

COLOMBIA



MERITAS[®]
LAW FIRMS WORLDWIDE

DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN





MERITAS®
LAW FIRMS WORLDWIDE

DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN

PREPARED BY MERITAS LAWYERS
IN LATIN AMERICA AND THE CARIBBEAN



Published by Meritas, Inc. • 800 Hennepin Avenue, Suite 600
Minneapolis, Minnesota 55403 USA

+1.612.339.8680 | +1.612.337.5783 FAX | WWW.MERITAS.ORG

© Copyright 2012, Meritas, Inc. All rights reserved.

DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN

This publication has been prepared by the lawyers of Meritas firms to provide an overview to foreign investors and business people who have an interest in conducting business in Latin America and the Caribbean. The material in this publication is intended to provide general information only and not legal advice. This information should not be acted upon without prior consultation with legal advisors familiar with the specifics of your particular matter.

Meritas firms offer clients the ability to access high quality legal service throughout Latin America and worldwide. With 6,900 experienced lawyers in 177 full-service law firms serving 236 markets, Meritas gives your company access to local counsel around the world.

Meritas firms

- Offer high quality, worldwide legal services through a closely integrated group of full-service law firms
- Are subject to rigorous selection criteria and continuous monitoring for quality of service through regular assessments and recertifications.
- Provide global reach and access to local knowledge at market rates
- Offer coordinated service across jurisdictions
- Can be found on www.meritas.org which enables direct access to firms through a searchable database of attorney skills and experience plus links to contacts at each Meritas firm

The following currency notations are used in this book.

ARS	Argentinean Peso	DOP	Dominican Republic Peso
BSD	Bahamian Dollar	GTQ	Guatemalan Quetzal
BRR	Brazilian Cruzeiro Real	HNL	Honduran Lempira
KYD	Cayman Dollar	MXN	Mexican New Peso
COP	Colombian Peso	NIO	Nicaraguan Córdoba
CRC	Costa Rican Colón	PYG	Paraguayan Guarani
USD	United States Dollar	UYU	Uruguayan Peso

Please be aware that the information on legal, tax and other matters contained in this booklet is merely descriptive and therefore not exhaustive. As a result of changes in legislation and regulations as well as new interpretations of those currently existing, the situations as described in this publication are subject to change. Meritas cannot, and does not, guarantee the accuracy or the completeness of information given, nor the application and execution of laws as stated.

Colombia is located in the northernmost part of South America. Its population is estimated at over 45 million people, with at least 10 million living in the capital city of Bogotá. Colombia's main language is Spanish.

Colombia has a democratic and centralized government. It is divided politically into departments, districts and municipalities.

The President of the Republic is the Chief of State and is elected for a four-year term. Reelection is available for an additional term. The Congress is divided in two chambers, one of national constituency and one of territorial constituency. The courts hold power over the administration of justice. In May 2010, Juan Manuel Santos was elected as Colombia's president and he will be in office until 2014.

Colombia's Gross National Product (GNP) has constantly increased over the past years. Up to the second trimester of 2012, it closed with a 4.4% increase.

FOREIGN INVESTMENT

The cornerstone principle of foreign investment regulations in Colombia is the nondiscrimination of the foreign investor vis-à-vis national investors (and vice versa). Foreign investment is permitted in nearly all economic sectors except for the national defense industry and the processing or disposal of hazardous, toxic or radioactive waste not manufactured in Colombia. In addition, there are limitations applicable to the oil and gas and financial sectors, as well as to the concessions for the television media and certain activities of private security.

There are screening laws applicable to foreign direct investment in the banking industry. An investment in more than 10% of the outstanding voting stock of a financial institution requires prior approval of the Financial Superintendence. This approval may not be denied provided the investment "promotes public welfare, and that investor duly credits its moral and financial solvency" as such is ascertained by the Financial Superintendence. Additionally, companies that participate in concessions for television media services may not have a participation of foreign investment beyond 40% of their total capital.

There are two modalities of foreign investment: foreign direct investment and portfolio foreign investment. Foreign direct investment is defined as the equity contribution made to the capital of local companies or for the acquisition of real estate by non-Colombians. Foreign direct investment may take the form of, inter alia, the importation of freely convertible currencies for the purchase of

capital quotas, shares issued by local companies, real estate properties or the investment in private equity funds.

Portfolio foreign investment can be characterized as investment made through local capital markets. Investors are driven by their interest in earning investment returns, rather than controlling a productive enterprise conducted within the country. Such investments must be channeled through portfolio foreign investment funds duly authorized by the Financial Superintendence. Such funds are organized as collective investment accounts funded through contributions made by foreign companies or individuals.

RIGHTS OF FOREIGN INVESTORS

Except for the need to report a foreign investment before the Central Bank (*Banco de la República*), normally carried out through a local bank or other financial institution and the requirement to meet other periodic reporting obligations, the remittance of proceeds and other investment returns are free under the foreign investment regime in Colombia.

