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TAX SYSTEM AND TAX REFORMS IN AMERICA LATINA: CHILE

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TAX SYSTEM AND TAX REFORMS IN AMERICA LATINA: CHILE

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Abstract

This paper is part of a wider research on "Tax Systems and Tax Reforms in Latin America", carried on at the Department of Public economics of the University of Pavia, under the direction of L. Bernardi, A. Barreix, A. Marenzi and P. Profeta, and the supervision of V. Tanzi. The aim of the paper is to describe and to discuss the Chilean tax system, with reference to its historical development, its present structure and the changes which are now at the centre of the political debate. In this way we want to present an overall picture of the results achieved by Chile in taxation, also in comparison with other countries both of the Latin America and of other world economic areas. From a historical point of view, the Chilean tax system was the outcome of two main laws, passed in 1974 and in 1990, respectively, which are evaluated by going into their details. In particular, it is underlined how these laws were affected by the different political environments inside which they were adopted. The paper then presents the current structure of the Chilean tax system. The main taxes are considered with reference to their institutional features and to their contribution to the total revenue. Particular attention is devoted to the distribution of the fiscal burden, especially though a deep analysis of the implicit rates. The Chilean tax structure is then compared with the tax systems of other countries of the Latin America and of the OECD. This comparison shows the somewhat mixed nature of the Chilean tax system. Some features are similar to those that characterize the most advanced systems, like those of the OECD countries. However, other features are still subject to limitations in the administrative capacity and to severe political constraints. The comparison shows also that Chile fared better than its neighbours in generating public revenue as well as in managing these latter, reaching a macroeconomic stabilisation that is still far from accomplished in the area. The paper ends by discussing the main current topics of political debate concerning the Chilean tax system, especially with reference to the last years reforms and to the programs under way.

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1. Introduction, contents and main conclusions

The most significant features of the Chilean taxation system are the result of major government interventions that took place in two turning points of Chile's recent history: the beginning and the end of the military dictatorship. After having discussed these interventions and their legacy, the chapter investigates the recent evolution of the taxation system and its current state.

The next paragraph refers to the past: it describes the evolution of the Chilean taxation system by investigating the composition of fiscal revenues since the 1974 reform. This intervention replaced the old trade-based taxation system with a modern one based on income taxation, the VAT and a set of excises. The other major intervention took place in 1990, with the end of the military rule in the country. The 1990 reform was explicitly intended to generate the resources necessary to the democratic state to tackle the social problems left by the dictatorship. The fiscal pressure increased by 3% of GDP in three years, mainly due to an increase in corporate taxation and the VAT. In 1993 the reform reached its full implementation, with fiscal pressure stabilizing itself around 18% of GDP (excluding social security contributions, henceforth SSC), the same level around which fluctuates now. Notwithstanding this overall stability, important dynamics occurred in the following decade. Trade liberalization reduced by three quarters the revenues from international transactions. The significant gap left by these latter (around 1.5% of GDP) was partly filled by the higher yields of corporate and wealth taxation as well as excise duties. Personal income taxation remained stable around a mere 1% of GDP. VAT revenues also remained stable around 8 GDP percentage points, a fact that makes this the highest yielding Chilean tax. In 2003 the VAT alone generated 46% of total fiscal revenues excluding SSC.

The third paragraph looks at the present structure of the taxation system from an institutional point of view. The simple structure of the Chilean taxation system and its very high degree of centralization makes the government budget depending on few high-yielding headings. These taxes, namely personal and business income taxation, the VAT and a small set of excises, are described. The description shows the similarity of the Chilean taxation's structure with those prevailing in OECD countries. Personal income is taxed on a progressive basis, with rates ranging from 0 to 40%, whereas business profits are subject to a flat rate, regardless of their origin[1]. A peculiar feature of the system is instead a mechanism ensuring that taxpayers with the same income pay the same amount of taxes, regardless of their incomes' origin. This is set via the Global Complementary Tax (CGT) for residents and the Additional Tax (AT) for non-residents. These are levied annually on the sum of all incomes accruing to a taxpayer. The amounts already paid as personal or business income taxation constitute tax credit against CGT or AT, therefore avoiding double taxation. Indirect taxation is predominant in Chile, accounting for 63% of total fiscal revenues excluding SSC in 2003. As noticed above, the VAT is the single most important heading in terms of revenues, but excises on tobacco products, alcohols and fuels are relevant as well. In 2003 these latter generated 11.9% of total fiscal revenues excluding SSC or 2.1% of GDP, double as much as personal income taxation.

The effect of taxation on Chileans' income distribution is investigated in the fourth paragraph. This is carried out by both comparing pre- and post-tax Gini coefficients as well as via the computation of effective tax rates on labour, capital and consumption. This analysis shows that the Chilean taxation system is substantially regressive, confirming the findings of previous investigations on the issue. This is a cause of concern, given that the country is already suffering of extreme income inequality. Calls for a sharp increase in income taxation have been put forward. Revenues from personal income taxation account for only 1% of GDP. Compared with the average figure for OECD countries (9.8%), this suggests that personal income taxation is indeed extraordinary low in Chile. However, some observers underlined the importance of public spending as a key determinant of the progressivity of the system. These authors suggest that, although the taxation system is in fact regressive, an increase in pro-poor public spending can be a more efficient tackle to the problem.

The last paragraph is concerned with the future of the system and its possible improvement. Chile's public finances are among (if not) the best placed in the region. Being the survival of the taxation system secured, Chile is thus in the position to pursue more subtle goals such as the improvements of this latter.

In recent times, much attention has been given to the fight against evasion, which has been estimated around 24% of fiscal revenues. The PATE (Plan Against Tax Evasion) was launched in 2001 with the goal of bringing that figure down to 20% in 2005. The results of the PATE have not been fully investigated yet, but the SII declared that its preliminary evaluation showed full achievement.

Another debated issue is the simplification of the system, mainly via the elimination of several VAT and FCT exemptions and preferential treatments accorded to various taxpayer categories. Less has been done in this regard.

Finally, Chile pioneered the computerization of the taxation process as a way of minimizing the cost of tax compliance. Since 2001 the personal income tax is wholly payable on the Internet and VAT returns can be submitted online. Several other tax-related documents and forms are accessible on the tax authority’s website, and online self-assessment fully replaced various procedures once carried out in the offices. These achievements put Chile in a leading position on the issue, not only among Latin American countries but also at a global level. This has been recognized by institutions such as the United Nation or the Wharton business school that presented to the Chilean tax authority awards for innovations in the public service.

?.2. The structure of the system and its development from the 1970s

The current structure of the tax system and social security contributions

In 2004 the (preliminary) net lending of the Chilean government[2] reached 2.1% of the GDP. It was a return to the norm, after the 1998-2003 period of net borrowing. In 1990-1997 Chile had indeed produced substantial primary surpluses that allowed the country to even lend while reducing its gross debt from 47.3% to 13.2% of the GDP.

