

Legal Update

News about the Financing Bill (Tax reform)

November 26, 2018

Changes in the income tax for individuals

Continuing with our updates on the Financing Law project, this time we summarize the main proposed changes in the taxation of individuals:

- Law 1819 of 2016 created the system of taxation for schedular incomes for individuals in which, depending on their source, income was classified as i) labor, ii) non-labor, iii) pensions, iv) capital and v) dividends. The bill, which is passing in the Senate of the Republic, gathers the first 4 in a single card called "cédula general", while the dividend remains individualized.
- Currently, only pensions above 33 million pesos per month are taxed. The bill proposes to tax all pensions with the same rules for determining the tax and rates applicable to labor income (cédula general).
- The Government proposes to eliminate benefits for savings in voluntary pensions, AFC accounts and exempt income. Instead, costs and deductions equivalent to 35% of income are presumed, less some debugging, with a ceiling of 95 million pesos per year for the "cédula general", therefore, the deduction will be the lowest value among 35% of the purified revenues, or 95 million. No costs or deductions are allowed to the dividend card.
- In the project of tax reform the income tax rate goes up from 33% to 35% for those with a taxable base between 250 and 430 million and to 37% for those with a taxable base exceeding 430 million. The applicable rates for those with a tax base of less than 250 million pesos are maintained.
- Additionally, it is proposed to reduce the cap to apply withholding tax on labor income, from COP \$3.149.820 to \$2.818.250.

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