

Doing Business in Chile





Preface

This guide has been prepared by Baker Tilly Chile, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Chile.

Baker Tilly International is the world's 8th largest network of independent accounting and business advisory firms by combined fee income, and is represented by 165 firms in 141 countries and 28,000 people worldwide. Its members provide high quality accounting, assurance, tax and specialist business advice to privately held businesses and public interest entities.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be downloaded from www.bakertillyinternational.com.

Doing Business in Chile has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Chilean matters can be obtained from Baker Tilly Chile, contact details can be found at the end of this guide.

November 2016



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1 Fact Sheet

Facts and figures as presented in sections 1 through 4 are correct as at 13 November 2016.

Geography

| | |
|------------------|---|
| Location: | Southern South America |
| Area: | 756,102km ² |
| Land boundaries: | Argentina, Bolivia, and Peru |
| Coastline: | South Pacific Ocean |
| Climate: | Temperate; desert in the north, Mediterranean in the central region, and cool and damp in the south |
| Terrain: | Low coastal mountains, fertile central valley, and rugged Andes in the east |
| Time zone: | GMT -4 (GMT -3 during daylight saving time) |

People

| | |
|-------------|--|
| Population: | 18.01m (2015) |
| Religion: | Roman Catholic 66.7%, Evangelical or Protestant 16.4%, Jehovah's Witnesses 1%, other 3.4%, none 11.5%, unspecified 1.1% (2012 estimates) |
| Language: | Spanish (official) |

Government

| | |
|---------------------------|--|
| Country name: | Republic of Chile |
| Government type: | Presidential republic |
| Capital: | Santiago; Valparaiso is the seat of the national legislature |
| Administrative divisions: | 15 regions |

Political situation

The bicameral National Congress consists of the Senate with 38 seats, and the Chamber of Deputies with 120 seats. The Head of State and the Head of Government is the President, who is elected by popular vote to serve a single four-year term. The cabinet is appointed by the President.

Economy

| | |
|-------------------------|-----------------------|
| GDP – per capita: | US\$13,384 (2015) |
| GDP – real growth rate: | 2.1% (2015) |
| Labour force: | 8.75m (2014) |
| Unemployment: | 6.8% (September 2016) |
| Currency (code): | Chilean peso (CLP) |



2 Business Entities and Accounting

The main company forms in Chile are the limited liability company and the corporation. Other business forms include partnerships, individual limited liability companies, and branches.

2.1 Companies

2.1.1 Limited liability companies

A limited liability company (*sociedad de responsabilidad limitada*, S.R.L.) is incorporated by public deed, and may be formed by a minimum of two and a maximum of 50 members. Limited liability companies may not undertake banking or insurance activities. There is no minimum share capital requirement.

The liability of members is generally limited to their contributions, or to a greater amount indicated in the public deed.

The company name must be followed by the word “limitada”; otherwise, the members will be jointly and severally liable for the obligations of the company.

The public deed incorporating the company must be registered in the Commercial Register.

Limited liability companies are taxed at the corporate level and are subject to business profits tax.

2.1.2 Corporations

A corporation (*sociedad anónima*, S.A.) is incorporated by public deed, and may be open or closed, and formed by at least two shareholders. Certain corporations, such as insurance corporations, mutual fund managers, and stock exchanges, are subject to special rules.

Open corporations are defined as those that voluntarily, or are under a legal obligation to, register their shares in the Securities Register. The legal obligation to register shares in the Securities Register arises in certain circumstances, including where any one of the following are satisfied: (i) securities are offered to the public, (ii) the corporation has 500 or more shareholders, or (iii) at least 10% of the corporation’s capital belongs to a minimum of 100 shareholders.

Listed corporations and those subject to special rules are subject to the supervision of the relevant superintendence.

There is generally no minimum share capital requirement; however certain corporations, including banks and insurance companies, are generally subject to minimum share capital requirements. The liability of shareholders is limited to their contributions.

Corporations are administered by a board of directors, elected by the shareholders, and by one or more managers. The appointment of at least one independent director is also required in certain circumstances.

The corporation name must include the words “sociedad anónima” or the abbreviation “S.A.”.

The public deed incorporating the corporation must be registered in the Commercial Register.

A simplified corporation (*sociedad por acciones*, SpA) may be incorporated by one or more persons by public deed or private instrument, which must be registered in the Commercial Register. The corporation name must include “SpA”. There is no minimum share capital requirement. The liability of shareholders is limited to their contributions.

Corporations are taxed at the corporate level and are subject to business profits tax.

2.2 Partnerships

In a general partnership (*sociedad colectiva*), the partners are jointly and severally liable for the debts and obligations of the partnership.

In a limited partnership (simple, *sociedad en comandita simple*, or limited by shares, *sociedad en comandita por acciones*), there must be at least one general (managing) partner and at least one limited partner. General partners are jointly and severally liable for the debts and obligations of the partnership, whilst limited partners are liable only to the extent of their capital contribution. Limited partners are not permitted to take part in any form of social administration of the partnership; however, if they do so, they become jointly liable with the general partners for all of the debts and obligations of the partnership.

