

# GMS Flash Alert

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## Colombia – Tax Reform with Measures Impacting Individuals

Colombia's government has enacted a significant, wide-ranging tax reform, affecting direct and indirect taxation and impacting individuals, corporations, and non-profits.

In this *GMS Flash Alert* we focus on the measures impacting individuals introduced by law 1943 of December 28, 2018 (known as "Financing Law").<sup>1</sup>

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### WHY THIS MATTERS

Because of the changes to the income tax system and the reform of indirect taxation (which will affect cost of living), the overall tax burden may be increasing for many and, consequently, companies with international assignees who are subject to Colombian taxation may see a rise in their assignment-related costs.

In cases of assignments to Colombia where assignees are subject to Colombian taxation, and for assignees working outside Colombia but still subject to Colombian taxation, international assignment cost projections and budgeting should reflect the changes described in this newsletter. Where appropriate, adjustments to gross-up packages and withholding taxes may need to be considered.

Each individual's tax status should be determined in light of his or her particular situation

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### Basket System of Taxation

The taxable base is allocated across three baskets starting with fiscal year 2019 (previously, this was five baskets).

- a) General basket (labor, interest/rental income, and non-labor income)
- b) Pension basket
- c) Dividends basket.

## Severance Payments

Severance payments will be considered income to individuals:

- at the moment of the payment by the employer; or
- when the payment is made to the severance fund.

Severance payments will be exempt income based on individual limits (section 206 Tax Code) and global limits of the general basket.

## Voluntary Contributions to Mandatory Pension Funds

Contributions to mandatory pension funds are still deemed as exempt income capped to 30% of labor or tax income (and to 3,800 UVT<sup>2</sup> – 2019: COP 130,226,000), and also to the global limit of the general basket (40% of net income not to exceed 5,040 UVT – 2019: COP 172,720,800).

## New Tax Rates

Updated tax rates apply for tax resident individuals, along with increased taxable base ranges, and changed tax rates up to 39% (previously the highest tax rate was 33%).

Brackets UVT*		Tax Rate	Tax Calculation
From	To		
>0	1.090	0%	0
>1.090	1.700	19%	(Taxable Base in UVT minus 1.090 UVT) x 19%
>1.700	4.100	28%	(Taxable Base in UVT minus 1.700 UVT) x 28% + 116 UVT
>4.100	8.670	33%	(Taxable Base in UVT minus 4.100 UVT) x 33% + 788 UVT
>8.670	18.970	35%	(Taxable Base in UVT minus 8.670 UVT) x 35% + 2296 UVT
>18.970	31.000	37%	(Taxable Base in UVT minus 18.970 UVT) x 37% + 5901 UVT
>31.000	onwards	39%	(Taxable Base in UVT minus 31.000 UVT) x 39% + 10.352 UVT

**\*For FY19, each UVT (Tax Value Unit for its acronym in Spanish) is equal to COP 34.270**

## Dividends

Dividends distributed as non-taxable income (already paid taxes at the corporate level) received by shareholders now will be taxed starting from 300 UVT (2019: COP 10,281,000) at a marginal rate of 15% for tax residents and 7.5% for nonresidents. Additionally, for dividends that correspond to profits that if distributed would be taxed to a Colombian company, the tax rate will be 33% (2019), 32% (2020), 31% (2021), and 30% (from 2022).

## Life Insurance

Indemnities received for life insurance will be considered as a capital gain, if the amount received exceeds 12,500 UVT (2019: COP 428,375,000). The applicable tax rate is 10%.

## Presumptive Income

A taxpayer's presumptive income must be compared against the general basket tax base. A tax rate of 1.5% will apply during fiscal years 2019 and 2020, and 0% from fiscal 2021.

## Wealth Tax Return

The wealth tax return will be in force for 2019, 2020, and 2021 fiscal years, and applies to:

- individuals considered as tax residents, or
- nonresidents with assets in Colombia.

The taxable event occurs if the taxpayer's net equity is equal to or exceeds COP 5,000 million (approximately USD 1.5 million), at January 1, 2019. The tax rate will be 1% for each taxable year.

Taxable base: A taxpayer is allowed to exclude the value of his or her household up to 13,500 UVT (2019: COP 462,645,000). The taxpayer is not allowed to exclude any investments in shares.

## Normalization Tax

Individuals will be liable for the "normalization tax" if they have "non-real" liabilities and missing (or undeclared) assets as of January 1, 2019. The deadline to file returns is September 25, 2019.

The tax rate will be 13%. If a taxpayer normalizes assets abroad and invests such funds in Colombia, with the intention to be "permanent" (realized before December 31, 2019, and remain a minimum two years) the taxable base will be 50% of undeclared assets.

## National Consumption Tax on Sale of Real Estate

Sales of real estate that exceed 26,800 UVT (2019: COP 918,436,000 – USD 290,000) will be subject to filing. The taxpayer must pay the national consumption tax rate of 2% on the sales amount.

## Withholding Tax on Payments to Nonresidents

The withholding tax rate has been increased from 15% to 20% and applies to payments to nonresidents, for example, for labor or personal services.

## FOOTNOTES:

1 For the new law (*Ley 1943 del 28 de diciembre de 2018, Ley de financiamiento*), see (in Spanish): [click here](#).

2 UVT (Tax Value Unit for its acronym in Spanish) equals to COP 34,270, for FY19.

## Contact us

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**The information contained in this newsletter was submitted by the KPMG International member firm in Colombia.**

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