

DOING BUSINESS

IN COLOMBIA



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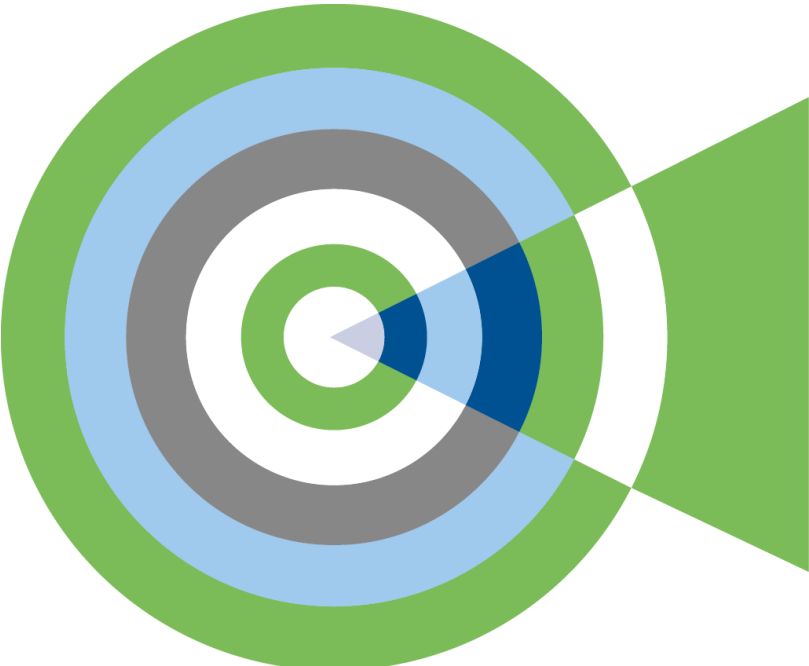
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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

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

This detailed report providing key issues and information for investors considering business operations in Colombia 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 current at March 2014.

We look forward to helping you do business in Colombia.

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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 climates throughout the year and have a vast 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 2013, Colombia's estimated population is of 47.1 million people, of which over 8 million (15%) live in Bogotá D.C. (Colombia's capital city) and over 2.6 million people (5.1%) in Medellín (the second largest industrial hub in the country). The unemployment rate for the current year is 9,64%.

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 variable 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 density is 42 inhabitants per square kilometre.

CURRENCY

The currency is the Colombian peso (COP). The annual inflation rate for 2013 was of 1.94%. Colombia has a free-floating exchange regime. As of the date of this publication, the exchange rate was of approximately 2,000 COP per US dollar.

The tendency is for the current rate to be stable and the government is making all the efforts to ensure this to happen, and to restart a devaluation trend if possible. This tendency will benefit local exporters and will avoid increases in production costs for the international market as well.

LANGUAGE & RELIGION

The official language is Spanish but English is widely spoken in the business community and is part of all private school programs. The predominant religion is Roman Catholicism.

THE ECONOMY

Colombia's economy is forecast to grow 5% during 2014. The country is now better off economically. A reliable reference is the International Monetary Fund, since it foresees a 4.5% rate of growth in the GDP.

Colombia is still seeing significant growth in retail sales, industrial production and foreign direct investment because this country provides multiple guarantees, benefits and assurance to investors in order to encourage capital injection.

However, factors such as rising house prices, falling unemployment and accelerating inflation indicate the economy is in danger of overheating.

By 2015, the growth is expected to increase up to 5%.

UNEMPLOYMENT

Unemployment is a persistent problem of the economy, though it has dropped sharply since 2011. However, it is still running at 9.64% of the active population during 2013.

PRICES AND INTEREST RATES

In 2013, the official interest rate was of 3.25%. The inflation rate for 2014 is projected to be of 3%.

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

In 2013, foreign trade in services totalled 16,382 million dollars, according to figures reported in the balance of payments of the Colombian central Bank. This figure is the highest one registered, proving the increasing appeal of Colombia in terms of investment.

A healthy economy and growth in many sectors have allowed conditions for an increase in business and the hiring of people from outside the country, as well as growing demand for services by citizens outside Colombia.