Disaggregating the 2004 total government revenues highlights three main sources: taxes (17.3% of GDP), copper (3.1% of GDP) and social contributions (1.4% of GDP) (See Table 1). The copper industry, left in public hands after the nationalization by the Allende administration, is the second biggest contributor to government revenues after taxes. A look at Table 1 shows that, while revenues from taxes and social contributions remained fairly stable since 1990, yields from copper were the main cause of the shifts in government borrowing. In 2003 (the last official data available), taxes and social contributions yielded more or less the same as in 2004, whereas copper revenues have been significantly lower (0.9%). The difference in government net borrowing in the two years is almost entirely explained by the difference in revenues from copper. Social security contributions represent a secondary source of revenues; an unsurprising fact considering that, apart from the police's and the armed forces' pensions schemes, social security is entirely managed by the private sector. Other headings are of negligible size and have been therefore omitted in the table.

Turning to the expenditures, the bulk of those are made up by three headings: public employment (5.4% of GDP), subsidies and donations (4.7% of GDP) and social security (4.9% of GDP). Regarding this latter, it is worth highlighting the unbalance between social security contributions and expenditures that characterized the entire period under investigation. This "social security deficit" is generated by the costs of transition from a Pay As You Go (PAYG) scheme to a Fully Funded (FF) such as the one introduced in 1981. While contributions were transferred to the new privately owned pension managers, the costs of the old PAYG system kept and keep weighting on the public finances. These costs are mainly the pensions still paid to workers that retired before or after the reform under the PAYG scheme[3], the benefits gained by workers that contributed to the old PAYG system and then shifted to the FF one[4] and the generous PAYG scheme still granted to the police and the armed forces (for a detailed analysis of the transition costs, see Arenas de Mesa 2000).

TABLE .1 HERE

Restricting the focus on total fiscal revenues, these reached a level of 17.6% of GDP in 2003.

Indirect taxation dominates direct taxation: in 2003 the former accounted for 63.6% of total revenues whereas the latter for 36.4%. Within this latter, income taxation yielded 4.3% of GDP, equal to 24.4% of total fiscal revenues. The tax on business, yielding an amount almost triple than personal income taxation (3.2% against 1.1% of GDP), is the main source of direct taxation revenues. Second comes the tax on wealth, which contributed a 2.1% of GDP, or 11.93% of total fiscal revenues. It is noteworthy that personal income taxation is still a minor source of fiscal revenues (6.25% of those).

Indirect taxation is based on the VAT. This latter is the highest yielding tax in Chile, accounting for 8.1 GDP percentage points, 46% of total fiscal revenues and 72.32% of indirect taxation revenues. The remaining 28% is made up mainly by excise duties on tobacco, alcohol and fuels. Import duties and local taxes are all of negligible importance.

Developments of the system from 1970

Up until the First World War, the Chilean government was able to cover its expenditures through taxation of international transactions. This situation changes in the following of the war: the worldwide recession, together with the drop in prices of Chile's main exports, nitrate and copper, causes a fall in the government's revenues. This will render a system of internal taxation necessary for the survival of the state.

The process of creating an internal taxation system reaches its final step in 1972 when, by decree of the Ministerio de Hacienda (Ministry of Industry), the General Directorate of Internal Revenue is established. This structure will then become the Servicio de Impuestos Internos (SII), which is up to now in charge of the administration of the taxation system.

Two years later, in 1974, the laws N.824 and 825 lay the basis of the system. These reorganized income taxation under a unified scheme and introduced the VAT. The implementation of these two laws took other two years, reaching full implementation with the decree N.1606 of 1976.

The system introduced in 1974 was based on five pillars:

- A corporate tax on all incomes coming from businesses (with different rates depending on the area of activity)
- A unified and progressive scheme of personal income taxation for residents
- A flat rate tax on incomes accruing to the non-resident
- A general tax on consumption, the VAT
- A set of excises, the most important of whose on tobacco, alcohol and fuel.

The actual taxation system reflects closely the structure it had back in 1974. Indeed, it has been left virtually untouched since. The only relevant intervention was the 1990 reform, implemented in concomitance with the return to a democratic regime in Chile. This intervention aimed at generating the revenues necessary to tackle the most urgent social problems left by the military rule. The declared target was to increase government fiscal revenues by 3% of the GDP between 1991 and 1993 (see Boylan 1996 for a detailed description of the reform). This was pursued with a quadripartite intervention:

- An increase in the lowest business tax rate from 10% to 15%
- A shift from estimated to actual profits as the base of the above tax for the highest contributors in key sectors such as agriculture, transportation and mining.
- An increase in personal taxation rates for middle and high-earners (obtained via a widening towards the bottom of higher brackets)
- An increase in the VAT rate from 16% to 18%

As can be seen in Table 2, the reform accomplished its mission, raising total fiscal revenues from 15.1% to 18.2% of GDP across the 1990-1993 period. This represented a 20.5% increase in total revenues in three years. When social contributions are included this figure lowers to 17.6%, due to the decline in social contributions in the same period. Note that the table reports data referring to the general government. This explains the discrepancy between total fiscal revenues in this table and those reported in table 1.

TABLE 2 HERE

In the 1990-1993 period, revenues from direct taxation increased by 43%, mainly as a consequence of the sharp increase in business taxation. This latter’s yield raised from 1.8 to 3% of GDP, a 67% increase. Meanwhile, the effect of the reform on personal income taxation was small. The yield from personal income taxation increased by around 30%, but considering its very low starting level, the change remains small in absolute terms, and personal income taxation remained exceptionally low in Chile.

In the same period, direct taxation's yield increased by 13.1%, rising from 11.1% to 12.6% of GDP. The first impression is that indirect taxation was subject to a much smaller increase than direct taxation. However, this is not true in terms of GDP percentage: indirect taxation increased by 1.5 GDP points whereas direct taxation by 1.7 GDP points.

Unaffected by the 1990 reform, social contributions yields remained stable at pre-reform levels.

After the reform reached its full implementation the fiscal pressure remained more or less stable. In the decade following 1993, it floated around 17.5% or 19% of the GDP, whether social contribution are excluded or included. Notwithstanding this substantial stability, important dynamics took place in the period.

First, the trend towards an increase in revenues from direct taxation inaugurated by the 1990 reform continued, but at a much slower pace. In the 1993-2003 decade these latter moved from 5.6% up to 6.4% of the GDP, a 10.7% increase. This result was mainly due to the increase in wealth tax' yield, which increased of 0.5 GDP percentage points in the decade. Meanwhile, revenues from personal income taxation remained almost unchanged. The gradual reduction in the personal income taxation's top rate played a relevant role in this phenomenon. The top rate dropped from 50% to 45%, 43% and finally 40% in 1997, 2002 and 2003, respectively (see Table3). The effects of this intervention are visible in table 2: revenues from personal income reached their top in 2001, and then decreased with the unfolding of the intervention's effect.

TABLE 3 HERE

On the corporation side, the period saw a simplification of the taxation scheme, with the substitution in 1999 of the previous multi-rate scheme with a unified 15% rate applied to profits of any origin. This latter was then gradually increased to17% in the 2002-2004 period (see Table 3). The effect of such interventions is harder to identify, since the behaviour of revenues from business taxation has been more erratic than the personal income's one.

