

Chile

This chapter includes data on the income taxes paid by workers, their social security contributions, the family benefits they receive in the form of cash transfers as well as the social security contributions and payroll taxes paid by their employers. Results reported include the marginal and average tax burden for eight different family types.

Methodological information is available for personal income tax systems, compulsory social security contributions to schemes operated within the government sector, universal cash transfers as well as recent changes in the tax/benefit system. The methodology also includes the parameter values and tax equations underlying the data.

Chile 2011

The tax/benefit position of single persons

	Wage level (per cent of average wage)	67	100	167	67
	Number of children	none	none	none	2
1. Gross wage earnings		3938217	5907326	9845543	3938217
2. Standard tax allowances					
Basic allowance		3154512	4731768	6321402	3154512
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		275675	413513	689188	275675
Work-related expenses					
Other		508030	762045	1270075	508030
	Total	3938217	5907326	8280665	3938217
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		0	0	1564878	0
5. Central government income tax liability (exclusive of tax credits)		0	0	78244	0
6. Tax credits					
Basic credit					
Married or head of family					
Children		0	0	0	0
Other					
	Total	0	0	0	0
7. Central government income tax finally paid (5-6)		0	0	78244	0
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		275675	413513	689188	275675
Taxable income					
	Total	275675	413513	689188	275675
10. Total payments to general government (7 + 8 + 9)		275675	413513	767432	275675
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	37788
	Total	0	0	0	37788
12. Take-home pay (1-10+11)		3662542	5493813	9078111	3700330
13. Employer's compulsory social security contributions		0	0	0	0
14. Average rates					
Income tax		0.0%	0.0%	0.8%	0.0%
Employees' social security contributions		7.0%	7.0%	7.0%	7.0%
Total payments less cash transfers		7.0%	7.0%	7.8%	6.0%
Total tax wedge including employer's social security contributions		7.0%	7.0%	7.8%	6.0%
15. Marginal rates					
Total payments less cash transfers: Principal earner		7.0%	7.0%	11.0%	7.0%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		7.0%	7.0%	11.0%	7.0%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

Chile 2011

The tax/benefit position of married couples

	Wage level (per cent of average wage)	100-0	100-33	100-67	100-33
	Number of children	2	2	2	none
1. Gross wage earnings		5907326	7876434	9845543	7876434
2. Standard tax allowances					
Basic allowance		4731768	6309024	7886280	6309024
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		413513	551350	689188	551350
Work-related expenses					
Other		762045	1016060	1270075	1016060
Total		5907326	7876434	9845543	7876434
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		0	0	0	0
5. Central government income tax liability (exclusive of tax credits)		0	0	0	0
6. Tax credits					
Basic credit					
Married or head of family					
Children		0	0	0	0
Other					
Total		0	0	0	0
7. Central government income tax finally paid (5-6)		0	0	0	0
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		413513	551350	689188	551350
Taxable income					
Total		413513	551350	689188	551350
10. Total payments to general government (7 + 8 + 9)		413513	551350	689188	551350
11. Cash transfers from general government					
For head of family					
For two children		0	167352	37788	0
Total		0	167352	37788	0
12. Take-home pay (1-10+11)		5493813	7492436	9194143	7325084
13. Employer's compulsory social security contributions		0	0	0	0
14. Average rates					
Income tax		0.0%	0.0%	0.0%	0.0%
Employees' social security contributions		7.0%	7.0%	7.0%	7.0%
Total payments less cash transfers		7.0%	4.9%	6.6%	7.0%
Total tax wedge including employer's social security contributions		7.0%	4.9%	6.6%	7.0%
15. Marginal rates					
Total payments less cash transfers: Principal earner		7.0%	7.0%	7.0%	7.0%
Total payments less cash transfers: Spouse		-1.5%	7.0%	7.0%	7.0%
Total tax wedge: Principal earner		7.0%	7.0%	7.0%	7.0%
Total tax wedge: Spouse		-1.5%	7.0%	7.0%	7.0%

Chile's national currency is the peso (CLP). For 2011, the average exchange rate was CLP 483.54 to USD 1. That same year, the average worker in Chile earned CLP 5 907 326 (Secretariat estimate).

Taxes allowances and tax thresholds for the personal income tax system and upper earnings limits for social security contributions are determined using and expressed in CPI-indexed units. At 31 December 2011, the following currency values applied to these units:

Major revenue items	Unit	CLP	USD
Social security contributions	Unidad de Fomento (UF)	22 294.03 ¹	46.12
Monthly tax thresholds	Unidad Tributaria Mensual (UTM)	39 021	80.73
Annual tax thresholds	Unidad Tributaria Anual (UTA)	468 252	968.74

1. This amount is subject to daily adjustment in line with the CPI and is compared with monthly earnings in the assessment of social security contributions

1. Personal income tax system

1.1. Central/federal government income taxes

1.1.1. Tax unit

Each family member declares and pays taxes separately.

