

Doing business in Chile

2020



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Foreword

If you are considering doing business in Chile, this guide will help you understand all the issues you have to contemplate, starting from the demographic and environmental overview, consumer protection and special industries, forms of business organizations, accounting up to taxation.

Chile is a reliable country and has one of the most stable economies in Latin America.

If you have any inquiries, please feel free to contact us at pkfchile@pkfchile.cl and we will answer you as soon as possible.

Regards,

Antonio González G.

Managing Partner, PKF Chile



Demographic and Environmental Overview

Geography and Population

Chile stretches along the West Coast of South America from Peru in the North to the South Pole in the Antarctic. Its continental territory and offshore islands cover 302,500 square miles and the Antarctic territory 500,000 square miles. It borders on Peru on the North and on Bolivia and Argentina on the East. Continental territory is often described as a long and narrow strip of land. Its 2,700 miles length (similar distance to that from Madrid to Moscow) explain the wide variety of climates that ranges from the vast and rich mineral Desert of Atacama in the North and the cold and icy islands and islets in the far south beyond the Cape of Horn. Between the extreme North and South, there are valleys, beautiful lakes, and dense forests. However, most of the territory has a mild climate that is enjoyed by the majority of over 17 million inhabitants. Special mention deserves Easter Island, attraction for archeologists and tourists, full of ancient and mysterious monuments called “moai” in the native language. It is located in the Polynesia in the middle of the Pacific Ocean, 2,300 miles from the Chilean continental territory.



Advantages of Investing in Chile

Chile has a special link between the Asia-Pacific region and the countries of the East Coast of South America (Brazil, Argentina, among others). The Chilean economy has evident advantages in the exploitation of some primary products such as those from mining. With its rich reserves of metal and non-metal minerals Chile has a privileged position amongst the mining nations of the world. Its vast deposits of high-grade ores contain a relevant percentage of the world's reserves of certain minerals like copper, rhenium, and molybdenum. Important amongst its non-metal reserves are nitrates, iodine, sulfur, and lithium. Forestry is also important, and the main specie planted is Insignis Pine (one of its comparative advantages lies in Chile's climatic and geographical conditions that make the tree grow faster). This activity has been encouraged through tax exemptions and financial incentives. Due to its longest coastlines in the world, over 2,400 miles, renewable marine resources are very important too. Its variety of climates along the country allows a varied agricultural activity. Chile has a first-class network of highways and roads, seaports and domestic and international airports that connect almost every place of the territory and the world. Chile enjoys a modern and efficient telecommunication system.

Chile has one of the highest schooling rates in Latin America and there are many and well-known universities. For these reasons and owing to public and private educational and vocational training programs, Chile can also offer specialized manpower and professionals at reasonable costs.

Strong national institutions, political stability and clear rules contribute to make of Chile one of the most attractive countries to foreign investment.

There are minimum requirements to bring capital into Chile and send it back and a special law to guarantee fixed and favorable regulations to investments is available to foreign investors.

Political System

Chile is a unitary republic and the government and administration of the State are vested in the President of the Republic. From the administrative and governmental point of view, Chile has been divided into fifteen regions and these into provinces which are subdivided into local administrative units called districts.

Chile enjoys political stability and the President of the Republic and communal authorities are democratically elected. Members of the National Congress (the Chamber of Deputies and the Senate), which exercise the legislative power, are democratically elected as well.

National legislation is applicable to everybody inside the whole territory. Every law, decree, regulation, or other official rule is published in the Official Gazette and it is assumed to be known for everybody since that date.

Economics

Chile is one of the world's leading producers and exporters of copper, molybdenum, sodium nitrate and sodium. It also ranks among the first fishing nations in the world. Owing to this, it is one of the largest producers and exporter of fish meal. Chile also exports wood, pulp, fresh fruit, wine, salmon and other fish, tourism.

Major imports are oil and other fuels, foodstuffs, machinery and vehicles, manufactured goods, raw materials, and chemicals.

The Government levies customs duties on goods entering Chile. However, there are lots of goods from countries with which Chile has signed free trade agreements that can be imported free of customs duties. Customs clearance must be obtained to import any goods. There are imports controls on certain goods (drugs, animals, plants, food, firearms, etc.). There are some goods which import is not allowed such as used cars and motorcycles, used tires, asbestos, products considered hazardous for animals, agriculture and human health (some pesticides, toys containing toluene).

Communications and Transportation

Internal and external communications and transportation are excellent and meet the requirements of all economic activities. Chile has a very efficient integrated telecommunications system providing telephone (fixed and mobile units), data transmission, facsimile, etc., and allowing direct and instantaneous communications inside the country and toward the rest of the world. Major airlines land and take off regularly in the main international airport and several airlines cover the domestic flights. There are a lot of ports along the coast which vessels move imports and exports. The country has excellent highways and roads which connect cities and even small towns.

Exchange Controls

Controls over the movements of capital, profits, loans, investments, credits, and deposits have been substantially reduced and procedures simplified. Entities are only required to make money transfers of \$10,000 or over, both into and out of Chile, through an institution belonging to the Formal Exchange Market which shall report them to the Central Bank of Chile for registration. Direct remittances from Chile must be reported as well.

Suspicious transactions must be reported to the Central Bank of Chile.

Finance

A wide range of financial services are provided by banks. Important foreign banks have an agency or own a bank in Chile. Regulations in force for many years have only contributed to the development of banking activities and allowed the institutions to face at present the world financial crisis.

Sources of finance include local and foreign banks and financial institutions and the stock exchange.

Environmental Regulations

Projects or activities susceptible of causing environmental impact, in any of its phases, are subject to the environmental impact assessment system. In fact, a compulsory Environmental Impact Study or a Declaration must be submitted to the authorities, which always result in liabilities and costs. Some of these projects or activities are airports, ports, power plants exceeding 3 MW, mining and industrial projects and other included in Law 19,300 of 1994. Said law states, among other provisions, those on participation of the community in the process of Environmental Impact Assessment, on plans of Management, Prevention and Decontamination, on liability for environmental damage, etc.

Acquisitions and Mergers

Broadly speaking, there are no provisions specifically applicable that prevent a priori the mergers from taking place. However, difficulties might arise in the case that the merger could affect competition, under Decree Law 211 of 1973 and so were determined by the Competition Tribunal.

The provisions of Decree Law 211 are intended to promote and protect competition in the markets. For this purpose, it has created the Competition Tribunal and the National Economic Prosecutor. The Competition Tribunal role is to prevent, correct or prohibit any event, act or agreement that obstructs, restricts or hinders competition or which tends to produce said effects and to sanction those who, individually or collectively, violate it. The powers of the Competition Tribunal are, among other things, analyze situations that may constitute violations of the statute, such as abuse of dominant position to exclude competitors, pricing agreements and others. The Competition Tribunal is not allowed to start an action, as such power lies in the National Economic Prosecutor or in any individual by means of a lawsuit.

The National Economic Prosecutor or anyone with a legitimate interest may submit to the Tribunal consideration any situations that might violate the rules contained in Decree Law 211 on existing events, acts or agreements as well as those presented to them by whoever intends to execute them. The purpose of this procedure is to obtain a ruling from the Competition Tribunal after request is made. Tribunal approval is necessary to enter into or execute the agreements or acts that have been assessed.

Registration Requirements and Filing Procedures for Public Securities

To make a public offer of securities (e.g. shares, debt instruments, etc.), the securities and the issuer must be registered with the Register of Securities. To do this, the issuer is required to file an application with the Superintendence of Securities and Insurances along with the information on its juridical, economic, and financial situation, according to regulations stated by the Superintendence. The issuer must continue to provide the Superintendence and the public information on the financial statements duly audited periodically and publish it yearly on a newspaper of wide circulation in the place in which the entity has its domicile.

Grants and Incentives

Several laws state grant schemes and other incentives which purpose is to foster business establishments in some areas of the territory, investment in research and development, exports, the private cooperation with education, social assistance, sport practice, job training, etc. Some of them consist in especial tax and customs treatment, refunds, credit against income taxes or allowable expenses.

Government Incentives

Some significant grants and incentives are detailed next.

Research and Development (R&D)

The income tax system is used to provide incentives for investment in certain research and development projects, by some First Category Tax taxpayers. Expenditures are required to be made through a contract with an Investigation Center or under a project developed by taxpayers themselves or through third parties. The credit against First Category Tax will be 35% of effective payments during the year with a cap of 15,000 Monthly Tax Units - UTM (about US\$980,000) and the balance can be used in the following years indefinitely.

