GMS Flash Alert

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Chile – 2022 Tax Reform Bill Proposal

In early July the Chilean government submitted to Congress a proposed tax reform bill that aims to increase tax collections by 4.3% of GDP when fully implemented.[1] The proposal would introduce significant changes to current tax legislation including changes to individual income tax, VAT, corporate tax, inheritance/gift tax, mining royalties tax, among others. This bill will follow the legislative process in which it will be reviewed, debated, and possibly modified based on discussions as it moves through Congress.

WHY THIS MATTERS

From an individual perspective, the tax reform if approved could impact the net salary received by employees, therefore increasing the amount of taxes that the companies would pay for those individuals with an equalized compensation package. Furthermore, a new wealth law could apply to individuals with tax residence and domicile in Chile.

2022 Tax Reform

Proposed changes to the taxation applicable to individual taxpayers

Income Tax Rates

Monthly resident income tax withholdings (Second Category Tax) and annual tax (Global Complementary Tax) would be modified to include a new higher tax bracket of 43%. Taxable income bracket caps would also be reduced meaning an increase in income that would be subject to a higher taxation.

The medium- to high-income brackets would be increased (starting with the current 23% bracket on monthly taxable income that is reached at approximately USD 4,000 per month) progressively in each bracket until reaching the new tax rate of 43%.

This will likely have an impact on the taxes paid by higher earning employees resulting in higher taxes and an increase in assignments costs in cases of equalized employees.

The proposed resident monthly income tax table that would apply as of January 1, 2023, as compared to the August monthly income tax table is as follows:

Proposed Monthly Second Category Tax (CLP)					August Monthly Second Category Tax (CLP)			
From	To	Tax Rate	Effective Max Tax Rate		From	To	Tax Rate	Effective Max Tax Rate
0	777,000	Exempt	0%		0	777,000	Exempt	0%
777,000	1,727,000	4%	2.2%		777,.000	1,727,000	4%	2.2%
1,727,000	2,878,000	8%	4.5%		1,727,000	2,878,000	8%	4.5%
2,878,000	4,030,000	13,5%	7.1%		2,878,000	4,030,000	13,5%	7.1%
4,030,000	5,181,000	26%	11.3%		4,030,000	5,181,000	23%	10.62%
5,181,000	6,331,000	35%	15.6%		5,181,000	6,906.000	30,4%	15.6%
6,331,000	8,057,000	40%	20.8%		6,906,000	17,843,000	35%	27.48%
8,057,000	And more…	43%	-		17,843,000	And more…	40%	-

Capital Gains Tax

A new capital gains tax would be introduced taxing Chilean securities. Currently, capital gains from listed securities that have a market presence in the Chilean stock market are not subject to tax. However, as of September 1, 2022, these gains will be subject to a flat 10% tax (under Law N° 21.420 of February 2022). The reform proposes a further increase to this flat rate to 22% starting January 1, 2023.

Rental Income/Expenses

The current rental income exemption would be eliminated. Currently, provided the property meets some requirements, taxpayers are able to exempt from taxation rental income from up to two real estate properties. The reform proposes to eliminate this exemption; therefore, all rental properties would be subject to tax beginning January 1, 2023. Furthermore, with the reform individuals would potentially be able to deduct from their annual taxable base rental expenses capped at CLP 450,000 a month.

Tax Exemptions/Deductions

Provided income caps are met, mortgage interest from Chilean properties would be deductible on only one mortgage loan. In cases where taxpayers have more than one mortgage, they would deduct interest on the loan in which the higher interest rate is paid. Currently, taxpayers are allowed to deduct interest on unlimited number of mortgages with a deduction cap of approximately CLP 5,200,000 per year, if certain income caps and requirements are met. Under the proposed new rules, the deduction cap of approximately CLP 5,200,000 per year would remain the same. This would apply from January 1, 2023 on.

Wealth Tax

Under the tax reform, a wealth tax would be introduced on assets held in Chile and abroad by Chilean tax residents. Assets worth between USD 4.9M and USD 14.7M would be subject to an annual wealth tax ranging from 1% to 1,8%. As follows is the proposed wealth tax table:

Wealth Tax (USD)		
From	To	Tax Rate
0	4.9M	Exempt
4.9M	14.7M	1%
14.7M	And more…	1.8%

The due date for filing this annual wealth tax return would be June 30 of the following year.

It is important to note that taxpayers who have an overall wealth of less than the lowest threshold (i.e. USD 4.9M) would still have to file an information wealth tax return if their wealth exceeds USD 3.2M.

The law also considers an "exit tax" for individuals with a wealth exceeding USD 4.9M who lose their domicile or residency in Chile. They will be subject to a sole tax of 5% on their total wealth.

If enacted, the wealth tax would be effective as of January 1, 2024.

FOOTNOTE:

1 The Tax Reform Project, *la Reforma Tributaria* was published (in Spanish) on the government's official websites on July 1, 2022: https://www.gob.cl/noticias/presentamos-el-proyecto-de-reforma-tributaria-que-busca-avanzar-hacia-un-chile-justo-y-desarrollado/ and https://reformatributaria.cl.

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