

Doing Business in Chile

Guide 2025

TAXATION



EXECUTIVE SUMMARY

The tax reforms implemented in Chile since September 2014, encompassed by laws such as Number 20,780 (2014), 20,899 (2016), 21,210 (2020), and Laws 21,440 and 21,420 (2022), have significantly reshaped the landscape of Chilean tax legislation. These reforms have brought about substantial changes aimed at modernizing the tax system and addressing various fiscal challenges faced by the country.

This article will review the most relevant tax topics that have been subject to amendments, including: the predominance of substance over form; the modification of the tax regimes; the new tax rates applicable upon distribution of profits; the registers that taxpayers opting for the above regimes are forced to maintain and the modifications to Value Added Tax.

It will analyse some of the major topics relating to Chilean Income Tax Law, including the concept of income and the different taxes applicable to such income; the tax breaks and deductions necessary for determining the taxable base for Corporate Tax (First Category Tax), including cost and expense deductions; monetary correction for inflation; tax credits imputable against final taxes; the so called PPMs or advance payments of the First Category Tax; the final taxes that apply to local and foreign taxpayers; transfer pricing provisions; the tax regime applicable to foreign taxpayers, including the treatment of interest, services and royalties; foreign credits for taxes paid abroad; and the capital gains obtained upon the direct and indirect disposal of shares and rights held in Chilean companies.

This article will also discuss the other principal taxes covered by Chilean legislation. These include Municipal Tax, Stamp Tax, Value Added Tax, Fuel Tax, Property Tax, Green Tax, Custom Duties, Luxury Tax, and Contributions for Regional Development.

Finally, this article will provide a succinct overview of the Tax Administration system, outlining the procedures for tax declaration, payment, and collection in Chile. It will elucidate how the Chilean Tax Authority imposes penalties, including the statute of limitations for such penalties and the conduct of audits. Ultimately it will delve into the powers of the Tax Authority to waive or mitigate imposed penalties and fines.



TAX SYSTEM

Legislative framework

Statutes

The Chilean Constitution ensures that taxes are distributed equitably in proportion to income or according to the progression or manner established by law. It prohibits the imposition of taxes that are clearly disproportionate or unfair, and taxes collected cannot be earmarked for specific purposes.

Some taxes may be used for specific purposes in relation to National Defence if authorised by legislation.

Similarly, Taxes imposed on specific activities or goods may be directed towards regional or local priorities, as outlined by law, and regional or municipal authorities may utilize these taxes, within the framework established by legislation, to fund development initiatives.

Tax legislation is initiated by the President of Chile and must be presented to Congress for approval. It undergoes review and approval by both the Chamber of Deputies and the Senate before it can be enacted into law.

The Chilean Tax Authority (Servicio de Impuestos Internos) (SII) has no authority to legislate on tax matters, but it does have the power to interpret tax legislation through official directives. These include Circulars, applicable to all taxpayers in similar situations, Rulings, specific to individual taxpayer requests, and Instructions, directives for SII officials. These pronouncements serve to offer guidance on the application of tax law.

Article 26 of the Tax Code establishes that tax collection will not be retroactive in those cases in which the taxpayer has applied, in good faith, a particular interpretation of tax legislation sustained by the SII or its Regional Offices. However, if the interpretations contained in such documents change, it will be assumed for all legal purposes –with no proof admitted to the contrary- that the taxpayer knew of these changes from the moment they were published.



Tax Evasion and Tax Avoidance.

Tax evasion, as defined by the SII, occurs when a taxpayer fails to fulfil their obligation to declare and pay taxes in accordance with the law. This failure can occur inadvertently due to lack of knowledge, error, or a genuine difference in interpretation; or intentionally, with the deliberate intent to violate the law using methods prohibited by law.

In 2003, the Chilean Supreme Court, in a landmark case known as “Bahia Blanca,” defined tax avoidance as “the act of cleverly avoiding something, which does not necessarily involve illegal actions, especially if the law itself provides taxpayers with legitimate means to reduce taxes.” With this definition, the Court established that tax evasion is unlawful, while tax avoidance is not. This case was notable for the Court’s emphasis on form over substance.

Regarding the statute of limitations, the SII has the authority to assess taxable operations within a three-year period from the moment the corresponding payment should have been made. This period may be extended to six years when the taxpayer in question either fails to file the corresponding tax return or submits an inaccurate one.

Form versus substance.

In line with the above criteria, the Tax Reform carried out by Law 20,780 of 2014, introduced changes into Chilean legislation that resulted in the emphasis of substance over form. Article 4 bis of the Tax Code underscores this shift by stipulating that tax obligations prescribed in laws governing taxable events will be accrued and enforced based on the legal nature of the events, acts, or businesses conducted, regardless of the form or designation assigned by the parties involved.

The Tax Code delineates instances of tax avoidance when it pertains to taxable events prescribed in tax laws. Abuse or simulation constitute forms of such avoidance. Abuse manifests when the occurrence, taxable base, or tax obligation is reduced, deferred, or circumvented through legal acts devoid of meaningful legal or economic implications beyond fiscal considerations. Simulation, on the other hand, arises when legal acts obscure the true nature of the taxable event, the nature of the constituent elements of the tax obligation, its real amount or date of accrual.

Nevertheless, these regulations also uphold the principle of tax efficiency, acknowledging that it is legitimate to reasonably select among the various behaviors and alternatives outlined in tax laws.



The above changes came into force on September 30, 2015.

Clearance procedures

Generally, clearance is not required from the SII prior to carrying out major or significant transactions. However, if, after analysing a transaction, its tax treatment is not clear and seems to involve significant risks, a consultation with the SII can be arranged. For certain procedures, such as ceasing commercial activities, obtaining prior clearance from the SII is mandatory. In other instances, seeking clearance from the SII is optional; for example, when requesting advance definition of withholding obligations for capital gains earned by foreigners.

