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Country Profile: Colombia

The Facts

Location	Northern South America, bordering the Caribbean Sea, between Panama and Venezuela, and bordering the North Pacific Ocean, between Ecuador and Panama
Languages	Spanish
Nationality	Colombian
Religions	Roman Catholic – 90% Others – 10%
Government	Republic
Head of Government	President
Legislature	Bicameral Congress
Constitutional Document	Political Constitution of Colombia
Economy	Colombia has a free market economy with major commercial and investment ties to the US. The main farming activities of Colombia are coffee, dairy, sugar, bananas, flowers, cotton and meat. Colombia today is considered to be one of the world's great emerging economies. Its growing political stability, decrease in violence, young working population and overall positive economic trend make it a country with interesting prospects.
Currency	Colombian Peso (COP)
GDP (2011)	Total – COP 615,727 billion Per capita – COP 13,370,370 Real GDP growth – +4.3%
Population	45,239,079 (approx.)
Percentage of population	Mestizo – 58% White – 20% Mulatto – 14% Others – 8%
Area	1,138,910 km ²
Time zone	COT (UCT -5)
Public Holidays	18
Climate	Tropical



Sources: Central Intelligence Agency, International Monetary Fund, Wikipedia, Invest in Colombia, Knowledge@Wharton

Colombia

In recent years, Colombia has undergone a remarkable transformation – turning the tide on a long running terrorist insurgency, making great strides in restoring security and stability, and advancing policies that have led to significant social progress and economic growth. While considerable work remains to be done, the nation is now firmly on the path to peace and prosperity. Colombia is Latin America's oldest and most stable democracy. For more than a century, the country has experienced peaceful changes of government every four years as citizens have elected government representatives in free and fair elections in a political environment that proudly supports full freedom of the press.

Colombia is the only country in South America with coastline on both the Pacific Ocean and the Caribbean Sea. In between is a nation of rich biodiversity, including the Amazon rainforest and the Andes Mountains. With more than 46 million citizens, Colombia has the second largest population in South America, after Brazil, and the 28th largest in the world. Colombia is also home to the third largest Spanish-speaking population in the world, after Mexico and Spain.

The Colombia Business Climate

There are several reasons to invest in Colombia:

- **Guaranteed, safe, and profitable investment:** Standard and Poor's, Moody's, and Fitch guarantee that Colombia is a safe place to invest, providing the country with investment grade. According to JP Morgan, Colombia is and will be the second most appealing country for investment in Latin America over the next three years. Additionally, in a comparison of 183 countries, the World Bank (Doing Business 2011) described Colombia as the fifth country in the world and the first in Latin America in protecting investors. Also, the International Institute for Management Development (IMD) classified Colombia in second place in Latin America in terms of personal safety and adequate private property protection. Colombia has designed a progressive policy for the Commercial Development of Biotechnology employing a sustainable use of biodiversity.
- **Strong commitments in offering investment incentives and stability:** The country is one of the most competitive investment areas in Latin America, offering incentives such as: 15% income tax, no customs contributions (VAT, tariffs), an application of benefits in international commercial agreements, and the possibility of participating in the local marketplace. The government is committed to the development of incentives for research and development: incentives on salaries and for training and a tax deduction of up to 175% for companies investing in R&D projects. Profits from innovative projects do not generate taxes and equipment imported for the execution of this activity is also free from VAT charges.
- **Excellent sustainable financial performance:** The average GDP growth in Colombia has been significantly greater than the world average in the last decade. In 2011 the Colombian GDP experienced a 5.9% growth compared to the previous year, reaching US\$249.9 billion. In 2009, while the global GDP fell, Colombia's economy continued to grow and in 2010 it exceeded the growth expectations of the entire world economy. With almost 46.9 million inhabitants, Colombia is the third largest country in Latin America, 24th in the world in terms of population, and the second largest Spanish-speaking nation in the world. The GDP per capita has doubled in the last six years, reaching almost US\$10,000 in 2011. According to the Economist Intelligence Unit, Colombia is currently positioned as the 28th economy in the world.