In 2013, exports of services had an 8% growth due to the dynamics presented in the transportation, computing communications and licence rights' sectors. These results are due to the recent free trade agreements signed by Colombia, so maintaining the upward trend of this sector in the last few years.

Regarding the tourism sector during 2013, there was an approximated 4.2% growth in comparison with the year before, as well as a 10% growth in non-resident travellers entering to Colombia. Over 44% of total exports of services come from the travel industry, which includes the sales made inside the country to visitors last year, both those arriving for tourism or business, or those coming for medical tourism.

Travel and transportation had a significant increase. Most of the revenue came from air transportation, where exports exceeded USD 1.1 billion and had a 17.8% growth, mainly from air passengers.

The financial sector has a slight decrease from last year due to the adjustment in the financial markets. Financial system's revenue was of COP 6.28 billion.

Services trade balance in 2013 was in deficit. Much of this had to do with the momentum from the Colombian economy, which has increased demand for services abroad.

Investment in maritime transport reached more than USD 24 million and USD 8.000 million in air transport by different airlines. Such investment includes updates, improvements in technology and training of human resources. This injection of capital was effected in response to the recently signed free trade agreements, the increase of foreign direct investment, among others.

The exchange of services is expected to keep increasing.

One of the national strategies in this area is the Productive Transformation Program, which includes the promotion of sectors such as medical tourism, software and outsourcing processes. In addition, virtually all trade agreements entered into with other countries in recent years include services chapters.

In 2013, there is a surplus in foreign trade transactions undertaken by free zones. According to figures from the National Statistics Administrative Department (DANE as its Spanish initials) there was a 3.3.% growth, meaning a USD 3.429,8 million amount.

On the other hand, imports made from the free zones were of USD 2.598,8 million, 19.2% less than the amount last year.

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. Banco de Occidente, Banco de Bogota, Bancolombia, 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: to 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 (management of 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 Bank of the Republic.

STOCK MARKET

The history of the stock market in Colombia changed on 3 July 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) was born. Today, this consolidated institution is there to administer 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 20 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 106 approved zones, and 9 zones already approved by the government tax entity (DIAN by its Spanish initials). 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. However, all FTZs created since January 1 of 2013 must pay a new 8% tax called Income tax for equity (Cree as its Spanish initials).
- 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, 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 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 within 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, cannot be of less than 9% of its total assets, in domestic or foreign currency.

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 the United Kingdom, Spain, Peru, Chile and Cuba. Also, there are other treaties under negotiation with Germany and Egypt.

Foreign corporations not domiciled in Colombia will be subject to a 25% income tax, plus an 8% of Income tax for equity (Cree as its Spanish initials).

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').
- Joint Stock Company ('Sociedad por acciones simplificada SAS')

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').

These 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.

JOINT STOCK COMPANY

In terms of social capital, it is divided in equally valued stocks. They can be ordinary stocks, preferential dividend, non- right to vote stocks, multiple vote stocks, preferred stocks, fixed dividend stocks or payment stocks.

Regarding shareholders, this entity type allows one shareholder minimum without maximum limit, and the partners' responsibility is up to their contributions' amount. Social entities involved are the partners' assembly and legal representative.

Stocks are freely negotiable, unless a preference right is agreed. It does not require a statutory reform. Capital payment may be deferred up to two years. The company may freely establish such payment conditions. By general rule it does not require to have a statutory auditor. Only if gross assets as of December 31 of the previous year are equal to, or exceed the equivalent of three thousand minimum wages.

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, e.g. 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 1999, 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 1,888). 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 20 December) 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 (e.g. 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 preceding 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 10pm to 6am. 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 enrolment 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 enrolment 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), ICBF (Welfare service)	Salary (4)(5)	5%	N/A	5%
Compensation fund (payroll contributions)	Salary (4)(5)	4%	N/A	4%

(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 7,700 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 3,632 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.

However, the modification made by Article 34 of law 1607 of 2012 establishes that companies, legal entities and contributors, issuers of Income tax and complementary are not subject to the compliance of requirements of this article by paid salaries which amount does not exceed ten (10) minimum legal wages.

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

Colombia's corporate income tax rate is 25%.