INCOME TAX

Income tax Regimes

The Tax Reforms modified the previous tax regime through the introduction of new alternative tax regimes, and the modification of the existing tax regimes.

The current Chilean Income Tax Regimes are:

- The Partially Integrated Regime (PIR), applies a First Category Tax rate of 27% over a taxable base determined by the general rules contained in articles 29 to 33 of the Chilean Income Tax Law (further details later in this article). This regime was established as the exclusive taxation framework for large companies following the Tax Reform implemented through Law Number 21,210 of 2020.

Under the PIR, final shareholders are taxed when dividends are distributed by the companies in which they participate, so payment is deferred. The amount of First Category Tax credit which may be offset against final taxes varies depending on the final shareholders' tax residency. Shareholders resident in a country with which Chile has a Double Tax Treaty in force, such as the UK, are entitled to a full First Category Tax credit. Shareholders resident in a non-treaty country are only allowed to credit 65% of First Category Tax paid, as 35% of such credit must be reimbursed as a debit, thus raising the total tax burden of final taxes to 44.45%. The latter also applies to individual shareholders who are resident in Chile.



The Pro SME Regime (PSR) levies a 25% First Category Tax rate, which is applied to a taxable base calculated as the received income of the company minus expenses paid. Shareholders under the PSR are entitled to a full credit of the First Category Tax paid. As a transitional measure the 25% First Category Tax rate has been reduced to 12.5%.

To be considered as an SME companies need to meet the following requirements: (i) The capital contributed by the company at the commencement of business activities cannot exceed UF 85,000. (ii) The average income of the business over the last 3 years must not exceed UF 75,000. This limit may be exceeded once, in which case, the gross income in any of those 3 fiscal years, considered individually, cannot exceed UF 85,000. (iii) Income derived from certain activities, such as passive income (e.g., income from real estate, interests, dividends), must not exceed 35% of the total gross income for the year.

Newly incorporated companies that meet the requirements from the onset will automatically be considered part of the PSR.

Existing companies that meet the requirements must apply for inclusion to the SII between January 1st and April 30th of the year in which they wish to be taxed under the PSR.

- The transparent Pro-SME Regime (TPSR), differs from the PSR, in that there is an option for the company not to be subject to First Category Tax. As such final taxes are levied directly on the owners on their respective share of the company's profits.

To be eligible for this regime, companies must meet all the criteria to be classified as SMEs. Additionally, the company's ownership must be exclusively held by individuals or legal entities without domicile or residence in Chile.

- The Presumed Income Tax Regime (PITR) presumes the taxable base applicable based on the type of activity conducted. Eligible taxpayers include companies engaged in agricultural, mining, or land transportation of cargo or passengers. To qualify for the PITR, specific yearly income thresholds must not be exceeded by each activity. Agricultural activities must not exceed UF 18,000 (approximately USD \$674,000), mining UF 34,000 (approximately USD \$1,274,000), and land transportation of cargo or passengers UF 10,000 (approximately USD \$375,000).

Note that once a company switches from the PITR to any other tax regime, the taxpayer will not be able to return to the PITR for 5 years.

- A special regime that applies to taxpayers who must keep complete accounting records and whose owners are not subject to final taxes (Global Complementary Tax or Additional Tax). Taxpayers eligible for this regime may include Foundations, Corporations, companies wholly owned by the State, among others.



Concepts of income taxation

The Chilean Income Tax Law (“ITL”) defines several important terms:

“Income” is defined as revenues constituting profits or benefits derived from a thing or activity, encompassing all earnings, profits, and capital received, accrued, or attributed, irrespective of their nature, origin, or description.

“Accrued Income” refers to income for which a title or right is possessed, irrespective of its current enforceability, and which is credited to its owner.

“Minimum presumed income” refers to the income threshold that is not subject to any deductions by the taxpayer.

“Perceived Income” refers to income that has physically entered a person’s possession. “Accrued Income” becomes received income upon fulfilment of the obligation through methods other than monetary payment..

“Effective Capital” is the total value of assets excluding assets that do not represent effective investments, such as intangible, nominal, transient, and order values.

First Category Tax (Impuesto de Primera Categoría)

Income derived from commercial and industrial activities, among others, is subjected to First Category Tax. It currently stands at 25% for the PSR and 27% for the PIR, and is applied over the taxable net income of the companies, on an accrued, attributed or cash basis, whichever occurs first.

Net Income is the result of deducting direct costs and expenses from gross income. Also, some adjustments must be made, i.e. inflation adjustments, as well as other additions and deductions according to the Income Tax Law. Once those final adjustments are made, the result is Taxable Net Income, which is the taxable base for First Category Tax.

Second Category Tax (Impuesto de Segunda Categoría)

Salaries, fees, wages, and other forms of remuneration paid for dependent personal services are subject to Second Category Tax. It is: (a) a sole or unique tax, meaning the income or remuneration is subject to this tax only; (b) a withholding tax, where taxes are withheld and paid by the employer on behalf of the employee; (c) a progressive tax, based on a scale that progressively increases from 0 to 40%; (d) a tax that applies to income which has already been received and; (e) calculated and paid on a monthly basis.



Global Complementary Tax or Surtax (Impuesto Global Complementario)

Is levied on individuals resident or domiciled in Chile with respect to their worldwide income accrued or received in the preceding commercial year. It is applied progressively from 0 to 40%.

Additional Tax (Impuesto Adicional)

Broadly speaking, this tax is levied on Chilean-source income received by non-residents. It usually works as a withholding tax at a general 35% tax rate which may vary depending on the nature of the payment and the existence of Double Taxation Treaties.