Excess over the abovementioned maximum is deductible as an expense, up to 10 years.

Export Grants

As it was pointed out before exports of goods and services are zero-rated for VAT. However, exporters obtain reimbursement of all input VAT borne on purchases of goods and services relating to their export activities.

Remittances abroad to pay for certain types of expenditure (assistance, advertising, and others) directly connected with the export of goods and services produced in the country are Additional Tax exempt.

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Gifts

There are several laws allowing mainly First Category Tax taxpayers which have made gifts to some institutions to use a portion as a credit against the tax, generally 50% of the gift, with different caps stated in the specific law that rules the respective gift. Some laws consider as an allowable expense the part of the gift not used as credit. Despite the maximum amount each particular law allows as a credit or deductible expense, the absolute maximum as credit and deductible expense allowable for the gifts considered jointly as a whole and cannot exceed 5% of the taxable income. The excess can be accepted as expense under certain circumstances.

Training for Personnel

Expenses incurred in approved training plans for personnel, up to 1% of the yearly payroll, is allowed as credit against the First Category income tax. The credit is related to the hourly cost of each course and the monthly remuneration of the trainee. Likewise, the contributions to institutions devoted exclusively to promote, organize, and supervise training programs (technical intermediate institutions for training) can also be used as a credit with the same cap.

Free Trade Zones Incentives

A free trade zone is an area of territory surrounding a port or airport that for the purpose of import duties is deemed to be outside Chilean territory. Currently, there are free trade zones in the ports of Iquique and Punta Arenas. The Iquique regime is also applicable to industrial manufacturing enterprises installed in Arica such as electronics, metal mechanical and chemical industries.

Merchandise imported into a free trade zone can be held on deposit, exhibited, uncrated, packaged, labeled, divided, repackaged, or sold within the free trade. Also, within the free trade zone, imported goods and raw materials can be assembled, finished, connected, manufactured, or transformed.

Enterprises operating in a free trade zone are granted the following exemptions:

- First Category Tax: all operations within the free trade zone are tax exempt.
- Value Added Tax: all operations within the free trade zone are tax exempt.
- Customs duties: foreign goods imported into the free trade zone are tax exempt.

Sales and transferences of merchandise from a free trade zone to another area of the country are considered to be imports and generate import duties and Value Added Tax when they are moved out of the free trade zone. However, the Region of Tarapacá and the Region of Magallanes and Chilean Antarctic Territory (where is located Punta Arenas) are considered free trade extension zones.

Goods transferred from the free trade zones to these areas are taxed with a sole tax that changes as much as the average rate of customs duties applied to the imports in the previous calendar year. The so determined tax rate is applicable from April to March of the following year. Currently, the rate is 0.44% and thanks to Free Trade Zone Agreements it is decreasing steadily. This tax can be credited against import duties and VAT if the goods are later sold or introduced into the rest of the country. This tax is refunded if the goods are exported.

Regional Incentives

Easter Island has a special tax regime through which it is exempt of all taxes and contributions of the goods located in the Island and its rent. Likewise, the benefit is for the activities related with its territory developed by people domiciled in the Island.

Activities located in the First Region of Tarapacá and in the regions of Aysén of General Carlos Ibáñez del Campo and of Magallanes and Chilean Antarctic and Chiloé province (the latter according to old administrative division of the country) are granted a partial exemption on the personal income tax of employees. A deduction equivalent to that granted to civil servants in those regions is allowed against personal taxable income. This benefit is also applicable to income of professionals and self-employees.

Law 18392 of 1985 (Navarino Law), states a preferential customs and tax regime for 50 years applicable to the territory stated in the law, that is basically to the south of western stretch of the Magellan Straits, including the southern portion of Tierra del Fuego. The incentives for the enterprises consist in several tax rebates and benefits. For example, the income is First Category Tax exempt. Anyway, an amount equivalent to First Category Tax rate can be applied as a credit against investors' income taxes (Global or Additional) when income is distributed or withdrawn.

Goods can be imported free of customs duties or other customs levies, Stamp Tax and taxes stated in the Decree Law 825 (value added tax and additional taxes). Sales to the rest of the country different from Extension Free Trade Zone of Punta Arenas are subsidized with a 20% of the net value invoiced. Real estate is Territorial Tax free. These benefits are not applicable to industries that extract and/or process hydrocarbons.

Primavera and Porvenir districts of the province of Tierra del Fuego (Law 19149 of 1992), also in the extreme south of the continent, have a tax regime very similar to that described in the above paragraph for certain enterprises that install and develop activities in those districts.

Special Business Incentives

- Incentives for the Forestry Industry

There are some incentives to forestation in lands which are preferably suitable for forestry activity. The incentives are also granted for small farmers and degraded land. Nontaxable bonuses granted range from 75% to 90% of the forestation costs.

- Incentives for the Oil Industry

Companies entering into a petroleum-operating contract with the State of Chile (Empresa Nacional de Petróleo) can be exempted from the normal systems of corporate taxation. As a substitute, a 50% tax is applied on the contract. However, reductions of up to 100% of this substitute tax, or of the normal corporate taxes, can be granted, depending on the degree of risk involved for the contractor. Similar reductions can be granted on taxes, duties and levies on the import of machinery and equipment needed to fulfill the contract.

Foreign non-resident subcontractors are subject to a flat 20% tax on their gross fees.

- Incentives for radioactive substances

Companies entering into a contract with the Nuclear Energy Chilean Commission to explore, exploit or process radioactive substances can be granted a tax treatment similar to that of the petroleum industry.

Consumer Protection and Special Industries

Legal Protection for Intangibles

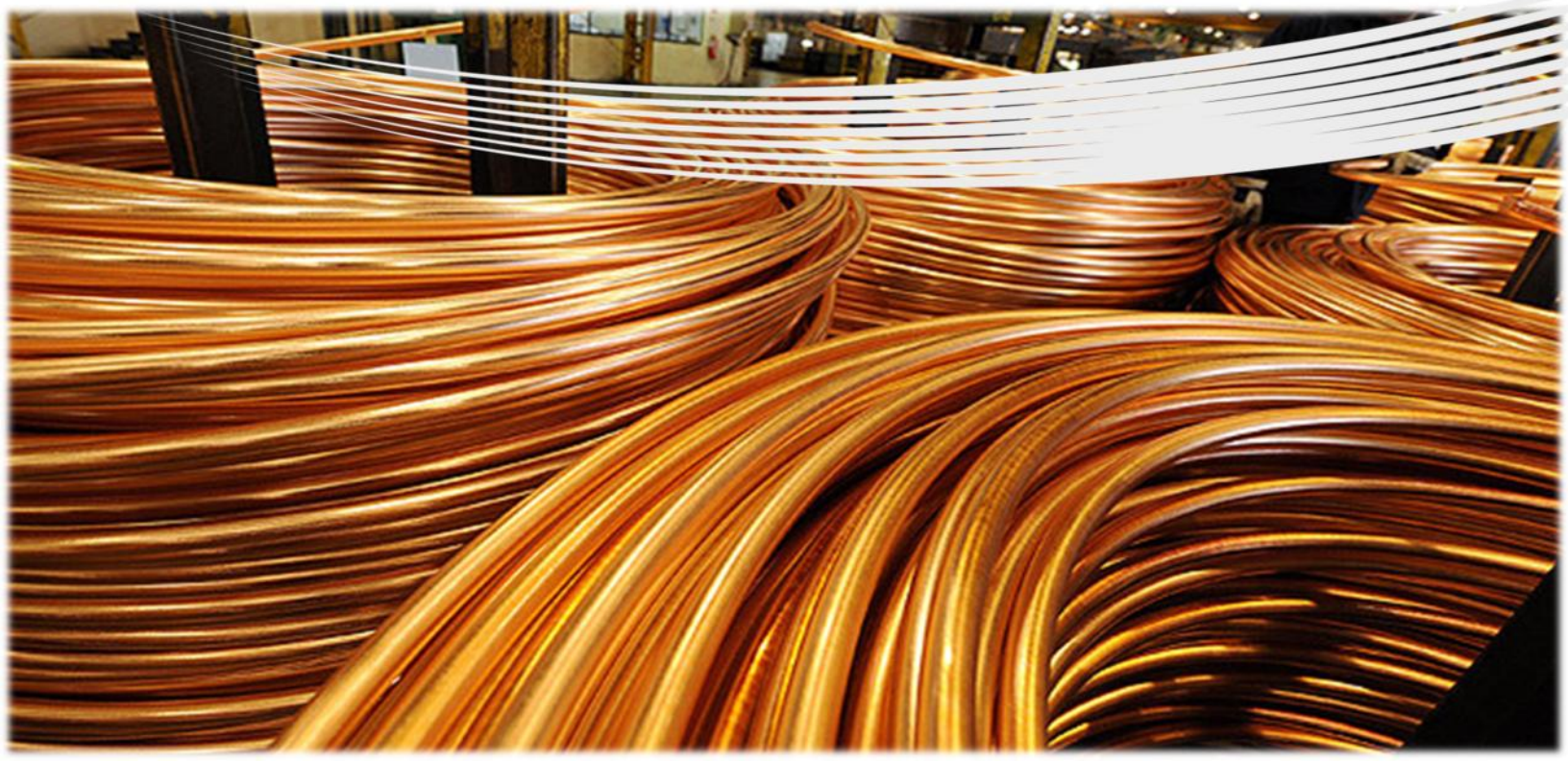
Intellectual and industrial properties are guaranteed by the Constitution, according to the law.

