

## 1.4. Business and professional income

Income from independent professional activities or any other personal activities carried on by residents is subject to individual income tax on net income. Expenses deemed necessary to generate the income and voluntary pension contributions (up to certain limit) are generally deductible. Alternatively, taxpayers may choose to deduct, as notional necessary expenses, 30% of gross income.

Business income derived by individuals or sole proprietorships is generally subject to business income tax according to the rules described in Corporate Taxation 1.3. There is also a presumptive regime available for taxpayers carrying on certain activities, below a certain sales level (e.g. agricultural, mining, and land transport), where the taxable base is calculated on an estimated income. In addition, from 2007 a new simplified regime is available for certain small business income tax taxpayers (individuals entrepreneurs or limited liability individual companies) that calculate their taxable income on the basis of complete accounting records and meet specific conditions. According to this regime, taxpayers are subject to business income tax and individual income tax or non-resident income tax, as the case may be, on the difference between all receipts and expenses, without considering their source of whether they are taxable or exempt under other income tax rules.

## 1.5. Investment income

### 1.5.1. Dividends, interest and royalties

Investment income derived by resident or domiciled individuals is generally subject to individual income tax.

Dividends and other profit distributions are included in the individual income tax taxable base. The income is grossed up when computing the tax, i.e. the business income tax paid on the business income out of which dividends and profits are distributed is also included in the taxable base. The tax rate is applied on total income and the business income tax is credited against the tax due.

#### Example

enterprise's taxable income	1,000
business income tax (17%)	(170)
to be distributed	830
dividend received by a resident individual	830
gross-up (business income tax added back)	170
taxable base	1,000
individual income tax 40% (progressive, 0%–40%)	400
business income tax credit	(170)
individual tax payable	230

Sole proprietorships, non-residents or non-domiciled persons with a permanent establishment in Chile and partners of companies (except joint-stock companies) deriving profit distributions from those enterprises, permanent establishments or companies, that reinvest them in another enterprise within 20 days, are not subject to

individual income tax or non-resident income tax (until subsequent distribution by the receiving enterprise).

Interest received by residents is included in taxable income. Royalties are normally treated as business income (see 1.4.).

Resident individuals may credit against the individual income tax 15% of certain of the year's registered net investments (i.e. investments less withdrawals) with financial institutions and defer the payment of income tax on those investments until withdrawal. Eligible investments include deposits and savings accounts with financial institutions, mutual fund shares, and certain securities. If the person has net investments for 4 consecutive years, subsequent annual withdrawals, up to a limit of 10 annual tax units, are not subject to tax. Withdrawals exceeding that limit are subject to tax at the rate of 15%.

### 1.5.2. Immovable property

Income from agricultural immovable property is subject to business income tax under general rules. The owner or usufructuary may deduct from the business income tax the immovable property tax paid. Under certain circumstances business income tax may be paid on an estimated income that is presumed, without right of rebuttal, to be 10% of the cadastral value in the case of the owner or usufructuary, or 4% in other cases.

Income from non-agricultural immovable property exceeding 11% of the cadastral value in the tax year, or derived by persons other than the owner or usufructuary of the property, is subject to business income tax and individual income tax under the general rules described. Income is exempt from business income tax, but subject to individual income tax, provided that it does not exceed the 11% threshold and is derived by the owner or usufructuary. In this case, income is presumed to be 7% of the cadastral value, but the taxpayer may choose to be taxed on actual net income.

## 1.6. Capital gains

Capital gains are generally subject to business income tax, and subsequently to individual income tax or non-resident income tax with a credit for the business income tax paid, when realized (i.e. in the case of a sale or disposition of an asset).

For tax-exempt capital gains, see 1.2.2.

### 1.6.1. Shares

Capital gains from the alienation of shares are subject to business income tax, and subsequently to individual income tax or non-resident income tax with a credit for the business income tax paid, where:

- shares have been owned for less than a year before the alienation;
- the alienator habitually buys and sells shares (transactions are per se considered "habitual" when included in the company's deed of incorporation as part of the business); or

- transactions are carried out between shareholders of an open joint-stock company, owning 10% or more of the shares, or shareholders of a closed company limited by shares, and the joint-stock company or a company in which they have an interest (related parties).

If none of the above circumstances apply, capital gains from the alienation of shares are subject to a flat tax at the rate of 17% (*impuesto único a la renta*) and the income is not subject to a further individual income tax or non-resident income tax.

### 1.6.2. Immovable property

Capital gains arising from the alienation of immovable property that is part of the assets of a person subject to business income tax on actual net income are subject to tax under general rules.

