Colombia: A strategic ally for international business

Colombia is a large and dynamic economy, projected to be a leader in Latin America in terms of economic growth

- The Colombian economy has grown on average by 3.8% in the past seven years (2010-2017). *(DANE)*

  In 2017, the country's economy grew 1.8%, more than the average growth for Latin America and the Caribbean (1.2%). *(DANE - IMF)*

  In 2017, the economy registered a growth rate of 1.8% due to the upswing of the following sectors: agriculture, livestock, hunting, forestry and fishing (4.9%), financial institutions (3.8%), social, communal and personal services (3.4%), commerce, repair, restaurants and hotels (1.2%) and supply of electricity, gas and water (1.1%). During this year, growth was registered in 5 of the 9 branches of economic activity and 3 of them did it above the total of the economy. (DANE)

  The International Monetary Fund (IMF) projects that the Colombian economy will grow by 2.7% in 2018, beating countries such as Brazil (2.3%), and Mexico (2.3%), among others, and surpassing the growth of Latin American and the Caribbean (2%).

- The GDP per capita (PPP) in Colombia has doubled in the last 15 years, going from USD 6,603 in 2000 to USD 14,485 in 2017. (IMF)

  According to IMF estimates, Colombia's GDP per capita (PPP) will reach USD 15,055 in 2018.

- In 2017, the country recorded USD 14,518 million of inward FDI, an increase of 4.8% compared to the FDI recorded during 2016 (USD 13,849 million). *(Banco de la República)*

  FDI in sectors other than oil & mining decreased 12.8%, due to the diminish in the following sectors: gas, water and electricity (-87%), financial and business services (-32.5%), agriculture, livestock, hunting, forestry and fishing (-19.2%), commerce, restaurants and hotels (-0.4%). (*Banco de la República*)

  In 2017, 69.6% of FDI in Colombia was assigned to sectors different from oil & mining, such as: transport, storage and communications (23.9%); manufacturing (15.6%); financial and business services (11.4%) and commerce, restaurants and hotels (6.2%). (*Banco de la República*)

  From 2000 – 2017, the top investor countries in Colombia were: United States with a share of 20.5%; United Kingdom (12.2%); Spain (9.6%); and Switzerland (6.2%). (*Banco de la República*)

- The stock of investment flows from Colombia to the world has grown approximately 11-fold since 2000.

In 2017, Colombia recorded USD 3,689 million of outward FDI, mainly towards: manufacturing industries (35.1%), gas, electricity and water (25.0%), financial and business services (20.1%), transport, storage and communications (8.8%) and oil & mining (8.4%). (*Banco de la República*)

From 2000 – 2017, the main destinations of outward Colombian investment were: Panama, with a 15.3% share, the United States (13.5%), United Kingdom (11.8%), Spain (8.8%), and Chile (7.9%). *(Banco de la República)*

- During 2017, Colombian exports reached USD 37,766 million, a 18.9% increase compared to 2016 (USD 31.757 million). *(DANE-DIAN)*

  In 2017, non-mining sector exports equaled USD 14,927 million, 5.3% more than during the same period of 2016 (USD 14,179 million). This behavior is due to the increase of sales in the following sectors: fats and oils, sugars and honey, coffee, plastic in primary forms, fresh flowers, articles of iron or steel, meat and edible meat offal, among others. (DANE-DIAN)

  In 2017, Colombian imports reached USD 46,075 million, a 2.6% increase compared to 2016 (USD 44,889 million). This behavior due to following groups of products: manufacturing (3.9%), agriculture (-0.3%), fuels (-1.2%) and others (-38.2%). *(DANE-DIAN)*

  During January-March 2018, Colombian exports reached USD 9,660 million, a 9.8% increase compared to the same period of 2017 (USD 8,797 million). *(DANE-DIAN)*

  During January-March 2018, non-mining sector exports equaled USD 3,794 million, 7.4% more than during the same period of 2017 (USD 3,534 million). This behavior is due to the increase of sales in the following sectors: fats and oils, plastic in primary forms, motor cars and other motor vehicles principally designed for the transport of persons (incl. tourism purposes), fresh fruits, sugars and honey, among others. (DANE-DIAN)

Macroeconomic conditions in the country will continue their strong performance, creating a favorable business environment