Copyright

Copyright is protected in Chile by the Law 17336 of 1970 and the copyright owner resident in Chile has the right to use the work directly and personally, to transfer the rights on it totally or partially and to license others to use it either copying the work, performing it in public, broadcasting, publishing and adapting the work. Protection of copyright of non-domiciled in Chile corresponds to that recognized by Chile in various international agreements.

Trademarks

The Law 19039 of 1991 referred to as Law of Industrial Property gives the exclusive use of a registered trademark to its registered proprietor. Owners of trademarks in other countries must register them in Chile to benefit from protection. When the registration of a trademark had been submitted abroad, the applicant will have six-month priority to submit the application in Chile.



Trade Names

Chilean law states that the trademarks include every sign susceptible of being represented graphically among which are words, names of persons, letters and others. So, the trade names are among the rights of industrial property that can be registered in Chile, in which case cannot be used by others in business.

Patents

The abovementioned law gives a patent holder the exclusive right to exploit the invention, whichever the form may be, or allow others to do so. Protection is only provided where a Chilean patent has been granted.

Forms of Business Organizations

Individual Enterprises of Limited Liability

Individual enterprises of limited liability are legal entities formed by only one person, who is liable up to the amount he is committed to contribute as capital through a duly notarized deed. This means that both personal and business patrimonies are different and separate. There is a specific law which contains the regulations on these enterprises.

Partnerships

Partnerships are defined as associations between two or more parties conducting business in common with the objective of sharing profits and losses.

There are several types of partnerships or companies and to form them the partners, or their legal representatives, must sign a duly notarized deed. A summary of the partnership deed must be filed with the Register of Commerce and it must also be published in the Official Gazette within a 60-day period. The partnership deed must contain some minimum and compulsory statements such as the partnership's name, which must be the names of one or more of the partners, followed by the words "y compañía" (and company), the names, professions and addresses of the partners, the partners' contribution, the object of the partnership, how profits or losses are to be assigned to the partners, when the partnership will start and when it will end its legal existence, etc. Some of them can be replaceable by the agreement of the partners.



The rules on partnerships are stated in the Code of Commerce and other laws.

- General partnerships

Each partner is responsible, joint and severally, for the legal liabilities of the partnership, even with their private patrimony. In a general partnership all the partners manage the company individually or through an elected representative.

- Limited liability partnerships

Differ from general partnerships since each partner is responsible for the legal liabilities of the partnership, limited either up to the amount of capital contributed or to a higher amount specified in the partnership deed.

- Limited partnerships

It is a partnership formed by two types of partners:

- a) Managing partners with an unlimited liability for the debts and losses of the partnership.
- b) Shareholder partners who provide all or part of the partnership's capital. Their liability is limited to the amount of their contributions and with no right to manage the partnership. This partnership is called "simple limited partnership", or "limited partnership with share capital" if the partners' capital is represented by shares.

Corporations

Corporations are ruled by the Law 18.046 of 1981 and require more than one shareholder. The law states that the shareholders are only liable for the payment of their shares and they are not forced to refund the benefits they could have received. According to this law, there are three different types of corporations:

- a) Publicly traded corporations

They are voluntarily or by legal obligation listed in the Register of Securities.

These corporations are subject to the supervision of the Superintendence of Securities and Insurances.

- b) Special corporations

They are insurance and reinsurance companies, mutual funds administrators, stock exchange, and others which require an authorization from the Superintendence of Securities and Insurances to get its legal existence.

c) Closely held corporations

These corporations are those ones which are neither publicly traded corporations nor special corporations.

Corporations either publicly traded or closely held are incorporated by means of a notarized deed. A summary must be filed with the Register of Commerce and published in the Official Gazette within a 60-day period.

Notarized deed

It must contain as a minimum the following items:

- The names, professions and addresses of the shareholders that are starting the corporation.
- The name, the domicile and the specific object or objectives of the corporation.
- The term of the corporation. If nothing is said, the term is presumed to be unlimited.
- The capital of the corporation and the number of shares, indicating any preferred series of shares and privileges, and whether the shares have a par value or not; the way and terms the shareholders must pay in their contributions and the valuation assigned to any contributions that are not made in cash.
- How the corporation is to be administrated and how the administration will be supervised.
- Closing dates for the financial information, balance sheet and the General Shareholders Meeting.
- How the corporation will distribute its profits.
- How the corporation will be liquidated.
- How the differences among the shareholders or between the shareholders and the corporation are to be decided. Otherwise, it is understood that the differences will be submitted to arbitration.
- The names of the participants of the Provisional Board of Directors.
- The frequency of the Board of Directors' meetings and how these will be arranged.

Capital

One third of the initial capital must be subscribed and paid when the deed is rendered.

The initial capital should be absolutely subscribed and paid in a period not longer than three years from the date the deed is signed. Otherwise the capital will be reduced to the amount actually subscribed and paid.

Management

Corporations are managed by a Board of Directors elected by the General Shareholders Meeting. The minimum number of directors is three in a closely held corporation and five in a publicly traded corporation. When the latter has an equity of US\$56 million dollars and at least 12.5% of its issued shares giving right to vote belong to shareholders controlling less than 10% of such shares, the number of directors shall be seven and a Committee of Directors and an independent director shall be appointed.

According to the Law, it is not necessary to grant special powers to the Board of Directors, because it has all the rights of management and decision that the Law has not established as belonging exclusively to the General Shareholders' Meeting. The Directors appoint the manager or general manager.

The Directors are subject to several specific duties, prohibitions and limitations stated in the Law or by the Superintendence of Securities and Insurances. They must provide to shareholders and to the public, sufficient, reliable and timely information regarding legal, economic and financial situation of the corporation. They are also responsible for the accounting records and other registers which the corporation must maintain according to the law.

The Directors are joint and severally liable for the damages caused by their performance to the corporation, the shareholders and the public owing to guilty or malicious acts, with penalties consistent in fines or imprisonment. It is legally assumed the guilt of the Directors if the corporation does not maintain its books and registers.

Certain kind of corporations such as insurance companies, mutual funds administrators, securities exchange, pension fund administrators, private health care institutions of the welfare system have their specific legal regulations regarding its incorporation, administration, control, delivering of information, etc. Each one of the last two types of corporations is subject to a different Superintendence that supervises the respective area of business. However, all of them are also subject to the Law of Corporations applicable to publicly traded corporations, regarding those regulations which are compatible or not opposite, which fulfillment is checked by the Superintendence of Securities and Insurances.

Banks and finance companies are ruled by a special law and secondarily by the Law of Corporations, and they are supervised by the Superintendence ad hoc.

All these special entities need a previous authorization to be created or to develop the respective activity, for which they have to file an application or a prospect in some other cases.

Companies by Shares

It is a kind of a corporation in which the capital is divided in and represented by shares which can be sold by the shareholders through a private contract. Shareholders are liable only up to the amount of their capital contributions. With the exceptions of some specific aspects stated in the law, the rest of the agreements can be freely agreed by the shareholders in the bylaws. In the silence of the bylaws, the regulations applicable to closely held corporations shall be applied, considering the nature of this type of company.

Companies by shares can be formed by only one person or legal entity. From a tax point of view, they are considered as corporations.

Branch or Agency of a Non-resident Corporation

The foreign corporation must appoint an agent or legal representative to set up the branch in Chile. The following documents are required:

- Proof that the corporation is legally incorporated abroad and a certification that the corporation is still in existence.
- Authenticated copy of the corporation's current statutes; and
- General power of attorney issued by the corporation to the agent that will represent it in Chile; the power of attorney must state clearly that the agent acts in Chile in the corporation's name with full powers.