As corollary to the nondiscrimination principle enshrined in the Colombian foreign investment laws, duly reported foreign investments confer the following rights to the investor:

- Remittance abroad of proceeds of invested currency (i.e., dividends)
- Reinvestment of all proceeds, if so desired by the investor
- Capitalization of investment proceeds
- Remittance of investment sale proceeds or remaining funds abroad after the local company is wound up or liquidated

These exchange rights may not be diminished or curtailed, except as a consequence of temporary measures adopted by the Central Bank or the government whenever the country's international reserves are reduced to less than three months of imports. This has not occurred since the exchange regime was liberalized in 1991.

Additionally, Colombian law prohibits illicit expropriation of private property. Therefore, expropriation is only possible when there is valid justification for reasons of public use or social interest, in good faith, with respect to the due process and having made a prompt, adequate and effective compensation.

LEGAL STABILITY AGREEMENTS

Law 963 of 2005, regulated by Decree 2950 of 2005, established the possibility for private investors to enter into legal stability contracts when making new investments or expanding the existing ones in the amount of COP3.907 billion (USD2.17 million) or more. These agreements are entered into with the

respective ministry in charge of the sector where the investment is targeted. Their purpose is to promote fresh foreign or local investments in certain business areas such as tourism, mining, oil, energy and infrastructure, among others, by guaranteeing the application of a stable legal framework for the investor. As consideration for such stability, investors pay a premium ranging from 0.5% to 1% of the amount to be invested.

Stability agreements must specify the exact regulations applicable at the time of execution in order for these to be applied without change during a period of no less than three years and not exceeding 20 years.

Investors interested in this type of agreement must file an application, along with a feasibility study relating to the investment to be made. Any such request shall be revised and approved by an official committee established as per Decree 2950 of 2005 for such purpose.

The main obligations of an investor under a stability agreement include that of actually making the investment, or enhancing an existing investment. There is, of course, the obligation to pay the stability premium. Failure to observe any of the foregoing requirements will result in an early termination of the agreement.

Finally, it is worth mentioning that legal stability agreements may not contravene mandatory provisions of local or international law. Once the parties execute a stability agreement, and it has been evaluated and approved by the relevant committee, it must be filed before the Department of National Planning (*Departamento de Planeación Nacional*).

ANTITRUST

All integration operations (i.e., mergers and acquisitions) with any effect in Colombia need the prior clearance from the Superintendence of Industry and Commerce (SIC) as established by Law 1340 of 2009, provided that the concerned parties have a local market share of more than 20% and that for the year immediately prior to the projected transaction their Colombian operation results in (i) turnover or (ii) assets (individually or in aggregate) beyond a threshold established yearly by the SIC. Such threshold is normally established in minimum monthly legal salaries (MMLS), determined yearly by the national government. For the year 2012, the MMLS is COP566,700 (equivalent to USD315 at an average exchange rate of COP1,800 per USD1) and Resolution 69901 of the SIC determined the antitrust clearance threshold is 150,000 MMLS (equivalent to USD39.75 million). If any or both of the thresholds are met but the market share is below 20% no prior clearance is required; the SIC only has to be notified of the transaction. For the above purposes it is understood that the parties share a common market whenever they engage in the same activity or are part of the same value chain.

SETTLEMENT OF DISPUTES

In Colombia, applicable regulations provide for different types of judiciary and nonjudiciary procedures for settlement of disputes. Such dispute settlement alternatives are available to foreign and local parties, including governmental agencies.

As of enactment of Law 315 of 1996, arbitration clauses in international contracts are valid in Colombia. Such law also recognizes the possibility for parties to an international contract to choose the law applicable to any possible dispute that may arise therefrom. Such provisions are only prohibited if included with the intention to evade mandatory provisions otherwise applicable under Colombian law. This law was repealed in 2012 and will only be applicable to the arbitral processes that had initiated when it was in force.

The arbitral awards that are initiated on September 2012 or later will be ruled by the National and International Arbitrage Statute (Law 1563 of 2012), that was enacted in mid-2012. Its main purpose was to simplify and streamline national arbitration and modernize international arbitration regulations in Colombia, for which it was based on the UNCITRAL Model Law on International Commercial Arbitration. In this vein, it must be noted that Colombia is a signatory party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

In addition, Colombia is a party to the Convention on Settlement of Investment Disputes between States and Nationals of Other States. Therefore, subject to certain conditions, arbitration before the International Centre for Settlement of Investment Dispute (ICSID) is available to foreign investors in Colombia.

BUSINESS ENTITIES

The mere holding of ownership interests in investment concerns in Colombia does not create the obligation to be legally established within the country. However, if in addition to holding an investment, the intention of the investor is to conduct permanent activities in Colombia, the establishment of a local branch office or a local company will be required under applicable regulations. Both vehicles can be used for the performance of any activities in Colombian territory and in that aspect there is no distinction between them. The decision of one or the other will be contingent mostly on the needs of the beneficial owner, namely how it intends to manage the fund flow to the local Colombian vehicle and how much of the activity of such vehicle is likely to be changing.

