to the amount of their investment.

Sociedad Anonima is a limited company.

Number of partners: Minimum of 5 partners, no maximum.

Capital (max/min): No minimum capital. At least 1/3 of the value of each share must be paid upfront. The remaining 2/3 must be turned over the following year.

Shareholders and liability: Their liability is limited to the amount of their investment.

Sociedad colectiva (partnership)

Number of partners: Minimum 2 partners.

Capital (max/min): No minimum capital.

At least 1/3 of the value of each share must be released. The remaining 2/3 must be paid in the following year.

Shareholders and liability: The partners are jointly and indefinitely liable.

The Sociedad en acciones por comandita (SCA) is a partnership limited by shares.

Number of partners: Two partners minimum: a general partner and a silent one.

Capital (max/min): No minimum capital.

Shareholders and liability: The liability of the general partner is unlimited. The responsibility of silent partners is limited to the amount of their investment.

Sociedad en Comandita Simple (SCS) is a limited partnership.

Number of partners: Two partners minimum: a general partner and a silent one.

Capital (max/min): No minimum capital.

Shareholders and liability: The liability of the general partner is unlimited. The responsibility of silent partners is limited to the amount of their investment.

Setting Up a Company	Colombia	Latin America & Caribbean
Procedures (number)	7.0	8.0
Time (days)	10.0	25.2

Source: Doing Business - Latest available data.

Cost of Labour**Minimum Wage**

In 2021, the government set the minimum wage at COP 908,526 per month (228,14 USD equivalent) + COP 106,454 (26,74 USD equivalent) of transportation subsidy.

Average Wage

Average gross monthly salary was COP 1,448,509 per month (363,24 USD equivalent) in 2019 according to the ILO (latest available data).

Social Contributions

Social Security Contributions Paid By Employers: 21% of covered earnings (maximum applicable rate)

Social Security Contributions Paid By Employees: 10% of covered earnings (maximum applicable rate)

Intellectual Property

National Organisations

The organisations with competence in matters of industrial property and copyright are the [Superintendencia de Industria y Comercio](#) and the [Dirección Nacional de Derecho de Autor](#).

Regional Organisations

Colombia is a member of various regional IPR related treaties and organisations, such as:

- [Inter-American Convention on the Rights of the Author in Literary, Scientific and Artistic Works](#)
- [Buenos Aires Convention on Literary and Artistic Copyright](#)
- [General Inter-American Convention for Trade Mark and Commercial Protection](#)
- [Andean Community \(CAN\)](#)
- [Andean Tribunal of Justice](#)

International Membership

[Member of the WIPO](#) (World Intellectual Property Organization)

[Signatory to the Paris Convention](#) For the Protection of Intellectual Property

[Membership to the TRIPS agreement](#) - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

TAX RATES

Consumption Taxes

Nature of the Tax

Impuesto al Valor Agregado (IVA) - Value Added Tax (VAT)

Tax Rate

19%

Reduced Tax Rate

5% on toasted coffee; wheat; sugar cane; cotton seeds; soy; rice; prepaid health services; health insurance; storage of agricultural products.

0% on tourism, if rendered to non-residents in Colombia used in the country for the benefit of a company that is registered in the National Tourism Registry and promotes tourism by engaging in certain qualified activities; exports and services rendered exclusively in Colombia and used exclusively abroad by companies or individuals who are not engaged in business in Colombia.

Exempt items include: interest and financial income from credit operations; education services provided by preschool, primary, middle and intermediate, higher and special or non-formal education establishments, recognized as such by the national government; energy and public energy services based on gas or other inputs; water for the provision of public water supply and sewerage services, public water supply and sewerage services, public sanitation services and public garbage collection services. A "three days without VAT campaign" also applies: each taxable year, during three days, certain groups of goods (such as clothing, appliances and school supplies) are VAT-free. This applies to domestic purchases and is subject to certain conditions, such as the method of payment, supported by an electronic invoice, price and number of units per buyer.

Other Consumption Taxes

Excise duties levied on cigarettes and certain alcoholic beverages (beverages with more than 35% alcohol) at rates ranging from 20% to 48%.

A tax of COP 50 applies to each plastic bag. Medicinal cannabis is subject to a tax of 16% that cannot be credited against VAT.

An indirect consumption tax is levied on mobile phone services at 4%, vehicles and aircraft at 8% or 16% and on restaurant and cafeteria services at 8%.

Luxury vehicles, chassis, hot air balloons and airships are taxed at 16%.

It should be noted that Colombia is divided into 32 departments which can affect some tax policies.

Corporate Taxes

Company Tax

35%

A 20% rate applies to non-commercial companies located in a free-trade zone.