INCOME TAX FOR EQUITY (CREE)

It was imposed since January 1, 2013 with the purpose of financing social investment programs done by SENA (National service of learning) and ICBF (Welfare service), from the health care social security system, and provisionally funding of public colleges, levelling of UPC of the subsidized health care system and social investment in the agricultural sector.

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. Late filings are subject to a minimum penalty of 10 Tax value units (UVT as its Spanish initials), approximately USD 137.

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 3% of the prior tax year's tax equity (tax assets minus tax liabilities). Some assets may be excluded from the taxable basis.

The excess presumptive (liquid) income can be offset as a deduction in the next 5 years.

EXEMPT REVENUES

Income generated from the following activities is income tax exempt: seismic engineering services for oil and gas industries, new and remodelled hotels, software and medical patents, river transportation and wind-generated power. The assets used in these activities are not considered in the determination of presumptive income.

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.

Where tax withholdings are not required, the deductibility of such payments is then limited to 15% of net taxable income before such payments.

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

Depreciation may be calculated using the straight-line, double-declining balance or another recognised method duly approved by the tax authorities. Certain low-value assets may be fully depreciated in the year of acquisition. Also, the use of any assets in excess of eight hours per day allows a 25% higher depreciation rate, for each additional eight hour shift.

Assets useful lives for tax purposes are: 20 years for buildings (including pipelines), 10 years for machinery and equipment and 5 years for vehicles and computers.

AMORTISATION

Investments that for accounting purposes need to be treated as amortisable assets may be amortised for tax purposes over a minimum period of five years, unless a lesser period can be justified.

TAX WITHHOLDINGS ON PAYMENTS ABROAD

As a general rule, payments made abroad for items considered Colombian sourced income are subject to 33% withholding tax rate.

A 10% income and remittance withholding rate applies on payments for technical services, technical assistance and consulting provided by a foreign entity without a domicile in Colombia, regardless of where the service is rendered and provided that certain requirements are met.

Payments for the exploitation of computer programs are also subject to 33%.

In the case of payments for the exploitation of films (movies), the basis for the calculation is 60% of the payment, and the resulting withholding rate is 33%.

Business income and capital gains from the sale of determined assets within the Colombian territory by a foreign company without home address in Colombia are subject to 14% income tax. These tax payers are obliged to file an income tax return at the end of the fiscal year.

Interest on certain qualified loans may be considered foreign source income, thus not subject to income or but deductible without limitation.

Turnkey contract-related payments are subject to 1% income tax withholdings.

DIVIDENDS

Dividends paid by Colombian corporations to other Colombian corporations are not subject to tax if the company generating the profits out of which the dividends are being paid is taxed on these profits in Colombia (temporal differences can affect this calculation). Otherwise, dividends are included in the income tax return of the recipient of the dividends and taxed at the regular corporate income tax rate of 33%.

THIN CAPITALISATION RULES

No thin capitalisation rules exist in Colombia

TRANSFER PRICING REGULATIONS

Transfer pricing regulations are included in articles 260-1 to 260-10 of the Colombian Tax Law (Tax statute). These rules are applicable in Colombia as of 1 January 2004 and basically follow OECD principles.

Transfer pricing regulations establish that:

- Colombian taxpayers must follow the arms-length principle on cross-border-related party transactions. For taxpayers whose gross equity equals or exceeds the equivalent of 5000 monthly minimum wages or whose gross income equals or exceeds 3000 monthly minimum wages, the regulation establishes the obligation of preparing transfer pricing documentation for each type of cross-border-related party transaction which exceeds 500 monthly minimum wages and prepare a disclosure form related to those transactions
- For taxpayers involved in transactions with tax havens whose gross equity 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 disclosure form, regardless of whether or not these are with a related party, as they are not to be considered to be at 'arm's length' unless otherwise proven. To date, there is no list of tax havens in Colombia.

INDIVIDUALS

The tax year for individuals is the calendar year.

Colombian citizens resident in Colombia are taxed on a worldwide income basis. Non-resident Colombian citizens are taxed only on their Colombian sourced income.

Foreigners are taxed on their Colombian sourced income, however after residing in Colombia for five years, they are also taxed on a worldwide sourced income basis.