For the incorporation of a company in Colombia, the investor needs to select a suitable corporate form. The Colombian Commerce Code provides for a number of corporate forms, ranging from partnerships to stock corporations.

SIMPLIFIED SHARES CORPORATION (SAS)

As of enactment of Law 1258 of 2008, the preferred corporate form is that of a simplified shares corporation (by its Spanish initials SAS) which has proven to be the simplest, easiest vehicle for both local and foreign investors. Not only can this type of company be incorporated with a single shareholder and by private document but capital contributions do not have to be made at incorporation. In addition, the liability of shareholders is limited to their actual capital contribution (even for tax and labor obligations) and the corporate veil can only be lifted if it is proven that the vehicle has been used to defraud third parties. Further, an undetermined corporate purpose and an undefined term of existence may be established. Finally, this type of company allows shareholders to freely agree on the terms of the company's bylaws.

Minimum Equity

The amount of authorized (reserve shares), subscribed and paid capital can be freely established by the shareholder(s), as well as the means and term of payment, the latter not to exceed two years.

Number of Shareholders

An SAS can be incorporated with any given number of shareholders (even with a single shareholder).

Shareholders' General Assembly /Board of Directors

The shareholders' assembly is the chief body of the SAS, unless authority is given to other corporate bodies if so decided by the shareholders. An SAS is not mandated to have a board of directors, and if it does, it can be made up of a single member.

This body is to be convened at least once a year, within the first quarter of each calendar year, to approve yearly financial statements along with a management report for the preceding fiscal year and the distribution of profits.

Management

Management of the SAS is entrusted in principle to appointed officers (to be shared with the board of directors if such body is included in the articles of incorporation) with the powers and limitations freely determined.

Statutory Auditor

The company shall only be compelled to have an external fiscal auditor when the value of its gross assets as of December 31 of the immediate prior year is or exceeds 5,000 MMLS (approx. USD 1.57 million) and revenues in excess of 3,000 MMLS (approximately USD 944,500).

The external fiscal auditor shall be a licensed accountant, bearer of an in effect professional card.

Restrictions

According to a legal provision, companies that intend to trade their shares in the stock market cannot have the SAS structure. If they are intended to act for the rendering of public utilities, certain specific requirements need to be met.

Formal Requirements

The shareholders or their representatives (by proxy) shall execute the document containing the company's bylaws which is a private document (document of incorporation). The content and the signatures of such document must be authenticated before a notary public or the Chamber of Commerce secretary.

The document of incorporation, once authenticated, shall be recorded in the Chamber of Commerce of the municipality chosen as main domicile of the company. This type of company is understood incorporated once the incorporation documents have been duly recorded in the corresponding mercantile register.

LIMITED LIABILITY COMPANIES

These are called *Sociedades de Responsabilidad Limitada* or *Ltda.* for its Spanish abbreviation, which must be included in the corporate name. This type of corporate form limits partners' liability to the amount of their respective capital contributions, except for labor and tax liabilities. With respect to such liabilities, partners will be held subsidiary, albeit jointly, responsible with the company.

Minimum Equity

There is no minimum capital required for this type (or any type of company in Colombia). However, the company's capital contributions must be fully paid at all times as from incorporation.

Capital is divided into quotas of same par value each, which are negotiable according to the law and the bylaws. Except as otherwise agreed under the bylaws, partners to a limited liability company are vested with a preferential right of purchasing the company's outstanding quotas when other partners decide to sell their participation. The assignment of quotas is deemed as a bylaw amendment and therefore requires that a decision by the board of partners be taken and thereafter enacted by means of a public deed to be later registered with the Chamber of Commerce of the city of domicile of the company.

Number of Partners

A limited liability company must be incorporated by a plural number of partners, without exceeding 25.

Board of Partners/Board of Directors

The board is the corporate body at which venue material decisions for the company are taken, *inter alia*, amendment of corporate bylaws, early dissolution, mergers, split-offs, spin-offs, appointment of administrators, profit distribution, etc.

The board of partners needs to be convened at least once a year, within the first quarter of each calendar year. At this yearly meeting, yearly financial statements are approved along with the administration activities for the preceding fiscal year and the distribution of profits.

This type of company is not mandated to have a board of directors but such body can be included within the corporate structure if so decided in the incorporation documents.

Management

At least one of the partners is called to manage the company. However, any individual without capital ownership may be appointed to administer the company.

Formal Requirements

Except as noted below, the bylaws of the company must be extended through a public deed granted before a Colombian notary public. A copy of this public deed of incorporation must be registered before the Chamber of Commerce of the domicile of the company.

Notwithstanding the foregoing, if the company's assets at the time of incorporation do not exceed 500 MMLS (approx. USD 157,416) and the number of employees is fewer than 10, the company can be incorporated through the execution of a private document signed by the partners. Such private instrument must be registered before the corresponding Chamber of Commerce. If the company exceeds these asset and employee thresholds, it will be required to amend its bylaws through a public deed.

