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Global Tax Alert

News from Americas Tax

Chile significantly modifies tax reform bill

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On 8 November 2019, the Chilean Executive Power and the Senate agreed to a revised tax reform bill that would allow the Government to increase revenue to fund its new social agenda aimed at improving social security and health. For more information on the original bill, see EY Global Tax Alert, *Chile proposes tax reform* , dated 29 August 2018.

The Executive Power still has to submit the revised tax reform bill to the Senate for approval. The bill is expected to be enacted before year end.

The revisions to the tax reform bill would affect Chilean shareholders (e.g., increase the tax rate applicable to the highest tax bracket for individuals). The revisions also would establish incentives and tax benefits for small businesses and retired individuals (e.g., reduced property tax contribution or exemption from that tax).

For non-Chilean investors, the following provisions of the revised tax reform bill would apply:

- A 35% tax rate for dividends distributed to residents in tax treaty jurisdictions, and a 44.45% tax rate for dividends distributed to residents in non-tax treaty jurisdictions
- A temporary accelerated depreciation regime under which taxpayers could claim 50% bonus depreciation for the value of fixed assets acquired before December 2021 for new investment projects

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- Full capital gains taxation for gain from "market marker" transactions that do not meet quota-related requirements for private funds acquired in a Chilean stock exchange

Additionally, the revised tax reform bill would gradually prohibit Chilean holding companies in a tax loss position from claiming a refund of the corporate taxes paid by local subsidiaries remitting dividends. Full implementation would occur in 2024. The application of the tax refund would be gradually reduced as follows:

- 2020: 90% tax refund available
- 2021: 80% tax refund available
- 2022: 70% tax refund available
- 2023: 50% tax refund available
- 2024: 0% tax refund available

New progressive tax rates would apply to real estate assets exceeding approximately US$530,000. The rates would range from 0.075% to 0.275% for the highest bracket (exceeding US$1.2 million).

The revised tax reform bill would retain the general anti-avoidance rules and the definition of "preferential jurisdiction" included in the originally proposed tax reform bill.

In addition, the revised tax reform bill would eliminate the originally proposed provision that would have increased the VAT credit for the construction of properties with values between US$75,000 and US$150,000.

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