Capital gains arising from the alienation of immovable property, other than that mentioned above, are exempt from tax (receipts not considered income) when:

- the property has been owned for more than a year (before the alienation);
- the alienator does not habitually buy and sell properties (transactions are per se considered “habitual” when included in the company’s deed of incorporation as part of the business); or
- transactions are not carried out between shareholders of an open joint-stock company, owning 10% or more of the shares, or shareholders of a closed company limited by shares, and the joint-stock company or a company in which they have an interest (related parties).

If this is not the case, capital gains are subject to tax (business income tax and individual income tax or non-resident income tax) under general rules.

### 1.7. Personal deductions, allowances and credits

Employees and individual income tax taxpayers may deduct from their taxable income interest paid during the taxable year on mortgages for the acquisition or construction of dwellings up to a maximum amount which varies, depending on the annual gross income of the person.

Taxpayers may also deduct from their taxable income voluntary pension savings (within certain limits).

Taxpayers may credit a certain percentage of gains derived from the redemption of shares in certain investment funds and of gifts made for cultural or sports purposes.

There are no further general personal or family deductions, allowances or credits.

### 1.8. Losses

Generally, losses may not be set off, except in the case of taxpayers deriving business income subject to business income tax. If this is the case, losses incurred are deductible and may also be set off against profits that

have not been distributed. If the profits are not sufficient to offset the losses, the losses may be carried forward indefinitely. If losses are set off against non-distributed profits, the business income tax paid on such profits is treated as an advance payment and may be set off against income taxes (business income tax, individual income tax or non-resident income tax) or refunded. There are no special rules for capital losses.

However, individual income tax taxpayers are specifically authorized to offset certain investment income (e.g. dividends, interest and life annuities) and capital gains against capital losses incurred in the same kind of investment or transaction. Losses may not be carried forward.

## 1.9. Rates

### 1.9.1. Income and capital gains

From the tax year 2003, annual individual income tax and employment income tax is levied at the following rates:

Tax base (annual tax units)	Percentage levied on total income	Fixed amount to be deducted from the tax (annual tax units)
up to 13.5	0	0
13.5 – 30	5	0.675
30 – 50	10	2.175
50 – 70	15	4.675
70 – 90	25	11.675
90 – 120	32	17.975
120 – 150	37	23.975
over 150	40	28.475

Neither surtaxes nor surcharges apply.

### 1.9.2. Withholding taxes

Income from employment is normally subject to a final monthly tax withheld by the employer. In case the employee has income other than employment income (except income from specific investments) or income from other employment, he must recalculate the tax or declare his income by filing an annual income tax return. In such case the monthly withholding tax on employment income is credited against the final income tax liability.

Income from an individual’s independent activities (e.g. professional income) is subject to withholding tax, or to monthly provisional payments made by the individual, at the rate of 10%; both of which are creditable against final individual income tax liability.

Fees and participations in profits derived by members of boards of directors or advisory boards are subject to withholding tax at a rate of 10%, which is creditable against the final individual income tax liability.

For withholding rates on amounts paid to non-domiciled individuals, see 6.3.

## 1.10. Administration

### 1.10.1. Taxable period

The tax period (*año comercial*) is the calendar year, except in special cases, i.e. opening and closing periods of businesses. Chilean income tax law uses the term *año comercial* (financial year) to refer to the tax year and *año tributario* (literally, tax year) to refer to the year of assessment.

### 1.10.2. Tax returns and assessment

Employees with only one employer and no other income in the tax year are not required to submit an annual tax return. Employees deriving income from more than one employer or other income must file an annual return.

Individuals deriving income subject to individual income tax must file an annual tax return. Individual income tax is computed by the taxpayer under the self-assessment method.

The annual income tax return must be filed in April of the year following the tax year.

### 1.10.3. Payment of tax

With respect to salaries and other taxable benefits earned by employees, the employer withholds the tax on a monthly basis. With respect to professional income, there are two possibilities: either the tax is withheld by the payer, or, if this is not the case, the tax must be paid as an advance payment (“monthly provisional payment”) by the person deriving the income.

Final payment of the tax liability for the current year must be effected in a single payment, within the term for filing the return and along with it (April of the year following the tax year).

### 1.10.4. Rulings

The SII’s Commissioner is empowered to give administrative interpretations of the law to taxpayers. Requests regarding specific cases in which the taxpayer has a real interest, or specific transactions about which there is a need for certainty, are answered.

## 2. Other Taxes on Income

Chile does not levy any other tax on income.

## 3. Social Security Contributions

All resident or domiciled employees must pay monthly contributions to the social security system, based on individual accounts.

Social security contributions are deductible for individual income tax purposes.

### 3.1. Employed

Contributions are computed as a percentage of the employee’s total monthly remuneration (i.e. salary, benefits in kind, bonuses, etc.).

The rate for employee social security contributions is approximately 12.5% (an additional 7% is compulsorily paid to the public or private health system). In case of work considered “heavy”, both the employer and the employee must contribute an additional 1% or 2% of the salary.