Statutory Auditor

Limited liability companies must have a statutory auditor when they have assets in excess of 5,000 MMLS (approx. USD 1.57 million) and revenues in excess of 3,000 MMLS (approx. USD 944,500).

The auditor must be a certified accountant.

STOCK CORPORATIONS

Stock corporations, known as *Sociedades Anónimas*, are the classic for-profit corporate form. They are essentially characterized by the shareholders' liability

limitation up to the amount of their respective stockholdings. Although any such corporation may well negotiate its shares within the local capital market, its corporate bylaws may establish preemptive rights for the subscription or negotiation of shares issued by the corporation.

Minimum Equity

There is no minimum required capital stock. However, at least 50% of the corporation's share capital must be subscribed on the date of incorporation. In addition, at least one-third of each subscribed share must be paid in full. Payment of the remaining share price may be deferred for up to one year.

Number of Shareholders

Stock corporations must be organized with at least five shareholders, none of whom may hold 95% or more of the corporation's outstanding share capital.

Shareholders' Meeting

The shareholders' meeting is the corporation's supreme governing body. It is to be convened at least once a year, within the first quarter of each calendar year in order to approve the preceding year's financial statements, the administration activities for the preceding period, and profit distribution.

Board of Directors

A board of directors is a mandatory corporate body for administration in stock corporations. This decision-making body is entrusted with the establishment of the day-to-day management policies of the corporation. Normally, the board of directors approves the execution of certain agreements (depending on their nature or number), and adopts decisions that are material in the ordinary course of the corporation.

The board of directors must have at least three members with their respective alternates. The shareholders' meeting is in charge of appointing directors.

It is noteworthy that directors are not allowed to act as such on more than five boards of directors simultaneously. This prohibition also applies to affiliated companies.

Management

Management officers of stock corporations are appointed by the shareholders' meeting. Management is normally comprised of at least one executive officer who is responsible for the representation of the company vis-à-vis third parties.

Powers and limitations of the authority of legal representatives are set forth in the company's bylaws. Such powers and limitations need to be duly publicized by the mercantile registry kept by the corresponding Chamber of Commerce. If no such limitations are specified in the bylaws, or if so specified are not

publicized in the mercantile registry, it is understood that legal representatives may act on behalf of the company without restrictions as long as such activities fall within the company's corporate purpose or relate directly with its ordinary course of business.

Statutory Auditor

The statutory auditor is an independent individual within the corporation's structure. The statutory auditor is mandatory for stock corporations.

The statutory auditor has the duty to ensure

- That all acts and contracts of the corporation are in compliance with legal and corporate requirements
- That accounting records are kept in accordance with Colombian generally accepted accounting practice
- That all adequate safeguard measures are set in place to protect and defend the assets of the corporation

Formal Requirements

Bylaws of the corporation need to be extended through a public deed granted before a Colombian notary public. A copy of this public deed of incorporation needs to be registered before the Chamber of Commerce of the domicile of the company.

Notwithstanding the foregoing, just as the stock companies, if the company's assets at the time of incorporation do not exceed 500 MMLS (approx. USD283.35 million) and the number of employees is fewer than 10, the company can be incorporated through the execution of a private document signed by the partners. Such private instrument must be registered before the corresponding Chamber of Commerce. If the company exceeds these asset and employee thresholds, it will be required to amend its bylaws through a public deed.

BRANCH OFFICES OF FOREIGN COMPANIES

As indicated above, nationals of other countries intending to directly conduct permanent activities within Colombian territory have to be present in Colombia as a matter of law, at least through a branch office. Even though Colombian law does not provide a defined term to determine whether or not an activity is permanent, it is generally accepted that the term is of six months or more.

The opening of a branch under Colombian regulations requires the decision from the competent body of the parent company. Such decision will need to address not only the decision to open a branch in Colombia but further (i) the activities to be carried out; (ii) the local domicile; (iii) duration of the branch; (iv) causes for termination of the venture in Colombia; (v) allocation of capital

contribution to the branch; and (vi) appointment of general representatives and fiscal auditors. Such decision is to be legalized (by apostille or consular certification) and notarized in Colombia together with its parent company’s bylaws.

All the above documents are to be legalized by means of a public deed to be registered before the Chamber of Commerce of the place of its domicile; thereafter both the parent company and the branch will share the same tax identification number (NIT) that will be granted by the tax authorities.

TAXATION

Relevant Colombian taxes include income tax, value added tax (VAT), stamp tax, levy over financial transactions, equity tax, and municipal commercial tax (ICA). Further information on import and export duties is included under the Trade section on page 171.

INCOME TAX

As from the year 2008, the income tax rate for corporations and other legal entities is 33%.

However, as established by Law 1429 of 2010, from 1 January 2011, all “small” companies with less than 50 employees and assets below 5,000 Colombian monthly minimum wages (USD1.57 million) incorporated in the country, can benefit from a progression in the income tax rate that goes from 0% during the first and second year, to 75% of the tax in the fifth year, being fully applied in the sixth and subsequent years.

