THE CHILEAN TAX REFORM

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General objectives behind the Reform:

1.- To give a decisive boost to Tax Revenue.

- Guarantee universal tuition-free public education at all levels.
- Improvements to healthcare and other social coverage.
- Paying off the deficit inherited from the previous administration.

2.- Elimination of the F.U.T

- Reason: It was being used as a tool to defer payment of personal income tax.

3.- To strengthen the attributes of the I.R.S

4.- Main purpose of the Reform: to redistribute income.

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Main changes introduced by the Reform, on the subject of Corporate and Personal Income Taxes:

1.- Increase in Corporate Income Tax rate:
- New "attribution" system: from 20% to 25%
- Old "distribution" system: from 20% to 27%

2.- Introduction of a new system for the determination of Corporate Income Tax, the "attribution" system.

3.- Implementation of new, and extensive, General anti-avoidance rules.
- Introduction of new figures and sanctions on the matter of tax elusion.

4.- Decrease in Personal Income Tax rate:
- From 40% to 35%
- Strengthening of the "simplified" regimes.

Analysis of the new «attribution» system for Corporate Income Tax:

-Fully enters into force on January 1rst, 2017.

-**Main characteristic:** Profits earned by the entity will be taxed at the shareholder level, regardless of whether they are distributed or not (therefore, they will be "attributed' to them).

-Corporate Income Tax paid at the entity level shall be creditable against the shareholder´s Personal Income tax.

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Main changes to the existing "Distribution" system:

-In this regime, partners/shareholders only have to recognize the income, when the entity distributes the profits it has earned.

-The Corporate Income Tax paid at the entity level remains creditable against the partner/ shareholder Personal Income tax.

However, only 65 % of such Corporate Tax may be used as a credit.

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Main changes to the existing "Distribution" system part. 2:

For foreign taxpayers, this system makes an important distinction:

A) If the taxpayer resides in a country that has a treaty for the avoidance of double taxation in force with Chile:

Taxpayer can use up to 100% of the Corporate tax as credit against its own withholding tax.
Therefore, its withholding tax rate remains the same as today; at 35 %.

B) If the taxpayer resides in a country that does not have such treaty:

It may only use up to the 65% of the Corporate Tax. This means that its effective withholding tax rate is actually 44,5 %.