The Radical Change party (Cambio Radical in Spanish), a political party with several seats in the Colombian Congress, submitted a tax reform bill to Colombia’s Congress.

Corporate income tax (CIT)
The bill would reduce the corporate income tax rate from 33% to 30%. Income derived from certain activities, such as agricultural activities, would be subject to a 10% CIT rate. The bill would exempt income from foreign portfolio investments from the CIT. The bill would repeal the minimum presumptive income for CIT purposes.

As a general rule, the bill would allow taxpayers to treat all taxes effectively paid by them as deductible expenses for purposes of determining the taxable income subject to CIT. Taxpayers also would be allowed to use debit and turnover taxes effectively paid to offset their CIT liability.

The bill would allow value added tax (VAT) imposed on the acquisition of fixed assets that is not VAT creditable, to be credited against the CIT liability.

Expenses incurred abroad by Colombian taxpayers would be deductible to the extent that CIT withholding was properly applied. Registration of the importation of technology agreements would no longer be needed as a deductibility requirement.
The bill would subject the portion of the investments in fixed productive assets that exceeds the average investment made in these types of assets in the prior four tax years, to depreciation or amortization over 24 months.

**Thin capitalization rules**
The thin capitalization rules would only apply to debt obligations contracted by Colombian taxpayers with their foreign-related parties.

**Net operating losses (NOLs)**
The bill would allow Colombian taxpayers to carry forward NOLs without any limitations (currently the carryforward is limited to 12 years).

**Tax residence**
The bill would eliminate the requirement to base a company’s tax residence on the company's effective place of business.

**Foreign income**
The bill would clarify the foreign income earned by foreign individuals in their first year of tax residence in Colombia, but before they relocated to Colombia, would not be subject to tax. Similarly, foreign-source income earned by foreign individuals in their last year of tax residence, but after they leave Colombia, would not be taxed in Colombia.

**Dividends**
Dividends, currently taxed at a 5% rate, would not be taxed when remitted abroad. Dividends paid from profits not taxed at the corporate level would be taxed at a 30% rate.

**Another upcoming tax reform bill**
The new Colombian President, in office since 7 August 2018, also announced that he will submit his own tax reform bill to Congress soon. The expectation is that the Government’s bill would also favor business taxation. These bills (as well as other bills that may be introduced during the debate) are expected to lead to tax reform that would be approved by the end of 2018. Taxpayers should follow the upcoming legislative session and the progress of any tax reform bills.
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