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CHILEAN GOVERNMENT ANNOUNCES ITS TAX REFORM PROPOSAL

Through an announcement issued by the Ministry of Finance, Mario Marcel, the government presented the general outlines of its tax reform proposal.

This reform would consist of four bills (two of which would be submitted to Congress during July, and the remaining ones during the fourth quarter), which will be relevant to know in order to analyze the details of this announcement. On our web page (https://reformatributaria.carey.cl) we will keep you informed of the presentation of these bills, together with the news of their discussion.

The main outlines of this announcement are described below:

I. *Income tax*

1. A new disintegrated income tax system (classic tax system) for large companies, which separates the taxation of companies from the taxation of their shareholders. This new system would not affect SMEs or foreign investors residing in countries with double taxation agreements with Chile, for whom an integrated tax system (or dividend imputation tax system) would continue to apply where the corporate income tax is a credit against the withholding tax.

2. To incorporate a tax on dividends distributed to final taxpayers (individuals or foreign residents) at a rate of 22%. In the case of individuals resident in Chile, they may alternatively re-settle this tax, incorporating the dividend to the base of their personal income tax.

3. To reduce the corporate income tax rate from 27% to 25%, and incorporate a new tax called "Development Tax" of 2%, which could be paid by crediting expenditures aimed at improving the company productivity.

4. A new capital gain tax at a 22% tax rate.

5. To limit the use of tax loss carryforwards, to 50% of the net taxable income determined in each year.

6. To incorporate a 1.8% annual rate applicable to retained earnings in investment companies or other holding type of entities that receive income from passive income.

7. To amend the tax regime for investment funds. In particular, it is proposed that: (i) private investment funds become corporate income tax taxpayers (except those investing in venture capital); (ii) public investment funds continue not to be subject to corporate income tax, but that the distribution of dividends to legal entities be subject to such tax; and (iii) contributors residing abroad be taxed according to the general rules.

8. To modify the brackets and rates of the second category and personal income tax, starting with the middle brackets applicable to those with monthly income over US$ 4,200, approx. The new maximum marginal rate would be 43%, which would apply to those with monthly income over US$ 8,400, approx.

Carey y Cía. Ltda.
Isidora Goyenechea 2800, 43rd Floor.
Las Condes, Santiago, Chile.
www.carey.cl

9. To include new personal income tax deductions, such as the expense for rental income (with a cap of US$ 490 approx. per month) and the expense associated with the care of children under 2 years of age and people with severe degrees of dependency (with a cap of US$ 600 approx. per month).

10. Other relevant changes such as modifying the rules for disallowed expenses, appraisal, transfer pricing, among others.

II. *Wealth tax*

1. To incorporate a wealth tax, which would be levied on the wealthiest individuals domiciled or resident in Chile.

2. This tax would contemplate progressive rates based on three brackets; (i) assets valued up to US$ 5 million approx. would be exempt from the tax; (ii) the portion of assets valued between US$ 5 and 15 million approx. would be subject to a 1% rate; and (iii) the portion of assets exceeding US$ 15 million would be subject to a 1.8% rate.

III. *Mining royalty*

1. To incorporate a new mining royalty, which would apply for mining companies whose production exceeds 50,000 metric tons of fine copper per year.

2. This tax would have two components: (i) ad valorem, whereby a rate would be applied on sales, ranging from 1% to 4%, depending both on annual production and the price of copper; and (ii) profitability, with rates ranging -depending on the price of copper- from 2% to 32% of the companies' operating income.

IV. *Tax exemptions*

1. To eliminate the non-taxable income that benefits individuals in relation to the amounts obtained from the rental of housing according to the Decree with force of Law No. 2 of 1959.

2. To limit the presumptive income regime to micro enterprises with income up to US$ 85,000 approx.

V. *Anti-avoidance related measures*

1. To modify the general anti-avoidance rule (GAAR) to allow its administrative application by the Chilean IRS.

2. Incorporate a registry of beneficial owners, whereby all companies must inform

the Chilean IRS about the individuals or final taxpayers that directly or indirectly with have a participation equal or greater than 10% in their ownership.

3. Creation of the anonymous whistleblower in tax matters.

All these measures together aim to raise additional revenue of around 4% of GDP (i.e., US$ 12 billion approx.) by 2026.

AUTHORS: ***Jaime Carey, Jessica Power, Manuel José Garcés, Manuel Alcalde.***