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International Tax
Chile Highlights 2021

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Recent developments

For the latest tax developments relating to Chile, see Deloitte tax@hand.

Investment basics

Currency: Chilean Peso (CLP)

Foreign exchange control: Entities and individuals are free to enter into any kind of foreign exchange transaction, although reporting obligations apply to transactions that exceed USD 10,000 (or the equivalent in another currency).

Accounting principles/financial statements: IFRS applies. Financial statements must be filed quarterly.

Principal business entities: These are the corporation, company limited by shares, general partnership, limited liability company, limited partnership, individual enterprise with limited liability, association, and branch of a foreign corporation.

Corporate taxation

Rates	
Corporate income tax rate	27% (10% under the small and medium-sized company regime until 2022 and 25% for 2023 and following)
Branch tax rate	27%, plus 35% imposed on branch remittances (full or partial credit may be granted for the corporate income tax paid)
Capital gains tax rate	27% (treated as ordinary income)

Residence: A corporation is resident/domiciled in Chile if it is incorporated in Chile.

Basis: Resident/domiciled companies pay Chilean income tax on their worldwide income. Taxpayers without a residence/domicile in Chile pay income tax on only their Chilean-source income. Remuneration paid from Chile to nonresidents/nondomiciled persons for services rendered abroad also is subject to Chilean income tax. Branches are taxed in the same way as subsidiaries.

Taxable income: Taxable income is defined as gross income from worldwide sources and is calculated by deducting from total income the direct costs of goods and services and the necessary expenses incurred in earning that income.

Rate: First category income tax is imposed at a rate of 27% under the general regime and 10% (10% years 2020-2022, 25% from 2023) under the regime applicable to small and medium-sized companies.

Surtax: In addition to the corporate income tax, either the global complementary income tax for individual residents or the additional withholding income tax for nonresident entities and individuals must be paid. The tax is payable on dividends distributed to the shareholder. A full or partial credit may be granted for the corporate income tax paid. See "Taxation of dividends."

Alternative minimum tax: Chile does not impose an alternative minimum tax.

Taxation of dividends: Dividends paid by Chilean entities to resident individuals are subject to a global complementary income tax at progressive rates that range from 0% to 40% (distributions between Chilean entities that prepare full accounting records generally are not subject to income tax). Profits distributed abroad to nonresident/nondomiciled taxpayers are subject to an additional withholding income tax of 35%.

For both resident and nonresident shareholders, 65% of the corporate income tax paid on the profits distributed is creditable against the final taxes payable, except for shareholders domiciled in countries with an active tax treaty with Chile in place, for which 100% of the corporate income tax is creditable. Under a temporary measure that applies until 31 December 2026, shareholders from countries that signed a tax treaty with Chile prior to 1 January 2020 will also be entitled to a 100% credit, even if the treaty has not yet entered into force.

Capital gains: Capital gains generally are taxed as ordinary income. Capital gains on the disposal of certain assets may be exempt from tax if specific requirements are met.

Losses: Tax losses may be carried forward indefinitely. The carryback of losses is not permitted. Tax losses are nontransferable and may be used only by the taxpayer that incurred the losses.

Foreign tax relief: Income taxes paid abroad on foreign profits derived from companies in which a participation is held or a branch, royalty payments, technical service fees, other income of a similar nature, exported services, and any income from tax treaty countries with respect to which a credit for the income taxes paid in the other contracting country has been granted are creditable against Chilean income taxes. The credit is capped at 35%.

Participation exemption: A special regime for Chilean publicly traded stock corporations and closely held stock corporations that voluntarily submit to the supervision of the Chilean SEC and that meet certain requirements has been repealed effective from 1 January 2022; as of 23 November 2017, no new companies have been admitted into the regime. Where the regime applies, qualifying entities are deemed not to be Chilean domiciled/resident for income tax purposes and, therefore, are exempt from tax on foreign income received. Dividends paid by such entities to shareholders that are not resident/domiciled in Chile are exempt from withholding tax.

Holding company regime: See "Participation exemption."

Incentives: Preferential tax regimes are available for businesses operating in specific regions and/or carrying out certain activities. A tax credit is available for qualifying R&D expenses.

Compliance for corporations

Tax year: The tax year is a calendar year.

Consolidated returns: Chilean entities may not file consolidated returns, although some *de facto* consolidation methods exist (these methods are currently being phased out).

