

006



INCENTIVES

FOR FOREIGN DIRECT INVESTMENTS

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How does the free-trade zone regime work in Colombia?

In Colombia, free-trade zones are defined as limited geographical areas inside the national territory where industrial activities related to goods and services, as well as commercial activities under special customs, foreign trade, and tax norms, are carried out. According to the extra-territoriality principle, goods brought into free-trade zones are not considered inside the national customs territory for the purpose of import/export taxes.

There are various types of free-trade zones according to Colombian regulations:

- Permanent: Those in which multiple industrial or commercial users may be installed.
- Special permanent: Those in which a single industrial user is authorized.
- Offshore permanent: A maritime area declared being a free-trade zone for the development of offshore projects.
- Temporary: A mode created for fairs, seminars, conferences, and exhibitions.






Benefits

- Special income tax rate of 20%.
- No VAT or customs duties applicable to the entry of goods into the country.
- VAT exemption subject to a bimonthly refund from the sale of raw materials, parts, supplies, and finished goods from the national customs territory to industrial users of free-trade zones, or between users of such areas.
- No quotas or other import restrictions are applicable to imports once the goods have cleared the customs duties inside the free-trade zone.
- Possibility of partial processing inside the national customs territory.
- Benefiting from all commercial agreements celebrated by Colombia with other commercial partners.



User certification

Companies interested in qualifying as users of a permanent free trade zone must commit to the following:

 Company real productive fixed assets	 New job creation commitment	 New investment generation commitment
Less than 500 times the current monthly minimum wage	Three direct jobs upon commissioning, two during the following year, and two during the third year	No commitment
Between 501 and 5000 times the current monthly minimum wage	20 direct jobs upon commissioning	1,000 times the current monthly minimum wage within the three years following the qualification
Between 5001 and 30,000 times the current monthly minimum wage	30 direct jobs upon commissioning	5,000 times the current monthly minimum wage within the three years following the qualification
Greater than 30,000 times the current monthly minimum wage	50 direct jobs upon commissioning	11,500 times the current monthly minimum wage within the three years following the qualification

¹Source: Free-trade Zone Law

Once all requirements have been met, the average time required to be qualified as an industrial user is two months.

Once the application has been filed before the Ministry of Trade, Industry and Tourism, the average time required to be qualified as a special permanent free-trade zone is nine months.



What is the mega-investment special regime and how does it work?

This regime is intended for income taxpayers that from January 1st, 2020 to January 1st, 2024 make new investments in the national territory for values equal to or greater than 30 million Tax Value Units in any industrial, commercial, or service activity, with the exception of hydrocarbon evaluation and exploration, generating at least 400 new direct jobs.



Benefits

- A special 27% income tax rate.
- Exclusion from the presumptive taxation scheme.
- Exclusion of the special tax to dividends.
- A special 27% general dividends tax rate.
- Exclusion of the wealth tax.
- Possibility of depreciating assets during a minimum of two years, regardless of the asset service life.
- Possibility of executing tax stability agreements according to which the state will guarantee that the above-mentioned tax benefits will be available during this time.

What are the income tax exemptions?

Special regime for orange economy companies / creative industries

This is a new exemption included in Article 235-2 of the Tax Code, according to which the income generated by the development of technological value added industries and creative activities will be income tax exempted during seven years.

In addition to the income tax exemption, it also applies to free trade zone users, providing they meet the applicable conditions.

Special regime for agricultural-industrial companies

The income from investments increasing the agricultural sector productivity will be tax exempted during 10 years.

This also applies should a relationship exist with farmers associations or individual groups of farmers, or to solidarity economy entities whose objectives or targets relate to the agricultural sector.

VAT deduction for productive real fixed assets

Those responsible for the payment of the VAT have the possibility to deduct their income

tax and 100% of the VAT paid in the purchase, construction, creation and import of productive real fixed assets, including expenses incurred in associated services required to make those assets fit for use.