The tax rate applicable to foreigners not resident in Colombia is 33%. Tax rates applicable for nationals and foreigners resident in Colombia are determined pursuant to a progressive table fixed on a yearly basis by the national government.

Some deductions are allowed for employees, such as interest paid on the acquisition of housing, payments for health and education services for themselves, their spouse and two children (under certain limits, only the first deduction is allowed) and deposits in pension funds and housing savings accounts ('AFC'). In these last two cases, deductions are allowed provided the deduction does not exceed 30% of the employee's taxable income.

Deductions for fee earners are also applicable following the general rules for legal entities. A 50% limitation applies, except when it can be demonstrated that the total amount of income has been invoiced. Fee earners are also entitled to tax benefits from deposits made in pension funds and AFC with the same limitations.

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

Value Added Tax (VAT) applies in Colombia at a general rate of 16%.

It applies to the sale of movable tangible goods:

- Import of movable goods
- Services rendered in Colombia
- The operation of games of chance or the supply of tickets for games of chance (excluding lotteries).

In some cases specified in the tax laws, the import of services (that is, services rendered abroad and used in Colombia) is subject to VAT if the recipient of the service is located in Colombia. The services subject to this provision include:

- Licences for the use of intangible assets
- Consulting, advisory and audit services
- Rental of corporate movable assets
- Insurance and reinsurance services
- Satellite connection or access services, irrespective of where the satellite is located
- Satellite television services received in Colombia.

Certain goods and services, principally basic necessities, are excluded from VAT and therefore no tax will accrue on these.

There are special VAT rates ranging from 0% to 35%:

- A 0% rate applies to a very limited array of goods and services (i.e. exported services, exported goods, school notebooks, etc.)
- A 5% rate applies to agricultural supply chain
- A 16% rate

Rates from 20% to 35% apply as a luxury consumption tax, meaning that there are only three VAT rates.

Exported services are VAT exempt, provided that:

- (i) The service is rendered by a person registered as an exporter of services
- (ii) The service is rendered to a non-resident
- (iii) The service is executed in Colombia
- (iv) The service is used exclusively outside the country.

In addition, regulation requires the prior registration of the agreement with the Ministry of Commerce, Industry and Tourism, and the meeting of some other legal conditions.

In order to improve the tax collection system, the Colombian government introduced a VAT withholding mechanism, designating certain entities as VAT withholding agents (including government departments, large tax payers, Colombian payers to non-resident entities and VAT payers qualifying under the VAT common regime). These agents are responsible for withholding 50% of the tax due on any payment or accounting accrual related to taxable goods or services. In case of transactions with non-residents (both entities and individuals), the withholding rate is 100%.

EXCISE TAX

Excise tax, known as 'consumption tax', must be paid by the producer or the importer of particular luxury goods when they are sold to the retailer.

Under Colombian tax law there are three different groups of goods subject to 'consumption tax':

- Beer and beverages mixed with beer, whose rates are from COP 101.29 to COP 300.17 per product unit.
- Wine and liquor, where rates apply to the sale value and vary depending on the percentage of alcohol, from COP 278 to COP 473.
- Cigars and tobacco, where the rate is of COP 570 or in proportion to their content.

TAX TREATIES

As a member of the Andean Community (CAN), Colombia is covered under CAN's Decision No. 578, which is a multilateral double tax treaty. Decision No. 578 is basically a 'source double tax treaty', whereby income earned in CAN countries is excluded from double taxation in the remaining CAN countries. Colombia also has double tax treaties covering certain international air transportation services with Argentina, Chile, France, Germany, Italy, United States and Venezuela.

CUSTOMS DUTIES

As a general rule, there are no restrictions on the import of goods to Colombia, except for the import of specific goods which require import licences (e.g. used goods, some chemicals) or those which are not allowed to be imported for security and public health reasons (e.g. nuclear waste).

In Colombia, the importation of goods results in the accrual of customs duties and VAT charges. The former accrues at a rate of 5% to 20% depending on the customs subheading of the imported good. The latter accrues VAT at a general rate of 16%, except for certain goods which have differential rates and maybe used as creditable VAT by the importer.

