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# Doing Business in Colombia

A Biz Latin Hub guide

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## Craig Dempsey

Co-founder and Managing Director  
**Biz Latin Hub**

craig@bizlatinhub.com



## Foreword

Colombia's diverse and growing economy is catching the attention of entrepreneurs and executives worldwide. The country's business-friendly environment and swelling middle class make for a dynamic market with a number of opportunities for foreign companies in traditional and emerging sectors. A growing e-commerce market, official commitment to supporting creative industries, the introduction of tax reforms, and increasing emphasis on intellectual property protection have all contributed to making Colombia an increasingly attractive destination for investment over recent years.

However, doing business in Colombia is not without its challenges. Colombia's security situation has improved greatly in recent decades, but significant hurdles remain. Meanwhile, the global pandemic brought hardships that will not be resolved overnight.

Our Doing Business in Colombia guide is intended to provide a general overview of the investment landscape and the options on offer to investors, with the intention of being useful to both newcomers and seasoned executives with significant experience in Latin America.

## Economic Overview

Prior to the COVID-19 pandemic, Colombia had registered consistent year-over-year GDP growth since the turn of the century. That same period also saw the country manage to significantly reduce violent crime, with the intentional homicide rate more than halving.

The country's strong economic markers, major security improvements, and efforts to implement policies that promote business, have contributed to Colombia becoming increasingly recognized as an emerging economy with a lot to offer investors.

While Colombia is perhaps most famed for its natural resources and agricultural output, the country also has a well-developed industrial base concentrated in major cities such as Bogota, Barranquilla, and Medellin.

Colombia is also home to an increasingly important services economy, as well as a tech and innovation sector with a growing international reputation, and the country is known for producing high-quality professional and tech talent



## Options for doing business in Colombia

Investors looking to do business in Colombia have two main options to choose from:

- 1 Entity creation
- 2 Hire via a professional employer organization (PEO)

# Entity Creation: Establishing Commercial Operations in Colombia

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Forming an entity in Colombia is relatively straightforward compared to other jurisdictions. However, you will need to choose the right structure for your entity, based on your needs.

## Branch or subsidiary?

The first question you will need to answer is whether you want to form a branch or establish a subsidiary, with each type of entity having different requirements and involving different levels of liability and control.

## Foreign branch

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A branch office is an extension of the parent company, with both the parent and the branch jointly liable.

That means the parent company has significantly more control, including over the likes of finances, but also accepts a greater degree of responsibility when it comes to losses or legal issues.

When forming a branch in Colombia, the parent company must file documents related to its incorporation and finances that have been officially translated and legalized (apostilled or equivalent).

A fiscal auditor is **mandatory** for all branches in Colombia.

## Subsidiary

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A subsidiary is a separate legal entity from the parent company, and that parent company can be one of several owners of the entity if desired.

As such, a subsidiary operates with significantly more autonomy, meaning that while the parent company exercises less control over the entity, it also holds considerably less liability.

One of the benefits of a subsidiary in Colombia is the fact that profits and losses can be offset between different parts of the business via transfer pricing studies.



### Types of visas

Since visa classifications were modified in 2017, the following three types of visa are those most commonly issued to foreigners:

1. Visitor (V) for short-term visitors
2. Migrant (M) for workers, spouses, and some types of investors
3. Resident (R) for long-term holders of M visas, as well as larger investors.



# Subsidiaries

*When setting up a subsidiary, you will need to choose the legal structure of your entity. The most common type of legal structure used in Colombia is a simplified stock company (sociedad por acciones simplificada):*

## Simplified stock company (SAS)

The popularity of the SAS in Colombia when setting up an entity is due in part to its flexibility regarding the incorporation process and the freedom afforded to shareholders to establish their own terms and conditions. The articles of incorporation for an SAS do not need to be made public.

The characteristics and statutory requirements of an SAS include:

- Minimum one shareholder (either a natural or legal person), with no limitation in terms of maximum shareholders
- Liability is limited to the company's equity, i.e. shareholders' personal assets are protected from company liability
- The social purpose may be left undefined – the company can therefore participate in almost any business activity
- No requirement for a Board of Directors
- An SAS in Colombia must have a fiscal address within Colombia and a local legal representative must be appointed.

### *Other entity options:*

- Limited liability company (sociedad de responsabilidad limitada), or **LTDA**
- Corporation (sociedad anónima), or **SA**



## Trademark your brand

Registering a trademark is critical to protecting your brand or product.

Owning trademark rights provides legal protection over the commercialization of your brand and its products, and helps protect a company's credibility.

Those with a registered trademark in Colombia have exclusive rights the intellectual property that has been registered and can take legal action against any third party attempting to appropriate it for commercial use.

# Hire staff through a professional employer organization (PEO)

A professional employer organization (PEO) hires staff and manages their payroll on behalf of a client, and can assist with their recruitment where needed. Under such an arrangement, those staff report directly to the client, meaning the client effectively establishes an overseas workforce without having to set up a local entity. A company providing PEO services is often referred to as an employer of record (EOR).

## The services that a PEO firm can provide include:

- Payroll management
- Recruitment and hiring support
- Guaranteed compliance with all regulations related to being an employer
- Honoring all statutory obligations related to keeping employees, including financial deductions, payment of bonuses, and providing leave.

Hiring staff through a PEO is particularly attractive for investors who need a group of workers for a limited period, such as the team of developers delivering a software project.

It is also common for companies that simply need a local executive or small number of executives to oversee sales or operations, or otherwise represent the parent company in a given country or region.

## Benefits of partnering with a PEO

Some key benefits of partnering with PEO in Colombia include:

- Rapid market entry
- Risk mitigation
- Access to expert local knowledge
- Easy market exit
- Cost and time savings



## Employment law in Colombia

Understand more about hiring in Colombia with our snapshot of employment law

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**[www.bizlatinhub.com](http://www.bizlatinhub.com)**

**[contact@bizlatinhub.com](mailto:contact@bizlatinhub.com)**