These documents must be notarized in a Notary Public in the domicile of the agency in Chile. They must be written in the official language of the foreign country and must be translated into Spanish and also must be duly legalized.

Likewise, by notarized deed, the agent shall state: the name used in Chile, the corporation will maintain in Chile realizable assets to cover the liabilities that must be served in Chile, the object or objects, the effective capital assigned in Chile for its operations and the domicile of the principal agency among others.

Finally, within sixty days, a summary of the notarized documents must be filed with the Register of Commerce. Within the same period, the summary must also be published once in the Official Gazette.

Branches of foreign limited liability partnerships require the granting of a notarized power of attorney.

Foreign Juridical Entity

Any foreign juridical entity that wishes to carry on business in Chile must apply for its registration with the Unique Tax Number Register and gets the Tax Identification Card (RUT card) and file a form to give notice of its starting up activities. All the procedures must be carried out with the Chilean Internal Revenue Service (SII).

To do the abovementioned the foreign entity must appoint a representative who is:

- Domiciled in Chile; and
- Authorized to do the procedure and file the required forms before the SII and to be notified by this institution on behalf of the foreign entity.

Operations Made Through a Representative

The investor without domicile or residence, either private entity or a company can operate in Chile through a private entity or company with residence in the country. The investor must grant them a mandate, with or without remuneration, so the representative makes the operations on behalf and at the risk of the foreign investor.

Joint Ventures

Joint ventures are procedures used sometimes in mining exploration. The joint venture agreement defines each participant's proportionate share in venture assets, liabilities and results. There are no legal regulations governing the establishment of joint ventures. Owing to this, for tax purpose the procedures must be applied to the IRS in each case. Considering the joint venture is not a taxpayer, it is required to maintain its own accounting books and transfer periodically to participants the costs, expenditures and VAT fiscal credit in liquidation forms that are previously controlled by the SII.

Associations

An association is an agreement between two or more businesspeople or companies to make one or more commercial transactions that will be carried out by one of them in its own name. Such partner must render an account to the other participant partners and divide with them any profit or loss that might result in the agreed share.

The association is a private agreement that only creates rights among the partners. Consequently, there are no legal requirements to form an association.

As far as third parties are concerned, only the partner in whose name the transaction is carried out is responsible. However, the partner and the participant partner shall pay taxes separately for their profits, only if that situation can be stated.

Accounting

Tax Accounting and Reporting

The results of a business for tax purposes are mostly determined through trustworthy accounting records. In such cases taxpayers must adjust the systems and the preparation of inventories to appropriate accounting practices, which clearly reflect the movement and results of their business. Taxpayers must submit the financial statements and the accounting records when required by the Chilean SII.

Statutory Audits

They are not required except for publicly traded corporations and other regulated corporations or partnerships (e.g. entities registered with the Register of Securities, banks, etc.).

Fundamental Financial Accounting Standards

International Financial Reporting Standards - FRS are required for accounting purposes since 2013.

Financial Reporting

Financial statements must be sent periodically by the abovementioned entities to the corresponding governmental supervisory institution.



Taxation

Income Tax Structure

Income Tax Law classifies the income into categories and the tax is applicable according to the activity from which the income is obtained. It also considers final taxes (Global Complementary Tax or Additional Tax) applicable to global taxable income. The classification is as follows:

Category Taxes

- First Category Tax at a flat tax rate is applicable on the taxable income from industry, commerce, mining, fishing, agriculture, real estate, investments, and other activities involving the use of capital. All income not specifically taxed under another category and not tax exempt are included. The applicable tax rate is 27%.

Taxpayers who are obliged to declare their income subject to this tax, based on the results of a balance sheet according to a full set of accounting records, generally are subject to a partially integrated regime. Under said regime, owners may partially use the First Category Tax paid on annual profits (65%) as a credit against personal income tax.



They must include in their own income tax return only the profits distributed by the company and the corresponding credit. Restriction on the use of corporate tax as a credit will not be applicable to investors domiciled or resident in those countries that have signed a double taxation agreement with Chile, granting a tax credit to avoid or reduce double taxation, equivalent to the First Category Tax, or that the agreement contains another clause producing the same effect. By specific provision, the same also applies, until the year 2026, to investors domiciled in the United States of America and in the United Arab Emirates.

Micro, small and medium-sized enterprises (SMEs) meeting certain requirements, can benefit from a special taxation system, in which the First Category Tax is applied to a determined result based on cash, that is, actual income and disbursements. The tax rate in this case is of 25%, and the amount paid can be used fully as a credit against final taxes.

- Second Category Tax on income from jobs as an employee. Income of self-employed people and professionals is classified as Second Category Income, but it is not subject to Second Category Tax but only to final taxes.

Final Taxes

- Annual Global Complementary Tax on the total income from both categories made by resident individuals. It is a progressive tax which maximum rate is 40%.
- Annual Additional Tax on the total income from both categories of non-resident individuals and non-domiciled companies. In some cases, it is a sole tax applicable on income. There are various tax rates applicable to different types of income. Income tax derived from activities developed in Chile is 35%.

Specific Tax on Mining Activities

Specific Tax on mining activities is a progressive tax applicable on a taxable income deriving exclusively from the sale of mining products. The progressive tax rate is determined considering the annual amount of sales. If the annual sales exceed the total value of 50,000 metric tons of fine copper, a higher progressive tax rate is applicable on the mining operational margin.

Sole Special Tax Article 21 Income Tax Law

This tax is applicable on certain disallowed effective expenses incurred by the taxpayers (individual entrepreneurs, corporations, partners and others). The tax rate is 40%. If disbursements benefit the entrepreneur, a partner, shareholder, etc., the corresponding amount must be included in their own income tax return and cause a surcharge of 10% of the total attributed amount.

First Category Tax Applicable to Individuals and Companies

As already mentioned under the heading “Income Tax structure”, this tax affects the taxable income deriving from the activities in which the use of capital is relevant. A tax rate of 27% is applicable for companies under the semi-integrated system or partial use of the First Category tax credit, regardless of the legal structure of the taxpayer (individual, partnership or other) and its residence or domicile.

Except for specific cases, the taxable income consists in the gross assessable income less allowable deductions. It is generally determined taking into consideration the results of financial statements based on full set of accounting records. If so, the profits shall only be subject to Global or Additional Tax that affects the investor (individuals, partners, or shareholders) when it is withdrawn, distributed or remitted abroad. Unless one of these circumstances occurs, the credit against final taxes of owners for First Category Tax paid by the company is accumulated and recorded in a special accounting record for tax purposes called SAC (Accumulated Credit Balance).

From the tax standpoint, the taxpayer committed to maintain full set of accounting records for tax purposes will incur in losses if allowable deductions exceed assessable income. Tax losses shall be offset indefinitely against the income of the following years. Temporarily, for years 2020 to 2023, the law allows tax losses to be offset against dividends and withdrawals of profits received in the respective year, resulting in the reimbursement of said credit. This offset will be in a decreasing manner from the 2020 financial year (90%, 80%, 70% and 50% according to the corresponding year). Within these parameters, the First Category tax affecting the income received that is absorbed by the loss will be refunded by the Treasury.

Determination of the Taxable Income

Broadly speaking, taxable income is the excess (if any) of gross assessable income over allowable deductions.

The taxable income of enterprises is most of the times fixed through effective results determined by means of financial statements based on a full set of accounting records. From the tax point of view, costs and expenses, losses, and outgoings necessary to produce the income are deductible, considering the nature and the amount of them. This definition and specific concepts both included in the Income Tax Law, and others stated in different laws, causes the results determined in the financial statements are usually to be adjusted (e.g. disallowed expenses, monetary correction, etc.).

Personal expenditures of the entrepreneur, partner or shareholder, or related to non-taxable income or income exempt from income tax are not deductible.

However, depending on certain factors such as the type of activity, the type of taxpayer that makes the income and the amount of turnover, the taxable income is determined through assumptions stated in the law (e.g. income from real estates, transportation of goods or passengers), or even can consist of a fix amount (small businesses).

According to the Income Tax Law, gross income is arrived at by deducting from gross receipts the direct cost of goods and services required to produce such receipts. The direct cost of locally acquired goods will be the purchase price, to which may be added the cost of freight and insurance to deliver to the taxpayers' premises. For imported goods, it will include CIF value, duties, and customs charges as well as local freight and insurance costs as above. For manufactured or processed goods, direct cost will include raw material, costs in the manner described, and labor charges.