The Additional Tax must be withheld when the remuneration is paid, credited to an account or made available by any means to the beneficiary, whichever occurs first. The tax withheld must be declared and paid typically within the first 12 days of the following month.

Classes of taxpayers

Individuals and entities resident or domiciled in Chile are taxed on their worldwide income. Non-residents are subject to tax on income whose source is located within Chile.

According to our domestic law, an individual is considered a resident for tax purposes when they stay in Chile, whether continuously or not, for a period or periods that in total exceed 183 days within any twelve-month period.

The Chilean Income Tax Law does not offer a specific definition of domicile. Therefore, the definition provided by the Chilean Civil Code would be applicable, which defines domicile as “the residence in a certain place along with the intention to remain in such place”.

Foreigners working in Chile are only subject to tax on their Chilean-source income during the first three years of domicile or residence. After this period, they are subject to tax on their worldwide income.

Tax year

For First Category Tax and Global Complementary Tax compliance purposes, the tax year corresponds to the income generated in the previous commercial year. Therefore, tax returns filed during the 2024 tax year (typically in April) refer to the 2023 calendar year.



Tax holidays

There are no tax holidays for overseas investors.

FIRST CATEGORY INCOME TAX

Activities subject to first category income tax

Income obtained from activities where the use of capital prevails over personal work is subject to First Category Income Tax at a rate of 25% for the PSR and at a rate of 27% for the PIR.

Income derived from the following activities, assets, or companies are subject to First Category Income tax:

- * Exploitation of real estate (land, property).
- * Income from movable capital, understood to be those assets or instruments of a movable nature, tangible or intangible, consisting of income derived from ownership, possession, or precarious tenure of such goods such as securities, bonds and deposits.
- * Commercial, industrial, and mining activities; exploitation of natural resources; insurance companies; airline companies; holding or capitalization companies; banks, financial companies and other companies that undertake similar activities; and companies engaged in construction, journalism, advertising, radio, television, telecommunications, and data processing activities.
- * Traders; commission agents with permanent offices; auctioneers, customs agents, shippers, as well as other individuals who participate in nautical, port and customs duty commerce; insurance agents that are not individual operators; schools; academies and institutes engaged in private teaching; clinics, hospitals, laboratories, and other similar private establishments; and companies engaged in entertainment activities.
- * All income, whatever its origin, nature, or denomination, with a taxation which is not expressly provided for in another category or exempted.
- * Lottery prizes shall pay First Category tax of 15% as a unique tax. This tax shall also apply to prizes corresponding to tickets unsold or uncollected in the previous lottery draw.



Taxable income

Taxpayers domiciled or resident in Chile are subject to First Category Income Tax on their net taxable income determined through full accounting records. Chilean source income is taxed on an accrual basis, while foreign source income is taxed based on received income, with an exception for income obtained through a permanent establishment existing abroad or a foreign-controlled company.

Direct costs

Taxpayers are allowed to deduct from their gross income the direct costs necessary to obtain their taxable income. Direct costs for products purchased in Chile include purchase price, and optionally, transport and insurance payments to the purchaser's warehouses. Products imported into Chile include their CIF value (cost, insurance, and freight), customs duties paid, expenses incurred to import the products, and, optionally, transport costs and insurance paid while the product is on the way to the importer's warehouse. For products manufactured by the taxpayer, direct costs include raw material and direct labour costs.

Tax-deductible expenses

An expense is tax-deductible, on an accrued or paid basis, when it is necessary to produce the taxpayer's taxable income. In the case of payments made abroad, expenses are deductible on a cash basis, provided the corresponding Additional Tax has been declared and paid.

An expense is deemed necessary when it meets the following requirements: i) it is needed to generate income in the same or future years; ii) it is related to the taxpayer's line of business; iii) it is paid or owed in the relevant taxable period; iv) it has not previously been deducted as a cost; and v) clear evidence is provided to the SII.

Some of the most relevant tax-deductible expenses, provided the above requirements are met, are:

- * Interest paid or accrued on amounts owed in the respective year.

- * Annual depreciation of fixed assets, generally determined, through the straight-line depreciation method. New or imported fixed assets that have a useful life of at least three years may be subject to accelerated depreciation. If fixed assets become redundant prior to the full depreciation period, the corresponding depreciation rate may be doubled.

- * Start-up and organisational expenses may be deducted over up to six consecutive commercial years as from the year when the expenses were incurred, or as of the year when income was generated from the core business if that occurred later. If a company closes before 6 years has passed, these expenses may be deducted up to the period of duration stipulated in the company's bylaws.



* Tax losses originating from the taxpayer's activities are deductible. Tax losses may be carried forward indefinitely, but the most recent tax reform prohibits carrying them backwards. Tax losses are non-transferable and may only be used by the taxpayer who incurred them.

Transfer pricing provisions in Chile

This regulation includes various administrative obligations that must be met.

In specific instances, as outlined in Article 41E of the Chilean IITL, the SII retains the authority to challenge the prices, values, or revenues associated with cross-border transactions between Chilean taxpayers and foreign related parties if they appear not to reflect fair market values.

Should the SII identify a discrepancy in price adjustments, the resulting amount will be subject to a 40% tax penalty, with an additional flat tax penalty of 5% of the difference potentially applied. However, this penalty may be waived if the taxpayer has diligently and punctually provided the information requested by the SII during the audit process, including the submission each June of the "Transfer Pricing Annual Informative Return" affidavit.

Monthly provisional payments

Monthly provisional payments (*Pagos Provisionales Mensuales – PPMs*) are advance payments during the year of First Category Income Tax of the yearly amount that those taxpayers have to declare and pay for the income accrued during the previous year.