Second, revenues from indirect taxation decreased from 12.6% of GDP in 1993 to 11.2% in 2003, loosing 1.4% GDP percentage points. This represents the biggest shift across the period. The phenomenon is entirely explained by the massive drop in revenues from import duties and other forms of international transactions taxation. In 1993 trade-related revenues equalled 2.1% of GDP. The same figure dropped to 0.6% ten years later, meaning that it decreased by 71%. This movement more than offset the increase in revenues from excise duties in the decade (+0.4% of GDP). The abandon of the import-substitution model of development and the consequential liberalization of foreign trade are the cause of this drop. The VAT did not vary much in the same period, generating revenues constantly close to 8% of GDP. This is expected, considering that its base has not been altered significantly in the whole period. Instead, the VAT rate has been temporarily raised from 18% to 19% in September 2003. In January 2007 this will be brought back to its previous level.

Third, and as a consequence of the previous two developments, a slight shift in relative importance from indirect towards direct taxation took place. In 1993 indirect and direct taxation generated respectively 69.2% and 30.8% of total revenues excluding social contribution, whereas in 2003 the two figures were, respectively, 63.6% and 36.4%. It is however important to underline that this phenomenon was driven by the fall in indirect taxation revenues more than by the increase in direct taxation ones.

?.3. Some quantitative and institutional features of main taxes

The Chilean constitution imposes taxes not to have a predetermined use or target. Tax revenues are allocated year by year with the Ley de Presupuesto (Budget Law). It follows that social contributions, defined as those contributions intended to cover welfare costs, are non-existent[5]. The costs of education, health and the welfare in general are covered with revenues from direct or indirect taxation as the rest of the government expenditure.

The Chilean taxation system is then based on direct and indirect taxation only, with few high-yielding headings generating the bulk of the revenues. Income taxation and the VAT accounted for 77% of total fiscal revenues in 2005. Although not negligible, excises and other forms of taxation are of secondary importance.

The high degree of the Chilean republic's political centralization is mirrored in its taxation structure. Local authorities have very little power to levy taxes, while regional authorities have no such power at all. In terms of revenues, the central government virtually corresponds to the general government, the discrepancy between the two revenue levels being relatively small (1.6% of GDP in 2003, equivalent to 9% of general government's revenues).

The above considerations suggest that Chile has a fairly simple taxation system. An introductory description of this latter follows[6].

Direct taxes

Income taxation was introduced by the law N.824 of 1974. Under this Act, residents or persons domiciled in Chile are subject to tax on income derived from any source, either domestic or non-domestic, while non-residents are taxed only on income generated within the national borders. In 2005 income tax represented 30,9% of the central government's total revenues and 5,5% of the GDP.

Similarly to that of industrialized countries, Chilean income taxation is based on a flat corporate tax and a progressive tax on personal income. The former applies to all kind of profits, irrespective of their origin. In a similar way, personal income taxation is subject to a unique progressive tax, irrespective of the origin of that income (the global complementary tax, GCT). As we will see in detail in the next section, this unified scheme is implemented via a bipartite system: a tax on dependent work (the second category tax, SCT) withheld monthly, and a global tax on total income (GCT) levied annually.

The unified scheme does not apply to incomes accruing to individuals residing abroad. These are subject to a flat tax instead, the additional tax, or AT.

According to the type of taxed subject we then have:

- A tax on business (Impuesto de Primera Categoria, FCT)
- Taxes on residents persons (Impuesto de Segunda Categoria, SCT and Impuesto Global Complementario, GCT)
- A tax on non-residents persons (Impuesto Adicional, AT)

All income taxes are charged on the income of the previous financial year, beginning on January the 1st and ending on December the 31st.

Corporate Tax

Profits deriving from industrial, commercial or any other kind of activity carried out by an enterprise are subject to the Impuesto de Primera Categoria (First Category Tax, FCT).

The rate is flat, its level being of 17%. It applies to all profits, defined as the difference between total income and the costs and expenses required to produce it. All enterprises but those involved in mining activity are subject to this regime.

These latter are instead taxed under a progressive scheme. Rates ranges from 0% for mining exploiters whose annual sales are inferior to 12000 metric tons to 5% for those whose annual sales exceed 50000 metric tons. This preferential regime is explainable by the central role, both in terms of income generation and employment, played by the mining industry in the Chilean economy.

Moreover, it is worth noting that the value of a metric ton (and therefore the boundaries of the tax brackets) is computed according to the average value of that metal in the London Metal Exchange. Apart from being particularly low, the tax is then partly protecting the mining sector from fluctuations in metal prices.

An important feature of the FCT is that it applies only on profits that are withdrawn from the enterprise or, equivalently, on capital assets that are disposed of. Therefore, something like a split system is in place, introducing incentives to re-invest profits in the company.

Various incentives similar to the split system just described are present in the Chilean taxation system. Chile was the first Latin American country to abandon the import-substitution growth strategy for the export-led, openness-based one that spread across the region in the *Washington Consensus* era. In this framework, the country was early to introduce fiscal incentives aimed at attracting foreign investment as well as fostering the development of an exporting sector. These incentives take different forms, from VAT exemptions to tax credits to double taxation agreements. Given their relevance, the paragraph 3.4 is dedicated to the analysis of these incentives.

Taxes on personal income: resident individuals

The Second Category Tax (SCT)

Any person resident in Chile is subject to the Impuesto de segunda categoria (Second Category Tax, SCT).

This applies to incomes from dependent work such as salaries, pensions and other remunerations. Rates follow a progressive scheme, ranging from 0% to 40%. Tax brackets are defined in UTM, which stands for Unidades Tributarias Mensuales (monthly taxation units). These latter are currency units expressed in Chilean pesos, monthly adjusted in line with the consumer price index behaviour. In practice the UTM scheme defines the tax brackets in real terms, it is intended to eliminate the so-called fiscal drag. In terms of 2005 USD, the SCT rates range between 0% for individual earning less that 830 USD a month (or 9900 USD a year) to 40% for those earning more than 9220 USD a month (or 110500 USD a year)[7]. As we will see, all progressive taxes in Chile are indexed against inflation as measured by the consumer price index.

Table 4 provides the brackets and rate for the SCT as in January 2006:

TABLE 4 HERE

SCT is computed on total salary and remuneration for work, less social security payments to AFPs. The Tax is withheld and paid monthly by the employer. In order to maintain the progressivity of the tax, employees with more than one employer have their rate computed on the gross total of their remunerations.

The Global Complementary Tax (GCT)

Any person resident in Chile is subject to the Impuesto Global Complementario (Global Complementary Tax, GCT). As suggested by its name, the CGT is a tax on the global income of the resident or domiciled in Chile, irrespective of its source. The CGT applies to the total of all gross (pre-tax) incomes of the person. It is intended to give a unified treatment to any source of income of the Chilean citizen.

Rates and brackets are the same as the SCT ones, translated in an annual basis. Annual taxation units (UTA) therefore substitute monthly taxation units (UTM). The former are indexed against inflation in a way analogous to UTMs. Rates are again between 0% and 40%. Substituting UTA for UTM in Table 4, we thus have the brackets and rate structure for the CGT. The changes introduced in recent years on the SCT rates (namely, the reductions of maximum rates) applied equally on GCT's ones.