Filing and payment: Chile operates a self-assessment regime. Companies are required to make monthly advance payments of tax, with the annual tax return filed in April of the year following the tax year.

Penalties: Penalties apply for late filing, failure to file, the underpayment of tax, and tax evasion.

Rulings: Guidance may be obtained from the tax authorities on the tax consequences of a planned transaction.

Individual taxation

Rates		
Individual income tax rate	**Taxable income*** * 1 annual tax unit equals approximately USD 750	**Rate**
	Up to 13.5 annual tax units	Exempt
	Over 13.5 and not exceeding 30 annual tax units	4%
	Over 30 and not exceeding 50 annual tax units	8%
	Over 50 and not exceeding 70 annual tax units	13.5%
	Over 70 and not exceeding 90 annual tax units	23%
	Over 90 and not exceeding 120 annual tax units	30.4%
	Over 120 and not exceeding 310 annual tax units	35%
	Over 310 annual tax units	40%
Capital gains tax rate		Progressive rates from 0% to 40%

Residence: An individual is resident if he/she remains in Chile for more than 183 days in any 12-month period. Depending on the circumstances, domicile can be obtained from the first day in the country.

Basis: Resident individuals are taxed on their worldwide income; nonresidents are taxed only on their Chilean-source income. Individuals not resident/domiciled in Chile are subject to withholding income tax on services rendered abroad and paid from Chile. However, foreigners are taxed only on Chilean-source income during their first three years of residence in Chile (although an extension can be granted); thereafter, they are subject to taxation on a worldwide basis.

Taxable income: Employment income is subject to second category income tax, while investment income and profits earned from a business are subject to the global complementary income tax. The first category income tax paid by the business on the profits out of which the dividends are paid is partially creditable against the global complementary income tax.

Rates: The individual income tax is charged at progressive rates ranging from 0% to 40%. Tax on income from employment is withheld by the employer on a monthly basis. Other income must be declared on an annual income tax return, although tax paid on employment income may be credited against the final income tax liability.

Capital gains: Capital gains generally are taxed as ordinary income. Capital gains on the disposal of certain assets may be exempt from tax.

Deductions and allowances: Individuals may deduct interest paid on a mortgage for the construction or acquisition of a dwelling, and pension and social security contributions. Parents are granted tax relief in the form of a tax credit against their personal taxes to represent expenses associated with the education of their children (primary and high school studies).

Foreign tax relief: Income taxes paid abroad on foreign profits derived from companies in which a participation is held, royalty payments, employment and independent personal services, and income from a tax treaty country with respect to which a credit for the income taxes paid in the other contracting country has been granted are creditable against Chilean income taxes. The credit is capped at 35%.

Compliance for individuals

Tax year: The tax year is a calendar year

Filing status: Joint filing generally is not permitted; however, spouses married under a community property system must file a joint annual tax return.

Filing and payment: An annual income tax return must be filed in April of the year following the end of the tax year, and any tax due must be paid at that time.

Penalties: Penalties apply for late filing, failure to file, underpayment of tax, and tax evasion.

Rulings: Rulings may be obtained from the tax authorities on the tax consequences of a planned transaction.

Withholding tax

Rates				
Type of payment	**Residents**		**Nonresidents**	
	Company	**Individual**	**Company**	**Individual**
Dividends	N/A	N/A	35%	35%
Interest	N/A	N/A	4%/35%	35%
Royalties	N/A	N/A	0%/15%/30%	0%/15%/30%
Fees for technical services	N/A	N/A	15%/20%	15%/20%

Dividends: See "Taxation of dividends."

Interest: Interest is subject to a 35% additional withholding income tax on the gross amount. A 4% reduced tax rate applies, *inter alia*, to interest on loans granted by a foreign bank or foreign/international financial institution and by an insurance company or pension fund that complies with certain registration requirements, provided the lender and borrower are unrelated. If the parties are related or deemed related, the thin capitalization rules must be observed.

Royalties: Royalty payments by the end user (no commercial exploitation) for the use of shrink-wrapped software are exempt from withholding tax. Payments for the use, enjoyment, or exploitation of invention patents, computer programs, utility models, industrial designs and drawings, blueprints or topography of integrated circuits, and of new vegetable varieties, are subject to a 15% additional withholding income tax. The rate increases to 30% if the income beneficiary is resident in a jurisdiction with a preferential tax regime. Royalty payments in respect of trademarks, patents, formulae, and other similar services are subject to a 30% additional withholding income tax.