PPMs may be determined based at a fixed or variable rate, depending on the amounts obtained and the activities performed by the taxpayer making these payments.

The taxpayer has the option to recalculate the monthly provisional payments, if they experiences significant changes in their income, costs, or expenses that may significantly affect the net income for the fiscal year.

Monetary correction

Taxpayers must adjust their assets, liabilities, and tax base equity in accordance with inflation in December of each commercial year.



Non-taxable income

The SII considers certain incomes as non-taxable. In some cases it does not have to be declared. For example, capital gain derived from the occasional sale of movable goods for personal use, or the furniture of his home.

Tax registers

Taxpayers subject to the PIR are forced to maintain:

- (i) Register of Income Subject to Taxes (Registro de Rentas Afectas a Impuestos – RAI). This entry documents the positive variance calculated at the conclusion of the corresponding commercial year, representing: (a) the positive value of the tax base equity; and (b) the positive total of funds held in the REX registry, along with the actual capital contributed to the company, inclusive of any increments or reductions, appropriately adjusted for monetary correction. In essence, this disparity reflects all income subject to the Global Complementary or Additional Tax.
- (ii) For these computations, incomes, withdrawals, remittances, or dividends made throughout the fiscal year are to be incorporated into the assessed taxable equity. It is then adjusted according to the difference between the consumer price index (CPI) of the month preceding the withdrawal, remittance, or distribution and the CPI of the month before the conclusion of the commercial year, and the negative balance of the REX record.
- (iii) Register of Exempt and Non-Taxable Income (Registro de Rentas Exentas e Ingresos No Constitutivos de Renta – REX), in which exempt and non-taxable income must be recorded.
- (iv) Register of Differences between Normal and Accelerated Depreciation (Registro de diferencias entre la depreciación normal y acelerada – DDAN), in which companies must record the positive difference between accelerated and normal depreciation of assets.
- (v) Register of Accumulated Credit Balance (Registro de Saldo Acumulado de Créditos – SAC), in which all the credits imputable against the Global Complementary or Additional Tax must be kept.

Taxpayers opting for the PSR are exempt from maintaining RAI, REX and DDAN if they do not generate or receive income subject to control in the REX registry. Taxpayers opting for TPSR are always exempt from maintaining tax registers.

Taxation on foreign source income

Foreign tax credit

To alleviate the impact of international double taxation, Chile employs a tax credit mechanism for taxes paid abroad. The effectiveness of this mechanism depends on whether the country where the income is generated has an active Double Taxation Treaty with Chile.



Independent of whether a Double Tax Treaty is in force, the amount of the credit will correspond to the mandatory taxes finally paid or withheld abroad, with a cap equivalent to the lesser of: (i) An individual cap, determined by the lesser of the effective tax incurred abroad, and 35% of the gross income for each type of income taxed abroad, considered separately to the tax or taxes paid abroad, and (ii) a global cap, determined for 35% of the amount resulting from adding to the Net Income of each fiscal year, the lesser of the taxes incurred abroad and the individual cap previously indicated.

To be eligible for the foreign tax credit, taxpayers holding shares or interests in foreign companies must have their investment registered with the SII's Foreign Investment Register.

Where there is no double taxation treaty, credits are granted over some types of income. Otherwise, when a treaty based on the OECD model exists, the tax credit applies to any income sourced from such country.

Chile has entered into treaties based on the OECD model with: Argentina, Australia, Austria, Belgium, Brazil, Canada, Colombia, the Republic of Korea, China, Croatia, Denmark, Ecuador, United Arab Emirates, Spain, France, Ireland, India, Italy, Japan, Malaysia, Mexico, Norway, New Zealand, Netherlands, Paraguay, Peru, Poland, Portugal, the United Kingdom, the United States of America, the Czech Republic, Russia, South Africa, Sweden, Switzerland, Thailand, and Uruguay.

TAXATION OF FOREIGN CORPORATIONS

Taxation on Chilean source income

Taxpayers domiciled or resident abroad are only taxed on their Chilean source income. Broadly speaking, income is deemed to be sourced in Chile when it derives from assets located in Chile or from activities undertaken in Chilean territory.

The Chilean ITL contains an indirect sale provision according to which capital gains generated on the sale of shares or rights of foreign companies are taxed, regardless of where the buyer is domiciled, if the foreign company whose rights or shares are sold has an underlying asset in Chile.

In general, for this rule to apply, rights or shares representing at least 10% of the foreign company's capital must be sold and any of the following circumstances must occur:

- (i) At least 20% of the total market value of the shares comes from underlying assets located in Chile, in proportion to the indirect participation held in them by the foreign transferor.
- ii) The market price of the proportion of the seller's stake of the underlying assets in Chile is equal to or higher than 210,000 UTA (approximately USD 178 million) in.



iii) Shares and equity rights owned by tax haven entities are always taxed unless both of the following circumstances are present: a) the foreign entity does not have a Chilean taxpayer with more than a 5% stake; and b) the controller with a 50% stake or higher is not resident or domiciled in tax havens.

Capital gain obtained on the disposal of shares or rights held in Chilean entities

In general, this income is subject to First Category Income tax at 25% for the PSR and 27% for the PIR. If the seller is a non-resident the capital gain will be subject to a 35% Additional Withholding Income tax. If a double tax treaty is in force the 35% rate can be reduced.

Capital gains obtained on the disposal of shares acquired prior to January 31, 1984, are exempt from income taxes if the transaction is non-customary and takes place between unrelated parties.

Publicly traded shares with trading presence

According to Article 107 of the Chilean ITL, capital gains obtained on the disposal of shares issued by a Chilean stock corporation whose shares have “trading presence” on the stock exchange are subject to a 10% income tax subject to certain requirements. Institutional investors are exempt from capital gains tax for this type of operation.