All the amounts paid for the First and Second Category Taxes constitute a tax credit usable against the CGT. In other words, taxes already paid as FCT or SCT are subtracted from the amount due as CGT. Therefore, this tax can be viewed as a mechanism of ensuring that, whatever their origin, the same levels of income pay the same amount of taxes. The principle underlying the CGT is then that of tax equity.

As an example, a resident whose only incomes are from dependent work and the sale of some stocks pays FCT on these latter and SCT via monthly wage withholdings. In April the following year, she is liable to pay CGT on her total pre-tax income. All her wages and the eventual gain on the stocks are summed to compute her CGT bracket and amount due. Then the amounts paid as FCT and SCT are subtracted. Let's assume her CGT rate is 25%

and her SCT rate is 10%. Therefore she already paid 10% on her wages in monthly withholdings by her employer and 17% on her capital gains. To comply with the CGT, she still must pay (25-10)%=15% on her wages and (25-17)%=8% on her capital gains. In this way, the CGT ensures that she pays the same taxes as a resident with the same level of income, although of different origin.

Taxes on personal income: non-residents individuals

Persons neither resident nor domiciled in Chile are not subject to personal income taxation in the form of SCT and/or CGT. Instead, they are subject to a unique tax called the Impuesto Adicional (Additional Tax, AT).

AT is levied on all incomes derived from Chilean sources (generally, when the income is made available from Chile to a person resident in a foreign country). The general AT rate is 35%, although there are exceptions for various types of income.

As for the CGT, the tax base is the sum of all pre-tax incomes. The AT might be seen as the equivalent of the GCT for foreigners. It ensures that any type of income is subject to the same fiscal burden. As for the GCT, the amounts paid for other taxes are indeed reclaimable as a tax credit. Of course, the major difference between the GCT and the AT is that this latter is not progressive.

As said, various types of income are subject to special AT regimes. These are:

- Fees paid for the use of trademarks, royalties, patents, formulas and similar services: 20% rate
- Payments for material to be shown in cinema or television: 20% rate
- Payments for the use of copyright or authors' rights on books: 15% rate
- Interest rates paid to banks or financial institutions fulfilling requirements defined by the law: 4% (Interest payment are otherwise subject to the general 35% rate)
- Payments for specific services supplied abroad (freight services, loading and unloading charges, insurance and reinsurance operations..): exemption from the AT
- Payments for purchase abroad of exportable goods and services, advertisement and promotion, market analysis, scientific research, legal advice and legal defence before the administrative, arbitration or jurisdictional authorities of the respective country: exemption from AT.
- Premia on insurance taken out with foreign companies on particular goods (goods permanently located in Chile, goods on land among others) or for residents-domiciled in Chile: 22% rate. The rate reduces further to 2% for reinsurance premia.
- Payments for maritime transport to and from Chilean ports supplied by foreign companies: 5% rate.
- Payments for rental, sub-rental or any other right to the use of temporary employment of foreign ships destined to or used for coastal services: 20% rate.
- Income arising exclusively from the work of foreign individuals carrying out scientific, technical, cultural or sporting activities: 20% rate.

Indirect Taxes

Impuesto sobre el valor agregado (IVA)

IVA is a general consumption tax equivalent to the VAT. It is levied on sales of all goods and services, and of real estate properties when these constitute the seller's habitual business. It also applies to fiscal, semi-fiscal and autonomous state institutions, local councils and to the companies totally or partly belonging to these entities.

The tax base is the difference between the tax debit (the total sales of goods and total supply of services) and the tax credit (the sum of all purchases of goods and use of services) owned by the taxpayer. A flat rate of 19% is currently applied on this base. In January 2007, this will be reduced to 18%, going back to its previous value (until September 2003). VAT must be declared and paid on a monthly basis.

There are two important exceptions to the general 19% rate treatment:

- Exports: there is no IVA on goods and services sold abroad. Moreover, exporters are exempt from the VAT on their purchases of goods and uses of services in relation with the exporting activity. The exporter can either ask for a reimbursement of the VAT paid on her tax credit or use it as a credit against other VAT payments.
- In the case of acquisitions of fixed assets, the same reimbursement is granted to the buyer.

Excises

Sales of specific goods are targeted with excises additional to the VAT. The tax base is generally the same as the VAT, while the rates depend from case to case. Together, these surtaxes generate almost 11% of total fiscal revenues and 2% of the GDP. Although of secondary importance with respect to income taxation and the VAT, these are still worth a brief description.

Products subject to the surtaxes are:

- Alcoholic beverages: 13% to 17% surtax
- Non-alcoholic beverages with sweeteners, colorants or flavourings: 13% surtax, but retail sellers are exempt
- Luxury vehicles (whose value exceeds USD 18.873): 13.75% surtax on the excess value, going to 0% in January 2007. If the vehicle is imported, the relevant value is the custom one.
- Luxury goods (gold, jewels, furs and others): 15% surtax. For some luxury products the surtax is applied on each transaction, whereas for others only on the first sale/import.

Exceptions to the general structure just described are the excises on tobacco products and fuels, whose tax bases differ from the VAT's one.

For tobacco products, the surtax is computed on the value of the sale to the final consumer. The rates range from 51% to 60.4% depending on the type of product. For fuels, the base is the value of import or of first sale if produced in Chile. The rates are not expressed in percentage, but instead in UTMs. In 2006, they stood at 1.5 UTM per cubic meter for diesel, 6 UTM per cubic meter for gasoline. It is worth noting that these two latter generate more than 90% of the revenues from excises.

Other taxes

As noticed before, local taxes are of negligible importance in Chile. Regional taxes are non-existent (there are nevertheless a number of tax incentives such as preferential regimes or exemption for individual and businesses locating in the extreme regions of the country), while municipal taxation is of minor entity.

The only tax levied by local authorities is the Patente Comercial, an annual duty payable to the municipality in which professional, commercial or industrial activities are carried out. In case of professional activity the Patente is in the form of a fixed amount, whereas in the other two cases it is levied as a percentage of the patrimony of the business. It ranges from 0.25% to 0.5%, depending on the municipality.

A stamp duty on documents containing money credit agreements is levied as a percentage of the amount specified in the agreement. Rates range from 0.134% to 1.608% of the par value of the document for each month of the loan’s term, depending on the period of the loan. Checks and protests are subject to a stamp duty as well, although in this case the duty is a fixed amount, updated every year.

Transfers of property in the form of inheritances and donations are subject to a progressive tax, whose rates depend on the net value of the transferred property, the purpose of transfer or gift and the degree of descendant's relationship with the beneficiary.

Finally, an 11% tax on the custom value is levied on all imported goods. Such duties are the only taxes not administered by the Servicio Interno de Impuestos (SII). It is in fact the Servicio Nacionales de Aduana (Custom Service) that is responsible for their management. As all trade-related ones, revenues from custom duties declined steadily in the last decade, as a result of the continued process of liberalization of trade taking place in Latin America and in Chile in particular. In the contest of regional integration Chile has signed bilateral agreements with Canada, Mexico and the United States that will eliminate all custom duties in ten years time. Similar agreements have been signed with Colombia, Venezuela, Peru and Ecuador and the Mercosur members. Reductions on custom duties are already in place for specific products traded in the contest of the ALADI (Asociaciòn Latinoamericana De Integraciòn, Latin American Integration Association) agreement.

