



GMS Flash Alert

2022-224 | December 21, 2022



Colombia - New Tax Reform Enacted

On December 13, the Congress of the Republic issued Law 2277 that, among other things, introduced changes to the taxation of individuals in Colombia, and will enter into force January 1, 2023.¹

In this *GMS Flash Alert*, we focus on the measures impacting individuals introduced by the tax reform.

WHY THIS MATTERS

Because of the changes to the income tax system and the reform, 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.

More Details

Individual Income Tax

Foreign nationals who stay more than 183 days in Colombia are considered to have a tax residence in Colombia.²

There is a "tax discount" that allows foreign nationals to recognize taxes paid abroad on foreign-source income. However, all income received for all services rendered in Colombian territory will be considered national-source income (under Article 24 Tax Statute) regardless of where it is paid from, and taxes paid abroad will not be recognized in respect of this income.

© 2022 KPMG S.A.S. y KPMG Advisory, Tax & Legal S.A.S., sociedades colombianas por acciones simplificadas y firmas miembro de la red de firmas miembro independientes de KPMG afiliadas a KPMG International Limited, ("KPMG International"), una entidad inglesa privada limitada por garantía. Todos los derechos reservados. Printed in the U.S.A. NDPPS 530159

Being a tax resident in Colombia means the foreign national must declare all income (domestic and foreign-source income).

- Income associated with income from labor, capital, non-labor, pensions, and dividends, is taxed at the progressive rates to which natural persons are typically subject (between 0 percent and 39 percent). Within this sum, capital gains will not be included.
- The 25-percent exemption limit applicable to labor income is reduced to 790 UVT³ annually (approximately COP 33.5 million or USD 7,000). Currently the limit is 2,880 UVT (approximately COP 109 million or USD 22,800).
- The limit of exempt income and deductions of the general box continues to be 40 percent of gross income minus non-taxable income, without exceeding an annual value equivalent to 1,340 UVT (approximately COP 57 million or USD 12,000), today the limit is 5,040 UVT (approximately COP 192 million or USD 42,000).
- Apart from the previous limit, a deduction for up to four economic dependents is proposed, each for 72 UVT annually (approximately COP 3 million or USD 635).
- Those who have income from the general box (labor income, capital income and non-labor income), may request as a deduction 1 percent of the purchases of goods and/or services made during the taxable period and supported by an electronic invoice with prior validation. This deduction has the following characteristics: i) It may not exceed 240 UVT annually (approximately COP 10 million or USD 2,100); ii) It is not included within the general limit of exempt income and deductions of 40 percent or 1,340 UVT; iii) It does not require that there be a causal link; iv) No other tax benefit may be taken for this deduction; and v) The payment of the goods and/or services must have been made through the banking system in the taxable year in which the deduction is requested.
- The threshold of gross income from which natural persons are taxed is not modified.

Pension

The currently existing pension exemption is finally maintained at 12,000 UVT annually (approximately COP 509 million or USD 106,000). This benefit is extended to pensions obtained abroad by taxpayers residing in the country.

Capital Gains Tax

- Increase in capital gains tax rate to 15 percent (from 10 percent).
- Exempt capital gains limit:
 - Life insurance claims: up to 3,250 UVT (previously 12,500 UVT);
 - Inheritance, when the taxpayer receives:
 - House up to 13,000 UVT;
 - Other real estate property different than a house up to 6,500 UVT;
 - Other assets or investments up to 3,250 UVT.
 - Gifts and donations, up to 1,625 UVT.
- Profits from a home sale are exempt up to 5,000 UVT, when all the income received from the sale is deposited into an AFC bank account with the aim of acquisition of another house, or for total or partial payment of a mortgage related to the house sold. If proceeds are used to pay totally or partially a mortgage related to the house, there is no need to deposit into an AFC account.

