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flash Alert

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Colombia – New Tax Reform Introduces Wealth Tax for Individuals

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A tax reform has been approved by the Congress of the Republic of Colombia.[1] It introduces, among other modifications, a wealth tax for individuals, for fiscal years 2015, 2016, 2017, and 2018. The wealth tax will apply to individuals subject to income tax whose net worth, at January 1st of each year, exceeds COP 1 billion (USD 420,000, approx.).

Why This Matters

The wealth tax will apply for both tax residents and non-tax residents of Colombia. However, non-tax residents will be taxed only upon assets owned in Colombia (directly or through a permanent establishment) and foreign individuals who have resided in Colombia for less than five years can exclude their wealth owned abroad.

International assignment program managers will need to decide if their assignees who are liable to this tax in Colombia will be subject to the company's tax reimbursement and tax services policies with respect to this tax or if they will leave each assignee to meet his or her own liability and compliance obligations.

The tax rate applied to the wealth tax base is progressive and starts at 0.125 percent rising to 1.5 percent.

Scope of the Tax

The wealth tax will apply to residents and nonresidents for tax purposes. Tax residents will have to include assets owned in Colombia and abroad and non-tax residents will only have to include assets owned in Colombia.

The wealth tax will apply for individuals whose net worth is higher than COP 1 billion. This is calculated by including the value at January 1st of all assets owned (real estate, investments, motor vehicles, financial products and accounts, etc.) and subtracting liabilities and debts.

A taxpayer's base is equal to the net worth minus the value of the taxpayer's home (capped to USD 135,000) and minus the effective equity value of stocks owned in Colombian entities (entities listed on Colombian stock market). Effective equity value is the value of the asset multiplied by the percentage obtained after dividing the net equity by the gross equity of stocks owned in Colombian entities (e.g., gross equity: COP 2 billion; debts and liabilities: COP 1.2 billion; Net equity: COP 800 million. Percentage of net equity value is 40 percent. Thus, if the amount owned in stocks is COP 300 million, the effective equity value deductible for wealth tax purposes is COP 300 million multiplied by 40 percent that is COP 120 million.)

Foreign individuals who are considered tax residents and have resided in Colombia for less than five years are able to subtract the net amount of their assets owned abroad from the taxable base.

The progressive tax rates are as follows: 0.125 percent for taxable base between COP 0 and COP 2 billion; 0.35 percent, between COP 2 billion and COP 3 billion; 0.75 percent, between COP 3 billion and COP 5 billion; and 1.5 percent, for net equity higher than COP 5 billion.

Finally, please note that the deadline to pay the first instalment of the tax is between May and June (depending on the last two digits of the taxpayer's identity number); the second instalment is due in September.

KPMG Note

It is important to highlight that although foreign individuals who are considered residents for tax purposes have to include their assets owned abroad in the base of the wealth tax, if they have resided in Colombia for less than five years they can subtract the net value of such assets owned abroad and exclude them from the taxable base.

Finally, the formal process for filing the wealth tax return and paying the wealth tax has not yet been detailed by the authorities. We expect that this regulation will be issued within the next few weeks. The KPMG International member firm in Colombia will endeavor to keep readers informed of any further developments.

Footnote:

1 Ley 1739 del 23 de diciembre de 2014.

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COP 1 = USD 0.000425
COP 1 = EUR 0.000365
COP 1 = GBP 0.000280
COP 1 = PAB 0.000425