- In 2017, inflation in Colombia was 4.1%, lower than the figure estimated for Mexico (6.7%), Uruguay (6.5%) and Venezuela (2,818.0%). Inflation eased slightly above the Central Bank´s target range and below the inflation rate in the same month of 2016 (5.8%). (DANE and IMF)

  IMF estimates that inflation in Colombia will decrease by 3.3% in 2018, lower than the figure estimated for Mexico (3.5%), Uruguay (6.6%), Argentina (19,2%) and Venezuela (12,874.6%); and lower than the one estimated for the region (3,6%). (IMF)

- In 2017, policies of Colombian government managed to place the unemployment rate below two digits for fifth consecutive year, closing at 9.4%, an increase of 0.2 percentage points compared to 2016. The

IMF forecasts that the unemployment rate in Colombia will remain stable around 9.2% in 2018. *(DANE y IMF)*

- Colombia was awarded the investment grade rating by the top three risk-assessment firms in the world (S&P, Fitch, and Moody's).

  In March 2017, Fitch Ratings improve the outlook for the Colombian rating: it went from negative to stable.

  Moody's improved Colombia's Outlook in July 2014 from Baa3 to Baa2. This improvement was based on the following: expectations of tax consolidation resulting from tax regulations, reduction of public debt, a consistent and predictable macro-economic policy, and the country's economic resilience against external impacts.

- Colombia (59th) is the fourth most business-friendly destination in Latin America according to Doing Business 2018, surpassing Costa Rica (61st), El Salvador (73rd), Panama (79th) and Uruguay (94th). (Banco Mundial)

  Colombia has had the most policy reforms to improve its business environment in the region; since 2006 the country has enforced 34 policy reforms. Followed by Peru (24), Panama (18), Ecuador (13) and Argentina (10).

The middle class and its consumption potential in Colombia is rapidly expanding to reach half of the total population in the next decade

- The improved economic conditions of Colombian citizens pave the way for the country to become a better business destination.

  Colombia is among the 30 most populated countries in the world (49.3 million inhabitants in 2017) and the second among Spanish-speaking countries.

  Between 2002 and 2017, poverty fell by 22.8 percentage points, reaching a rate of 26.9% in 2017. *(DANE)*

  The country's middle class has grown and now accounts for around 30.6% of the Colombian population in 2016. This has resulted in a reduction of inequality in the country[1]. *(DNP)*

  It is expected that Colombia's middle class will represent 37% of the population in 2020 (19 million inhabitants) and 46% in 2025 (24.7 million inhabitants).

[1] *The GINI index, which measures inequality, decreased 0.064 percentage points between 2002 and 2017 (0.572 in 2002 to 0.508 in 2017).*

- The country has 11 cities with a population higher than 500,000 and 27 with more than 250,000 inhabitants, which has helped to redistribute the country's growth and economic development in intermediate cities. It is expected that by 2020, 14 cities will have more than 500 thousand inhabitants.

Colombia has a qualified and competitive work force

- According to the IMD ranking for 2017, Colombia has the fourth best-trained labor force in Latin America, Colombia beats countries such as Brazil, Venezuela and Peru.

- With the aim to make job related-costs more flexible, the latest tax reform (Act 1607 of 2012) removed certain payroll contributions, reducing job related-costs from 52% to 38.5%.

Colombia has a competitive location with easy access to markets around the globe

- In December 2017, Colombia registered 1,109 direct international frequencies per week, connecting 46 international destinations worldwide. Also, 24 international airlines operate in the country.

  Colombia has one of the biggest networks of domestic flights in the region. In December 2017, the country registered more than 5,600 domestic flights per week. *(OAG)*

  According to Migration Colombia, in 2017, 3,233,162 [2] non-resident foreign travelers arrived to Colombia, an increase of 24.7% compared to 2016 (2,593,057 foreign travelers). 82.5% of non-resident foreign travelers visiting the country come from the Americas region.

  According to Migration Colombia, during January-March 2018, 1,070,985 [3] non-resident foreign travelers arrived to Colombia, an increase of 50.2% compared to the same period of 2017 (713,172 foreign travelers). 84.8% of non-resident foreign travelers visiting the country come from the Americas region.