For a title to have trading presence, it must have a stock market presence equal to or above 25% in addition to the security being registered in the Stock Register and on the Chilean Stock Exchange.

Under certain double taxation treaties the capital gains tax applicable to publicly traded shares with trading presence may have a more favourable tax treatment.

TAXATION OF SHAREHOLDERS

Taxation on the distribution of profits

Generally speaking, profits distributed by Chilean companies to individuals resident or domiciled in Chile are subject to the Global Complementary Tax. It is levied at a progressive rate of 0% to 40%, with the right to credit the First Category Tax paid by the company, if applicable. In this case, profits the PIR are only allowed to impute 65% of such credit.

Profits distributed from Chilean companies or Chilean branches to shareholders, partners or parent companies domiciled abroad are subject to 35% Additional Tax, with the right to credit the First Category Tax paid by the company.



In the case of profits earned within the PIR, the amount that may be offset as credit will vary depending on the tax residency of the shareholders, partners or parent companies receiving the profit. Shareholders, partners and parent companies resident in a country which Chile has a Double Taxation Treaty in force with Chile are entitled to the full credit. Shareholders, partners and parent companies resident in a non-treaty country are only allowed to impute 65% of such credit, due to the fact that the other 35% must be reimbursed as a debit.

Profits paid from Chilean companies or Chilean branches to shareholders, partners or parent companies domiciled abroad must be allocated against the balances available in the different registers that taxpayers are forced to maintain.

TAXATION OF FOREIGN OPERATIONS

Interest

As a rule, interest paid to non-resident taxpayers is subject to Additional Tax at a rate of 35%.

An option of paying a reduced 4% tax rate is primarily applicable to interest payments on loans extended from overseas by foreign banks or financial institutions. However, this reduced rate is contingent upon certain conditions, notably that the lender hasn't engaged in any structured agreement permitting the transfer of interest under the financing to another party domiciled or resident abroad. This provision ensures that if the interest were received directly by the Chilean borrower, it wouldn't qualify for the reduced Additional Tax rate.

A reduced tax rate might also be accessible if the lender resides in a country which has an active Double Taxation Treaty with Chile. The specific rate will vary based on the terms outlined in each individual treaty.

Even where reduced rates apply, thin capitalization rules should be observed (relating to the 3:1 debt-to-equity ratio). If the Chilean company has excessive debt, tax on interest will be increased to 35% over the excess interest, to be borne by the Chilean taxpayer.

Royalties

As a rule, royalties paid to non-resident companies are subject to a 30% Additional Tax rate.

However, the rate is reduced to 15% for certain royalties, such as those paid for the use of invention patents, models, industrial drawings and designs, as defined under the Industrial Property Law, and royalties paid for the use of certain



computer programs. Some double taxation treaties allow more favourable tax treatment on income arising from royalty payments.

To be deductible, royalty payments made abroad to a related entity must qualify as necessary to produce the taxpayer's taxable income, and must not exceed of 4% of the revenue obtained in the sale of goods or services within the respective commercial year. This limit does not apply when the tax rate in the country in which the beneficiary of the royalty is resident is equivalent to or higher than 30%, or when the transaction is made between unrelated parties. In order to deduct these expenses they must have been effectively paid and the corresponding Additional Tax declared and paid.

Services

As a rule, fees paid by Chileans to non-resident companies for services rendered abroad are subject to Additional Tax of 35%.

However, fees paid to non-residents attract a lower withholding tax of 15%, on services rendered within Chile or abroad. These include (i) engineering services, (ii) technical services, and (iii) technical or professional services provided by an individual possessing expertise in a particular technique or field of science. These services must take the form of advice, and may include reports and drawings such as blueprints.

Moreover, fees paid to non-residents for the following services rendered abroad are exempt from the withholding tax: (i) Freight, loading and unloading; (ii) warehousing, weighing, sampling and analysing of products, including Chilean products held for melting, refining and other special processes; (iii) certain insurance and reinsurance operations; (iv) commissions paid abroad by a Chilean taxpayer to foreign agents in connection with the export of goods, or the provision of services to be utilized abroad by such taxpayer; (v) international telecommunication services; (vi) exportable goods and services related to advertising and promotion, market analysis, scientific and technological investigation, and legal counselling and defence before administrative, jurisdictional and arbitration authorities; and (vii) any other sum paid abroad for engineering and technical services, provided these are qualified as exportable services by the Chilean Customs Service.

Under certain double taxation treaties income arising from services may have a more favourable tax treatment.



CAPITAL TAXATION

Companies

There is no tax payable based on the value of a company upon incorporation, on its issue of shares, or on its capital. However, there is a Municipal Licence Fee (*Patente Municipal*) which is applied at a rate depending on the domicile of the company, which ranges from 0.25% to 0.5% of the tax equity, up to a maximum of 8,000 UTM, which approximately is USD 540,000.

Individuals

No tax is payable by individuals on their net worth, property, or assets, except for the property tax based on the fiscal valuation of properties.

INDIRECT TAXES – VALUE ADDED TAX – VAT

Chilean Value Added Tax (*Impuesto al Valor Agregado – IVA*) is an indirect tax which operates on a credit-debit mechanism. VAT paid by an entity when acquiring goods or services represents its VAT credit, while the VAT applied to goods and services sold to customers constitutes its VAT debit. In essence, Chilean VAT is a “value added tax” imposed on the value added at each stage of the production and distribution process. This tax is regulated by Decree Law Number 825 (VAT Law).

Taxable transactions

As a rule, VAT is imposed on the sale of goods located in Chile, including tangible movable assets or real estate, provided that such transactions are customary. Similarly, VAT applies to all services provided or used in Chile, with some specific exemptions.