For individuals, tax regulations bring a table detailing differential tax rates levied by reference to yearly earnings thresholds. Although the corresponding amounts of earnings are annually increased in accordance with inflation percentage, current income tax rates for individuals range between 19% and 33% as shown in the following chart.

Yearly Earnings	Applicable Rate
COP29,393,410 – COP44,283,300 (USD15,774.11 – USD24,601.83)	19%
COP44,283,300 – COP106,800,900 (USD24,601.83 – USD59,333.83)	28%
Over COP106,800,900 (USD59,333.83)	33%

Individuals with physical presence within Colombian territory for 180 days or more during a taxable year, be it continuous or not, shall be deemed Colombian residents for tax purposes. Likewise, branches, corporations or companies in general, domiciled in Colombia, will be treated as Colombian residents for tax purposes.

Non-Colombian residents will only be liable for tax over Colombian-sourced income. As from the fifth year of residence in Colombia, they will become liable for their income tax over their worldwide income.

VAT

Sales, services and imports are subject to VAT. The general VAT rate is 16%. The general rate is subject to exceptions with respect to specific goods or services as named by applicable tax regulations.

STAMP TAX

Written instruments that set forth monetary considerations to be discharged in Colombia are subject to stamp tax. Stamp tax will accrue over such written instruments as from certain thresholds established by the national government. Please take into account that since 2010 the applicable stamp tax rate is 0%, except for some cases like the payment of checks and bonds, the issue of visas and some licenses, among others.

LEVY OVER FINANCIAL TRANSACTIONS

Any transaction involving the disposition or transfer of

- funds deposited in savings or checking accounts, or deposits of any nature
- funds deposited in the Central Bank (*Banco de la República*)
- drawing of cashiers' checks

is subject to the levy over financial transactions calculated at a rate of 0.4% over the relevant amount of the disposition or transfer. Savings accounts with outstanding amounts below COP9.12 million (approx. USD5,065) are exempt from this levy. This levy is deductible from the income tax at 25% in 2012 and at 50% from 2013-2018. This levy will be eventually terminated, starting with a reduction to 0.2% in 2014 until achieving 0% in 2018.

MUNICIPAL COMMERCIAL TAX

Gross income of entities with a corporate purpose that includes commercial or industrial activities, or the rendering of services, is taxable at the municipal level with ICA. ICA rates range between 0.2% and 1.4%, applicable on the activity being conducted within the relevant municipal jurisdiction.

BENEFITS OF THE “FIRST EMPLOYMENT LAW”

In addition to the benefits brought by Law 1429 of 2010 in relation to the tariff of the income tax to small companies, there are other benefits worth mentioning:

- They are not subject to tax withdrawal during the first five years of existence.
- Approximately 35% of the amount that must be paid for payroll taxes and contributions (see section below) may be discounted from the income tax amount.
- Economic resources that may be provided by the government as initial capital of the company or as a company strengthening aid will not be considered as income or occasional gain for tributary purposes.

INTELLECTUAL (INDUSTRIAL) PROPERTY

General provisions governing intellectual property are contained in Decision 486 of 2000, a supranational law applicable to the signatory parties to the Andean Community of Nations (Bolivia, Colombia, Ecuador and Peru). This decision is regulated in Colombia by means of Decree 2591 of 2000 and also by regulation enacted by the Superintendence of Industry and Trade.

ACQUISITION OF RIGHTS

Rights over patents and trademarks are acquired in Colombia by means of their registration before the Superintendence of Industry and Trade. Such registration entitles the petitioner to prevent third parties to use, without authorization, the respective trademark or patent. The holder of the trademark and the patent is entitled to both judicial and administrative remedies.

APPLICATION REQUIREMENTS

Trademark and patent registration filings are effected through the completion and presentation of certain prescribed registration forms provided by the Superintendence of Industry and Trade for such purpose. Usually, these forms include, among others, the following information:

- Applicant's name, address, contact numbers and e-mail
- Name of legal representatives or agents filing the application on behalf of corporate entities and contact information
- For patents, an indication of the title and the name of the designer of the invention

- A brief description of the trademark or patent subject to the registration request
- For trademarks, a description of the products and services covered
- Indication of payment of registrations fees
- Applicant's signature

TERMS OF EFFECTIVENESS

Once trademarks have been registered before the Superintendence of Industry and Trade, such registration grants an exclusive right of use for a period of 10 years, which can be extended for additional successive terms of 10 years each. The cancelation of the registry is possible when there is a three years' lack of use and it is requested by an interested party.

The registration of new inventions entitles the holder thereof to an exclusive right to exercise its rights for a term of 20 years. The exclusive term for registered improvements to existing inventions and for industrial designs is 10 years. The foregoing terms are not extendable.

INDUSTRIAL PROPERTY OFFICE

The Superintendence of Industry and Trade is the trademark and patent office for Colombia. In addition, the Superintendence of Industry and Trade has the power to impose fines to any person (either legal entities or individuals) infringing industrial property rights, such as trademark and industrial property regulations, as well as unfair competition practices, business restrictive practices, consumer protection, and rules applicable to measurements (system of units).