Science, technology, and innovation tax benefits

These are deductions, exemptions, and special treatment reducing the taxpayers' obligations. It is an incentive created to promote investment and the development of the country. It includes benefits focused specifically on the development of regions, job creation, the promotion of economic sectors, and environmental protection.

There are two cumulative benefits related to investments made in research, technological development, and innovation:

- Deduction of such investments during the year they were made, the taxable rate is the income tax base.
- Right to deduct, from such tax, 25% of the value invested in such projects.

Incentive to environmental investments

In order to obtain the tax environmental benefits, investors can have recourse to the provisions contained in the Tax Code such as:

- VAT exemption.
- Income tax deductions.

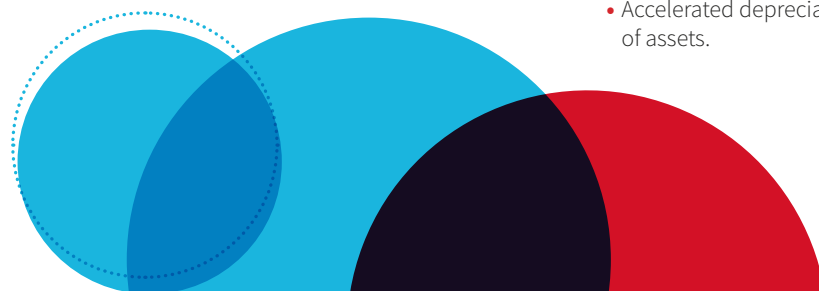
In addition, according to Law 1715 of 2004 regarding non-conventional energy sources and efficient energy management, such as:

- VAT exemption.
- Income tax deductions.
- Customs duty exemption.
- Accelerated depreciation of assets.

Incentives for non-conventional energy sources

The law considers various incentives and instruments for the generation and promotion of non-conventional energy and its efficient management, including the following:

- Special income tax deduction.
- VAT exemption.
- Customs duty exemption.
- Accelerated depreciation of assets.



Which are the incentives for job creation?

200% income tax deduction for employees with disabilities

Title III of Law 1429 of 2010 establishes that companies employing persons that are disabled, displaced or in the process of reintegrating into society will be able to access family compensation funds.

Additionally, Law 361 of 1997 contemplates a deduction on companies' income tax equivalent to 200% of the salary and social security payments disbursed for persons with a degree of disability equal to a loss of at least 25% of their work abilities, during the period for which they applied.

What are the incentives for the import/export of goods and/or services?

VAT reimbursement for service exports

Applies to services provided in the country and exclusively used abroad by companies or persons with no businesses or activities in Colombia. These services are VAT exempted and have a bimonthly refund right.

Special import-export systems - Vallejo Plan

These benefits regard the full or partial exemption of customs duties and VAT, applicable to the import of raw materials, supplies, capital goods, and spare parts for use in the production of goods or in the provision of export services.

The main programs currently included in the Vallejo Plan are:

- Raw materials and supplies.
- Replacement of raw materials.
- Capital goods and spare parts - agricultural-industrial sector.
- Capital and spare parts.
- Capital assets for the export of services.

International logistic distribution centers

Public deposits authorized by the customs authority and located in sea or river ports and in international airports, where goods can be stored, kept, and customized for distribution.

Programs	Types of operations	Decree law 444/67	Benefits	Export commitment
Raw materials	MP	Art. 172	Customs duty and VAT exemption	100%
	MQ - Maquila			60% - 40% national market
	MX - Editorial sector	Art. 173 b)		
Capital goods	BR y RR	Art.173 c)	Customs duty exemption and VAT suspension	70% of production increases
	BK y RR	Art.174	VAT suspension	1.5 times the value of the quota used
Replacement	RP	Art.179	Customs duty and VAT exemption	No export commitment
Services	SS	Decreto 2331/01	Customs duty exemption and VAT suspension	1.5 times the value of the quota used

Revenues earned by foreign companies or natural persons not living in Colombia from the sale of foreign goods stored in international logistic distribution centers are not considered revenues from national sources.





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