Business income is determined on the accrual basis, whereas the dividend income on corporate shares is assessed on a cash basis. In the case of long-term projects, the tax authorities are empowered to issue rulings regarding the determination of income for tax purposes.

Business expenses are deductible from gross income if they have not already been deducted in arriving at such gross income and that the expenses are required for the income to be obtained.

Items of proceeds that are not taxable at all or are considered tax exempt, are specifically stated in the Income Tax Law and other laws.

The accounting period in Chile coincides with the calendar year.

Below are some concepts specifically considered in the law, applicable for the calculation of the taxable income of enterprises, which effective results are determined through financial statements based on a full set of accounting records:

- *Depreciation*

Depreciation of fixed assets, except for land, is tax deductible by the straight-line method based on their useful lives in accordance with the guidelines of the Internal Revenue Service (SII), computed on the restated value of the assets. A shorter lifespan has been set by the Internal Revenue Service to apply to fixed assets purchased since 2003.

However, the taxpayer may opt for accelerated depreciation for new assets when acquired locally, or new or used assets when imported, with useful lives of over five years. For this purpose, the assets will be assigned useful lives equivalent to one-third of the normal, eliminating fractions of months. . There is an alternative according to the amount of turnover of the taxpayers, which allows them to accelerate the depreciation to 1/10th of the normal lifespan of the fixed assets. The lifetime thus obtained cannot be less than one year. Taxpayers may discontinue the use of the accelerated method at any time but may not return again to the accelerated method. The difference between accelerated and straight-line method will not deduct the taxable profit that can be withdrawn by partners or distributed to shareholders.

No allowance is made for amortization of intangible assets such as patents, trademarks, etc. Goodwill in mergers and acquisitions that cannot be allocated to non-monetary assets is considered as an expense only at the winding up of the enterprise. Depletion of ore in mining properties is not tax deductible.

- *Stock/inventories*

The costing of goods sold or production materials and supplies consumed is based on the first-in, first-out (FIFO) basis, although the 'average' method may be elected. The method adopted determines the basis for the valuation of the closing inventory. The valuation so determined is, however, adjusted for the manner stipulated for the annual monetary correction procedures.

- *Dividends*

Dividends received from Chilean corporations are exempt from First Category tax. A dividend in kind as such does not exist. Dividends are necessarily expressed in cash, notwithstanding the fact that the company may distribute certain assets corresponding in value to the dividend amount.

- Stock dividends in the form of bonus shares or increases in the par value of existing shares are not considered income for tax purposes.
- *Interest deductions*

Generally, interest accrued or paid in the financial year is a deductible expense, provided that it has been incurred in connection with loans related to the business. Regarding the interests and other amounts, when originating in acts or contracts concluded with related parties abroad, the deduction as an expense will only be deductible in the year such amounts are paid, credited to account or placed at the disposal of the beneficiary. It is also required that the corresponding additional tax is paid unless such amounts are tax exempt.

Interests paid on credits or loans obtained abroad are subject to 35% Additional withholding tax. But in some cases, such as credits from banks or international financial institutions, from suppliers of imported goods, etc., interests are subject to the reduced rate of 4% withholding tax. However, if those credits are granted by related parties or in other cases stated in the law, the thin capitalization rules apply to limit the amount of interest subject to that special tax rate. In such cases, the maximum interests subject to 4% are those derived from the abovementioned credits and loans which total does not exceed three times the equity for tax purposes in the year they were obtained.

- *Royalties*

Royalties paid abroad for the use of trademarks, patents, formulas, software and other of similar nature are allowable as expenses up to 4% of the turnover from the activity of the taxpayer in the tax year. This limit is not applied if there is no capital, control or administration relationship, whether direct or indirect, between the taxpayer and the recipient of the royalties or the royalties are taxed in the recipient's country at a rate of at least 30%. To determine the maximum amount allowable as expense it is necessary to compute first the royalties not subject to the limit and then the royalties subject to the limit. In any case, you should consider the provisions of Double Taxation Agreements, when it comes to an investor who can benefit from one of them. When originating in acts or contracts concluded with related parties abroad, the deduction as an expense will only be deductible in the year such amounts are paid, credited to account, or placed at the

disposal of the beneficiary. It is also required that the corresponding additional tax be paid unless such amounts are tax exempt.

- *Losses*

Losses incurred in the fiscal year are deductible. Furthermore, there is no time limit to use the losses carried forward in the same company that generated them. There are no loss carryforward provisions, and it is not possible to group profitable and unprofitable subsidiaries for tax purposes.

- *Foreign sourced income*

Non-domiciled or non-resident corporations are only subject to income taxes on their Chilean-sourced income.

If a domestic corporation receives amounts in excess of the book value of an investment when a foreign subsidiary is liquidated, these monies are considered income subject to regular taxes.

Business Income Record

Taxpayers who must calculate taxable income through financial statements based on a full set of accounting records, are obliged to keep certain tax records to control taxable income (RAI), the differences between the amount of accelerated and regular tax depreciations (DDAN), exempt income, non-taxable income or income which taxes have been fully complied with (REX) and credits for First Category Tax (SAC), which will be assigned to the taxable amounts each time there is a distribution of dividends or a withdrawal of profits. Distribution or withdrawal of profits have a legal order of allocation to the different items controlled in those records, starting with taxable ones. When the balances of said records have been used up at the end of the fiscal year, the excess not covered will also be considered taxable amounts, unless they are related to a decrease in capital for tax purposes.

Dividends and Withdrawals of Profits

Dividends received and profits withdrawn are not subject to First Category Tax but Global Complementary or Additional taxes which may affect the beneficiary. In fact, as it was mentioned before, 27% First Category Tax affects the activities developed by enterprises whichever its legal structure (25% in the case of SMEs) which is a credit (partial in the general regime or total in the case of SMEs) against the investor's income tax (Global Complementary or Additional). Likewise, the taxpayer committed to determine the taxable income through financial statements based on a full set of accounting records are required to keep a Business Income Record to control the Taxable Income (RAI). When dividends are distributed, or partners and individual entrepreneurs make a withdrawal of profits, the corresponding enterprise (corporation or partnership) must inform shareholders (or partners) the credit they are entitled to use against their own income taxes.

If the shareholder (or partner or entrepreneur) is resident or domiciled in Chile, the credit can be used against its own (Global Complementary) taxes, arising on any type of income. The credit in excess of the tax liability will be refunded to the taxpayer. If the shareholder or partner is a taxpayer also committed to maintain the Business Income Record, the credit for First Category Tax related to the dividend received or amount withdrawn will be recorded in the SAC (Accumulated Credit Balance), to be informed when distributed to its own shareholders (or withdrawn by its partners or by the entrepreneur, depending on the form of organization of the company). If the receiving company has accumulated tax losses, the amount it receives as a dividend or withdrawal during the years 2020 to 2023 will be offset against those losses and the credit will be refunded to it, in the terms indicated in section “First Category Tax Applicable to Individuals and Companies”.

Dividend Withholding Tax

Dividends paid to a non-resident shareholder or remitted abroad are always subject to 35% Additional withholding tax, with the right to a credit for First Category Tax, all on a provisional basis. At the end of the year, the company will determine if the credit was excessive or not, having to cover the amount granted in excess.

The First Category Tax paid by a company under the partially integrated tax regime, is a credit against the Additional Tax that is calculated as follows:

Income before taxes		100
First Category Tax 27% over 100		(27)
Net income		73
Withholding tax on dividends:		
Additional Tax 35% over 100	35	
Less tax credit 27 % over 100	(27)	8.00
Refund 35% over 27		9.45
Net received by an investor		55.55

Refund of the credit is not applicable when the investor is domiciled or resident in those countries that have signed a double taxation agreement with Chile, granting a tax credit to avoid or reduce double taxation, equivalent to First Category Tax, or that the agreement contains another clause producing the same effect (this exception is applicable, but only until the year 2026, to investors domiciled in the United States of America and the United Arab Emirates).

Taxation of Non-resident Partners or Non-resident Entrepreneurs

Withdrawals by non-resident partners or individuals owning a Chilean company that is subject to First Category Tax on the taxable income, calculated according to a full set of accounting records, are affected by the (Provisional) Additional Withholding Tax at a rate of 35%, being entitled to a credit for First Category Tax in the terms set forth in the previous section. These partners or entrepreneurs are also required to file an annual income tax return based on their taxable income, carrying out an annual income tax settlement. The tax rate is 35%.