General partnerships and limited partnerships are required to be incorporated by public deed, which must be registered in the Commercial Register.

Partnerships are taxed at the partnership level and are subject to business profits tax.

2.3 Individual Limited Liability Company

An individual may establish an individual limited liability company (*empresa individual de responsabilidad limitada*). An individual limited liability company is a separate legal entity and must be incorporated by public deed. The liability of the individual owner is generally limited to their capital contribution.

The public deed incorporating the individual limited liability company must be registered in the Commercial Register.

Individual limited liability companies are taxed at the corporate level and are subject to business profits tax.

2.4 Branches

Foreign corporations and other foreign legal entities are generally permitted to establish a branch in Chile. An agent or representative must be appointed who is domiciled in Chile. Documentation must also be provided that proves that the foreign corporation/legal entity is legally constituted according to the law of the country of origin, and that the foreign corporation/legal entity is of good standing.

Branches are taxed at the corporate level and are subject to business profits tax.

2.5 Audit and Accounting Requirements

Corporations are generally required to prepare an annual balance sheet. The balance sheet, profit and loss accounts, and other relevant reports, must clearly reflect the financial position of the company at the year end.

Closed corporations are generally required to annually appoint at least two inspectors of accounts with two substitutes, or independent auditors, to examine the corporation's accounts, inventory, balance sheet and other financial statements. Publicly traded corporations are required to have their accounts, inventory, balance sheet, and other financial statements, subjected to an annual external audit.

Corporations registered with the Superintendencia de Valores y Seguros (SVS) are generally required to prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS). Banks and other financial institutions, which are regulated by the Superintendencia de Bancos e Instituciones Financieras (SBIF), are required to prepare their financial statements in accordance with the standards set by the SBIF, which are IFRS with some modifications. Other companies are generally required to prepare their financial statements in accordance with the IFRS for SMEs.

2.6 Filing Requirements

The audited annual financial statements of corporations registered with the SVS must generally be submitted to the SVS.

3 Finance and Investment

3.1 Exchange Control

There are generally no foreign exchange controls; however, certain transactions may need to be reported to the Central Bank.

Anti-money laundering legislation requires certain natural and legal persons (including banks and financial institutions, insurance companies, leasing companies, investment fund managers, securities dealers, and casinos) to report suspicious transactions, and cash transactions exceeding set limits, to the Financial Analysis Unit (*Unidad de Análisis Financiero* (UAF)).

3.2 Banking and Sources of Finance

The Central Bank of Chile (*Banco Central De Chile*) is responsible for (amongst others) monetary policy, payments system regulation, foreign exchange policy, and issuing banknotes and coins. Banks and other financial institutions are regulated by the Superintendence of Banks and Financial Institutions (*Superintendencia de Bancos e Instituciones Financieras* (SBIF)).

Commercial banks operating in Chile provide the majority of financial services.

Companies established in Chile by foreign investors, and foreign individuals, may generally open a bank account in Chile by providing the relevant tax identification number (*Rol Único Tributario* (RUT)), and other relevant documentation.

The Santiago Stock Exchange (*Bolsa Comercio Santiago*) provides a marketplace for listing and exchanging securities.

Venture capital and private equity investors provide investment in Chile.

3.3 Investment Incentives and Restrictions

For business related incentives, see 5.7.

There are generally no restrictions on foreign business investment in Chile.

4 Employment Regulations

For employment tax considerations, see 5.3.

4.1 General Employment Matters

4.1.1 National employment standards

Legislation provides minimum rights and conditions of employment in Chile, including maximum weekly working hours, paid leave entitlement, and maternity leave rights.

Employment contracts must be in writing and include:

- Place and date of the contract
- Identification of the parties (including nationality and date of birth of the employee)
- Nature of the services to be provided by the employee and the location where the services are to be provided
- Amount, manner, and timing of payment
- Duration of the working day (if applicable)
- Term of the contract, and
- Other agreed terms.

The first two weeks of employment are generally considered to be a trial period. During the trial period, the contract of employment may be terminated by either party by providing three days' notice.

A contract of employment is terminated in certain circumstances, including by mutual agreement, by the employee where 30 days' notice has been provided, where a fixed term contract has come to an end, where the work or service giving rise to the contract has been completed, or force majeure. Employees are generally entitled to compensation in respect of terminated contracts of employment that have been in effect for at least one year.

An employer may terminate a contract of employment without notice and without compensation in certain circumstances, including cases of misconduct of a serious nature, or abandonment of work by the employee.

From 1 July 2016, the monthly minimum wage in Chile is generally CLP257,500 (set to increase to CLP264,000 from 1 January 2017, and to CLP270,000 from 1 July 2017).

4.1.2 Pensions and other benefits

Social security contributions (see 5.3.2) generally provide associated benefits.

4.2 Visas

Visas available for entry into Chile include:

- Tourist visa
- Student visa
- Work visa
- Temporary resident visa, and
- Diplomatic and official visas

For further information on Chile visa requirements, visit www.extranjeria.gob.cl.