Employers must withhold and pay the contributions.

### 3.2. Self-employed

Under Law 20,255, published in the Official Gazette of 17 March 2008, social security and health contributions are compulsory for self-employed persons. The contributions are computed at ordinary rates on 80% of gross income from independent personal services arising in the calendar year preceding the year in which the income tax return is due for filing. The computation basis cannot be less than the minimum salary nor exceed 720 development units.

## 4. Taxes on Capital

### 4.1. Net wealth tax

Chile does not levy net wealth tax on individuals.

Domiciled individual entrepreneurs are subject to an annual municipal business licence fee, normally calculated as a percentage of capital. The tax rate varies according to the municipality and location within the municipality and ranges from 0.25% to 0.5%. It may not be less than one tax unit nor exceed 8,000 tax units. Taxpayers who are not required to pay their income tax on the basis of a general balance sheet are liable to an annual licence fee equal to one monthly tax unit.

### 4.2. Real estate tax

An immovable property tax is levied on an annual basis on urban or rural immovable property. Taxable persons are the owners or users of the property. The taxable base is the official cadastral value. An exemption is granted for properties whose cadastral value does not exceed a certain limit.

The rate is 1.4% for urban property and 1% for rural property. In the case of dwellings, the rate is 1.2% on the part of the cadastral value not exceeding a certain limit and 1.4% on the remaining part.

Farmers and owners or usufructuaries that lease property may credit the tax against their liability to business income tax. In the case of non-agricultural property, the tax is creditable only if the property is leased for an annual rent representing in the aggregate at least 11% of the cadastral value. Non-creditable immovable property tax is deductible for income tax purposes.

## 5. Inheritance and Gift Taxes

Chile levies inheritance and gift tax (*impuesto a las herencias, asignaciones y donaciones*) on the net value of transfers of property upon death or inter vivos gifts at progressive rates.

### 5.1. Taxable persons

Taxable persons are the recipients, i.e. heir or legatee of an inheritance or bequest, or the donee of a gift of taxable property.

### 5.2. Taxable base

Taxable property is the property of the decedent's gross estate for purposes of its apportionment to the recipients, or the specific gift. The value of taxable property must be assessed by the taxpayer under rules provided in the law to calculate its taxable value.

Taxable property includes:

- any Chilean-situs property of a decedent or donor, regardless of the nationality or residence of the transferor and recipient;
- any foreign-situs property of a Chilean decedent or donor; and
- any foreign-situs property of a foreign decedent or donor who acquired that property with Chilean-source resources.

Exempt property includes: bequests and gifts to the central or local government and, generally, to non-profit entities with a charitable or similar purpose; re-adjustable savings bonds of the central bank and long-term state bonds; and wages due to a decedent employee.

### 5.3. Personal allowances

The tax is levied on each recipient's taxable base. The taxable base is calculated as the amount of the estate or gift apportioned to each recipient, reduced by a specific amount depending on the recipient's relationship with the decedent:

Recipient's relationship	Exemption
Category I (spouse; a direct/adoptive descendant/ascendant)	– 50 tax units (in case of decedent's recipient)
	– 5 tax units (in case of donor's recipient)
Category II (brother/sister; nephew/niece; uncle/aunt; first cousin)	– 5 tax units (in case of decedent's recipient)
	– no deduction in case of donor's recipient
Category III (other persons)	no deduction

### 5.4. Tax rates

Rates are progressive and also depend on the relationship with the decedent or donor (see categories above).

Taxable base (annual tax units)	I (%)	II (%)	III (%)
up to 80	1	1.2	1.4
80 – 160	2.5	3	3.5
160 – 320	5	6	7
320 – 480	7.5	9	10.5
480 – 640	10	12	14
640 – 800	15	18	21
800 – 1,200	20	24	28
over 1,200	25	30	35

### 5.5. Double taxation relief

An ordinary tax credit is granted for the foreign tax paid with respect to property situated abroad.

## 6. International Aspects

### 6.1. Resident individuals

For the concept of resident or domiciled individuals, see 1.1.

#### 6.1.1. Foreign income and capital gains

Resident or domiciled persons are subject to income tax on their worldwide income (see 1.2.1.).

Foreign-source income and capital gains are, in general, fully taxable. Only net income is considered excluding income that is not available for reasons of force majeure or legal provisions of the country of origin.

Foreign pensions are not considered income.

#### 6.1.2. Foreign capital

Chile does not levy net wealth tax on individuals.

Foreign-situs immovable property is not subject to immovable property tax in Chile.

#### 6.1.3. Double taxation relief

As a unilateral measure for the avoidance of double taxation of foreign-source income, Chile uses the ordinary tax credit method. The credit is granted to taxpayers subject to business income tax, with respect to foreign dividends or profit distributions, royalties and technical assistance fees received, and on income accrued or remitted by permanent establishments located abroad.