- **Offering an exports platform with preferential access to 1.5 billion consumers:** Colombia has signed 10 free trade agreements with 47 countries, facilitating preferential access to over 1.5 billion consumers. As of May 15, 2012, the free trade agreement with the U.S. came into effect, granting Colombian products preferential and permanent access to the largest marketplace in the world. In 8 years, exports have quadrupled, reaching approximately US\$ 57 billion in 2011. In terms of globalization, Ernest and Young's 2010 Globalization Index places Colombia as the third country in Latin America and above world economies such as Japan, Brazil, Russia and Indonesia. 8 deep-sea ports in the Pacific and Atlantic Ocean allow easier access to international markets.
- **Strategic business location:** Colombia is located in the center of 5 time zones, including the international business hubs of New York, Toronto, and Miami. By air, Colombia is 3 hours away from Miami, 5 and a half from New York, less than 5 from Mexico City, 5 from Santiago, and 6 from Buenos Aires.
- **High-quality labor force:** According to the International Institute for Management Development (IMD), Colombia is the second country in terms of qualified labor, and the country with the most effective work relations and regulations in place, therefore not representing a major obstacle for business activities in the region. Additionally, according to a 2009 PriceWaterHouseCoopers report, Colombia has the most productive labor force in all of South America. This is reflected in the young, talented and educated population, offering 1,656,689 competitive professionals.
- **Fine infrastructure and connectivity:** The energy infrastructure in Colombia is ranked as top in the region, and it is also the country that offers the best energy prospects for the future, according to IMD's World Competitiveness Yearbook. For 2012, the national electrical power coverage target is approximately 93%, taking into account both urban and rural areas. Colombia has 5 undersea cables generating a bandwidth above 550 Gbps. Colombia is an energy exporter, guaranteeing sufficient domestic energy for large-scale operations. All major cities have 100% fiber optic coverage. Colombia has 5 international maritime ports with direct access to the Atlantic and 3 to the Pacific Ocean, as well as 11 airports with international frequencies.
- **Diverse investment opportunities:** Colombia has several investment opportunity options in every region. Compared to other Latin American countries, Colombia has 10 cities/metropolitan areas with a population of over 500,000 inhabitants. Given Colombia's diversity (climate, wildlife, development, geography, etc.), every region in the country offers an assortment of opportunities for the development of the different industrial sectors.
- **Good quality of life:** Three universities in Colombia are ranked in the Latin American Top 30. 26 schools are affiliated to the SAT Reasoning Test and 19 are members of the International Baccalaureate Organization (IBO).Luxury shopping options are available, as well as more than 45 18-hole courses for year-round golf-playing, many of which have been designed by architects such as Nicklaus and Mark Mahannah.
- **Biodiverse:** Colombia has the greatest diversity of species per square meter (plants, mammals and birds), and is the second most biodiverse country in the world (genes, species, and ecosystems), according to Earth Trends. Colombia has more than 50,000 known plant species, from which more than one third are endemic, making it the second country in the world with the largest diversity of flower species and one of the 12 most mega-biodiverse nations in the world. Being a tropical country, Colombia has a wide variety of thermal floors ranging from above sea level heights, allowing for a diversity of ecosystems, such as natural forests, savannahs, barren lands, wetlands, and snow-capped peaks, amongst others.



Setting up a Business in Colombia

The steps and procedures necessary to start a business in Colombia are fairly straight-forward and understandable to most anyone wishing to open a business there. However, any plans to do business in Colombia should be preceded by thorough research of the business and political climates, both at the federal and local levels. According to the World Economic Forum's Global Competitiveness Report for 2007-08, the three biggest problems facing prospective business people are tax rates, political instability and corruption. Colombia has enjoyed marked increases in many business indicators, including the category of protecting investors:

- Formalization of the company bylaws by means of public deed before the notary
- In the case of the simplified stock companies (Sociedades por Acciones Simplificadas - SAS) the bylaws can be done by a private document.
- Filling out the 1648 Format, this can be found online at DIAN's web site.
- Registration before the Chamber of Commerce who issues the provisional certificate of existence and legal representation which will include the note "This NIT is only valid to request the opening of a bank account".
- Bank account opening. Note: The bank account is opened but blocked until the certificate of incumbency and the definitive RUT are submitted.
- Formalization of the RUT before the DIAN.
- Submit the copy of the RUT certificate before the Chamber of Commerce. The definitive certificate of existence and legal representation is issued in 24 hours.
- Activation of the bank account. The definitive certificate of existence and legal representation must be submitted.

Fees for Setting Up a Business in Colombia

Pursuant to Act 1429 of 2010, Law of First Time Employment ("LFE") enacted on 29 December 2010, companies incorporated after this date will pay progressive fees for the Merchants Registry and its renewal. This Act establishes gradual discounts for small companies on the fees regarding the registry and renewal with the Trade Registry:

- For registration with the Merchants Registry during the first year of the company's activities, a 0% discount on the total fee established for the Merchants Registry.
- For the renewal of the Merchants Registry during the second year of activities, a 50% discount.
- For the renewal of the Merchants Registry during the third year of activities, a 75% discount.
- For the renewal of the Merchants Registry during the fourth year of activities, a 100% discount.