LABOR LAW

EMPLOYMENT AGREEMENT

Under Colombian law, labor agreements may be fixed term or indefinite term. The trial period for the indefinite term of an agreement is a maximum of two months, after which the causes to unilaterally terminate the agreement by any of the contracting parties are exhaustively listed in the Colombian Labor Code.

Termination of the employment contract without a just cause results in the payment of an indemnification fixed by law. In fixed-term agreements, indemnification will be equivalent to the amount due for the remaining period. In indefinite-term contracts, indemnification varies depending on the salary and the time of employment. No other severance payment need be made by the employer upon termination of employment.

The following table shows the values of indemnification payable to employees, upon contract termination:

Number of Years Worked	Amount payable (expressed in days)
1 or less	30 days if salary is below 10 MMLS*
	20 days if salary is over 10 MMLS
1 or more	20 days per year/proportionately per year fraction if salary is below 10 MMLS
	15 days per year/ proportionately per year fraction if salary is over 10 MMLS

* Minimum monthly legal salaries

BENEFITS AND LABOR RIGHTS

By mid-February of each year, employers in Colombia have the obligation to make an annual payment to the severance fund (*Fondo de Cesantías*) chosen by each employee. This payment constitutes the yearly severance (*cesantía*), which is equal to one monthly salary. In addition to this annual severance fund payment, employers must pay directly to the employee an amount equal to 12% of the severance payments accrued during the immediately preceding calendar year. This payment must be made during January of each year.

There is also a service premium equal to one month's salary, payable in two installments. The first half-month's salary is payable on the last day of June and the other half during the first 20 days of December. If the employee has not worked during the entire calendar year, the service premium accrues on a pro rata basis for the time worked during each semester.

Employees are entitled to a minimum of 15 business days of vacation per year, which may be taken proportionally to the time worked. In any case, employees must take at least six days of vacation for each calendar year.

Minimum Monthly Legal Salary

Each year, the national government, in consultation with the industry trade associations and unions, sets the minimum monthly legal salary to be paid to employees during each calendar year. For 2012, the minimum monthly legal salary was set at COP566,700 (approx. USD315).

Payroll Taxes and Social Security Contributions

There is a comprehensive list of payroll taxes and contributions to the social security system that Colombian employers are obligated to make. These legal contributions are determined by reference to the monthly salary of each employee and amount to approximately 29.5% of the monthly salary. An additional contribution to the professional risks system must be made. This

payment varies between 0.348% and 8.7% of the monthly salary, depending on the types of risks to which the employee is exposed.

Foreign Employees

Foreign employees who acquire working connections in Colombia must obtain a temporary working or business visa, as required, which must be processed by the employer. If the visa obtained is in force for more than three months, the employee must also have an alien certificate issued by national migration authorities. Depending of the profession of the employee, it may be necessary to obtain a permit or favorable concept from the pertinent Professional Council.

Additionally, employers have the obligation to officially notify to the Colombian Migration Administrative Unite when hiring or firing a foreign employee, during the 15 calendar days following the determination.

TRADE

IMPORTS

Colombia has an open regime for the introduction of goods and services into its territory. Once the importer has received the goods, he may dispose of them freely, as long as the compliment with all the customs duties is verified. However, there are restrictions applicable to certain goods, namely:

- A permit from the Ministry of Agriculture and Rural Development, for goods such as bird meat, wheat, corn, sorghum and starch, among others
- Quota limitations for products such as bovine meat
- The use of a designated customs area for the introduction of fauna and flora
- Importation of guns and explosives is only authorized to defense authorities

EXPORTS – SPECIAL REGIMES

Additional to the fact that in Colombia exports do not cause customs duties, Colombian applicable regulations provide for several legal schemes that offer advantages to exporters.

Plan Vallejo

This is an export facility available upon request by any manufacturer, exporter or merchant that allows them to introduce raw materials and inputs destined towards the production of export goods with total or partial exemption for customs duties and VAT.

Temporary Importations for Re-exportation

This is a facility available to goods that are imported into the country with the purpose of being subsequently re-exported within a prescribed period of time, without being altered except for their own depreciation. Under such scheme, neither VAT nor customs duties are accrued over such goods. In the event that the goods in question are not exported within the prescribed period of time, then the goods are deemed imported into the country. At such juncture, payment of import taxes and duties will accrue.

International Leasing

This type of financing operation makes it possible to finance the temporary importation of capital goods on a long-term basis. Under such a scheme, a foreign company leases to a Colombian resident an asset in exchange for periodic rental payments.

This scheme offers the following tax benefits:

- Custom duties are payable in biannual fees for a maximum period of five years
- Leasing-related payments are VAT-free
- If the leasing is operational, the lessor may deduct 100% of leasing payments made abroad

Altex

Corporations labeled by the local tax authorities as Altex or large exporters (*Altamente Exportadores*) have tax benefits such as:

- Using depository facilities in order to conduct industrial alteration processes over goods, which allows the importation of raw materials and inputs and the deferral of custom duties and VAT
- Consolidating all shipments for the same product in one single export form
- Avoiding the actual inspection of goods in transit in the country, whether for import or export
- Becoming a permanent customs user

FREE CUSTOMS ZONES

Free customs zones are special-purpose areas within the national territory created to promote the industrialization and trade of goods and services within these areas. Any individual or entity intending to operate within the confines of these areas must request a prior authorization before the local tax authorities. Once this permit is granted, the investor will be afforded the following benefits.