The VAT Law specifies that the tax is applied to the sale of goods when the goods are physically situated in Chile at the time of the transaction, irrespective of where the contract is concluded or signed. In this context, goods registered in Chile are deemed to be located in the country, even if they are physically outside its borders.

VAT is levied on services provided or utilised in Chile, regardless of where such services are paid.

Additionally, the VAT Law outlines a list of other taxable transactions. This includes: the import of goods into Chile; contributions of movable property made to a company; distribution of company assets made to partners due to



liquidation; construction contracts, the lease of furnished property apt for use as a residence or office, for the provision of services whatever the legal nature of the company; and the use of patents, trademarks, designs or models, industrial formulas or processes, among others.

Income subject to Additional Tax is exempt from VAT. However, if an income is specifically exempted from Additional Tax by means of domestic legislation or a Double Taxation Treaty, it can be subject to VAT, provided that the service has been delivered or used in Chile.

VAT in Digital Services

Foreign taxpayers providing remote services for use in Chile by individuals or entities not subject to VAT must remit VAT for: (i) sales or services performed in Chile or those provided abroad but later imported; (ii) provision of digital entertainment content; (iii) software services, storage, platforms, or IT infrastructure; and (iv) advertising services.

If foreign taxpayers supply remote services for use in Chile by individuals or entities subject to VAT in Chile, it becomes the obligation of Chilean taxpayers to remit the corresponding VAT.

The services is deemed to be rendered in Chile if: (i) the IP address of the device used by the user or another geolocation mechanism indicates that it is located in Chile; (ii) the card, bank account, or other payment method used for payment is issued or registered in Chile; (iii) the address provided by the user for billing or issuing payment receipts is in Chile; or (iv) the subscriber identity module (SIM) card of the mobile phone through which services is received has Chile as the country code.

If the service provider is domiciled or resides abroad, and the recipient of the service is a VAT taxpayer, it will be the recipient's responsibility to declare and pay VAT.

Destination Principle

Chilean VAT is based on the "destination principle". VAT is levied on imports, but not on exports when leaving the country. Although exports are exempt, the VAT Law allows exporters to recover the VAT credit charged on the purchase of goods or services used in their export business, as if it were a normal credit. Furthermore, the VAT Law has an exceptional clause which allows exporters the right to request a refund of the VAT credit already borne.

Services provided abroad are exempt from VAT if they qualify as export services by the National Customs Service (Servicio Nacional de Aduanas), as is remuneration for services provided abroad covered in Article 59 of the ITL and subject to Additional Tax.



Rate

VAT is applied universally at a rate of 19%.

Exemptions

Chilean VAT law hosts some exemptions including the following: (i) The import of capital goods under Law Number 20,848, which establishes the framework for Direct Foreign Investment in Chile, and (ii) All exported products.

Recovery of VAT

The tax borne by a company or business when acquiring goods or services is a VAT credit which will be offset against the company's VAT debits.

VAT paid on imports and on acquisitions or services received, when accessory to operations exempt from VAT or not related directly to the activities of the seller, cannot be offset against VAT debits.

VAT related to exports may be recovered in cash as previously described.

An exceptional mechanism exists which allows reimbursement of VAT credit, aimed at encouraging investment in fixed assets. It is not strictly the refund of a credit, but a financial arrangement that provides funds in advance. It applies when a taxpayer accumulates a VAT credit from acquisitions of fixed assets or services over two or more consecutive periods, integrating their cost value, but only for VAT credits related to taxed operations. The VAT surplus can be refunded in cash or offset against other taxes.

Tax administration

VAT must be declared and paid monthly no later than the 12th day of the following month. If the declaration and payment of VAT are made online via the SII webpage, this term is extended until the 20th day of the following month.

The Chilean VAT system requires documentary support to enable the use of the credit-debit mechanism. For example, a taxpayer must issue invoices, bills, credit and debit notes, waybills, settlement invoices, and keep many accounting books.



Invoices must be numbered sequentially and indicate the issue date; the name, address, and Tax ID Number (*Rol Único Tributario – RUT*) of both buyer and seller; and details of the goods and the unit price of each item.

VAT registered sellers and service suppliers must issue Credit and Debit notes when a transaction amount changes after an invoice has been issued. These documents reflect the price difference since the original invoice was issued. No one else is entitled to issue these documents, which must include the same details as the original invoice.

When VAT taxable goods are being transported, a waybill or invoice must be exhibited upon request by the SII. If the driver cannot or will not comply, the SII can impose fines on the driver and on the taxpayer who should have issued the document.

Settlement invoices are mandatory for consignment sales, where a third party sells goods on behalf of another. Agents must issue these invoices to their principals at the end of each period to transfer the corresponding VAT debits. These invoices must meet the same requirements as normal invoices.

As of 2017, taxpayers are required to issue invoices, settlement invoices, bills, waybills, and credit and debit notes electronically. However, exceptions are made for taxpayers operating in areas without access to mobile data or electricity or in regions declared as disaster zones. Additionally, the SII may grant authorization for certain taxpayers to issue these documents in paper format, provided it is done through a reasoned resolution. This change was required by amendments to Law 20,727 in 2014,

Electronic invoices must include an electronic SII stamp and a digital signature. The SII also defines how to stamp, deliver, send, file, and record these documents.

OTHER INDIRECT TAXES

Stamp Duty

This tax primarily applies to documents involving monetary credit operations, such as loans. The rates range from 0.066% to 0.8% per month of the loan principal amount. For on-demand loans or those without a maturity date, the rate is 0.332%. Stamp Duty is incurred when the document is issued or subscribed in Chile. If the loan originates abroad, the tax is incurred when the document enters Chile, either through legalization, notarization, or when it is registered in borrower's accounts, whichever occurs first. Stamp Duty is considered an ordinary expense and is deductible for income tax purposes.