If after covering the tax liability there is an excess credit for First Category Tax, it will not be refunded.

Taxation of Branches

Chilean sourced income of Chilean branches of foreign companies is subject to income tax at the ordinary corporate tax rate. The taxable income is calculated as if the branch was a separate entity from the foreign company.

Corporate Groups

Everyone, individuals, partnerships, corporations, or other legal entities are individually taxpayers, with an exclusive taxpayer number, which subsists as long as the taxpayer exists legally. Therefore, the results obtained by the taxpayers, either taxable income or losses, cannot be consolidated with the results of any other taxpayer and must be filed in separated income tax returns and controlled in the same way. In other words, for tax purposes losses can only be offset against profits of the same taxpayer, regardless they are part of a group of enterprises controlled by or belonging to the same investor.

Transfer Pricing and Related Party Transactions

The SII may challenge prices, values or yields, or set them if they do not exist, when cross-border transactions and those one related to corporate restructurings or reorganizations that taxpayers residents or established in Chile, carried out with related parties overseas and they had not been made at normal market prices, values or yields, that is, with reference to arm's length market rates.

If the taxpayer cannot prove that the transactions with related parties have been made at normal market prices, values or yields, the SII will determine such prices, values or yields, using the evidence supplied by the taxpayer and any other evidence available, through the methods stated in the law.

When determining adjustments to prices, values or yields, the difference obtained will be subject to 40% sole tax. In some cases, a 5% penalty on the difference may be applied.

Taxation of Capital Gains

The Income Tax Law states a list of operations on goods and rights where capital gains are subject to a special taxation, when they are obtained by individuals, when they do not arise from the disposal of assets incorporated into their individual company, which in some cases could be exempt from income taxes or be subject to a special tax determination procedure.

Broadly speaking, if capital gains made are the results in customary negotiations or activities, they shall be subject to income tax under general rules as an ordinary income.

There are also legal assumptions that consider as customary operations those carried out in certain circumstances, for example, when a sale is carried out before a year has passed since the purchase (of real estate).

In most cases, the taxable capital gain is the excess of the value obtained in the operation over the cost of the goods or rights adjusted by the Consumer Price Index. Regarding operations, unless they are made by First Category taxpayers determining their effective taxable income based on a full set of accounting records, expenses related to the respective operation are not allowed as a deduction in assessing the capital gains. Likewise, with the same exception, net losses obtained in offsetting profits and losses in this kind of operations in a fiscal year cannot be used in following years.

The following are some of the goods and rights which capital gains from non-customary operations are subject to the abovementioned especial tax treatment: shares of corporations or partnerships by shares acquired after January 31, 1984; bonds and debentures; real estate or rights on them, mining rights and water rights.

Capital gains under the special rule are subject to final taxes when they are obtained from operations carried out by partners and shareholders with the respective company in which they have an interest.

Incomes and capital gains from superannuation funds, mutual funds, public and private investment funds are not subject to income taxes since the gains are subject to the corresponding income tax that affects the recipients when distributed or when the investment is redeemed.

Capital gains from foreign source are subject to general income tax regime.

International Tax Regimes

Chile has signed conventions to avoid double taxation on income and capital based upon the OECD model with several countries all over the world. However, they are not identical. Counter parties include Mexico, Canada, Republic of Korea, Brazil, Spain, United Kingdom, New Zealand, France, Malaysia and others. Chile has also signed agreements with countries such as the United States of America and United Arab Emirates, although they have not yet become effective.

The agreements consider three ways to avoid double taxation: by stating the exclusive jurisdiction of one of the Contracting States on certain incomes; by setting reduced tax rates and by granting a credit for the foreign tax under the rules of each Contracting State.

Most of the conventions consider lower withholding tax rates on interest and royalties remitted abroad.

On the other hand, a foreign tax credit is allowed against the First Category Tax for income taxes on branches that are withheld or paid abroad for dividends, profit withdrawals, royalties for the use of intangibles, professional or technical services, and other, as well as income under double taxation agreements signed by Chile. The credit is capped at 35% on taxable income, and the foreign tax applied to each individually considered income cannot be exceeded. The foreign tax with the First Category Tax rate of the global gross income is creditable against the First Category Tax and the balance against final taxes (Additional or Complementary taxes).

Chile has also signed several agreements to avoid double taxation on profits from international shipping and/or air transport.

Compliance and Reporting

Taxpayers are required to file an income tax declaration annually to determine and pay the corresponding tax or to determine the amount in their favor that must be refunded by the Treasury. There are countless affidavits that must be filed annually as well as information regarding the taxpayer or third parties. The Chilean Internal Revenue Service (SII) may require an audit of the accounting books, documentation, calculations, etc.

Other Taxes

Tax on Fringe Benefits

As commented before, most fringe benefits are considered additional taxable remuneration for the employee and can be deducted as an expense by the employer, provided they are directly related to the nature of the activities of employees in the company.

When fringe benefits are voluntarily granted to employees and workers, such as profit sharing, they are deductible as an expense when paid or credited to account and the applicable taxes are withheld or paid.

Most of fringe benefits agreed in the employment contract, like allowances for housing, children education in some cases, company car for exclusive use of the employee, paid vacations and others increase the income and the monthly income tax of the employee. Reimbursements of expenditures incurred in the exclusive benefit of the employer and other payments which purpose is to compensate the employee for the exact amount disbursed in the performance of his/her work activities are not taxed. There are legal compensations for some disbursements that are not considered as taxable income of the employee (lunch, cost of a roundtrip ticket from home to workplace, cash losses, etc.).

An amount paid by the employer as (fringe) benefits that is totally or partially disallowed as an expense, is subject to 40% penalty tax (Special Sole Tax, Article 21), regardless of the income tax payable by the beneficiary.

Value Added Tax (Decree Law 825)

The Value Added Tax (VAT) is levied on all regular sales of movable and immovable goods, on certain services other than those provided by employees and consultants and on goods imported into Chile.

At present, the VAT rate is 19% of the amount of the transaction.

The Value Added Tax has the effect of taxing the end user of the goods or service. VAT is paid by the supplier of the goods or service, but the final price charged for a good or service includes the VAT payable by the supplier. For imports the taxable base is the CIF value set by the Customs office, including customs duties.

Additionally, the supplier is entitled to credits for any VAT paid on imports, purchases and services received that are connected to its taxable activity. Therefore, VAT is paid on the value added at each step of the process of transferring the goods or service to the end users for their personal use.

Taxpayers must file a VAT return on a monthly basis. The excess of VAT credits over the VAT debits is carried forward to subsequent months.

A special case is the simplified regime applicable to service providers non-domiciled or non-resident in the country, with respect to some services provided to users residing in the country, including the supply or delivery of digital entertainment content, such as videos, music, games and other similar ones by downloads, streaming or other technology, including for these purposes, texts, magazines, newspapers and books, and the provision of software, storage, platforms or computer infrastructure. These service providers are required to levy and withhold the tax on those people who are not VAT payers who make use of said services in national territory. To this end, service providers must register in a special registry maintained by the Chilean Internal Revenue Service. These taxpayers may choose to declare the tax on the transactions carried out in each calendar quarter. They are exempt from a number of administrative obligations affecting taxpayers who are domiciled in the country, such as issuing purchase and sale receipts on each service provided, and are not entitled to a tax credit for any purchases or services they may receive.

Exports of all goods are zero-rated. In this case VAT paid on imports, local purchases and services that are necessary to produce the exported goods is either deducted from other VAT due or refunded. Sea and air transport, as well as services rendered to non-resident entities, that are deemed to be exports by the Customs Service, are treated in the same way.

VAT does not provide a tax credit when paid on imports, acquisitions or services received if related to transactions that are VAT-exempt (unless they are exports) or that are not directly related to the activities of the seller.

Gifts and Inheritances Tax (Law 16.271)

A special law sets the taxation on gifts and inheritances. There are some tax-exempt gifts and allowances such as those related to public charity, for educational purposes, or science developments. The amount of each allowance or the amount corresponding to each heir or heiress is taxed separately. It is a progressive tax and the scale ranges from 1% on a taxable amount of 80 UTA (around US\$63,000) up to 25% on amounts exceeding 1,200 UTA (around US\$942,000).

Stamp Tax (Decree Law 3475)

This tax affects basically the bills of exchange, promissory notes, and any other document involving loans and particularly borrowings (among these the foreign ones), and is calculated either on the amount stated on the note or on the amount of capital involved. The tax rate is 0.066% per month or fraction of a month elapsed between the date of issue and due date of the document, with a maximum total rate of 0.8%.

