Colombian executive branch presents a new tax reform bill before the congress

October 16, 2024

In brief

What happened?

In September 2024, the Colombian Government presented Tax Reform Bill - Draft Law 300. The Bill introduces several changes to the income tax and value added tax (VAT) rules, among others.

Why is it relevant?

If Congress passes the Bill, most changes are expected to come into effect on January 1, 2025.

Action to consider:

Multinational enterprises with presence in Colombia should evaluate the proposed changes and assess potential impact to their local operations.

In detail

Some of the most significant changes proposed in the Bill include:

Corporate Income Tax (CIT)

- Reduction of the general CIT rate of 35% to progressive rates ranging from 27% to 33% based on the taxpayer's net taxable income, as follows:

Net taxable Income based on Colombian tax units[1]		2025	2026	2027	2028	2029 and onwards
Over	Up to					
0	6,285 (USD69k)	27%				
> 6,285 (USD69k)	120,000 (USD1.3m)	34%	33%	32%	31%	30%
> 120,000 (USD1.3m)	And up	34%	33%			

  - The Bill preserves the 35% CIT headline rate for oil exploration and production companies and the coal industry. It also preserves the up to 15% CIT surcharge introduced in 2023 for oil exploration and production companies and increases the surcharge for the coal industry to up to 15% (from 10%).
  - CIT surcharges for financial and hydropower industries and financial institutions remain unchanged.
  - The 20% CIT rate for free trade zone users also remains unchanged.
- Increase of the 15% Minimum Effective Tax Rate (METR) introduced in 2023 to 20%.
- Deductibility of costs and expenses is allowed to the extent the applicable withholding tax is timely remitted. Currently, such a condition only applies to payroll and cross-border expenses.
- Increase of the capital gains tax rate applicable to the transfer of fixed assets held in Colombia (including shares) that are held for two years or more to 20% (up from the current 15% rate) for resident and nonresident taxpayers. The transfer of fixed assets held for less than two years continues to be subject to the general CIT rate (i.e., new progressive rates introduced by the Bill).
- Repeal of the short-term statute of limitations of six or 12 months currently available under certain circumstances.

Payroll tax withholding

Repeal of the payroll tax withholding computation system that allowed employers to apply a fixed monthly payroll tax withholding rate based on the average payroll income of each employee over the prior 12 months. Thus, the only computation method available would be based on actual monthly income.

Carbon tax

- Increase of rates corresponding to specific values per ton, gallon, or cubic square of various fuels (as detailed in chart below). In addition, applicable rates must be settled in tax units instead of COP. Exports remain out of the scope of this tax.

Fossil fuel	Current tax rate	Proposed rate[2]
Coal per TON	COP $65,713	4.048 tax units (COP $190,519)
Fuel oil per GAL	COP $300	0.019 tax units (COP $894)
Diesel (ACPM) per GAL	COP $191	0.016 tax units (COP $753)
Jet fuel per GAL	COP $202	0.016 tax units (COP $753)
Kerosene per GAL	COP $197	0.016 tax units (COP $753)
Gasoline per GAL	COP $169	0.014 tax units (COP $659)
Liquefied petroleum gas per GAL	COP $134	0.010 tax units (COP $471)
Natural gas per cubic meter	COP $36	0.003 tax units (COP $141)

- Acceleration of the phased approach for the application of the increased rates to coal mining, which was initially planned to be gradually introduced through FY 2028. Specifically, the rate is increased by 75% for FY 2025 and by 100% starting in FY 2026 (i.e., the overall rate would be 4.048 tax units per ton for 2026).

Wealth tax

- Inclusion of legal entities and permanent establishments as taxpayers, but only with respect to non-productive fixed assets held in Colombia, which would be subject to a 1.5% wealth tax rate.

VAT

- Increase of the VAT rate for hybrid vehicles to 19% (up from 5%).
- Exemption for tourism and hotel services in municipalities with fewer than 200,000 inhabitants.
- Zero-rate treatment for goods of public passenger transport vehicles and public or private freight transport vehicles that meet EURO VI or equivalent emission standards, or use low emission/non-polluting technologies, as from FY 2026 until FY 2029.
- Online gambling, currently exempt, would become taxable at the general 19% rate.

Miscellaneous

- The Bill allows the 50% bonus deduction for investments in non-conventional energy sources or energy efficiency projects, which can be transferred to third parties by the taxpayer.
- Reduction of penalty applicable in case of voluntary disclosure of non-compliance with electronic invoicing. The new penalty is only monetary. Currently, the penalty may also involve the closure of the commercial establishment for three days. The new penalties are as follows:

- 10 tax units (approx. 111 USD) per transaction for transactions valued at 6 tax units (approx. 67 USD) or less.
- 20 tax units (approx. 222 USD) per transaction for transactions valued between 6 and 12 tax units (approx. 67 USD to 134 USD).
- 30 tax units (approx. 333 USD) per transaction for transactions valued at more than 12 tax units (approx. 134 USD).
- The penalty cannot exceed 5% of the value of the unbilled transactions or 3% of the value of invoiced transactions lacking the required compliance per month.

Let's talk

For a deeper discussion of how the proposed tax measures might affect your business, please contact:

International Tax Services, United States

Maria Bel
+1 646 637-2461
maria.j.bel@pwc.com

Luis Vargas
+1 347 325-4171
maximo.l.vargas@pwc.com

Alba Lucia Gomez
+57 (601) 743-1111
alba.gomez@pwc.com

International Tax Services, Colombia

Carlos Miguel Chaparro
+57 (601) 743-1111
carlos.chaparro@pwc.com

Angela Liliana Sanchez
+57 (601) 743-1111
angela.liliana.sanchez@pwc.com

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