With respect to dividends and profit distributions, an underlying tax credit is granted when the source country does not apply withholding tax on dividends or applies a withholding tax at a lower rate than the business income tax. Furthermore, the income tax paid by a company on the profits distributed to the company that remits such profits to Chile may also be credited, provided that both companies are domiciled in the same country and at least 10% of the capital of the first-mentioned company is owned by the company remitting the profits.

The credit is generally limited to the lesser of the business income tax (17%) calculated on the foreign-source income or the foreign tax effectively paid. In respect of taxes paid on dividends and profit distributions the credit is limited to the lesser of 30% of the foreign-source net income derived by the taxpayer in the tax period or the foreign tax effectively paid.

The ordinary credit method is generally also used in comprehensive tax treaties concluded by Chile. In this case, up to 30% credit is granted with respect to all income referred to in the tax treaty.

For a list of tax treaties in force, see Corporate Taxation, 6.3.5.

## 6.2. Expatriates

### 6.2.1. Inward expatriates

There is no special expatriate regime in Chile. A foreign individual rendering dependent or independent personal services in Chile without acquiring Chilean domicile or resident status is treated as a non-resident or non-domiciled individual (see 6.3.).

However, a foreign individual that acquires Chilean domicile or residence is liable to income tax only on his/her Chilean-source income during the first 3 years in the country (this period may be extended by the tax administration in special cases).

### 6.2.2. Outward expatriates

A resident or domiciled individual that moves abroad remains subject to tax in Chile on a worldwide basis until the domicile and/or resident status expires. Domicile in Chile is not lost through temporary absences or lack of residence. Consequently, an individual who does not actually reside in the country is considered to be domiciled for tax purposes if he leaves the country but retains the principal seat of his business in Chile, either as a sole proprietor or as a member of a body of persons (which is treated as a legal entity).

## 6.3. Non-residents

Non-residents are individuals that are not resident or domiciled in Chile. For the concept of residents or domiciled individuals, see 1.1.

### 6.3.1. Taxes on income and capital gains

Non-residents deriving Chilean-source income are subject to a final withholding income tax at the general rate of 35% on the gross amount derived (non-resident income tax, *impuesto adicional*). The business income tax previously paid with respect to the income is credited against the non-resident income tax. In this case, to calculate the non-resident income tax, an amount equivalent to the business income tax paid corresponding to the income distributed or remitted is included in the tax base and the income is thus grossed up. The rate of non-resident income tax is applied on the grossed-up

income and the business income tax may be deducted from the tax due as a credit (see example in 1.5.1.).

However, there are various specific non-resident income tax rates, depending on the type of income.

#### 6.3.1.1. Employment income

See 6.3.1.2.

Director's remuneration derived by non-residents is subject to withholding tax at the rate of 20% on the gross amount.

#### 6.3.1.2. Business and professional income

Generally, income from services is subject to withholding tax (non-resident income tax) at the rate of 35% on the gross amount.

However, remuneration paid to non-residents from engineering and technical works or professional or technical works supplied through an advice, report or draft (*plano*), carried out in Chile or abroad, is subject to withholding tax at the rate of 15%. However, the rate is 20% if the creditor or beneficiary of the payment is incorporated, domiciled or resident in a country included in the tax haven list; or if the creditor or beneficiary holds or participates directly or indirectly in 10% or over of the capital or of the profits of the payer or debtor; or if they are under the control of a partner or shareholder that holds or participates directly or indirectly in 10% or over of their capital or of their profits.

Income derived by non-resident individuals from scientific, cultural or sporting activities in Chile, arising exclusively from their work or skills, is subject to non-resident income tax at the rate of 20% on the gross amount. The treatment of Chilean-source business income derived by non-residents depends on whether or not the non-resident has a permanent establishment in Chile. Permanent establishments in Chile of non-residents are treated as separate entities for income tax purposes and are subject to tax on their Chilean-source income. Income is generally subject to business income tax under general rules and to non-resident income tax on remittances abroad at the general rate (except with respect to interest). The business income tax paid is credited against the non-resident income tax. These permanent establishments are also subject to the municipal licence. The tax authorities have ruled that regional head offices of foreign companies established in Chile are not considered permanent establishments in Chile for tax purposes and thus are not subject to tax therein. A regional head office consists of a group of directors and managers who are employees of the foreign company and are established in Chile purposely to supervise and coordinate the policies of the group company (except with respect to permanent establishments in Chile). However, directors and managers are taxed in the same manner as resident individuals.

Non-resident companies without a permanent establishment in Chile are subject to non-resident income tax on their Chilean-source income, with a credit for the business income tax paid with respect to that income.