Tax benefits:

- Income tax at a rate of 15% (subject to certain exceptions)
- Customs duties will not accrue for goods introduced and consumed within the special customs zone
- Goods transformed, manufactured or stored in the free zones are exempted from VAT

Foreign exchange benefits:

- Free possession and negotiation of currencies
- The possibility of maintaining currencies in deposits or bank accounts in national or foreign banks
- Foreign exchanges generated as a result of export operations need not be refunded into Colombia for tax purposes
- General access to national credit

FOREIGN TRADE

Colombia is party to a number of trade and preferential agreements that secure benefits for Colombian products that access certain foreign markets.

- Andean Community of Nations Agreement (CAN)
- Agreement of Economical Complementation between the member parties of CAN and MERCOSUR (Brazil, Argentina, Uruguay, Venezuela, Paraguay, and Bolivia, Chile, Colombia, Ecuador and Peru as associate members)
- CARICOM-Colombia Agreement of Preferential Tariffs of 1994, modified by the First Protocol of 1998

There is also the Andean Trade Preference Drug Eradication Act entered into with the USA, which is in full force, and the Generalized System of Preferences adopted by the European Union, which gives some of our national products preferential treatments. Recently, Colombia and the USA have entered into a free trade agreement, the effectiveness of which has been in force since 15 May 2012.

The country is also part of the Multilateral Investment Guarantee Agency (MIGA) and the Overseas Private Investment Corporation (OPIC). Both of these multilateral organizations aim to promote investment in developing countries and support investors against threats of noncommercial risks such as political instability and foreign currency inconvertibility.

Colombia has entered into free trade agreements with Canada, the European Free Trade Association - EFTA (Norway, Switzerland, Republic of Iceland and Liechtenstein), Chile and North Central American Triangle (El Salvador,

Honduras and Guatemala). In fact, it has signed a Free Trade Agreement with the European Union that has not yet entered into force.

Colombia has entered into double taxation agreements with Spain, Switzerland, Chile and the CAN. These agreements are based on the principle of nondiscrimination, according to which the situation of the taxpayer cannot be made more burdensome than under national legislation. They regulate the taxing power over income tax and equity tax (when applicable). Indirect taxes like VAT or regional taxes like the Municipal Commercial Tax are not enshrined in these agreements.

ARGENTINA

Negri, Busso & Fariña

Godoy Cruz 3236
Buenos Aires CI425FQV

Federico Busso
federico_busso@negri.com.ar
Tel: +54 11 5556 8000
www.negri.com.ar

THE BAHAMAS

Chancellors Chambers

Samana Hill, 14 Village Rd N
Nassau N-4589

Merrit Storr
mstorr@ccsbahamas.com
Tel: +1 242 394 1823
www.ccsbahamas.com

BOLIVIA

Mostajo Sociedad Civil

Edificio Hilda, 12th Flr
Av. 6 de Agosto
La Paz

Denise Mostajo
denise@mostajo.com
Tel: +591 2 244 3856
www.mostajo.com

Mostajo Sociedad Civil

Av. Cristobal de Mendoza No. 246
segundo anillo ed. La Casona
2nd Floor, #204

Santa Cruz
Sergio Mostajo
lawfirm@mostajo.com
Tel: +591 778 31499
www.mostajo.com

BRAZIL

Felsberg e Associados

Avenida Paulista 1294, 2nd Floor
São Paulo, SP 01310-915

Thomas Felsberg
thomasfelsberg@felsberg.com.br
Tel: +55 11 3141 9100
www.felsberg.com.br

Felsberg e Associados

Av. Almirante Barroso
52 - 22nd Flr - Grupo 2202
Rio de Janeiro 20031-000

David Meiler
davidmeiler@felsberg.com.br
Tel: +55 21 2156 7500
www.felsberg.com.br

Felsberg e Associados

SCN, Quadra 05-Bloco A-Sala 1217
Torre Norte
Brasília 70715-900

Nayara Cunha
nayaracunha@felsberg.com.br
Tel: +55 61 3033 3390
www.felsberg.com.br

CAYMAN ISLANDS

Campbells

Willow House, Cricket Square
PO Box 884
Grand Cayman KY1-1103

Shaun McCann
smccann@campbells.com.ky
Tel: +1 345 949 2648
www.campbells.com.ky

CHILE

Philippi, Yrarrazaval, Pulido & Brunner LTDA.

El Golf 40, Piso 20
Comuna de Las Condes
Santiago 7550107

Alberto Pulido Astoreca
apulidoa@philippi.cl
Tel: +56 2 2364 3700
www.philippi.cl

COLOMBIA

Posse, Herrera & Ruiz S.A.

