



REPORT

Chile's New Tax Reform

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1. Introduction

Fulfilling the electoral promise

The current Chilean tax system was created as a result of the tax reform enacted during Michelle Bachelet's last administration. During his electoral campaign in 2017, President Sebastián Piñera questioned the current tax system, arguing that it discourages private investment and generates an excessive bureaucratic burden.

Based on this diagnosis, Piñera announced that upon taking office he would begin work to send Congress an initiative to update the tax system and lower the tax burden for the productive sector (from 27 percent to 25 percent), including specific changes in some industries.

The text has not yet been introduced, but the formal submission of the bill to the Legislative Branch is expected to take place in the coming days. The proposal was originally meant to be introduced in September, but the deadlines were shortened and the initiative is expected for this month.

This report presents the main guidelines to be included in the bill. It also explains what the legislative process will be like and presents some forecasts in this regard.

2. Bill contents

A reform focused on simplification and modernization

The reform proposal is still under development. The Ministry of Finance has indicated that the drafting is almost complete, but new points can still be added.

The reform's central guidelines will be:

- First Category Income Tax, also called Business Tax, which will remain at 27 percent. This contrasts with the promise Sebastián Piñera made during the election campaign to bring it down to 25 points. This decision is due to the delicate situation of public finances.
- Focus on simplifying and modernizing tax procedures. Procedures will be eliminated and bureaucratic simplification will be encouraged to facilitate payments and improve collection.

These guidelines were complemented with an analysis of the Chilean tax structure carried out jointly by the Ministry of Finance and the Internal Revenue Service. The aim is to eliminate or integrate unnecessary taxes that these institutions perceive as having a negative impact on productive investment. The outstanding one would be:

- **Integration of income tax.** This implies that those natural or legal persons who must pay income tax, both a general income tax as well as another tax on their specific activities, may deduct one or the other, avoiding double taxation. The opposition parties are against this modification, and it could be one of the more controversial points in the legislative debate.

2. Bill contents - continuation

A "neutral" reform for collection

Tax simplification, which involves the elimination of certain taxes and the possibility of deducting others, leads to a decrease in Chilean tax collection. However, the government has expressed its intention to take care of the public finances and fight against deficit. Therefore, the tax reform will seek to generate a neutral impact on tax collection. This is only possible by raising existing taxes or imposing new ones. Government is considering the following:

- **Taxes on Digital Economies**

The government is analyzing different approaches to force digital services to pay taxes. The possibilities include forcing them to establish a tax domicile in the country and taking action against the Internal Revenue Service (SII). Another option is the imposition of a special 10 percent tax called the Digital Services Tax (DME). Credit or debit cards could also be used as withholding agents for collection.

- **Taxes on ultra-processed foods and sugar-sweetened beverages**

After a meeting where Felipe Larraín, Finance Minister, received Senator Guido Girardi (Partido Por la Democracia - opposition) to discuss an [academic report](#) recommending the imposition of taxes on sugar-sweetened beverages and ultra-processed foods, the government was evaluating the possibility of applying this tax.

- **Taxes on Fixed Polluting Sources**

This tax, which already exists, would be raised increasing the costs for industries that emit different polluting gases, such as carbon dioxide or sulphur dioxide, among others.

New platform for citizenship participation in the process

In addition to these points, the Ministry of Finance is currently open to receiving new proposals from citizens: on Friday, August 10th, the government launched a digital platform where contributions can be presented. The site is <http://modernizaciontributaria.hacienda.cl/>.

3. Deadlines for submission

Introduction of the bill

To fulfill its campaign promise and solve the problems of its predecessor's tax reform, the Piñera administration opted for a work process that included five months of work and input from multiple national and international sectors. The Ministry of Finance, together with the Internal Revenue Service and the Chilean Customs Service, under the President's regular supervision, were responsible for developing the bill's content.

The goal during these months was to present the bill in September. However, the Government modified its timeline. This was the result of pressure from the private sector and public opinion, both of which are beginning to look at the Chilean economic slowdown with concern.

In this sense, at the beginning of August, Finance Minister Felipe Larraín stated that the reform was 90 percent complete. He indicated that only final details are missing so it was possible that the reform would be presented during the week of August 13th. However, disagreements at the highest levels of the government, the Executive's interest in involving the public in the drafting process and pressure from the private sector regarding the bill's possible contents have postponed the presentation, which would take place at the end of August.