Incentives to investment

Four goals inspired the introduction of fiscal incentives to investment in Chile: attracting foreign capital, helping the solidification of financial markets, fostering the growth of the exporting sector and strengthening the political integration of the extreme zones of the country. The following brief description of such incentives is organized on the basis of their goals.

Attracting foreign capital

In 1997 Chile began to negotiate bilateral Double Taxation Agreements (DTA), with the aim of avoid double international taxation as well as reducing the high effective taxes currently levied on transaction involving technology (e.g. technical assistance, designs, industrial patents, chemical formulas). Under these schemes, taxes paid in one country represent a tax credit in the other. In Chile, this credit is also augmented of a proportion of up to 30% against personal income taxation.

DTAs were negotiated with different countries, based on criteria such as the existence of free trade agreements, of substantial flows of capital and technological exchange to and from Chile, the attractiveness of an economy for Chilean business and vice-versa. In January 2006 DTAs with Argentina, Brazil, Canada, Croatia, Denmark, Ecuador, Mexico, Norway, Peru, Poland, South Korea, Spain, the United Kingdom and Sweden were in force. DTAs with France, Ireland, Malaysia, New Zealand, Russia, Portugal and Paraguay have been signed and are waiting their implementation.

At the end of 2002 the Business Platform law saw passed. This offers favourable fiscal treatments to foreign investors setting up in Chile a platform company for managing investments in third countries. When a company is set up as a Business Platform, it is not considered to be resident or domiciled in the country. Therefore, it is liable to Chilean taxes only on the income generated in the country as dividends from investments in Chilean public companies or as gains on the sales of these latter’s stocks. These incomes are treated as for a standard non-resident taxpayer, and therefore subject to FCT and AT. Income deriving from overseas investment, sale of services or capital gains is exempt from any income taxation, regardless of whether this income is remitted abroad or not. In order to enjoy this preferential regime, a company must be an open or closed public company limited by shares and must be registered as "Business Platform" company at the SII.

Two other preferential regimes are accorded to foreign capitals: if the investor commits to invest in Chile for at least 5 years, a 10% flat AT rate (instead of the standard 35%) is granted to him. Otherwise, she can choose to pay a flat 42% rate on her total income with the insurance that this rate will not change for as long as 20 years.

Strengthening financial markets: Capital Gains taxation

Capital markets played a relevant role in Chile's recent development. Among other things, they absorbed the huge supply of capital generated by the shift to a FF pension scheme. For this reason, the Chilean government granted very favourable fiscal regimes to capital gains from public companies' shares. Instead of standard treatment of the FCT 17% rate and personal income taxation in the form of CGT or AT:

- Capital gains originating from the sale or transfer of shares in public companies limited by shares (Sociedades Anonimas, SAs) are subject to a flat 17% tax rate if they have been held for more than a year, if the seller is not a broker or if the buyer is not a related party to the seller. In practice, capital gains pay in this case the FCT only.

- Since 2001, capital gains from the sale or transfer of shares in SAs are tax-free if:

a) Shares are acquired in the stock market, in a public tender share offer or in an initial public offering.

b) Shares are owned by foreign institutional investors (such as pension or mutual funds)

c) At the time of the sale, the shares are traded (with a sufficient volume of transaction) in the stock market.

- Capital gains on the sale or transfer of real estate by persons not subject to full accounting to determine their income tax are tax-free if:

a) The property has been held for more than a year

b) The operation is not part of the seller's habitual business

c) The buyer is not a related party to the seller.

Fostering the growth of the exporting sector

As already noticed, there is no VAT on goods and services sold abroad. Moreover, exporters are exempt from the VAT on their purchases of goods and uses of services in relation with the exporting activity. The exporter can either ask for a reimbursement of the VAT paid on her tax credit or use it as a credit against other VAT payments.

Integrating the extreme regions

As underlined in the World Bank (2005) study, soon after the Chilean state annexed its most northern and southern regions from Bolivia, Peru and Argentina, it started working to strengthen its sovereignty on those regions. This led to the denomination in 1975 of the regions of Arica and Iquique (I), Aysèn (XI) and Magallanes (XII) and some provinces in region Antofagasta and Los Lagos as Zonas Extremas (Extreme Zones). The status of ZE granted several advantages, one of the most prominent being an extremely favourable fiscal regime offered to businesses locating in the regions (see World Bank 2005).

This fiscal regime is still in place nowadays and its main features are:

- Duty-free areas (in Iquique and Magallanes): businesses locating in these special areas are exempt from import duties, the VAT and FCT.

- Employment subsidies (in all ZEs): The government pays to the company locating in a ZEs an amount equal to 17% of the wages, up to 25 USD monthly per worker.

- Tax credit for investment (in Arica and Magallanes): the government grants a tax credit against FCT, amounting from 10% to 40% of investment realized in the same region. The percentage depends on the type and amount of investment.

- Sales subsidy (region Magallanes): 20% of total sales are paid as subsidy by the state. Sales must be outside region Magallanes and 25% of inputs used in the production have to be of local origin.

?.4. The fiscal burden

The distribution of taxation charge

In a region such as Latin America, where income distribution is among the worst on the planet, the issue of redistribution is a debated one. With regards to taxation systems, the focus is on the degree of progressivity. The ability of the Chilean taxation system to redistribute income towards the poor has been investigated in Engel et al. (1998). That paper concluded that this is substantially null when considering the before- and after-tax GINI coefficients of income distribution. If anything, the system appears to be regressive, being the after-tax figure (0.496) higher than the before-tax one (0.488). The study had a big effect on the debate, fostering the demand for an increase in direct taxation (see, among others, ARCIS 2001). Others, such as the authors of the Engel et al. paper, highlighted the importance of considering the distributional effect of public expenditure together with revenues when judging the progressivity of a taxation system. As a consequence, they suggest to focus on increasing the expenditure directed to the poor instead of increasing direct taxation which, they argue, it is more distortionary than a flat VAT and it is hardly feasible due to the administrative limits still present in Chile. Notwithstanding this debate, substantial reforms aimed and increasing the progressivity of the system do not look on their way.

Another tool for investigating the distributional effect of the taxation system are the effective tax rates on consumption, labour and capital. By comparing the fiscal revenues generated by capital, labour and consumption with their tax bases, the effective rates give an estimate of the fiscal burden laying on the three factors, which can be very different from the one implied by the statutory rates as a consequence of exemptions, deductions, tax credit and evasion. In particular, the effective tax rate on consumption (C) compares revenues from indirect taxation (VAT and excises) with total consumption; the effective rate on labour (L) shows the relationship between revenues from employed work including SSC and the wages and salaries of the employees. Finally, the effective rate on capital (K) compares revenues from taxes on corporate income, capital gains and property with the operating surplus of the overall economy. A detailed description of the implicit tax rates' formulas and the related issues is beyond the scope of this work. If interested, see Mendoza et al. (1994).