1.1.2. Tax allowances and credits

1.1.2.1. Standard tax reliefs

- A general basic allowance of UTA 13.5, around CLP 6 321 402 is deductible from income in 2011.
- Relief for social security contributions: employee's compulsory social insurance contributions are deductible for income tax purposes regardless of whether they are paid to government or private health insurers (see Section 2.1 below).

1.1.2.2. Main non-standard tax reliefs

- Voluntary contributions and APV (Voluntary Pension Fund Savings): voluntary contributions to pension funds and voluntary pension savings fund (APV) may be deducted from taxable income, with an annual upper limit of CLP 13 376 418 (UF 600).
- DFL2 Housing Mortgage Loan Payments: the annual amounts paid in respect of mortgage obligations assumed in purchasing newly built houses under legislation DFL 2 of 1959 can be deducted from taxable income. These properties correspond to low-cost housing having a surface not exceeding 140 square meters. The discounts, subject to upper limits, may be applied over the entire duration of the debt.
- Mortgage Interest: taxpayers whose annual income falls below CLP 42 142 680 (UTA 90) may deduct from their taxable income 100% of interest paid within a year for mortgage loans. This percentage is reduced in the case of taxpayers with higher incomes up to CLP 70 237 800 (UTA 150). This relief cannot be granted along-side the DFL2 Housing Mortgage Loan Payments benefit, and cannot exceed CLP 3 746 016 (UTA 8) per annum.

1.1.3. Tax schedule

Tax rates are applied on monthly income and these taxes are retained and paid by employers. In order to estimate taxes, tax rates are applied proportionately to annual average income.

Taxable income (UTA-UTM)	Taxable income (CLP thousands)	Tax rates
0-13.5	0-6 321	0%
13.5-30	6 321-14 048	5%
30-50	14 048-23 413	10%
50-70	23 413-32 778	15%
70-90	32 778-42 143	25%
90-120	42 143-56 190	32%
120-150	56 190-70 238	37%
150 and over	70 238 and over	40%

1.2. State and local income taxes

No taxes apply to income at state or local government level.

2. Compulsory social security contributions to schemes operated within the government sector

2.1. Employees' contributions

Employees have mandatorily to contribute 7% of their income to a health insurance plan subject to an upper earnings limit of CLP 17 327 669 (UF 66). They are free to choose whether to pay into a government-managed plan or alternatively to a private insurer* (Isapres). The public insurance is based on a joint system that, in general, operates on an equal basis for all its beneficiaries, irrespective of the risk and the amount of the individual contribution. Its financing is partly covered by the contributions and partly by way of a government subsidy. Premiums paid to the plans offered by Isapres are based on the contributors' individual risk and these plans are exclusively financed with the employees' contributions. These contributions are included in the modeling as the majority of employees pay into plans managed by the government sector.

Employee social security contributions in respect of pensions and unemployment are not classified as taxes in this report; though they are included in modeling as deductions for income tax.

- The mandatory contributions to pension funds and unemployment insurance plans are not classified as taxes, since the payments are made to private institutions. In 1980, the public social security system was replaced with a privately managed individual capitalization system. This system is obligatory to all employees who have joined the labor force since 1983, and of a voluntary nature to all contributing to the former system and free-lance workers. The contributions to the old government operated pension fund system are not included in the modeling because they relate to a minority of employees and the system will eventually disappear once the contributions and related benefit payments to those individuals remaining in it have ceased.
- The modeling allows that the contributions to pension funds and unemployment insurance managed by private institutions are deducted from gross income. In the case of their pension funds, these payments amount to 10% of their gross income, with an upper

* Enrollement in the private health system during 2010 amounted to 16.5% of all beneficiaries.

earnings limit of CLP 17 327 669 (UF 66). Added to that is an amount that varies depending on the managing company that covers the management of each pension fund account.* The monthly unemployment insurance premium is 0.6% of the employee's gross income, with an upper earnings limit of CLP 25 991 504 (UF 99) limit. Employees do not pay the monthly unemployment insurance premium when they have a fixed-term contract.

- There are also mandatory contributions to managed funds by members of the police force and the army which are classified as taxes but are not included in the modeling as they relate to a minority of the overall workforce.
- If the employee has a high risk job, he has to make an additional contribution of up to 2% of his gross income to the pension fund manager.

2.2. Employers' contributions

There are three categories of employer social security contribution, none of which are classified as tax revenues in this report.