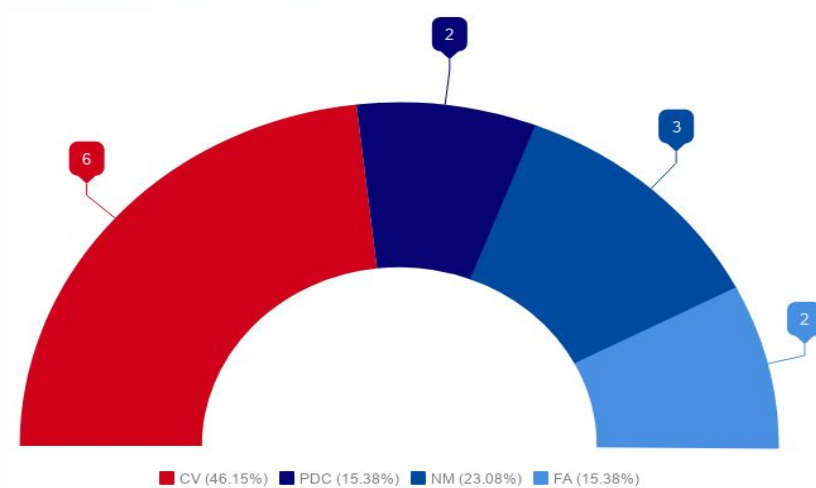
So far, two more meetings between the economic leadership and the president have been confirmed at the Chilean Mint. One would be the second week of August and the other in the week of August 20th. These encounters would polish the bill's final points. It is therefore most likely that the bill will be introduced to Congress during the final week of August.

4. Legislative process

The initiative's legislative roadmap

The Constitution establishes that the bills on tax matters must begin their legislative process in the Chamber of Deputies. Once the reform bill is introduced in Congress it will be referred to the relevant committees to proceed with its first legislative step: the committee's report or opinion. In Chile, a bill can be routed to multiple committees depending on its content. Therefore, the final wording of the initiative will determine which committees it could be drawn to.

What is certain is that the bill will have to go through the House's Finance Committee. This committee is composed as follows:



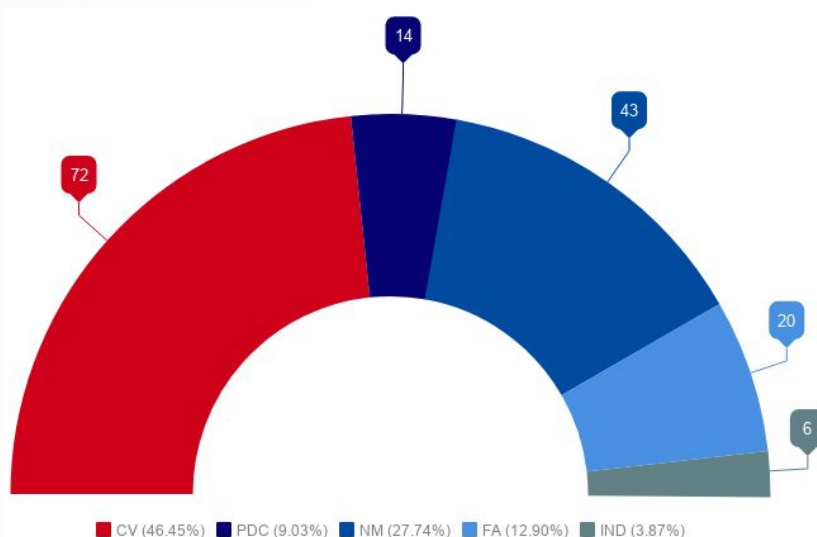
The government coalition Chile Vamos (CV) does not have its own majority in the body, as it holds six of the 13 seats. This implies that it must negotiate with opposition legislators and reach agreements in order to approve the bill's report.

There are three seats with which the government will be able to dialogue. The closest will be the Partido Demócrata Cristiano (PDC), which holds the committee's presidency and two seats. This Chilean party has recently moved away from the center-left and opposition coalition, Nueva Mayoría (NM) and may be more receptive to ruling party's proposals.

4. Legislative process - continuation

While the bill is under study at the Committee, the ruling party will also be able to negotiate with two other spaces: the Nueva Mayoría (NM) bench, which has three deputies, and the Frente Amplio (FA) bench, which has two. However, both are clearly opposition blocs. The first is the coalition that supported the Bachelet government and the FA is a left-wing coalition. Both of them claim that they will analyze the text but will not accept changes that favor large corporations and have a negative impact on the poorest sectors of the population.

