

# TAX POP - UP

December 20, 2023

## CONVENTION BETWEEN CHILE AND THE USA

### FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION



On December 19, 2023, the Chile-US Tax Treaty entered into force. This took place through the exchange of diplomatic notes between both countries, wherein they notified each other that they had completed the necessary procedures for its entry into force.

#### Among other provisions, the Treaty will grant the following benefits

- **Residence:** The Treaty establishes rules to determine the taxpayers' country of residence. It also establishes tie-breaker rules when a person is a tax resident under both Chilean and US domestic law.
- **Relief of double taxation:** A resident of Chile or the US will be allowed to use taxes already paid in the other jurisdiction as a credit against income tax.
- **Dividends rate:** The withholding tax rate for dividends paid from the US to Chile will be reduced from 30% to 5% or 15%. For dividends paid from Chile to the US, a 35% withholding tax rate will be maintained, with the right to use the corporate tax as a credit (resulting in an effective rate of 10.9% on the amount distributed).
- **Interest rate:** The withholding tax rate will be reduced from 30% (for payments from the US to Chile) and 35% (for payments from Chile to the US) to 15% (10% after 5 years). In both cases, there are special 4% rates.
- **Capital Gains Tax:** Reduced in Chile from 35% to 16%.
- **Business profits:** Payment for cross-border services may be subject to income tax only in the country where the provider is a resident.
- **Services:** Beneficial rules are incorporated for income from employment, payments to students and trainees.

#### Limitation on benefits

Access to the benefits provided by the Treaty is limited only to "**qualified persons**" (individuals, publicly traded companies, companies 50% owned by a publicly traded company, parent companies, charitable religious educational entities, pension funds, and companies actively carrying on a trade or business and whose income is derived in connection with such trade or business). The Treaty also restricts the abusive use of its benefits by residents of third jurisdictions.

#### When does the Treaty take effect?

- **Taxes withheld at source:** February 1, 2024.
- **Other taxes:** January 1, 2024.

