

# VAT REDUCTION TO BOOST THE HOTEL SECTOR IN COLOMBIA



The recent Financing Law proposal has created positive expectations in Colombia's hotel sector. The proposal includes a measure aimed at boosting the sector's recovery by reducing the VAT on tourism.

Specifically, the proposal suggests excluding the 19% VAT for hotel and tourist services in towns with less than 200,000 inhabitants. **This measure is expected to benefit local economies, increase tourism,** and improve the outlook for hotels still struggling to recover from the pandemic.

## The Impact of the Financing Law on the Hotel Sector

The Financing Law aims to raise over \$12 billion for the nation's General Budget. One of its main features is the reduction of VAT in the tourism sector, with a special focus on smaller regions with fewer than 200,000 inhabitants. The government believes that this measure will encourage tourism in these areas and help boost local economies that rely heavily on tourist income.

COTELCO (Colombia's Hotel and Tourism Association) has expressed optimism about the proposal. Although hotel professionals initially hoped for a general VAT reduction to 5%, this exemption is an important step towards the sector's recovery.

## Long-term Economic Benefits

The President of COTELCO, José Andrés Duarte, stated that the VAT reduction could encourage more accommodation establishments to improve their operations and generate higher income for the country. Cotelco estimates that the VAT exemption would lead to increased spending in tourism, resulting in higher tax collection for the government. Experts estimate that the VAT collected from tourism could grow from \$515 billion to \$626 billion by the end of 2024.

This increase would benefit hotels and local suppliers reliant on tourism. Increased investment in tourism infrastructure and the VAT reduction could establish a positive cycle where more tourists translate to higher income for hotels and municipalities.

## Prospects: More Competitive and Sustainable Tourism

Reducing VAT could stimulate the hotel sector's growth and promote Colombia's competitiveness as an international tourist destination. **By reducing the costs of tourism services, the country could attract more foreign visitors, contributing to a greater diversification of its economy.**

In addition, the measure also opens the door to new forms of sustainable tourism. With a greater focus on smaller regions, local communities could build on this momentum to develop tourism projects that respect the environment and promote local culture.

The proposal to reduce VAT in the hotel and tourism sector is a crucial opportunity for Colombia's economic recovery. While there are challenges, especially in smaller regions, the VAT exemption is seen as a step in the right direction to strengthen one of the most critical sectors of the Colombian

economy.

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