Figure 1 shows the effective rates (henceforth ER) on consumption, labour and capital for the period 1993-2002. Unfortunately, data on the reform period 1990-1993 are not available, so that an analysis of the distributional effect of the 1990 reform cannot be carried out with this methodology. Focusing on the following decade, some stylized facts emerge.

The burden of taxation lies disproportionately on consumption. The effective rate on this latter, C, floated around 18% for the whole period considered. It is the only ER comparable to European levels. The EU average ER on consumption was indeed 17% in the last decade. This should not be surprising, given the predominance of indirect taxation in Chile and generally in Latin America. It's nonetheless worth underlining that Chile's ER on consumption is high for Latin American standards as well: Martner and Tromben

(2004) find the Latin American average effective rate on consumption to be around 12%, 6 percentage points lower than in Chile.

FIGURE 1 HERE

Capital taxation is very low compared to the EU levels. Chile’s average ER on capital across the period was 7.9% whereas the European average is 23.6%. The story is different when the comparison is made with regional economies. The Chilean ER on capital is almost 2 percentage points above the Latin American average (6%, see Martner and Tromben 2004). With the lowest statutory rate on corporate income in the region, one would expect Chile to have a low ER on capital. However, this puzzle might be explained by a higher degree of corporate tax compliance.

Employed labour taxation represents the most striking difference between tax burdens in OECD countries and Chile. When excluding SSC, the ER on labour is roughly 3%. The same is in Europe 17%, almost 6 times higher. Nor this phenomenon is peculiar to Chile: the Latin American average ER on employed labour is even lower, staying around 2%. It would not be an exaggeration to say that income from employed labour is essentially untaxed in Chile and in Latin America. When SSC are included the gaps widen even more: EU’s average ER on labour including SSC is 40%. In Chile, it did not reach 7%.

Finally, tax burdens stood substantially stable across the period investigated. The only exception is K, which rose from 7.1% to 10% in the decade, a 41% increase. This is, again, quite surprising, considering that corporate tax statutory rates were lowered in that period. However, the elimination of several exemptions and special regimes and the stronger control on enterprises seem to have offset the effects of the statutory rates reductions.

Altogether, this analysis confirms the findings of Engle et al. (1998) that the Chilean taxation system is substantially regressive. The effective rates allow to do a step more and to identify the source of this regressive nature, which is the dominance of consumption taxation. Transferring the same amounts of money per unit consumed from any income strata of the population, consumption taxation is indeed inherently regressive. Moreover, it is worth emphasizing that excises on luxury goods, although present, are of negligible size. It follows that even this slightly progressive tool is practically absent from the Chilean consumption taxation scheme.

?.5. Tax reforms in the 1990s and those currently planned

A quick glance at the budget and the general economic environment

The General Government's superavit reached 0.9% of GDP in 2003 (see Table 1). Preliminary data for 2004 estimate a 3.1% superavit, suggesting that a positive trend is under way. In fact, a responsible management of public finances characterized Chile's recent history. The government balance turned negative in 1999 only, when the economy suffered a -1.1% growth as a consequence of the drop in copper's price and the financial turmoil caused by the East Asian and Russian crises. In 2002, second worst year, the government balance nearly broke even, standing at –0.1% of GDP. Apart from these two years, Chile generated substantial superavits, and used those to reduce the debt inherited from the 1980s.

After the stabilization of the macroeconomic environment, the strong reduction of public debt and the covering of revenues loss due to trade liberalization, Chile is now in the position of focusing on medium-term goals such as the improvement of the tax system.

Tax reforms in the 1990s

The second paragraph analyzed in detail the 1990 reform, we will thus focus here on other interventions implemented after 1990. This period saw a remarkable similarity of interventions across the Latin American region. With the spreading of the so-called Washington Consensus, the efficiency and the simplicity of tax systems became a matter of concern for governments in the area. In this light, Latin American countries focused their attention on reducing the most distortionary elements of their taxation systems as well as simplifying their structure.

With this goal, the top rates of personal income taxes were reduced across the whole region. In 1986, the Latin American average top-rate was 49.5. In 2004 this figure dropped to 28.8 (see Sabaini 2005). As showed in paragraph 2, Chile followed a similar path, reducing its top-rate from 57 to 40.

A similar phenomenon took place regarding the corporate income tax (CIT): in 1986 all Latin American countries but Colombia had different CIT rates according to the sector of business activity. In 2004 differential rates are instead the exception. Among others, Argentina, Brazil, Chile and Mexico all have a flat CIT. A reduction in the rate accompanied this simplification: the flat CIT rate is often closer to the bottom than the top rate applied in the early nineties. In Chile, CIT rates were in the range between 10% and 37% in 1986 and the flat rate introduced in 1999 is currently at 17%.

One pillar of the Washington Consensus paradigm is the liberalization of trade and the shift towards this latter as the engine of development. It is then unsurprising that the most notable effect on taxation of this new trend is the reduction of taxes on international transactions. Exports taxes, widely spread in the region at the beginning of the 90s, are almost non-existent in 2004. Similarly, import duties have been substantially reduced due to the signature of various free-trade agreements within Latin American countries as well as between these latter and countries external to the region (the main example here is the NAFTA). We have already noticed in the second paragraph (see Table 2), that revenues from trade dropped in Chile by 74% between 1990 and 2003. Tanzi (2000) shows that the effective tax on Chilean imports, computed as the ratio between revenues from import duties and total value of imports, followed a similar path, dropping from 16,7 to 5.8 in the period 1985-2000, a 65% reduction.

The notable loss in trade-related revenues, together with the unification and reduction of income tax rates without a widening in its bases, reduced overall tax revenues. To fill this gap, all Latin American governments relied heavily on the VAT: higher rates were introduced and fewer exemptions were allowed. As noticed by Baunsgaard and Keen (2005), various developing countries did not manage to recover from other sources the revenues they lost from trade liberalization. This, however, does not seem to be the case of Chile. Looking back at Table 2, one can see that the loss in revenues from trade was almost fully covered by the increase in both VAT and excises' yields, leaving the level of indirect taxation revenues substantially unchanged from 1990.

More recent tax reforms

In 2000 the SII's research department published an inquiry on the state of the Chilean taxation system (Jorratt 2000). The document investigated the problems of the system and proposed some interventions to tackle them.

The main proposal were:

- The simplification of the CIT via the elimination of exemptions and franchises to the general 17% rate treatment
- The inclusion of non-withdrawn profits into the CIT base, therefore eliminating the discrimination towards employees who do not have the possibility of paying taxes only on consumed income
- The reduction of the PIT top rate, still considered excessively distortionary on work decisions
- The widening of the VAT tax base via the elimination of various exemptions
- A tougher fight against tax evasion, estimated around 24% of total fiscal revenues in 1997.

Judging from the recent interventions on taxation matters, the document turned out to be quite influential. The top PIT rate, already lowered by 5 percentage points to 45% in 1997, was further reduced to 43% and 40% in 2002 and 2003, respectively.