There are generally no restrictions on foreigners purchasing real property in Chile.

4.3 Trade Unions

One or more trade unions may undertake collective bargaining with one or more employers to establish common working conditions and remuneration for a certain period of time. Collective bargaining is not permitted by certain public enterprises (eg those under the Ministry of National Defence), or by public or private enterprises whose budget in either of the previous two calendar years was more than 50% financed by the state, whether directly or through fees or taxes (excluding certain educational establishments).

5 Taxation

Facts and figures as presented in section 5 are correct as at 5 November 2016.

5.1 Corporate Income Taxes

Resident companies, which are generally companies incorporated in Chile, are generally subject to tax on their worldwide income.

Non-resident companies are generally subject to tax on their Chilean source income.

Chile has recently enacted legislation introducing and modifying two regimes for business profits tax (known as first category tax): the attribution regime and the distribution regime. For 2016, the standard tax rate is 24%. From 2017, taxpayers that have selected the attribution regime will be subject to tax at the rate of 25%. Taxpayers that have selected the distribution regime will be subject to tax at the rate of 25.5% in 2017, and 27% from 2018. Alternative tax rates apply to certain sectors, such as mining.

Taxable income must generally include any taxable capital gains, subject to exemptions. Certain gains may be subject to alternative taxation.

Unutilised loss can generally be carried forward indefinitely (restrictions apply in certain circumstances). Losses cannot generally be carried back. However, where a taxpayer has retained undistributed profits in a prior year, the carry-back of losses is generally permitted against such profits.

Group tax consolidation is not available in Chile; consequently losses cannot be offset against the profits of another company in the same group.

The tax year ends on 31 December.

Business profits tax returns are generally due for filing by 30 April following the tax year.

Companies are generally required to make monthly advance payments of business profits tax. A balancing payment (if required) is due with the submission of the business profits tax return.

5.2 Personal Taxes

Resident individuals are generally subject to tax on their worldwide income. Individuals that newly arrive in Chile, and that establish a domicile or residence in Chile, are generally subject to tax only in respect of their Chilean source income for the first three years (this period may be extended in certain circumstances).

Non-resident individuals are generally subject to tax on their Chilean source income.

Resident individuals are generally subject to secondary category tax (in respect of taxable employment income) and complementary global tax (in respect of taxable non-employment income) at progressive rates of up to 40% (35% from 2017).

Non-resident individuals are generally subject to additional tax at the rate of 35%; reduced rates apply in certain circumstances.

Taxable income must generally include any taxable capital gains, subject to exemptions.

Inheritance and gift taxes are generally levied on heirs and gift recipients at varying rates, subject to allowances and exemptions.

There is no separate wealth tax in Chile.

5.3 Employment Related Costs and Taxes

5.3.1 Fringe benefits

There is no separate fringe benefits tax. Unless specifically exempt, taxable benefits-in-kind generally form part of the taxable income of individuals and are subject to tax.

5.3.2 Social security costs

Social security contributions are generally required in respect of pensions, life insurance and disability, health insurance, accident insurance and occupational diseases, and unemployment insurance.

5.4 Withholding Taxes on Payments Abroad

The rates of withholding tax (known as additional tax) on the following payments made abroad by companies are generally:

| | Rate |
|-----------|--|
| Dividends | 35% |
| Interest | 35%; 4% for certain interest payments |
| Royalties | 30%; 15% for certain royalties; other rates may also apply |

For payments made to recipients in countries with which Chile has a double tax treaty, the rates of withholding tax may be reduced under the terms of the treaty.

5.5 Value Added Tax (VAT)

VAT is generally levied on the supply of goods and services in Chile, and on the importation of goods and services into Chile.

The standard VAT rate is 19%. Exports are VAT exempt with credit. Certain supplies are VAT exempt without credit, including certain insurance premiums, and passenger transportation services.

There is no VAT registration threshold.

Registered traders can generally recover the VAT with which they themselves are charged on their purchases of goods and services, though there are exceptions.

5.6 Other Taxes

5.6.1 Stamp tax

Stamp tax is generally levied at varying rates on transactions in respect of money credit agreements, subject to exemptions.

5.6.2 Real estate tax

Real estate tax is generally levied on the value of property (as defined) at varying rates, subject to possible deductions and exemptions.

5.6.3 Excise taxes

Excise taxes (known as special sales taxes and specific taxes) are imposed on certain goods, including alcoholic and non-alcoholic beverages, tobacco, fuel, and certain luxury goods.

5.7 Tax Incentives for Businesses

5.7.1 Research and development (R&D) expenditure

Qualifying R&D expenditure benefits from a tax credit of up to 35% of the value of the investment, subject to a specified maximum deduction from taxable income. Unutilised credits may be carried forward to subsequent income years. The remaining 65% value of expenditure may be deducted from taxable income.

5.7.2 Geographical incentives

Qualifying companies operating in certain geographical areas in Chile may benefit from tax incentives, including tax credits, business profits tax exemptions, customs duty exemptions, excise tax exemptions, and VAT exemptions.

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