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December 2021

TAX PLAN OF THE FUTURE PRESIDENT OF CHILE, GABRIEL BORIC

On December 19, Gabriel Boric was elected as future President of Chile, and will take office on March 11, 2022.

The following is a list of the main tax proposals 1 of the recently elected candidate:

• New income tax regime: a disintegrated income tax regime is proposed for large companies, separating the tax paid at the company level from the one payable by its shareholders when withdrawing profits. For the taxation of small and medium-sized companies (SMEs), it is proposed to maintain the application of the current integrated regime, which entails a full dividend imputation system. In addition, a modification of personal income tax brackets and rates is proposed, to increase the tax burden of those who earn more than USD 5,200 approx. per month.
• Tax exemptions reduction: the elimination or modification of multiple tax exemptions is proposed, such as (i) elimination of the presumptive income regime, (ii) elimination of the exemption on capital gains on stock market instruments, (iii) reduction and/or modification of tax benefits associated with the disposal of real estate and shares, (iv) limitation of the use of tax loss carryforwards, and (v) elimination of the corporate income tax exemption for private investment funds (FIPs).
• Wealth taxes: it is proposed, among others, the incorporation of (i) a tax on the net worth possessed by the wealthiest individuals (rates and taxable bases not defined yet), and (ii) a tax on the retained earnings of companies, whose taxation with final taxes is pending. Likewise, the modification of the taxable base of the inheritance and donations tax is proposed, to consider the commercial value of the assets received by gift or inheritance.
• Green taxes: the proposal is to gradually increase the (i) tax on CO2 emissions, from USD 5 to 40 per ton, and (ii) specific tax on fuels, to 7 monthly tax units per cubic meter (USD 435 approx.), eliminating exemptions for industries and transportation. Likewise, it is proposed to establish an ad valorem tax (rates and taxable base not defined

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yet) on plastic containers and packaging, as well as on plastic contained in commercialized waste.
• Mining royalty: it is proposed to establish a hybrid tax, independent from the specific tax on mining activities, with an ad valorem component (sales tax) together with a component based on the operating or financial margin of copper mining companies. This instrument could be extended to tax the exploitation of minerals other than copper.
• Anti-avoidance related measures: among other initiatives, it is proposed, (i) the administrative application of the General Anti-Avoidance Rule by the Chilean IRS, (ii) to allow the prosecution of certain tax crimes by the Criminal Prosecutor's Office, (iii) to considerably increase the sources of information of the Chilean IRS, including the creation of a registry of beneficial owners, and (iv) to establish the figure of the anonymous whistleblower in tax matters.

The tax program of the elected president estimates that the introduction of these proposals should be gradual, considering a revenue increase of around 5% of the GDP during his 4-year term, and around 8% of the GDP over a total period of 8 years.

Finally, it is important to consider that these proposals of the elected President, whose technical aspects have not been disclosed yet, will require approval by the Chilean Congress in order to become law. In this regard, the composition of the Senate will be equally divided between supporters and opponents of the elected President, so it is expected that a legislative discussion of these proposals will require broad agreements for their approval.

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1 The full list can be found on pages 164-172 of Grabiel Boric's Government Program, available here.

This document was complemented by the Programmatic Implementation Agreement, pages 14-18, available here.

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