Luxury and certain other items

In addition to VAT, certain luxury items and beverages, mainly alcoholic and sugary drinks, are subject to an additional sales tax, with rates ranging from 10% to 50%.

A new tax was introduced in 2022 by Law 21,420 that levies tax on luxury goods such as helicopters, airplanes, yachts, and cars, at a rate of 2% on the market price in Chile.

Cars

Imported cars and locally assembled cars and station wagons are subject to VAT on their first sale. Generally, the sale of used cars is not subject to VAT. There are several restrictions on used car imports. Only certain types of commercial vehicles are eligible for companies to claim the credit for the VAT incurred on the acquisition.

Fuel Tax

Chile imposes a fuel tax to various types of fuels, including gasoline, diesel, and liquefied petroleum gas (LPG). The IEC is levied based on the energy content of the fuel and is intended to generate revenue for the government while also influencing consumer behaviour by encouraging the use of more environmentally friendly alternatives. The tax rates may vary depending on the type of fuel and are periodically adjusted by the government.

Tobacco Tax

Cigarettes, cigars, and loose tobacco are subject to a tobacco tax of 30%, 52.6%, and 59.7 respectively, which is applied over the sale price, taxes included, of the packet, box, or wrapper. A tax equivalent to approximately 0.001 UTM is applied for each cigarette contained within its packaging.

Green Taxes

The Tax Reform of 2014 introduced a “green” or “ecological” tax on the contamination from fossil fuel burning processes.



These include:

1. Mobile Sources

This tax is applied to two classes of vehicles, and is calculated proportionally to the car's sales price, urban cycle fuel economy, and nitrous oxide emissions. Light cars have a gross weight of less than 2,700kg, and medium cars have a gross weight of between 2,700kg and 3,860kg. The levy applied has been increasing with each successive tax reform.

2. Fixed Contamination Sources

The tax is levied on facilities that emit more than 100 tons of particulate matter (PM) or 25,000 tons of CO₂ per year, either individually or collectively. The tax is calculated on the quantity of emissions discharged by the facility during the respective tax year. In addition to PM's and CO₂, nitrous oxides (NO_x) and sulfur dioxide (SO₂) are measured and taxed.

Since 2023, the legislation allows taxpayers to offset all or part of their taxable emissions to reduce the amount of tax to be paid. This regulation contains comprehensive guidelines which encompass the requirements, obligations, procedural aspects, and documentation required emission reduction projects. It also outlines the process for obtaining the certificates to offset emissions and reduce the Green Tax payable.

Contribution for Regional Development

The contribution for regional development in Chile refers to a tax that aims to support the development of specific regions within the country. This tax is typically levied on certain economic activities or industries operating within designated regions, and the revenue generated is allocated towards funding various development projects and initiatives aimed at improving infrastructure, promoting economic growth, and enhancing the overall well-being of local communities.

This new tax was introduced in 2020 by Law 21,210, and applies to taxpayers who are subject to First Category Tax determined by their actual income, under full accounting principles. It consists of a one-time payment of 1% on the acquisition value of all the physical assets which form a part of the complete investment project. The projects themselves must involve the acquisition, construction, or importation of physical fixed assets valued at a total equal to or greater than USD \$10 million and be subject to the environmental impact assessment system.

Property taxes

Law Number 17,235, enacted on December 24, 1969, introduced a tax on property in Chile. This tax is calculated based on the fiscal valuation of the property. Currently, the tax rate stands at 1.137% for non-agricultural real estate located in urban areas, including undeveloped sites, abandoned properties, or gravel pits. For non-agricultural real estate or



assessments equal to or less than \$194,760,860 (approximately USD \$205,000), the rate is 1.042%. For the portion of assessments exceeding this value, the rate is 1.042%.

The fiscal valuation is fixed each year on January 1 and is adjusted each July 1, according to the increase in the Consumer Price Index.

Real estate taxes are payable in four instalments due in April, June, September, and November, calculated on the valuation in effect at the time of payment.

For taxpayers who own real estate assets that collectively exceed 670 UTA (approximately USD 550,000), a surcharge (*sobretasa*) will be applied with rates per bracket, ranging from 0.0075% on 670 UTA of Total Fiscal Value, up to 0.275% on 1,510 UTA (approximately USD 1.250.000).

Customs Duties

The importation of goods is subject to Customs Duties at a standard rate of 6%. This may be reduced if a Free Trade Agreement is in force. At the present time, Chile has Free Trade Agreements with Australia, Bolivia, Canada, China, Colombia, Costa Rica, the Republic of Korea, Cuba, Ecuador, the EFTA, the United Kingdom, the United States, Guatemala, Hong Kong, Honduras, India, Japan, Malaysia, México, Nicaragua, Panama, Peru, Turkey, Venezuela, Vietnam, and Thailand. Furthermore, Chile is part of several other treaties, such as the MERCOSUR, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Pacific Alliance.

Custom duties are calculated based on the “Customs Value” of the imported goods. The “Customs Value” includes the transaction value of the goods, the actual cost of transport to the point of entry into the country, the cost of loading, unloading, and handling, and the insurance costs.



ADMINISTRATION OF THE TAX SYSTEM

General

Taxes are imposed only by the central government and there are no regional taxes other than the Municipal Operating Licence previously mentioned. 2. Tax administration is entrusted to the SII. The Tax Code contains the legal provisions on declaration and payment of taxes, penalties, tax audits, tax claims, and the statute of limitations.

The SII issues instructions on tax matters on a regular basis. The Treasury is responsible for tax collection, which is normally done through authorised banks and financial institutions.