  In 2017, 23.7% of non-resident foreign travelers who visited Colombia were from Venezuela (23.7%), 16.4% from United States, 6.5% from Brazil, 5.7% from Argentina and 5.3% from Mexico, among others. *(Migración Colombia)*

  During January-March 2018, non-resident foreign travelers who visited Colombia were from Venezuela (34.1%), 14.1% from United States, from Argentina 6.8%, from Brazil 5.3% and 3.9% from Mexico, among others. *(Migración Colombia)*

  In 2017, the hotel occupancy rate in Colombia was 55.1%, a decrease of 0.4 percentage points compared to 2016 (55.5%). (*Cotelco*)

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[2] *Does not include Colombians living abroad or cruise passengers.*
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According to figures from the Colombian national bank, tourism was the second foreign income generator in 2017, surpassing traditional products such as coffee, flowers and bananas.

During the last decade, Colombia strengthened the preferential access to a 1,500 million consumer market

- Colombia has more than 16 trade agreements[4] in force, enabling preferential access to more than 60 countries and nearly 1,500 million consumers across markets including the United States, the European Union, Brazil, Mexico, Chile, Peru, Costa Rica and South Korea; with new markets to be added soon, like Israel and Panama, with which Colombia has signed agreements. Additionally, Colombia is negotiating a Free Trade Agreement with Japan and an associate state figure through the Pacific Alliance with Canada, Australia, Singapore and New Zealand.

- Colombia has 15 International Investment Agreements[5] in force and 14 Double Taxation Agreements[6] in force with major trading partners to ensure a stable and favorable legal framework for foreign investment.

Investment incentives in Colombia

Free Trade Zones:

Regulated by the Decree 2147 of 2016 and the Law 1819 of 2016 (Tax reform) that established an unified rate of 20% for Free Trade Zones, it also has exemption of customs duties (VAT and tariffs) and simplified customs procedures.

- The exports from the Free Trade Zones to third countries are qualified for the benefits of the Free Trade Agreements signed by Colombia, therefore goods originating in countries with which Colombia has Free Trade Agreements in force, which have been incorporated in the finished product, then imported into the national customs territory, keep their original character.

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[4] Trade agreements include: Free Trade Agreements (FTA), Complementary Economic Agreements (CEA) and regional integration agreements.
FTA: Mexico, Chile, Northern Triangle, AELC, European Union, United States, Canada.
CEA: CARICOM and MERCOSUR.
Regional integration: CAN.
PTA: Venezuela, Cuba and Nicaragua.
[5] International Investment Agreements include: Arrangements for the Promotion and Reciprocal Protection of Investments - Spain, Switzerland, Peru, India, China, United Kingdom, Japan - and the FTA that include an investment chapter - Mexico, Chile, Northern Triangle, Canada, United States, Pacific Alliance, Costa Rica and South Korea. Additionally, we have subscribed treaties with Singapore, Turkey, France, Brazil and FTA´s with Israel and Panama are pending ratification.
[6] CAN, Canada, Chile, South Korea, Spain, India, Mexico, Portugal, Czech Republic, Switzerland, Germany, Italy, United Kingdom, France and with the United States a financial information exchange agreement.

- For partial Processing (Article 97 from Decree 2147 of 2016), the industrial process of goods or services shall correspond to activities that foster productive linkage, and in any case shall not exceed 40% of the total production cost of the goods or services in the fiscal year.

- The possibility to selling to the national territory 100% of the production of goods or services produced in the Free Trade Zone, with the corresponds payments of customs duties.

- It will be possible to advance the execution of the investments and the generation of employment from the filing of the application to declare the Free Trade Zone, allowing to develop at low risk of the investor in the initial stages of the project and not to lose the opportunity cost.

Tax exempt income:

Income arising from the following activities is tax exempt:

- Hotel services provided in new hotels constructed in full or at least 61% before December 31, 2017 or remodeled and/or enlarged before that date for 30 years (for remodeled or extended exemption applies in the proportion that represents the value of the remodeling or extension in the fiscal cost of the property) will have a preferential rate of 9% tax.

- Ecotourism services have a special rate in the income tax of 9% since 2003 and for 20 years.

- Hotel services provided in new hotels built in municipalities of up to two hundred thousand inhabitants before December 31, 2026 or remodeled or extended before that date (for remodeled or expanded the exemption applies in the proportion that represents the value of remodeling or expansion in the fiscal cost of the property) will have a preferential rate of income tax of 9% for 20 years.