The fight against evasion has attracted a lot of attention. According to the Silvani and Brondolo (1993) study, Chile had the highest rate of VAT compliance in all Latin America. However, with an estimated 20% of VAT evasion, the phenomenon still represented a significant damage for public finances. Moreover, as highlighted by Martner and Tromben (2004), VAT compliance decreased in the 1990s from 75% in 1992 to 69% in 2001. In June 2001, the Law n. 19738 launched the Plan de Lucha Contra la Evasion Tributaria (plan against tax evasion, PATE). Its declared goal was to reduce tax non-compliance from the 24% figure estimated in Jorratt (2000) to 20% in 2005. This would translate into a tax revenues increase of roughly 800 millions of USD a year. In order to achieve this goal, between 2001 and 2004 a number of laws (especially the Tax Procedure Code and the VAT Law) have been modified so as to enhance the enforcement power of the SII, while 500 new employees have been included in its auditor staff. Penalties for non-compliance have been sharply increased and efforts to better coordinate the tax administration system (the SII, the Treasury and National Customs Service) have been carried out. The results of the PATE have not been fully investigated yet, but the SII declared that its preliminary evaluation showed full achievement of the USD 800 millions annual target (see SII website).

On the front of the simplification of the system, less has been done. Several exemptions and franchises are still applied to FCT as well as to VAT. Among the most important, the building sector enjoys a tax credit equivalent to 65% of their VAT debits while exporters enjoy total VAT exemption on their exports. Various services are also still exempt from the VAT, among those: transportation of people, education, health, life insurances, cultural and sport events tickets. Although there is no doubt about the need to support the consumption of such goods, economic theory suggests that other forms of subsidy are more efficient because they preserve the generality and uniqueness of the VAT, which are its main rationale.

As highlighted before, the performance of copper in international markets is a key dimension in the budget performance of Chile. This is a potential source of macroeconomic instability as well as a constraint in the ability of the government to tackle the social needs of the country (see Caballero 1999, 2000). Chile, as most countries in the region, shows a pro-cyclical shifts in government spending, which accentuates the depth of the economic cycles. A medium-term goal should be the reduction of this pro-cyclical element and the search for more stable sources of government revenues.

Finally, it is remarkable the attention given in recent years to the minimization of compliance's costs, defined as the costs in terms of time and money undergone by the tax payer in order to fulfil its duties. A noteworthy development in this area is the computerization of the taxation process, which reached in Chile a degree even higher than in OECD countries. For example, since 2001 the personal income tax is wholly payable on the Internet and all VAT returns can be submitted online. Several other tax-related documents are accessible on the SII website, and online self-assessment fully replaced various procedures once carried out in the SII offices.

Notes

[1] There are however various preferential regimes and incentive packages such as duty-free areas and tax credit for investments in particular sectors of the economy as well as in “extreme zones” of the country.

[2] Refers to general government. Figures for the central government are almost identical (2.2%), which is not surprising considering the scarce amount of local taxes

[3] Workers contributing at the moment of the reform were guaranteed the right to choose between the PAYG and FF scheme.

[4] These benefits are paid to the worker via the “Bono de Reconocimiento” (last row in Table 2.1) at the moment of transferral to the FF scheme.

[5] Since 1981, the Chilean pension system is entirely run by private companies (Administradoras de Fondos de Pensiones, APF). 10% of worker monthly wages are withheld by the employer and paid to the AFPs. Strictly speaking, there are therefore social contributions, but they may not be considered “taxes” as their revenue does not accrue to the government.

[6] The following description is based on information available on January the 2nd, 2006. Tax brackets and rates are therefore those applied to the fiscal year ending on December 31st,2005.

[7] The conversion to US Dollars is computed using the yearly average value of the UTM and the yearly average Peso/Dollar exchange rate.

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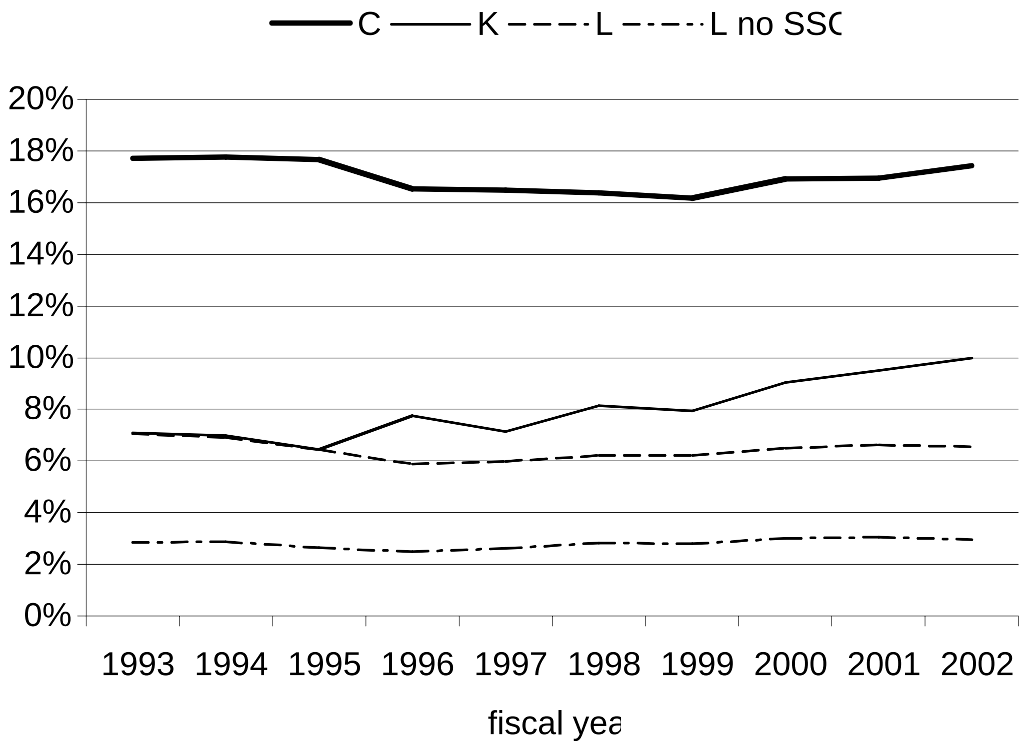

Figure 1 Effective tax rates on consumption, labour and capital, Chile 1993-2002
C: Effective rate on consumption
K: Effective rate on capital
L: Effective rate on labour including social security contributions
L no SSC: Effective rate on labour excluding social security contributions
Source: personal calculations on data from SII, Banco Central de Chile

Table1 Structure and development of the government budget in Chile as a percentage of GDP, 1990-2003