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 (e.g. exemptions, deferrals and tax credits) over the ordinary and temporary importation of certain types of capital goods:

- Government agreements – the government tax Authority (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 instalments.

TRADE TREATIES

Those in force:

- FTA Colombia – Mexico
- TLC Colombia, El Salvador, Guatemala and Honduras
- CARICOM Agreement – Colombia
- Acordo Colombia – Andean Community
- CAN – Mercosur
- Colombia FTA – Chile
- FTA Colombia – Canada
- Cuba–Colombia Agreement
- EFTA Agreement (EFTA)
- FTA Colombia – United States
- Partial scope FTA – Venezuela
- Colombia FTA – European Union

Those which have been signed:

- FTA Colombia – South Korea
- Colombia FTA – Costa Rica
- FTA Colombia – Israel
- FTA Colombia – Panama
- Pacific Alliance

There are ongoing negotiations with:

- Turkey and Japan

There are tariff preferences under:

- The Andean Trade Preference Act – Andean Trade Promotion and Drug Eradication Act (ATPA ATPDEA)

7 – ACCOUNTING & REPORTING

ACCOUNTING STANDARDS

Colombian Law establishes that financial statements of companies incorporated in Colombia must follow Colombian accounting principles set forth in the governmental decree 2649, issued in 1993 (Colombian GAAP).

The Banking Superintendence regulates general accounting laws that must be observed by controlled companies.

Some additional regulations on specific items are included in other laws, such as the Tax and Commerce Law.

Besides the Accounting Law, entities under the control and supervision of any superintendence must comply with additional accounting guidelines issued by them.

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

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

The Government may review the Colombian GAAP to adopt International Financial Reporting Standards (IFRS) in 2017.

8 – UHY REPRESENTATION IN COLOMBIA



CONTACT DETAILS

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PCAOB registered?: Yes
Number of partners: 4
Total staff: 23

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OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

In addition to its headquarters in Bogotá, the firm has associate offices in important cities of Colombia such as Bucaramanga, Barranquilla, Cali, Medellín and Pereira.

BRIEF DESCRIPTION OF FIRM

About 50% of the firm's operations are in audit; 30% in tax; 10% in corporate finance; and 10% each in management and computer consultancy. Its portfolio is headed by clients in manufacturing, services, commerce, agriculture and technology.

SERVICE AREAS

Auditing, accounting, bookkeeping and outsourcing services
Corporate and personal tax
Corporate finance (acquisitions, sales, fundraising and flotations)
General business advice and strategic planning
International tax planning
Insolvency services
Consultancy

SPECIALIST SERVICE AREAS

Statutory Auditing
Auditing and assurance
Tax
Consulting
International Business

PRINCIPAL OPERATING SECTORS

Manufacturing
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Oil Services
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The network
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UHY AUDITORES & CONSULTORES S.A. COLOMBIA



Construction and real estate
Manufacturing
Transportation & Infrastructure
Retail & Consumer products

LANGUAGES

Spanish and English.

CURRENT PRINCIPAL CLIENTS

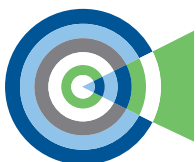
Destino Seguro S.A.; Confecciones Aviltex Ltda.; Champion Technologies Inc Sucursal Colombia; Compañía Fosforera Colombiana S.A.; Gyrodata Colombia Ltda.; Geokinetics International Inc. Sucursal Colombia; Siae Microelettronica Ltda.; Federacion Nacional de Cacaoteros Fedecacao; Iutum Colombia; Steckerl Aceros S.A.S; Tecno Inversiones Galactica S.A.S.; I+D Group S.A.S.; SMS Americas Colombia; Ingrain Inc. Sucursal Colombia; Virgin Mobile Colombia S.A.S.

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

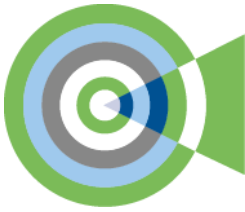
United States of America, Italy, Spain and Republic of China

BRIEF HISTORY OF FIRM

UHY Auditores & Consultores S.A. can trace its business back nearly 20 years and has developed skills in almost every economic field in Colombia. Several of the firm's partners have Big Four experience or similar.



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