- Employers make mandatory payments of 0.95% of their employees' gross income for an occupational accident and disease insurance policy subject to an upper earnings limit. For the majority of employees the payments are made to employers' associations of labor security which are private non-profit institutions. Those remaining are made to the Social Security Regularisation Unit (ISL). Although this latter organisation is controlled by the government, the funds are invested on the private institutions market. The employers also pay an additional contribution which depends on the activity and risk associated to the enterprise (it cannot exceed 3.4% of the employees' gross earnings). This additional contribution could be reduced, down to 0%, depending on the safety measures the employer implements in the enterprise. If health and safety conditions at work are not satisfactory, this additional contribution could be applied with a surcharge of up to 100%.
- In addition, employers make payments of 2.4% of each employee's income (3% for fixed-term contracts) to finance unemployment insurance. These funds are managed privately.
- Employers have to pay a disability insurance of 1.49 per cent** of the employees' gross income, to the pension fund manager.

If the employee has a high risk job, the employer has to pay up to 2% of the employee's gross income to the pension fund manager.

3. Universal cash transfers

3.1. Marital status-related transfers

No such transfers are paid.

3.2. Transfers related to dependent children

The "Family Allowance" is paid on a monthly basis to any employee making social security contributions who has dependant children. The definition of dependants includes;

- adopted children as well as those born to the parents;
- children up to the age of 18 or 24 years provided they are single and are regular students in an elementary, secondary, technical, specialised or higher education establishment, and whose income is less than or equal to half the minimum wage.

* Average cost in 2011 was 2.3% of income.

** Since July 2011.

- The amount of the payment depends on the number of dependent children and the beneficiary's level of income according to the table below. The modelling assumes that the benefit is assessed on the spouse with the lower earning level where both spouses are working.

2011 transfer by dependant	
Annual income range (CLP)	Annual payment (CLP)
0-2 188 374	83 676
2 188 375-3 635 358	59 796
3 635 359-5 669 922	18 894
5 669 923 and over	0

4. Memorandum items

4.1. Identification of an average worker

- The source of information is a survey conducted by the National Statistics Institute (INE) to determine the Salary and Labour Cost Index. This nationwide survey is carried out on a monthly sample and gathers information on salaries and labour costs. It applies to companies with at least 5-worker payrolls grouped in accordance with UN ISIC Rev. 3 international economic activity standard.
- The average gross earnings was obtained by multiplying the average hourly wage by the average number of hours worked. It covers both full and part-time workers.

4.2. Employers' contribution to private health and pension schemes

- In Chile, very few employers make any contributions towards health schemes for their employees, and the relevant information is not available.

2011 Parameter values

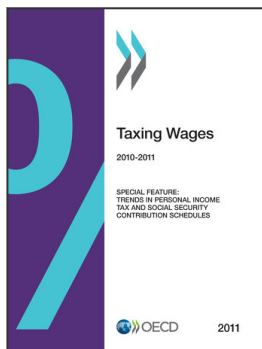
Average earnings/yr	Ave_earn	5 907 326	Secretariat estimate
Allowances	Basic_al	6 321 402	
Income tax	Tax_sch	0.05	14 047 560
		0.1	23 412 600
		0.15	32 777 640
		0.25	42 142 680
		0.32	56 190 240
		0.37	70 237 800
		0.4	
Employees SSC		0.07	
Upper threshold	SSC_sch	0	17 327 669
Family allowance		0	83 676
Child element	CTR_child	2 188 374	59 796
		3 635 358	18 894
		5 669 922	0

2011 Tax equations

The functions which are used in the equations (Taper, MIN, Tax, etc.) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “_princ” and “_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “_spouse” values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	earn		
2. Allowances:	Tax_al	B	Min(Basic_al,earn)
3. Credits in taxable income	taxbl_cr	B	0
4. CG taxable income	tax_inc	B	Positive(earn-tax_al)
5. CG tax before credits	CG_tax_excl	B	Tax(tax_inc, tax_sch)
6. Tax credits:	tax_cr	B	0
7. CG tax	CG_tax	B	CG_tax_excl
8. State and local taxes	local_tax	B	0
9. Employees' soc security	SSC	B	Tax(earn, SSC_sch)
11. Family allowance	cash_trans	P/S	IF(Children=0.0, IF(earn_spouse>0, VLOOKUP (earn_spouse, CTR_child) , VLOOKUP (earn_princ, CTR_child)) * children)
13. Employer's soc security	SSC_empr		0

Key to range of equation: B calculated separately for both principal earner and spouse; P calculated for principal only (value taken as 0 for spouse calculation); J calculated once only on a joint basis.



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