Corporate taxpayers

All business entities incorporated in Chile and branches of foreign corporations operating in the country are subject to Chilean Tax Law.

Tax returns

Income tax returns must be filed in April of each year, for income earned in the preceding calendar year. In the case that no payment is due, this term is extended to May (although this may vary from year to year). The tax return is self-assessed, and predominantly filed online. The online system calculates the tax due for each taxpayer based on the information collected automatically from other institutions, such as health insurers or pensions providers, and possibly accountants employed by the taxpayer. The proposal can be accepted or altered as necessary to correct any differences in opinion.

There is also authorised software available for preparing and submitting tax returns, but they can still be submitted on paper on a single form available from the SII.

Business Tax returns are normally prepared by the company's accountant and should not include any supporting documents such as financial statements, detail and the like, which must remain with the taxpayer for future review by the tax authorities. Details of taxes withheld must be submitted annually in March.

Monthly returns must be filed for VAT, for the withholding of income taxes on salaries, and for other taxes and compliance obligations.

Appeals

Taxpayers have the option to contest any over-assessment or overpayment of taxes resulting from a tax audit by filing a claim before the Tax and Customs Courts (Tribunales Tributarios y Aduaneros). This claim must be submitted within 90 days of receiving the notification of the tax assessment. However, if the taxpayer pays the indicated amount within 90 days of notification, this period can be extended to 1 year. If dissatisfied with the decision of the Tax and Customs Courts, an appeal can be lodged before the Court of Appeals of the corresponding jurisdiction within 15 days of notification. Both the taxpayer and the



SII have the right to file an appeal in cassation before the Supreme Court regarding the decision of the Appellate Court.

Payment and collection

Income taxes are payable at the time of submitting the Annual Tax Return, in April of each year. Taxpayers, in general, are subject to advance payments on account for their yearly income taxes.

The difference between these advance payments and the final tax bill is that the latter is payable in cash, in one instalment at the time of filing the tax return, adjusted for inflation.

Withholding taxes

Taxes withheld on the payment of salaries, professional fees, dividends to non-resident shareholders, royalties and other payments, and profit distribution to non-residents, are normally paid within the first 12 days of the month following receipt of such payments. The tax withheld on dividends to non-resident shareholders must be retained at the time the dividend is declared. Amounts credited to the account or placed at the disposal of the recipient are deemed equivalent to a payment of the same for purposes of tax withholding.

A special register must be maintained to record the taxes withheld, including the name and address of the person for whose benefit the withholding was made.

Tax audits

Tax audits are regularly carried out by the SII, especially concerning VAT. Procedures normally start with an electronic review of the tax return (the tax authority's computer system compares information it receives from different sources and detects inconsistencies which require clarification by means of an inspection by the taxpayer, etc.) after which the taxpayer is subpoenaed to clarify any deficiencies found, with the supporting financial statements and/or other documents. After this process is concluded, the SII may issue a liquidation, which constitutes an assessment of a tax liability and which can be appealed, as explained above.

Penalties

Lateness or failure to file tax returns will lead to a fine equivalent to between 10% and 30% of the resulting taxes. Late or non-payment of taxes entails monetary correction and penalty interest of 1.5% per month.

Incomplete tax returns or lack of supporting evidence are penalised with a fine equivalent to between 5% and 20% of the resulting tax deficiencies. If a tax return or supporting evidence is maliciously incomplete or false, a fine equivalent to between 50% and 300% of the taxes evaded, plus imprisonment, could be imposed. The latter is imposed by a criminal judge on the managers of an entity and the partners responsible for tax matters in the case of a partnership.

The SII may decide to apply relief from fines, if it favours taxpayers who comply with the law and the balance owed is paid within a specific term.



In such cases, the amounts of the fine remission, which will correspond to the interest in arrears and the pecuniary penalties, will vary depending on the timescale in which the owed balance is paid, and if such balance it is paid in person or online. If the balance is paid in person, the remission must comply with the following caps: (a) Relief of 60% if paid within 1 to 3 months; (b) Relief of 50% if paid within 4 to 24 months; and (c) Relief of 40% if paid after 24 months. On the other hand, if the balance is paid via internet the caps are: (a) Relief of 70% if paid within 1 to 3 months; (b) Relief of 60% if paid within 4 to 12 months; (c) Relief of 55% if paid from 13 to 24 months; and (d) Relief of 50% if paid after 24 months.

These periods are valid from the calendar month in which the payment order from the SII is issued in the case of liquidations, and from the day of the instalment maturity date in the case of the property tax.

The balances owed can only be paid in cash.

Statute of limitations

The Tax Code establishes that the SII may assess a tax, review tax returns and charge taxes within the term of three years from the last day on which taxes should have been paid (generally April 30). This term is extended to six years in cases where no tax return has been filed or the return is determined to be maliciously false. No statute of limitation applies in the case that “accumulated losses” are being reviewed.

Exit permits for foreigners

Foreigners who are in Chile under a temporary visa, work permit, or work contract visa do not require a tax clearance when they leave the country.

Trusts, partnerships and joint ventures

Trusts, as they exist under common law, are not provided for under Chilean law.

However, under Article 33 bis of the Tax Code, taxpayers or entities domiciled, resident, established, or constituted in Chile, whether or not subject to income tax, who become or acquire, in any calendar year, the status of settlor, beneficiary, trustee, or administrator of a trust created in accordance with provisions of foreign law, must annually inform the Tax Service, by submitting a declaration, of certain information related to the trust. Partnerships, understood as Limited Liability Companies, are separate legal entities and, as such, file tax returns in the same manner as a corporation.

Participants in a joint venture file a tax return for their own shares/participation in the venture.