Types of Business Structures in Colombia

The way that a company can be incorporated in Colombia depends on the amount of the assets and employees at the moment of incorporation. Therefore, companies are incorporated in Colombia by:

- Signing a private document that should include the incorporation articles and that must be registered with the Chamber of Commerce if the company that is going to be incorporated has ten or fewer employees or its assets do not exceed five hundred minimum legal monthly wages (approximately USD 141,000 for 2011), or
- Registering the byelaws with a public deed at any local notary's office and subsequently with the Chamber of Commerce if the company that is going to be incorporated has more than ten employees or its assets exceed five hundred (500) minimum legal wages.

The most common company types used by foreign investors are:

- **Corporation (SA):** A corporation must be incorporated with a minimum of five shareholders. Each shareholder is liable for the amount of its capital contribution, represented by negotiable shares. The capital stock of a corporation is divided into authorized share capital, subscribed share capital and paid-up share capital. At the time of the company's incorporation, at least 50% of its authorized share capital must be subscribed and at least 33% of its subscribed share capital must be paid up. The balance must be paid within one year following the subscription.
- **Limited Liability Company (Ltda.):** A limited liability company has to be incorporated with a minimum of two partners and a maximum of twenty-five. The partners are liable for the amount of their capital contributions, except for tax and labor liabilities, in which case partners are jointly and severally along with the company in accordance with particular provisions. The capital of the company must be fully paid at the time of the incorporation and divided into capital quotas of equal amount, which may be assigned in accordance with the provisions in the company's byelaws and Colombian law. The limited company's highest management and administration body is the board of partners, in which the partners will have as many votes as they own capital quotas in the company. The capital quotas (shares) of limited liability companies may be assigned to other partners or third parties, after approval by the board of partners. Every share assignment implies an amendment of the byelaws that must be legalized by a public deed and registered with the chamber of commerce of the company's registered seat. A statutory auditor is mandatory if the byelaws require so, or when the assets are higher than 5,000 minimum legal wages (approximately USD 1,410,000 enforceable in 2011) or the revenues are higher than 3,000 minimum legal wages (approximately USD 846,000). The limited liability company will be under the Companies Superintendence's supervision if its supervision does not correspond to any other Superintendence and their assets or revenues are higher than 30,000 minimum legal wages (approximately USD 8,46,000 for 2011).
- **Limited Partnership (Sociedad en Comandita):** A limited partnership involves one or more managing partners who are jointly and severally liable for the entity's operations. As well as one or more 'comanditarios' partners who limit their liabilities to their respective capital contributions (silent partners). The partnership capital consists of the 'comanditario' partners' contributions and those of the managing partners or partners with unlimited liability. Limited partnership entities can be subdivided into simple limited partnerships and shares partnerships. A simple limited partnership's capital is divided into partnership quotas, while a shares partnership capital is divided into shares.
- **Branch of a foreign company:** A foreign company wishing to pursue permanent activities in Colombia, such as having offices or commercial establishments within Colombian territory, must set up a branch office in Colombia, and for this purpose it must register the following documents at a notary's office in the place chosen for its main office:
 1. A true and legalized copy of the byelaws of the head office.
 2. A minute issued by the head office governing body authorizing the incorporation of new office in Colombia.
 3. Documents evidencing the head office company's existence and legal status of its representatives abroad.

- **Simplified Shares Corporation (SAS):** The SAS can be incorporated in Colombia with only one shareholder. In every case, the incorporation of a SAS gives rise to a new legal entity completely independent of its shareholders or shareholder. The equity of the SAS is completely independent of the shareholders' equity. The liability of the shareholders of SAS is limited to the amount of the capital contributed; the shareholders of a SAS will never be jointly and severally liable for tax or labor liabilities. It is possible to create different kinds of shares, such as shares with fixed dividends. Those are shares that grant the right to receive a fixed dividend notwithstanding the percentage of participation of the shareholder and without resign to the voting right. A financial auditor is mandatory if stipulated by the bylaws or when the assets are higher than 5,000 minimum legal wages (USD 1,410,000 approximately) or the revenues are higher than 3,000 minimum legal wages (USD 846,000). The SAS will be under the supervision of the Companies Superintendence if its surveillance does not correspond to any other Superintendence (official entity of enforcement) and the assets or revenues are greater than 30,000 minimum legal wages (USD 8,460,000 for 2011). The structure of the SAS is simple:
 1. The SAS does not need a board of directors unless otherwise expressed in the bylaws of the company. All the management and representative activities can be carried out by the legal representative appointed by the shareholder assembly (which could be constituted by single or multiple shareholders)
 2. The shareholder assembly could directly implement decisions such as approving the financial statements, the dividends distributions, all the corporative accounts, etc.
 3. Nevertheless, the shareholder assembly could assign these activities to a board of directors or to the legal representative.