The notes issued at sight or without a due date are subject to a 0.332% flat rate.

The documents issued in connection with foreign loans or borrowings from multilateral financial entities are tax exempt.

Territorial Tax (Law 17.235)

The Internal Revenue Service performs the appraisal of real estate subject to this tax and said tax appraisal involves the land, buildings, and fixtures. The statutory rate for non-residential properties is 1.4%. There are two rates for residential properties, the highest being 1.4% and the lowest 1.2%. All the indicated rates are adjusted with the reassessments that are carried out every four years.

Non-agricultural real estate is subject to a yearly 1.088% property tax on the assessed value. Constructions for housing are tax exempt up to the amount of around US\$46,000. The taxable portion is subject to 0.933% tax up to the amount of US\$165,000 and to 1.088% tax on the excess. Likewise, the appraisal affects the higher rate and will also be subject to a surcharge of 0.025%.

Agricultural real estate is subject to 1% tax rate on the assessed value that exceeds US\$32,000 approximately.

The payment is made in four quarterly installments. It allows a credit against the First Category Tax for the owner or beneficial owner of agricultural real estate producing income subject to said tax, for those who exploit non-agricultural real estate (in some cases), and for construction and real estate companies that construct or order the construction of buildings.

Surcharges are also stated, and they can reach up to 100% of the applicable rate, in some cases.

Mines, machinery, and installations are not included among the immovable property subject to this tax.

Customs Duties

General customs duties rate is 6% ad valorem on virtually all imported goods and products. The rate is 0% on the imports of capital goods that are included in the list of the Treasury Department.

There are free trade agreements with several countries in America intended to reduce tariffs in different periods of time. For the same purpose, Chile has signed agreements with the European Union, Mexico, Canada, the United States, China, South Korea and the member states of the European Free Trade Association, Australia, and others. Chile is an associate member of Mercosur and there is also a strategic economic association agreement with Japan.

Municipal License

Municipalities (town councils) receive annually an amount for the licenses granted to develop a profession, industry, commerce or other considered as secondary or tertiary activity (primary activities such as mining, fishing and others consisting in the extraction of natural products are not subject to this payment).

The fee is calculated on the taxpayer's equity at a rate, which is set by each municipality, with a minimum of 0.25% and a maximum of 0.5%. The total annual fee cannot exceed 8,000 UTM (around US\$523,000). The fee is allocated among the municipalities in which the taxpayer has an office, branch, factory, warehouse or any other establishment. Professionals or self-employed pay a fixed amount of 1 UTM (around US\$65).

Taxation of Individuals in Chile

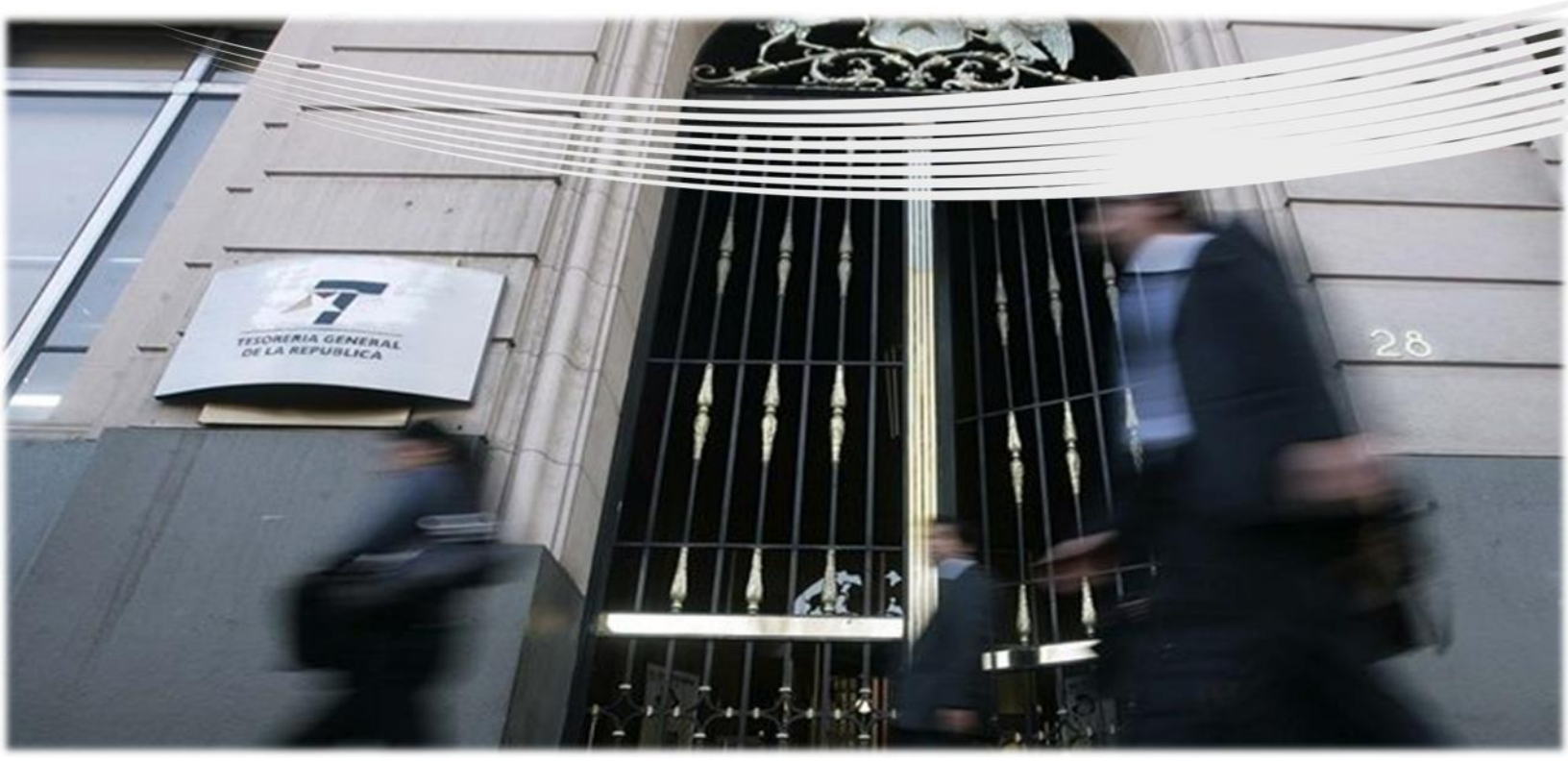
Entry into Chile, Visas and Permits

Entry and stay of a foreigner in Chile are legally ruled and the complexity of the processing depends basically on the purposes or circumstances. Some ways of entry and stay requires the involvement of several governmental entities.

Usual ways a foreigner may enter and stay in Chile that require obtaining a visa are as follows:

Tourists

It is considered a tourist the foreigner who enters Chile for sports, recreation, or health purposes; to carry out negotiations or look into business opportunities, make investments, etc., provided that they do not have the intention to migrate, obtain residence or perform remunerated activities in the country. Expatriates are allowed to stay in the country as tourists for up to 90 days. Citizens of some countries do not need a tourist visa for entry into Chile.



Temporary Residence

Temporary residence may be granted in the following situations:

Residence Subject to Employment Contract

It only allows the foreigner to perform the work for which he has been employed. This type of visa lasts up to two years, but it can be indefinitely renewed for new periods of two years. However, a foreigner who has stayed in the country for two years under this type of visa can apply for Permanent Residence.

The Labor Code requires that at least 85% of a company's employees are Chilean citizens. However, expatriates with over five-year residence in Chile, people married to Chilean citizens and technical experts are excluded from this law. The law is not applicable to companies with less than 25 employees.

Temporary Residence for Other Reasons

The foreigner having family links or interests in the country or whose stay in Chile is considered useful or advantageous can obtain this type of visa, which is extended to members of the family who are living with him or her. The holder of this visa is allowed to carry out any activities without specific limitations. The visa is valid for one year and renewable for one further year, after this period the foreigner is required to apply for a permanent residence or otherwise to leave the country.

Foreign professionals, technical experts or highly qualified people may obtain this type of visa when required by juridical national entities or when sponsored by international organizations recognized by the Government of Chile.

Student Residence

This type of visa allows the foreigner to study in educational institutions recognized by the State of Chile and is valid for one year or for the period of the scholarship. It is renewable until completing his/her studies. After proving completion of the studies, the foreigner can apply for permanent residence.