Tax Rate For Foreign Companies

Resident companies are taxed on their worldwide income; foreign companies and branches of foreign companies are taxed only on their Colombian-sourced income.

Capital Gains Taxation

Capital gains are generally taxed at 10%.

Capital gains from the sale of assets held for two years or more, or on the liquidation of a company incorporated for two years or more, are taxed separately at a rate of 10%.

Main Allowable Deductions and Tax Credits

As a general rule, expenses that are necessary, proportional, have a cause-effect relationship with the income-producing activity, and have been realised during the relevant tax year under the accrual method of accounting are tax-deductible.

Amortisation of tangible and intangible assets can be deducted at rates ranging from 2.22% to 20% (the International Financial Reporting Standards (IFRS) apply to the amortisation of assets acquired after December 31, 2016). Depreciation rates can be increased for companies that operate on 16-hour shifts (25% per each 16

hour-shift). Goodwill cannot be amortised for tax purposes (any goodwill generated since 2017).

Start-up expenses give rise to a tax deduction. Bad debt and interest expenses are generally tax-deductible (conditions apply).

Donations to charities give rise to a tax credit instead of a deduction from the tax base. Fines are not tax-deductible. Expenses incurred abroad for the purpose of earning income in Colombia are deductible up to 15% of the taxpayer's net income.

Most taxes, except for equity and standardisation taxes, are 100% deductible. 50% of industry and trade tax can be credited against CIT liability or, at the election of the taxpayer, 100% is a deductible expense. 50% of the financial transactions tax can be deducted.

Further deductions/credits include: 100% of fixed assets acquisition; 25% of the investments made for the control and improvement of the environment (tax credit); 120% of the salary payments made to employees who are under 28 years; 100% of the investments made in certain scientific and/or technological projects or in professional training projects.

Tax losses can be carried forward up to 12 years (for those incurred since 2017, indefinitely for losses incurred before). The carryback of losses is not permitted.

Other Corporate Taxes

Until 2021, businesses were subject to an alternative minimum tax of 0.5% (calculated from the net worth of the business in the year immediately preceding the current fiscal year). Some assets, like holdings in Colombian companies, could be excluded from the calculation of net worth. This tax was abolished as of 2021.

The equity tax (CREE by its acronym in Spanish) was abolished in 2017; however, base excesses (CREE income less CREE minimum base) from previous years continue to be offset against taxable income.

Employers are subject to a payroll tax of 9% on behalf of their employees that make more than ten minimum monthly wages (with 3% allocated to the Institute for Family Welfare, 2% to the National Apprenticeship Service, and 4% to the Family Subsidy Fund). Social security contributions amount to 28.5% of the gross salary, with approximately 20.5% being borne by the employer. Employers also need to pay a contribution for professional risks, at rates ranging between 0.522% and 6.96% of the monthly salary.

Registration fees apply to documents registered with the Chamber of Commerce (at variable rates between 0.3% and 0.7%) or the Register of Public Deeds (between 0.5% and 1%). Partial exemptions are provided for documents that are subject to both registration and stamp duties or that must be registered simultaneously with both institutions.

An industry and trade tax is applied at the municipal level, with rates ranging from 0.2% to 1% of gross receipts derived from carrying out industrial, commercial, and service activities within a municipal territory in Colombia. Real estate is subject to a municipal tax at rates varying based on the value of the property (and not according to the number of owners or the personal wealth of the taxpayer), usually ranging from 0.5% to 1.2%.

A 0.4% bank transaction tax is levied on withdrawals from chequing and savings accounts and from accounts opened with the Central Bank.

Companies also may be subject to a carbon tax. Furthermore, taxes are levied on plastic bags (COP 50) and on the sale, freely or onerously, of transformed products based on psychoactive or non-psychoactive cannabis (16%).

Other Domestic Resources

[Consult Doing Business Website](#), to obtain a summary of the taxes and mandatory contributions.

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed

Visit the website of the Ministry of Foreign Affairs for the full list of Double Taxation Agreements

Withholding Taxes

- Dividends for residents: 7.5% (for profits taxed at corporate level in Colombia)/35%+0/10%% (for profits that have not been taxed at corporate level in Colombia - see the personal income tax section);
- Dividends for non-residents: 10% (for profits taxed at corporate level in Colombia)/35%+10% (for profits that have not been taxed at corporate level in Colombia)
- Interest: 4% (residents); for non-residents: 5% (on loans granted for the development of infrastructure programs)/15% (interest related to a loan with a term of one or more years)/20%
- Royalties: 2.5% (residents)/20% (non-residents)