

Chilean House of Representatives approves tax reform bill

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On 22 August 2019, the Chilean House of Representatives approved a tax reform bill after one year of debate and political negotiation. Discussion in the Senate is expected to take place during the last quarter of 2019 and could involve further amendments to the bill, given that some members of Congress have announced their intentions to thoroughly review the bill. For more information on the original bill, see EY Global Tax Alert, [Chile proposes tax reform](#), dated 29 August 2018.

The current version of the tax bill would eliminate the withholding tax rates that currently apply to dividend distributions from Chilean companies to foreign shareholders abroad and establish one rate that would apply to those dividend distributions, regardless of the shareholder's country of residence. This provision would eliminate the more burdensome tax treatment currently applicable to residents in countries that have not entered into a Double Tax Treaty with Chile. Shareholders also may be able to fully credit the corporate tax paid by the Chilean company against the withholding tax applicable to effective dividend distributions to foreign shareholders (overall tax rate of 35%).

The tax reform bill also would:

- ▶ Establish a 19% Value-Added Tax (VAT) on digital services (downloading or streaming)
- ▶ Create a new simplified VAT registration for non-Chilean entities that render digital services, including marketing and intermediation, directly to Chilean individuals

- ▶ Expand the types of expenses a Chilean company may deduct from its corporate taxable income
- ▶ Define permanent establishment following the criteria given by the Organisation of Economic Co-operation and Development
- ▶ Simplify the tax haven country definition
- ▶ Not allow the reduced withholding tax rate to apply to interest paid to a foreign financial institution under a back-to-back structure
- ▶ Establish a new regional contribution of 1% on investments by local companies that exceed US\$10 million

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