Carrera 7 No. 71-52
Torre A Piso 5
Bogotá

José Alejandro Torres
josealejandro.torres@phrlegal.com
Tel: +571 325 73 00
www.phrlegal.com

COSTA RICA

BLP Abogados

Via Lindora Business Center, 4th
Flr Radial Santa Ana-San
Antonio de Belén, Km 3
San José

Rafael Manzanares
rmanzanares@blpabogados.com
Tel: +506 2205 3939
www.blpabogados.com

DOMINICAN REPUBLIC

Russin, Vecchi & Heredia Bonetti

Edificio Monte Mirador, 3rd Floor
Calle El Recodo #2
Ensanche Bella Vista
Santo Domingo DN

Georges Santoni Recio
gsantoni@rvhb.com
Tel: +1 809 535 9511 Ext. 272
www.rvhb.com

ECUADOR

Romero Arteta Ponce Abogados

Av 12 de Octubre No 26-97 y A.
Lincoln
Edificio Torre 1492, 8th Floor
Quito

Diego Romero
dromero@law.com.ec
Tel: +593 2 2986 666
www.ecuadorianlawyer.com

EL SALVADOR

Espino Nieto & Asociados

83 Avenida Norte No. 138
Colonia Escalon
San Salvador

Luis M. Espino
luism@espinolaw.com
Tel: +503 2263 7522
www.espinolaw.com

GUATEMALA

Marroquín, Pérez & Asociados, Sociedad Civil

3a. Avenida, 12-38, Zona 10
Edificio Paseo Plaza Business
Center, Of. 1002
Guatemala City 01010

María M. Marroquín
mpemueller@mra-legal.com
Tel: +502 2321 1212
www.mra-legal.com

HONDURAS

Casco-Fortín, Cruz & Asociados

Bldv. San Juan Bosco, contiguo a
Citi Bank (principal)
Edificio Torre Alianza, Suites 701-702
Tegucigalpa

Vanessa Velasquez
vanessav@cascolaw.com
Tel: +504 2271 0073
www.cascolaw.com

MEXICO

Cuesta Campos y Asociados, s.c.

Bismark 192 Planta Baja
Col. Vallarta Norte
Guadalajara, Jalisco 44690
Fernando J. Cuesta
fcuesta@cuestacampos.com
Tel: +52 33 3630 0580
www.cuестacampos.com

Cuesta Campos y Asociados, s.c.

Montes Urales #723, Int 402, 4th Flr
Lomas de Chapultepec
Mexico City, D.F. 11000
Hugo G. Cuesta Leaña
hcuesta@cuestacampos.com
Tel: +52 55 5540 1737
www.cuестacampos.com

NICARAGUA

Núñez, Rizo, Zambrana Abogados

Edificio CAR, 3rd Floor, Suite M-7
Managua
Ernesto Rizo Pallais
erizo@nrzlaw.com
Tel: +505 2270 7353
www.nrzlaw.com

PANAMA

Alemán, Cordero, Galindo & Lee

PO Box 0819-09132
2nd Flr, MMG Tower, E 53rd Street
Panama City
Jaime Alemán
jaleman@alcogal.com
Tel: +1 507 269 2620
www.alcogal.com

PARAGUAY

Peroni Sosa Tellechea Burt & Narvaja

Eulogio Estigarribia 4846
Esquina Monseñor Bogarin
Asunción, 1892
Francisco Peroni Clifton
pstbn@pstbn.com.py
Tel: +595 21 663536
www.pstbn.com.py

PERU

García Sayán Abogados

Avenida Reducto 1310 Miraflores
Lima 18
Luis Gastañeta
lgastaneta@garciasayan.com.pe
Tel: +51 1 615 0202
www.garciasayan.com.pe

PUERTO RICO

Fiddler González & Rodríguez, P.S.C.

254 Muñoz Rivera Avenue, 6th Flr
PO Box 363507
San Juan 00918
José A. Acosta Grubb
jacosta@fgrlaw.com
Tel: +1 787 753 3113
www.fgrlaw.com

TURKS & CAICOS ISLANDS

Miller Simons O'Sullivan

PO Box 260, Butterfield Square
Providenciales
Neil Coles
NRC@msslaw.tc
Tel: +1 649 946 4650
www.msslaw.tc

URUGUAY

Posadas, Posadas & Vecino

Juncal 1305 - 21st Flr
Montevideo

Juan Carlos Oreggia Carrau
joreggia@ppv.com.uy
Tel: +598 2 916 2202
www.ppv.com.uy



800 Hennepin Avenue, Suite 600
Minneapolis, Minnesota 55403 USA
+1.612.339.8680 www.meritas.org

Prepared by Meritas Law Firms

Meritas is an established alliance of 170 full-service law firms serving over 235 markets – all rigorously qualified, independent and collaborative. Connect with a Meritas law firm and benefit from local insight, local rates and world-class client service.

www.meritas.org enables direct access to Meritas law firms through a searchable database of lawyer skills and experience.