Fees for technical services: A 15% additional withholding income tax applies to payments made to nonresident/nondomiciled persons without a permanent establishment in Chile for technical and engineering works and for professional or technical services that a nonresident/nondomiciled individual expert in a science or technique renders (in Chile or abroad) through advice, a report, or a plan. The rate is increased to 20% if the beneficiary is resident in a jurisdiction with a preferential tax regime.

Branch remittance tax: A 35% additional withholding income tax applies to the remittance of profits to the head office, with a full or partial credit granted for the first category income tax paid by the branch, depending on whether the head office is in a tax treaty country (see "Taxation of dividends").

Other: Services rendered abroad, other than technical services, etc., are subject to a 35% additional withholding income tax. Certain services rendered by nonresidents to resident individuals are exempt from the additional withholding income tax.

Anti-avoidance rules

Transfer pricing: Chile's transfer pricing rules are in line with the OECD guidelines. The following methods may be used: comparable uncontrolled price, resale price, cost plus, profit split, comparable profit split, and residual methods. The tax authorities may challenge and reassess transfer prices between related parties where the terms and conditions of transactions are not at arm's length.

Annual filing obligations apply.

Country-by-country reporting is required for certain multinational groups with a Chilean resident parent or other Chilean resident group entity.

Interest deduction limitations: Thin capitalization rules apply to related party loans, the interest on which (i) is subject to the reduced 4% additional withholding income tax rate for interest paid abroad (i.e., loans granted by foreign or international banks or financial institutions); (ii) is not subject to additional withholding income tax; or (iii) is subject to an additional withholding income tax rate lower than 35% under a tax treaty or under domestic law. If the debt-to-equity ratio exceeds a 3:1 threshold, the excess interest is subject to an additional 35% tax payable by the borrower (reduced by any withholding tax paid on the interest). Certain third-party financing is deemed to be related party financing.

Controlled foreign companies: The CFC rules require Chilean resident taxpayers to include in their current taxable income certain types of passive income earned by nonresident foreign entities that are deemed to be CFCs. A foreign entity will be considered a CFC if a Chilean taxpayer holds, directly or indirectly, 50% or more of the capital, profits, or voting rights; can elect the majority of the directors; or has unilateral powers to amend the foreign company's bylaws. A foreign entity generally will be deemed to be controlled (irrespective of the participation or rights involved) if it is established, headquartered, or resident in a low or no-tax country or territory (although companies established in OECD member jurisdictions will be excluded from this presumption).

In addition, for the CFC regime to apply, the foreign entity must earn income defined as "passive," which includes dividends, interest (unless the foreign entity is a bank or financial entity regulated in the relevant country), royalties (unless it comes from research and development projects duly approved by the Chilean Production Development Corporation), and capital gains.

Hybrids: There are no specific regulations on hybrids.

Economic substance requirements: There are no specific regulations on economic substance requirements.

Disclosure requirements: Certain large taxpayers must file a sworn declaration with the tax authorities, in which they must disclose whether they have carried out certain transactions listed in the form. The types of transaction addressed may be considered related to aggressive tax planning.

Chile taxes indirect transfers of Chilean assets provided certain thresholds are met. Indirect transfers must be disclosed irrespective of whether taxation is triggered.

Exit tax: Companies that close down their activities in Chile are subject to a 35% closing down tax on an amount that conceptually corresponds to undistributed profits, but only on the portion corresponding to the owners that are subject to final taxes (resident individuals or nonresident individuals/companies) or that are not obliged to keep complete accounting records. The first category income tax paid by the business is fully or partially creditable against the closing down tax.

Under the transfer pricing rules, the Chilean tax authorities may assess exit tax of 40% of the assessed amount regarding reorganizations or restructurings that transfer from Chile to abroad any assets or activities that may generate income in the country, if the parties have not established a price or if the price is not consistent with what would have been paid by unrelated parties. The scope of this rule includes transactions with related parties and with jurisdictions with preferential tax regimes with which no exchange of information agreement is in place.

General anti-avoidance rule: Under the general anti-avoidance rule, the tax authorities may request the tax court to declare that a transaction is abusive or artificial, in which case the tax authorities may disregard its effects.

Other: There are other specific anti-avoidance rules.

