

## Chile ratifies Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS

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On 8 July 2020, the Chilean Congress ratified the *Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS* (MLI), which is now pending the Chilean President's approval. Once approved by the President, the MLI will be published in the *Official Gazette* and enacted upon publication. Publication is expected within 30 days of the ratification date.

Once the MLI enters into force, numerous double tax treaties (DTT) signed by Chile will be automatically updated without requiring bilateral renegotiations.

### Effects of the MLI in Chile

Currently, only a few of the DTTs signed by Chile include limitation-of-benefits provisions (only recent treaties such as those with Argentina, Australia, China and the United States include such clauses).

At the time Chile signed the MLI, it opted for a combination of the "principal purpose test" and the "simplified limitation of benefits" provision. The "principal purpose test" denies taxpayers DTT benefits if the principal purpose of a structure is to benefit from a treaty. The "simplified limitation of benefits" provision restricts most treaty benefits to "qualified persons."

With the enforcement of the MLI and given that Chile included all tax treaties signed and in force as "covered tax agreements" under the MLI, all tax treaties signed by Chile would be updated to include - in some cases - higher standards

than those under which existing DTT benefits are claimed. This update would take place to the extent that Chile's treaty partners also have signed and ratified the MLI and included the treaty as a covered agreement.

The higher standards would be especially relevant if current DTT standards eliminate or reduce withholding taxes (e.g., payment of services or insurance abroad without WHT, or payment of royalties and interest with reduced WHT rates).

## Current DTTs

Chile has 34 double taxation treaties signed and currently in force. Treaty partners consist of the following countries:

Argentina	Malaysia
Australia	Mexico
Austria	Norway
Belgium	New Zealand
Brazil	Paraguay
Canada	Peru
Colombia	Poland
China	Portugal
Croatia	Russia
Czech Republic	South Africa
Denmark	Spain
Ecuador	Sweden
France	Switzerland
Ireland	Thailand
Italy	United Kingdom
Japan	Uruguay

DTTs with the United States, the United Arab Emirates and India have been signed but are still pending ratification.

## MLI applicability

Once the MLI is enacted, Chile will deposit it with the OECD's<sup>1</sup> General Secretary. The MLI would apply to tax periods beginning on or after 1 January of the following year.

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## Endnote

1. Organisation for Economic Co-operation and Development.

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