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Revenues	*25.4*	*25.1*	*25.4*	*25.3*	*24.9*	*25.6*	*23.6*	*23.5*	*23.1*	*22.5*	*23.7*	*23.9*	*23.2*	*23.0*	*24.2*
Total fiscal revenues	15.7	17.9	18.6	19.5	18.8	18.4	18.0	17.7	17.9	17.3	18.0	18.1	18.2	17.6	17.3
Copper	4.9	2.5	2.1	0.9	1.5	2.6	1.3	1.3	0.4	0.4	0.9	0.5	0.5	0.9	3.1
Social contributions	1.7	1.6	1.6	1.5	1.5	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.4	1.4
Expenses	*20.5*	*20.6*	*20.1*	*20.3*	*19.8*	*18.8*	*17.9*	*18.0*	*19.0*	*20.7*	*20.9*	*20.7*	*20.7*	*19.9*	*18.6*
Public employment	4.7	4.7	4.8	5.2	5.3	5.2	5.0	5.2	5.6	6.0	6.0	6.0	6.0	5.8	5.4
Goods and services	2.9	2.8	2.8	2.8	2.7	2.6	2.6	2.5	2.7	2.6	2.6	2.7	2.6	2.5	2.5
Debt interests	3.3	3.1	2.6	2.4	2.1	1.8	1.4	1.2	1.2	1.3	1.2	1.2	1.2	1.2	1.0
Subsidies and donations	3.7	4.2	4.2	4.3	4.2	4.1	4.0	4.1	4.2	5.0	5.2	5.0	5.2	4.9	4.7
Social security	5.8	5.7	5.5	5.5	5.3	5.0	4.8	4.7	5.1	5.6	5.6	5.6	5.6	5.3	4.9
Others	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Gross operative result	*4.8*	*4.5*	*5.3*	*5.0*	*5.1*	*6.8*	*5.6*	*5.5*	*4.1*	*1.8*	*2.8*	*3.1*	*2.5*	*3.1*	*5.6*
Total Revenues	*25.5*	*25.3*	*25.6*	*25.4*	*25.1*	*25.7*	*23.6*	*23.6*	*23.1*	*22.5*	*23.8*	*23.9*	*23.3*	*23.0*	*24.3*
Total Expenses	*23.0*	*23.3*	*23.2*	*23.8*	*23.4*	*22.2*	*21.5*	*21.5*	*22.7*	*24.6*	*24.5*	*24.4*	*24.5*	*23.5*	*22.1*
Primary surplus/deficit	*5.9*	*5.0*	*4.9*	*4.0*	*3.8*	*5.3*	*3.5*	*3.4*	*1.6*	*-0.8*	*0.5*	*0.7*	*-0.1*	*0.8*	*3.1*
Net lending/borrowing	*2.5*	*2.0*	*2.4*	*1.6*	*1.6*	*3.5*	*2.2*	*2.1*	*0.4*	*-2.1*	*-0.7*	*-0.5*	*-1.2*	*-0.4*	*2.1*
Debt financing															
Financial assets acquisition	0.2	2.2	2.3	0.1	0.8	0.7	0.2	1.1	-0.9	-2.6	-1.4	-0.8	-1.6	-0.4	1.4
Net financial liabilities	-2.3	0.2	0.0	-1.5	-0.8	-2.8	-1.9	-1.1	-1.3	-0.5	-0.7	-0.3	-0.4	0.0	-0.8
Net external borrowing	-0.7	0.6	-0.3	-1.7	-0.7	-2.7	-1.1	-0.6	-0.3	0.5	-0.3	0.6	0.8	1.0	0.2
Net internal borrowing	-2.4	-1.1	-0.4	-0.3	-0.4	-0.4	-1.0	-0.5	-1.0	-0.7	-0.1	-0.5	-0.8	-0.4	-0.4
Bonos de reconocimiento	0.8	0.8	0.7	0.5	0.4	0.2	0.2	0.1	0.0	-0.2	-0.3	-0.4	-0.4	-0.5	-0.6

Source: Budget Directorate, Ministry of Finance

(p) Preliminary

Tabl 2 Structure and development of fiscal revenues in Chile as a percentage of GDP, 1990-2003

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Total fiscal revenues (excl. soc. contrib.)	*15.1*	*17.0*	*17.5*	*18.2*	*17.4*	*16.8*	*18.0*	*17.7*	*17.9*	*17.3*	*17.9*	*18.3*	*18.2*	*17.6*
Direct taxes	*3.9*	*5.3*	*5.5*	*5.6*	*5.4*	*5.1*	*5.7*	*5.6*	*5.8*	*5.5*	*6.0*	*6.5*	*6.7*	*6.4*
Income tax	2.5	3.9	3.9	3.9	3.8	3.5	3.9	3.8	3.9	3.5	4.1	4.5	4.6	4.3
Personal income	0.7	0.8	0.9	1.0	1.0	0.9	1.0	1.0	1.2	1.2	1.2	1.3	1.2	1.1
Corporation income	1.8	3.1	3.0	3.0	2.8	2.7	3.0	2.7	2.8	2.4	2.8	3.2	3.4	3.2
Wealth	1.4	1.5	1.6	1.7	1.6	1.6	1.8	1.9	1.9	2.0	1.9	2.0	2.1	2.1
Indirect taxes	*11.1*	*11.7*	*12.1*	*12.6*	*12.0*	*11.6*	*12.3*	*12.1*	*12.1*	*11.7*	*11.9*	*11.8*	*11.5*	*11.2*
VAT	6.8	7.3	7.9	8.1	7.9	7.5	8.0	7.9	7.8	7.6	7.9	7.9	8.0	8.1
Excise duties	1.8	1.9	1.9	1.8	1.7	1.7	1.8	1.9	2.2	2.3	2.3	2.3	2.3	2.2
Taxes on trade and int'l transactions	2.3	2.2	2.1	2.1	1.9	1.9	2.0	1.8	1.7	1.4	1.4	1.2	0.9	0.6
Other indirect	0.2	0.2	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.2	0.3
Social contributions	*1.7*	*1.5*	*1.5*	*1.4*	*1.4*	*1.2*	*1.3*	*1.3*	*1.4*	*1.4*	*1.4*	*1.4*	*1.5*	*1.4*
Total fiscal revenues (incl. soc. contrib.)	*16.7*	*18.5*	*19.1*	*19.6*	*18.7*	*18.0*	*19.3*	*19.0*	*19.3*	*18.7*	*19.3*	*19.7*	*19.7*	*19.0*
Administrative level:														
Central government:	15.6	17.3	17.8	18.4	17.6	16.8	17.9	17.6	17.8	17.1	17.8	18.2	18.1	17.4
Local government:	1.1	1.2	1.3	1.2	1.1	1.2	1.4	1.4	1.5	1.6	1.5	1.5	1.6	1.6

Source: ILPES elaboration on data from the Ministry of Finance and Internal Revenue Service of Chile.

Table3 Evolution of the Income taxation rates, 1992-2005

	1992		*1997*		*1998*		*1999*		*Jun-01*		*Dec-02*		*Jul-03*		*Jul-04*	
	Min	*Max*	*Min*	*Max*	*Min*	*Max*	*Min*	*Max*	*Min*	*Max*	*Min*	*Max*	*Min*	*Max*	*Min*	*M*
Personal Income	5	50	5	45	5	45	5	45	5	45	5	43	5	40	5	
Corporate Income	15	35	15	35	15	35	15	15	15	15	16	16	16.5	16.5	17	

Source: ILPES elaboration on data from the Ministry of Finance and Internal Revenue Service of Chile.

Table 4 Second Category Tax: brackets and rates

Bracket	*Monthly Income in UTM*	*Tax Rate*
1	0,0 to 13,5	Exempt
2	13,5 to 30	5%
3	30 to 50	10%
4	50 to 70	15%
5	70 to 90	25%
6	90 to 120	32%
7	120 to 150	37%
8	More than 150	40%

Source: Servicio Interno de Impuestos (SII)