Dividend Tax

- For tax residents, dividend income will be combined with labor, capital, non-labor, and pensions incomes and subject to ordinary tax rates with a progressive range from 0 percent to 39 percent. (Previously, dividend income had an individual tax rate: 10 percent higher than 300 UVT).
- Increase in the income tax rate and withholding tax rate applicable to nonresidents on the distribution of dividends out of previously taxed income to 20 percent (from 10 percent).
- Withholding tax rate for tax residents' dividend income will be 15 percent higher than 1,090 UVT. (Previously 10 percent higher than 300 UVT.)
- New tax credit for dividend income higher than 1,090 UVT: 19 percent marginal tax credit rate.

Wealth Tax

- New wealth tax applicable for individuals who hold net equity (gross assets less debts) as of January 1 each year that exceeds 72,000 UVT.
- Tax residents are subject to tax on their worldwide wealth, and non-tax residents are subject to tax on wealth held in Colombia, directly or indirectly through a permanent establishment.
- Taxpayers are allowed to exclude the value of their household up to 12,000 UVT.
- As follows, the wealth progressive tax rates applicable for 2023, 2024, 2025, and 2026:

Brackets in UVT*		Progressive tax rate	Tax
From	To		
> 0	72,000	0.0%	0
> 72,000	122,000	0.5%	Taxable wealth in UVT* less 72,000) x 0.5%
> 122,000	239,000	1.0%	Taxable wealth in UVT less 122,000) x 1.0% + 250 UVT
> 239,000	upwards	1.5%	Taxable wealth in UVT less 239,000) x 1.5% + 1,420 UVT

*For FY23, each UVT (acronym for "tax value unit" in Spanish) is equal to COP 42,412.

Wealth progressive tax rates applicable from 2027:

Brackets in UVT*		Progressive tax rate	Tax
From	To		
> 0	72,000	0.0%	0
> 72,000	122,000	0.5%	(Taxable wealth in UVT less 72,000) x 0.5%
> 122,000	239,000	1.0%	(Taxable wealth in UVT less 122,000) x 1.0% + 250 UVT

Source: KPMG in Colombia

KPMG NOTE

Those with questions concerning the changes to the rules and rates and how they may be impacted should contact their qualified professional tax advisers or a member of the tax team with KPMG in Colombia (see the Contact Us section below).

FOOTNOTES:

- 1 Ley 2277 de 2022 on the Función Pública website:
<https://funcionpublica.gov.co/eva/gestornormativo/norma.php?i=199883> .
- 2 For a brief review of taxation in Colombia, see the KPMG publication "[Colombia: Thinking Beyond Borders](#) .”
- 3 UVT (acronym for “Tax Value Unit” in Spanish) equals to COP 42,412 for FY23.

* * * *

We are pleased to share with you the 2022 KPMG Global Assignment Policies and Practices Survey Report

For global-mobility leaders of multinational organisations, benchmarking their global-mobility policies and practices against those of other global organisations can be a powerful tool for reflecting on their current approach and preparing their talent-mobility program for the future.

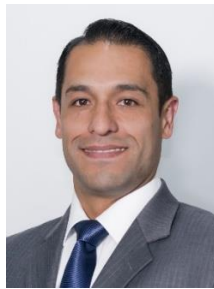
The [results of this year’s survey](#) shed light on how global-mobility programs are evolving in terms of mobility, tax, and immigration policies, governance, technology and more!

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Colombia:



Ricardo Andres Ruiz
Socio
Tel. +57 16188000
ricardoaruz@kpmg.com



Carlos Neira
Director
Tel. +57 3186811962
ceneira@kpmg.com

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

© 2022 KPMG S.A.S. y KPMG Advisory, Tax & Legal S.A.S., sociedades colombianas por acciones simplificadas y firmas miembro de la red de firmas miembro independientes de KPMG afiliadas a KPMG International Limited, ("KPMG International"), una entidad inglesa privada limitada por garantía. Todos los derechos reservados.

www.kpmg.com

kpmg.com/socialmedia



© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG LLP is the U.S. firm of the KPMG global organization of independent professional services firms providing Audit, Tax and Advisory services. The KPMG global organization operates in 147 countries and territories and has more than 219,000 people working in member firms around the world.

Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

Flash Alert is a GMS publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click here. To learn more about our GMS practice, please visit us on the Internet: click here or go to <http://www.kpmg.com>.