The SAS can be incorporated with a private document; it is not necessary to grant a public deed before a notary public except if the shareholders will contribute property to the SAS. At the moment of incorporation, the subscription and payment of the capital do not have to comply with the specific proportion, thus the capital could be subscribed and paid under conditions, in proportions and on deadlines other than those provided in the Commercial Code for Corporations (SA). Nevertheless, in no case will the deadline for the payment of the shares exceed two years.

Taxation

Colombia, like any other emerging economy, is facing an increasingly competitive international economic environment, with certain advantages offered to foreign investors on taxes and incentives.

Taxes in Colombia can be of the National level or the Regional level. This means that the National taxes will be applicable to all the inhabitants of the national territory with the same tariff, meanwhile regional taxes have tariffs within a range determined by the national law, which regions cannot surpass. Here is brief description of the most important taxes:

- **Income and Windfall Tax:** Income tax is a National tax levied on profits and gains derived from day-to-day operations (ordinary income). The Windfall tax applies over the extraordinary income. The tariff is 25%.
- **Income Tax for Equity (CREE):** CREE is a National tax designed as a contribution of companies to the benefit of employees, employment generation and social investments. The CREE applies over profits and gains obtained by companies which are likely to enrich them. The tariff is 9% for 2013-2015, 8% as from 2016.
- **Sales Tax (VAT):** VAT is a national tax on supplied services and on sales and imports of physical goods. The three tariffs are 0%, 5% or 16%
- **Tax on financial transactions:** The tax is accrued on every transaction aimed at withdrawing resources from checking, deposit or savings accounts, and cashier checks. The tariff is 0.4% of the value of the operation.
- **Property Tax:** This tax is levied annually on the ownership, usufruct or possession of real estate property. It is collected by the municipality where the property is located. The tariff is between 0.4% and 1.6%.



- **Industry and Commerce Tax:** The industry and commerce tax is a local tax that is imposed on revenue generated from industrial, commercial or service activities carried out in the corresponding municipality, The tariff is between 0.2% and 1%. Note: certain municipalities have higher tariffs, established before the expedition of the law that regulates this matter. These tariffs can go up to 1.4%.

Immigration and Visa Requirements

Temporary visitor's visa is granted to foreigners intending to make business contacts in the country or performing commercial or business activities; to members of a journalistic team with the proper credentials for the pursuit of journalistic activities or to cover special events; to participate in non-regular academic activities which cannot exceed one academic semester; to hold job interviews; to seek medical treatment; to participate in unpaid athletic, cultural or scientific events; or to receive at or provide training for public or private entities. This visa may be granted for up to 180 calendar days.

Investor's resident visa s granted to foreigners bringing a direct foreign investment on their behalf, of at least one hundred thousand dollars (USD \$100,000), fulfilling the requirements set forth in the foreign exchange regime regulations.

Business visa is granted to foreign nationals who: act as legal representative or hold a senior management position in a company based in a foreign country with commercial or economic interests in a Colombian company or in a foreign company based in Colombia, and wish to enter the country to attend business meetings, stakeholder meetings or supervise the operations of the company with which they have legal, business or strategic ties; are traders, industrialists, business person or marketing student in relation with a national or foreign company based in Colombia are business persons acting within the framework of a free trade agreement are the head, representative or member of personnel of a governmental foreign commercial office promoting economic or commercial exchange in Colombia. This visa is granted for a maximum term of 4 years with multiple entries, and it authorizes a stay for up to 1 continuous year after each entry, except for people who enter Colombia within the framework of an international treaty, in which case they may stay for up to 2 continuous years after each entry.

Temporary work visa may be granted to foreigners who intend to work for a company established in Colombia. This visa is granted for a maximum term of 2 years with multiple entries, according to each individual case. However, the visa will expire if the foreign national leaves the country for more than 180 continuous days.

Banking Requirements

To open an account at a branch of a commercial bank, the owner encloses the certificate of existence and legal representation, the TIN document, and a photocopy of the certificate of citizenship of the legal representative. A savings account may be opened in minutes, but a checking account could take 3 or more business days for the bank to verify the company information, due to the compliance and revision requirements stemming from money-laundering prevention laws and regulations. Depending on the bank, a minimum initial deposit of about COP 500,000 is required.

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