- The sale of electric power generated using wind based energy, biomass or agricultural waste, solar, geothermal or the seas, carried out by the generating companies, is exempt from rent for fifteen years provided that it is processed, obtained and sold Carbon dioxide according with the terms of the Kyoto Protocol. At least fifty percent (50%) of the proceeds from the sale of such certificates shall be invested in works of social benefit in the region where the generator operates, until December 31, 2032.

- Domestic publishing companies which purpose is the publication of books, magazines, booklets or serial collectable booklets of a scientific or cultural nature are exempt until 2033.

- Income arising from investment in new forest plantations sawmills and timber-yielding tree plantations are tax exempt.

- Income obtained by new companies incorporated in, and effectively located and developing its activities in the department Archipelago of San Andrés, Providencia and Santa Catalina since January 1, 2013 are exempt from income tax and complementary income from:

- Arising from the provision of tourism services,
- Stockbreeding, fish farming, sea culture, maintenance
- Repair of ships
- Health
- Data processing
- Call center
- Financial brokerage service,
- Technological development programs approved by Colciencias
- Education and *maquila* activities

The above mentioned are exempt if the companies provided hire under a labor agreement at least twenty (20) employees and increase the job posts by 10% per year, as compared to the number of employees of the immediately preceding year.

Incentives to import machinery

- PIPE 2.0[7]: Eliminates the payment of tariffs for imports of capital goods and inputs not produced in Colombia.

- Since January 2013 most of the Parafiscal contributions have been eliminated, in that order companies can reduce labor costs. (Contributions in health, ICBF and SENA were eliminated).

- Deduction of 19% of VAT paid on imports of capital goods: Legal persons shall be entitled to deduct the total sales tax paid on the acquisition or importation of capital goods in the declaration of income and complementary for the year in which the acquisition or importation took place.

- Importation of goods rented or leased with leasing option: It allows the introduction of the National Customs Territory, with deferred payment of import duties and/or taxes, capital goods under a lease or lease with option of Leasing.

Research, development and innovation incentives:

- Deduct 100% of the value invested in R&D (own project or donation) and can also deduct 25% of the investments made. The investment is deductible up to 40% of the company's taxable net income.

- Exemption of VAT on equipment imports: equipment and elements imported are exempt from VAT if those elements are for research or technological development centers and educational institutions, approved by Colciencias.

- Resources not subject to income tax: The resources that a company receives to develop of projects qualified as scientific, technological or innovation.

[7] *Plan de Impulso a la Productividad y el Empleo PIPE: Plan of Impulse to Productivity and Employment.*

- Apply to non-reimbursable resources, presented through a local government or city hall. What is new is that in the future not only will be able to apply for R&D projects, can also for projects of industrial innovation.

Employment generation benefits:

- Companies may deduct payroll taxes (between 4% and 9% of the payroll, depending of the salary of the employee) from its income tax return when hiring employees that belong to one of the following groups: new employees under 28 years old; refugees, disabled persons, women above 40 years' old that have been more than one year unemployed, new employees with incomes lower than 1.5 minimum wages.

- Exemption to pay for to Family Compensation Funds: Employers who hire between 18 and 28 years, will not have to make contributions to Family Compensation Funds by such affiliated workers during the first year of employment.

Incentives to improve the environment

- Discount for investments in environmental control and improvement: The 25% of the investments in environmental control, conservation and improvement can be deducted from income tax[8]. The value of investments made by mandate of an environmental authority to mitigate the environmental impact produced by the work or activity of the company and is subject of an environmental license cannot be deduced. The request has to be made to the ANLA[9].

- The sales tax does that not cause the importation of machinery or equipment not produced in the country, destined to:

  - Recycle and process rubbish or waste.
  - Wastewater treatment and treatment of atmospheric emissions or solid waste.
  - Recovery of rivers or basic sanitation for the improvement of the environment.
  - Environmental monitoring and control, including those in order to comply with the commitments of the Montreal Protocol.

Other Incentives

- Free of VAT the import of the follow machinery:

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[8] *Tax Act, Art. 255.*
[9] *National Environmental Licensing Authority.*

- The importation of machinery and equipment destined to development projects or activities that are exporters of certificates to reduction carbon emissions.
- Import temporary heavy machinery for basic industries provided if such machinery is not produced in the country.