

Investing in Power Generation, Chilean Taxation

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Topics

- Basic facts of Chilean taxes
- Tax stability rules
- Taxes in the life of a project

Basics

- Corporate income tax:
 - 17% tax rate
 - Annual accrued net income
- Dividends and distributions:
 - To foreign owners, 35% tax less corporate tax credit
 - Inter company, tax free

Basics

- Withholding taxes:
 - Interest: 35% or 4% on qualified credits
 - Royalties 30% (a reduction to 15% is in Congress)
 - Capital gains: 35%, 17%, 0%
 - Leasing: 35% or 1.75%

Basics

- VAT :
 - 19% tax rate
 - Applicable on power generation
- Dividends and distributions:
 - To foreign owners, 35% tax less corporate tax credit
 - Inter company, tax free

Basics

- Stamp duty:
 - 1.608% tax rate for loans of 1 year or more (being reduced to 1.2%)
 - Calculated on principal
 - Payable up-front
- Import duties:
 - 6% tariff calculated on CIF basis
 - Significantly reduced or eliminated in FTAs (USA, Canada, Mexico, EU, Korea, etc.)

Tax stability rules

- Decree Law 600
 - Contract with the State of Chile
 - Income tax at 42% (rather than 35%) for 10 years.
 - It may be waived at any time by the foreign investor

Tax Treaties

In Force	Before Congress	Negotiation concluded
Argentina Brasil Ecuador Mexico Peru Canada Poland Croatia Spain Denmark Sweden France S.Korea Norway UK	Ireland Malaysia New Zealand Portugal Paraguay Russia	Thailand South Africa

Birth

- Financing a project
 - It is possible to leverage a Chilean company. In case of foreign related party debt, up to 3/1
 - Do not forget: Stamp tax
 - Equity triggers an annual municipal tax which rate ranges between 0.25% and 0.5%, with a cap of around US \$480,000

Birth

- VAT
 - VAT paid on capital assets may be recovered after 6 months
 - Imports of capital assets as part of capital contributions under DL 600 contracts may be VAT free.

Growing up

- Income tax
 - Financing expenses, start up costs, etc. are generally deductible.
 - Accelerated depreciation of capital assets (1/3 of normal useful life)
 - Indefinite tax loss carry forward

Example of Income tax

Corporate income	\$ 1.000
Corporate tax 17%	\$170
Gross dividend	\$830
Plus corporate tax credit	<u>+ \$170</u>
Tax basis	\$1.000
Whithholdin tax 35%	\$350
Less corporate credit	<u>- \$170</u>
Tax to be paid upon distribution	\$180
Net dividend	\$650

A little of tax planning

- There are differences:
 - Loans / financial leasing
 - Tax treaties
 - Stock corporation / LLC.
 - Direct ownership / local holding

Warning signs

- Watch out for differences between book profits and tax profits: mismatch may create a problem to use corporate tax credit
- Careful with your inbound corporate structure: commercial objectives may be not aligned with tax objectives
- Legal formalities **are important**: contracts, actual behaviour and accounting must be coordinated

Warning signs

- PAY SOME TAXES!!....

... and have a good wind!!!



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