Value added tax

Rates	
Standard rate	19%
Reduced rate	0%

Taxable transactions: VAT is charged on domestic supplies of goods and services, and on the import of goods and of taxable services, including digital services. The import of services rendered from abroad will be VAT exempt if the remuneration is subject to income tax withholding.

Rates: The standard VAT rate is 19%. Certain items are zero-rated or exempt.

Registration: Registration for VAT purposes is mandatory. A simplified VAT compliance regime applies to nonresidents providing certain intermediation, advertising, or digital services to Chilean customers that are not VAT taxpayers and can be extended to other services upon request.

Filing and payment: A VAT return must be filed monthly, and the tax paid at that time. Under the simplified VAT regime, the nonresident provider can choose between monthly and quarterly filing.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

Social security: The employer must make the following contributions for social security: (i) a monthly 0.93% premium on remuneration (capped at a floating amount calculated by reference to the UF, an inflation-adjusted monetary unit) in respect of labor-related accident insurance; (ii) additional contributions that vary according to the risk of the employment activity, at rates up to a maximum of 3.4%; (iii) a 2.4% compulsory unemployment insurance contribution on remuneration subject to the floating cap (3% for fixed-term contracts); and (iv) a 1.99% premium for life and disability insurance. The main social security contributions borne by individuals are the 7% health insurance contribution and a 10% pension fund contribution, both capped at a floating amount. In the case of employees, the contributions are withheld by the employer.

Payroll tax: Self-employed persons (professionals, directors of corporations, professional partnerships, and others) and employees are subject to second category income tax charged at progressive rates ranging from 0% to 40%. For employees, the tax is withheld by the employer. An employee whose entire income comprises employment income from one employer is not required to file a tax return, since the tax liability is satisfied by the second category income tax paid. Where an individual has other income and is required to submit a tax return, the second category income tax paid is credited against the final tax liability on the total income.

Capital duty: While there is no taxable event upon the incorporation of a company, business entities must pay an annual municipal license fee. The fee ranges from 0.25% to 0.5% on tax equity, up to a maximum of approximately USD 550,000 (the cap varies in line with inflation and the exchange rate). No tax is payable by individuals on their total wealth or value or on specific assets, except for the real estate tax based on the value of property.

Real property tax: Real property tax is imposed at an annual rate of 1% on rural property and 1.4% on nonrural property. Nonrural residential property is subject to an annual rate of 1.2% on the cadastral value up to a certain amount and 1.4% on the excess. The permanent rates are subject to reductions by Supreme Decrees to mitigate increase of the tax charge generated by reassessment of the government appraisal values. As of December 2020, the rates are: 0.514% on agricultural property, 1.088% on non-agricultural property, 0.933% on residential property up to cadastral value of USD 150,000, and 1.088% on the excess. Surcharges may apply. A specific surcharge ranging from 0.075% to 0.275% applies to taxpayers owning properties the aggregate value of which exceeds USD 500,000.

Transfer tax: Chile does not impose transfer tax.

Stamp duty: Foreign loans are subject to stamp tax, whether or not they are documented. The rate is 0.066% for each month or fraction thereof between disbursement and maturity, capped at 0.8%. Loans payable on demand or without a maturity date are subject to a 0.332% tax. Domestic loans are subject to the same rates, provided a taxable document is issued.

Net wealth/worth tax: Chile does not impose a net wealth or net worth tax.

Inheritance/estate tax: Inheritance tax is levied on the net value of assets transferred at death, at rates that vary depending on the proximity of the relationship between the deceased and the recipient.

Other: A tax on nondeductible expenses that directly or indirectly benefit those related to the company or its owners or that cannot be evidenced before the tax authorities applies at a rate of 40%. Nondeductible expenses that benefit a shareholder or partner subject to the global complementary income tax or additional withholding income tax are treated as a profit withdrawal, with the tax being increased by 10% of the nondeductible expense.

The 2020 tax reform introduced a contribution on investment projects subject to environmental impact evaluation and involving acquisition or construction of tangible fixed assets of an aggregate value of USD 10 million or more. The rate is 1% on the investment in excess of USD 10 million. Exemptions apply to certain industries. Investment projects submitted for environmental impact evaluation until 31 December 2021 will not be subject to the contribution, provided the execution of the project commences within three years of the favorable environmental qualification.

Tax treaties: Chile has 33 active tax treaties. Chile ratified the OECD MLI on 26 November 2020. For further information on Chile's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Chilean Internal Revenue Service

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