Refuge and Political Asylum

Chilean authorities may grant this type of visa to protect the personal safety of a foreigner when political circumstances in his/her own country have forced him/her to seek asylum.

Permanent Residence

To apply for Permanent Residence foreigners are required to have stayed in Chile for a period depending on the type of visa previously granted.

- Residence subject to employment contract – An uninterrupted stay of two years in Chile is required under this type of visa.
- Temporary residence – One-year stay in the country is required.
- Student residence – Two-year stay is required under this type of visa and the student must have completed his/her professional studies or high school.

This type of visa can be revoked implicitly if the holder stays out of the country for more than a year without requesting an extension.

Work Permits

As pointed out before, all foreign nationals are prohibited from working in Chile unless they apply for a type of visa that allows them to, like a permanent residence visa or temporary residence visa subject to an employment contract. However, foreigners may apply for a work permit in some circumstances such as that available for tourists.

Personal Income Tax

- **Residence or domicile for tax purposes**

For tax purposes, “resident” is any person who has stayed in Chile, uninterruptedly or not, for a period or periods exceeding 183 days in the aggregate, within any twelve-month period.

The Civil Code states that “residence” is the place in which a person is settled or where he/she usually carries out his/her professional or work activities.

“Domicile”, as a rule and according to the Civil Code is the residence, together with the actual or presumed intention to remain in it. Thus, a foreigner can be considered as domiciled in Chile from the first day of stay in the country, if he/she is able to prove some facts like for example traveling to Chile with the family, enrolling his/her children in a local school, opening a current account with a local bank, etc. This definition is applicable for tax purposes as well.

- Residents

Global Complementary Tax

Resident individuals are required to pay an annual income tax known as Global Complementary Tax on their total income whatever its source. This tax is calculated based on the following scale of taxable income, stated in UTA (annual tax unit) that is linked to inflation (1 UTA = around US\$785).

Annual Income Tax Payable					
	0		13.5	UTA	Nil
Excess over	13.5	UTA up to	30	UTA	4%
Excess over	30	UTA up to	50	UTA	8%
Excess over	50	UTA up to	70	UTA	13.5%
Excess over	70	UTA up to	90	UTA	23%
Excess over	90	UTA up to	120	UTA	30.4%
Excess over	120	UTA up to	150	UTA	35%
Excess over	310	UTA			40%

Employees, pensioners or retirees and people who receive salaries, wages and/or superannuation are subject to a sole tax on their taxable income, withheld by the employer or the corresponding institution according to the pension system on a monthly basis. Taxable income is the monthly gross remuneration or superannuation less social security contributions (around 20% for pension plan, disability insurance, health insurance, unemployment fund and commission paid to superannuation institution).

Most of fringe benefits agreed in the employment contract, like allowances for housing, children education in some cases, company car for exclusive use of the employee, paid vacations and others produce an increase in the income and in the monthly income tax. Reimbursements of expenditures incurred in the exclusive benefit of the employer and other payments which purpose is to compensate the employee for the exact amount disbursed in the performance of his/her work are not subject to taxes. Some allowances are excluded from taxable income of the employee (lunch, cost of a roundtrip ticket from home to workplace, cash losses, etc.).

The following is the monthly scale of taxable income stated in UTM (monthly tax units) that are linked to inflation (1 UTM = around US\$65).

Monthly Income Tax Payable					
	0		13.5	UTM	Nil
Excess over	13.5	UTM up to	30	UTM	4%
Excess over	30	UTM up to	50	UTM	8%
Excess over	50	UTM up to	70	UTM	13.5%
Excess over	70	UTM up to	90	UTM	23%
Excess over	90	UTM up to	120	UTM	30.4%
Excess over	120	UTM up to	310	UTM	35%
Excess over	310	UTM			40%

These taxpayers are not subject to the annual Global Complementary Tax if they have received only the abovementioned incomes and tax-exempt incomes. If they have received salaries, wages, etc. from more than one employer or superannuation institution, in one or more months of the calendar year, they must calculate the sole tax corresponding to those months and pay the difference by filing a tax declaration.

A range of rebates are available to Chilean resident individual taxpayers.

For purposes of taxation on the income of the President of the Republic, ministers of State, undersecretaries, senators and members of parliament, both the scale of rates of the Global Complementary Tax and that of the Second Category Tax changes for the last two tranches, as follows: income over 120 UTM (UTA) and up to 150 UTM (UTA) the rate is 35%; income over 150 UTM (UTA) the rate is 40%.

Self-employed taxpayers

Individual taxpayers who are self-employed pay a 10.75% of their monthly fees on account of the annual tax (Global Complementary Tax), unless such a 10.75% has been withheld by the payer. The withholding percentage will increase yearly until reaching 17% rate in 2028.

- **Non-Residents**

Individual taxpayers who are non-residents or non-domiciled in Chile are eligible for some specific rebates.

Foreign technical people who are employed in Chile can choose to maintain their registration and make payments for social security in their own countries, with institutions that provide the same benefits as national institutions. If so, they have no legal obligation to make contributions for those purposes in Chile. Foreigners are subject to 35% withholding tax on their remunerations as employees unless they can give proof of domicile since the day they arrived in Chile. In such case a case, they are treated as residents.

As a rule, non-residents and non-domiciled individuals are subject to 35% flat tax rate on their taxable income. However, there are circumstances and different types of income such as those corresponding to some services provided in Chile or abroad, for example, technical and professional works, that are taxed at a lower rate of Additional Tax. These rates are also applicable to legal or juridical entities non-domiciled in Chile.

- **Directors of Corporations**

They are taxed in a similar way as a self-employed taxpayer. When the director is resident or domiciled in Chile the Global Complementary Tax annual scale is applied on the income, while those without residence or domicile in the country are subject to 35% Additional Tax.

Reporting Requirements

Second Category Income Tax on salaries and wages is withheld and paid by the employer on a monthly basis. An employee receiving income only through remuneration is not required to file an annual tax return declaration.

Professionals, company directors and self-employed people have to make estimated payments except when their remuneration is paid by legal entities or by taxpayers whose income tax is determined through accounting records and therefore must withhold such amount. Either way, they are required to file an annual income tax return.

Provisional payments or withholdings are subsequently offset against the taxpayer's annual tax liability as determined in his/her annual tax return. Any excess amount after the liability has been satisfied is refunded to the taxpayer.

In certain circumstances, services rendered by non-residents may be subject to an income tax which is a sole withholding tax. Therefore, these taxpayers are not required to file an income tax return.

Summary of Principal Income Tax Rates		
First Category Tax	27%	(1)
Second Category Tax		
· Self employed people (professionals, directors of corporations, professional partnerships, and others)		(2)
· Employees (Personal Progressive Income tax)	0% to 40%	(3)
· Complementary Tax (Resident individuals)	0% to 40%	(3)
· Additional Tax (Non resident individuals and non resident corporations)	35%	
Withholding of Additional Tax:		
· Royalties paid abroad	30%	
· Royalties paid abroad for patents of invention, industrial designs, new vegetal varieties, software and other specific cases	15%	(4)
· Engineering and technical jobs	15%	(5)
· Professional and technical services	15%	(5)
· Other services provided abroad	35%	
· Interest to foreign companies or in case of indebtedness in excess	35%	
· Interest to foreign banks	4%	
· Rent of capital goods	35%	(6)
· Sea freight	5%	(7)
· Insurance premiums to foreign insurers	22%	
· Reinsurance premiums to foreign reinsurers	2%	
Sole Special Tax Article 21 Income Tax Law:		
· Disallowed expenses of taxpayers subject to First Category Tax who determine their taxable income through results of financial statements based on a full set of accounting records	40%	

- (1) The applicable tax rate is 25% for companies under the SMEs regime.
- (2) Income is subject to final Complementary or Additional Tax only. Professional partnerships can choose to be taxed under the First Category Tax regime.
- (3) The maximum rate is 40% on the income of the President of the Republic, state ministers, undersecretaries, senators, and members of the parliament.
- (4) The rate is 30% when the creditor or the beneficiary of the remuneration is incorporated, domiciled or resident in a country considered as preferential tax regimes. Those territories or jurisdictions meeting two or more requirements contained in article 41 H of the Income Tax Law are classified as such. Some requirements refer to certain characteristics or conditions stated by the OECD that would affect those territories or jurisdictions.
- (5) The rate is 20% in the same circumstances as described in (4).
- (6) The rate is applicable on a presumed income of 5% each payment, in some cases.
- (7) There are exemptions on the basis of reciprocity.

Some Additional Tax rates can be lower, as stipulated in existing double taxation agreements.

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