In case the Committee approves the bill's report, the initiative will be submitted to the Chamber of Deputies, which will debate it. The composition of this floor is:



To pass the tax reform, Chile Vamos will need political negotiation. The ruling party's bloc is six votes away from obtaining the necessary majority for the floor to approve the bill.

In this case, the ruling party has four possible partners. The first will again be the Partido Demócrata Cristiano, which has 14 deputies. Another option could be the independent parties. The four deputies of the Coalición Regionalista Verde (FREVS) are of special interest in this regard. This bloc supports the implementation of the fixed emissions tax. Fractions of the Nueva Mayoría could also support the initiative. The Partido por la Democracia is noteworthy for the fact that it could find its tax on sugar-sweetened beverages and ultra-processed foods in the draft text.

Once the bill is approved by the Chamber of Deputies, it will be sent to the Senate where the process will be repeated. There, the ruling party will also be forced to negotiate with the opposition.

4. Legislative process - continuation

Key stakeholders in the Chamber of Deputies



**Maya
Fernández
Allende**

President of the Chamber of Deputies. Partido Socialista, Nueva Mayoría.

Granddaughter of former President Salvador Allende, she presides over the chamber and is a member of the Nueva Mayoría opposition coalition. She stated that they are waiting to hear the government's proposal to decide their support but will not allow a reform that goes against the interests of the majority of Chileans.



**Pablo
Lorenzini
Basso**

President of the Finance Committee of the Chamber of Deputies. Partido Demócrata Cristiano, independent.

He presides over the committee where the tax reform will be discussed. He will have the power to manage the meeting's agenda. His vote could also be key to pass the bill. His party has been reluctant to allow the integration of income tax.



**Leopoldo
Pérez Lahsen**

Head of the Partido Renovación Nacional bench in the Chamber of Deputies, the main party of the ruling coalition, Chile Vamos.

He will be in charge of leading the negotiations of the ruling bloc in the Chamber of Deputies in order to obtain the necessary votes to approve the initiative.



**Patricio
Melero
Abaroa**

Leader of the ruling party in the Finance Committee of the Chamber of Deputies.

He will be responsible for presenting and defending the bill and building bridges with the opposition to ensure the approval of the report in the body.

5. Statements

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Felipe Larraín
(Minister of Finance of
the Nation)

“The reform is 90 per cent complete. It will seek tax simplification and stimulate investment. We will also eliminate some taxes and push for others to achieve a neutral tax reform. To ensure rapid progress of the bill we have already started the pre-legislative work to bring positions closer with all the political spaces and ensure the rapid progress of the bill.”

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Manuel Monsalve
(Deputy. Nueva Mayoría)

“We do not know the details of the bill, but if simplification involves any fine print going towards corporate tax exemption we will not allow it.”

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Jorge Pizarro
(Senator, Partido
Demócrata Cristiano)

“We will not support initiatives that go towards tax integration, so there will be no political ground for the government to move forward.”

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6. Conclusions

Fulfilling its campaign promise, Sebastián Piñera's administration is preparing to present its Tax Reform bill. The Executive's intention is to correct what they consider to be mistakes in the previous administration's reform, tending to simplify the tax structure and to eliminate taxes in order to favour investment and increase revenue collection.

In order to meet the costs of eliminating these taxes and to present a "neutral" reform that does not deepen the country's financial problems, the reform will promote new taxes. These include taxes on digital economies, sugar-sweetened beverages and ultra-processed foods and the emission of polluting gases.

The government is currently working on the final draft of these taxes. To this end, it will continue to receive representatives of different companies from the sectors concerned and will hear proposals from citizens in the coming days.

Therefore, the presentation of the bill, which was intended to happen this week, has been postponed until the end of this month. In this regard, Finance Minister Felipe Larraín stated that there would be two more meetings with the president before introducing the bill.

In the meantime, the Government has begun a process of pre-legislative reform work. In the coming weeks, the ruling party will engage in dialogue with multiple legislators from the whole political spectrum in hopes of building bridges that will allow the initiative to be passed rapidly in Congress.

The ultimate goal is to approve the bill as quickly as possible and to avoid it getting stuck or bogged down in the process of other relevant initiatives such as the 2019 budget, which must be introduced to Congress in September.

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