

# Chilean tax bill would lower corporate rate, integrate tax system, and provide stability regime

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## In brief

### What happened?

The Chilean Government has submitted to the House of Representatives the 'Bill for National Reconstruction and Economic and Social Development' ('the Bill'), a 203-page document that identifies key measures to advance the government's agenda, including proposals for tax reform.

### Why is it important?

Among other measures, the Bill includes a gradual reduction of the corporate income tax rate from 27% to 23%; restates the full creditability of the Chilean corporate income tax against the 35% withholding tax applicable on dividend payments to non-resident shareholders; proposes a new framework under which foreign investors could agree with the Chilean Government that applicable tax rules remain unchanged for a specified period of time (i.e., tax stability regime); and eliminates the 10% tax on capital gains realized on the disposition of shares traded in the Chilean stock market.

### Actions to consider

Multinational companies with presence in Chile should monitor the legislative process to assess whether there may be changes in the current tax system that could impact their structures and transactions.

# In detail

Below is a summary of key corporate tax changes included in the Bill.

## Gradual reduction of the corporate income tax rate

The Bill proposes gradually reducing the corporate income tax rate from 27% to 23%, applicable to income accrued or received beginning in tax year 2026. The proposed reduction schedule is as follows: 27% for 2026, 25.5% for 2027, 24% for 2028, and 23% from 2029 onwards.

In connection with the proposed rate reduction, the Bill would introduce transitional rules for advanced income tax payments ('Pago Provisional Mensual' or PPM). For companies under the general regime, the PPM rate gradually would be reduced during the first quarter (January–March) of each year, with decreases of 5.56% in 2027, 5.88% in 2028, and 4.17% in 2029, each relative to the rate in effect in the preceding month of December.

## Full integration of the tax system

Until 2016, Chile's tax system historically had operated on a so-called integrated basis, under which the corporate income tax (currently levied at a 27% rate paid at the entity level) was fully creditable against the 35% withholding tax imposed on dividends distributed to non-residents. As a result, non-resident shareholders were generally subject only to the residual tax at an effective rate of 8%.

This framework was modified by previous tax reform, which introduced a so-called partial integration regime. Under this system, which is currently in force, only 65% of the corporate income tax is creditable against the 35% withholding tax, increasing the effective tax burden on non-residents to 17.45%. An exception applies to investors resident in jurisdictions with an applicable double tax treaty with Chile; they generally retain full creditability, preserving the 8% effective rate.

The Bill proposes to repeal the partial integration regime and gradually restore the full integration system, under which the corporate income tax would again be fully creditable against the 35% withholding tax on dividends paid out of those earnings, regardless of the shareholder's jurisdiction. The transition would be phased in as follows: for 2027 the tax credit would amount to 70% of the corporate income tax paid, for 2028 that applicable amount would equal 80%, and effective in 2029, the corporate income tax would be fully creditable.

*Observation:* Notwithstanding the proposed return to the full integration system, the tax burden to be borne by the foreign shareholder of a Chilean company would remain at 35% upon a dividend payment to the foreign shareholder. This is because the reduction in the corporate tax rate described above would automatically reduce the income tax amount available to be credited against the 35% withholding tax. Accordingly, for example, once the corporate income tax rate is reduced to 23%, upon a dividend distribution to a US shareholder, the foreign recipient would be subject to a 12% effective tax rate (35% withholding tax less a 23% credit) instead of the current 8% (35% withholding tax less a 27% credit).

The Bill would amend various provisions of the Income Tax Law to align with the return to a full integration system, including rules governing the tax treatment upon termination of business activities and withholding obligations applicable to non-residents, among others.

The Bill appears to have inadvertently eliminated the existing exception for treaty jurisdictions during the transition period, under which full creditability is currently allowed. Accordingly, taxpayers should monitor the legislative process to determine whether this issue is addressed and corrected prior to the Bill's enactment.

## **Tax stability regime**

The Bill introduces a new Tax Stability Regime for investors undertaking large-scale projects in sectors such as mining, industry, forestry, energy, infrastructure, telecommunications, research and development, and healthcare, among others, provided the investment equals or exceeds USD 50 million. The regime would take effect on January 1, 2027, or upon the law's entry into force, if later.

Tax stability would be granted for 25 years through agreements executed by the investor with the Director of the Foreign Investment Promotion Agency on behalf of the State of Chile. For foreign investors, the regime guarantees a total effective income tax burden of 35% (excluding the mining royalty). For domestic investors, the tax burden would correspond to the rate applicable under the rules in force at the time the agreement is executed.

The regime also provides stability with respect to key tax rules and administrative criteria, including depreciation methods, net operating loss carryforwards, start-up and organizational expenses, and the VAT and customs treatment applicable to the importation of capital goods. For mining projects, stability would extend to the mining royalty and any new sector-specific taxes.

The benefit may be extended to related projects, defined as those forming part of the same economic unit or intended to incorporate new technologies, increase capacity, or improve efficiency.

Finally, investors may elect to apply more favorable tax rules enacted after the agreement is executed in lieu of the agreed stability regime.

## **Elimination of tax on stock market capital gains**

The Bill proposes to eliminate the current 10% tax on capital gains derived from the sale of shares in Chilean S.A.A.s publicly traded in the Chilean stock exchange (including shares, mutual fund units, and investment fund units), restoring their treatment as non-taxable income.

## **Additional tax measures**

The Bill includes a broad set of additional tax measures across multiple areas, including strengthening the enforcement powers of the Chilean Internal Revenue Service (SII).

The Bill also introduces several transitional measures, such as a voluntary regime for the regularization of foreign assets, substitute taxes on certain legacy accumulated earnings and historical balances, a temporary reduction of the gift tax, and a limited-time program allowing the Treasury to grant relief on interest and penalties for outstanding tax debts.

# Let's talk

For a deeper discussion of how the proposed Bill could affect your business, please contact:

## **International Tax Services (Latin American Tax Group), New York**

Maria Bel, *New York*  
Principal  
(646) 637-2461  
[maria.j.bel@pwc.com](mailto:maria.j.bel@pwc.com)

Luis Vargas, *New York*  
Principal  
(347) 325-4171  
[maximo.l.vargas@pwc.com](mailto:maximo.l.vargas@pwc.com)

Camila Silva, *New York*  
Director  
(646) 704-4849  
[camila.silva.jimenez@pwc.com](mailto:camila.silva.jimenez@pwc.com)

## **PwC Chile**

Loreto Pelegri, *Chile*  
Partner  
+56 9 98379243  
[loreto.pelegri@pwc.com](mailto:loreto.pelegri@pwc.com)

Astrid Schudeck, *Chile*  
Partner  
+56 9 77658349  
[astrid.schudeck@pwc.com](mailto:astrid.schudeck@pwc.com)

Sandra Benedetto, *Chile*  
Partner  
+56 9 9969 4899  
[sandra.benedetto@pwc.com](mailto:sandra.benedetto@pwc.com)

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