

# CHILE 2015

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## Introduction

Tax-benefit policy “country chapters” are made available as part of the OECD series *Benefits and Wages*. They provide detailed descriptions of tax and benefit rules in a consistent format across countries and summarize recent policy changes.

Country chapters for other countries and years are available on the Internet at [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives).

Reference date for all information is **July 1<sup>st</sup> 2015**

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## **1. Overview of the tax-benefit system**

Chile has an unemployment insurance that is mandatory for dependant workers of the private system over 18 years old, who began a working relationship after October 2<sup>nd</sup> of 2002.

There is also an Unemployment Solidarity Fund, financed by employers and State contributions. The purpose is to finance the minimum benefits that the law guarantees to those members who do not have enough resources in their individual accounts at the time of being unemployed.

There is also an Unemployment Subsidy for those dependant workers not included in the unemployment insurance.

### **1.1. Average Worker wage (AW)**

The average worker wage was 7,557,360 Chilean pesos in June 2015<sup>1</sup> (Secreteriat Estimate).

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<sup>1</sup> Subject to the upper limit income for pension system contributions.

## 2. Unemployment insurance

Chile has an unemployment insurance that is mandatory for dependant workers of the private system (ruled by the Labour Code) over 18 years old, which began a working relationship after October 2<sup>nd</sup> of 2002. Incorporation is voluntary for those who signed a contract before that date. The following groups are excluded from the insurance:

- Domestic workers
- Workers subject to an apprenticeship contract
- Workers under 18 years of age
- Workers have the status of pensioners, with the exception of partial disability pensioners
- Self-employed
- Employees governed by any other rule than the Labour Code (for example, public sector workers)

The monthly contribution depends on the member contract. In the case of fixed term contract, the entire cost of insurance is paid by the employer who must contribute 3% of monthly taxable income of the employee, with UF<sup>2</sup> 109,8<sup>3</sup> upper limit. Only 2.8% of the contribution is accumulated in the worker's individual account and the remaining 0.2% goes to the "Unemployment Solidarity Fund".

When it comes to an indefinite term contract, the employer must contribute 2.4% of monthly taxable income of the employee, with UF 109,8 upper limit, and the worker 0.6% of that same amount. Only 1.6% of the employer contribution is payable on the worker's individual account and the remaining 0.8% goes to the "Unemployment Solidarity Fund". It should be noted that the contribution of 1.6% is deductible of the severance payment to which the worker is entitled when he/she is fired "for the needs of the company".

The unemployment insurance benefits depend on the amount accumulated in the individual's account, on the type of employment contract and on the grounds for termination of the contract. Overall, the unemployed worker is entitled to make as many withdrawals as the balance of the affiliate's account will allow. Benefits are decreasing in time.

Unemployment insurance also provides other benefits such as health coverage, family allowance and outplacement support through the operation of a National Employment Exchange and fellowship training.

In addition, when the worker retires, he/she can either withdraw, tax-free, the total resources accumulated in his/her individual account or transfer them to his/her pension saving account. In case of death, their beneficiaries or heirs can withdraw the accumulated balance, with the same tax benefits.

### 2.1 *Conditions for receipt*

#### 2.1.1 *Employment conditions*

Workers need to be unemployed to receive the benefits. All job losses are covered. However, to have access to the solidarity fund, which complements benefits when the accumulated savings are below a threshold, the separation had to be involuntary<sup>4</sup>.

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<sup>2</sup> UF: Unidad de Fomento (price-indexed unity) is an index in Chilean pesos.

<sup>3</sup> Approximately 2,745 millions of pesos (July 31th 2015).

<sup>4</sup> These separations also include severance payments, which are one monthly salary per worked year, up to 11 monthly salaries. They are received in one payment and can be also negotiated between the employer and the worker at the moment the employment relationship started. The employer finances severance payments.

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To be eligible to get the solidarity fund unemployment benefits, the unemployed are required to register into a National Employment Database, to accept any training policy offered by the government and to accept any job offer provided by the government and that exceeds in 50% the last monthly salary.

### 2.1.2 *Contribution conditions*

They also need to satisfy other conditions that depend on the way contributions were made while the worker was employed. (1) Workers that contributed under a permanent contract need to have contributed for 12 months into the individual savings account since the affiliation to the system or since the last time benefits were financed by that account in a previous unemployment spell. It does not matter if these contributions were continuous or not. (2) Workers that contributed under a transitory contract are required to have contributed for 6 months under the same conditions described in (1) above.

If the balance in the individual savings account implies levels of unemployment benefits that are low compared to the alternative of complementing them with the redistribute solidarity fund, the second option can be chosen by the unemployed. How these amounts are computed is described in 2.2.1. To access the solidarity fund, the worker had to contribute to the system for 12 months since the affiliation to the system or since the receipt of the last unemployment benefit, within the past 24 months. The last 3 contributions need to be continuous and with the same employer. This fund can be used only ten times within a period of 5 years.

## 2.2 *Calculation of benefit amount*

### 2.2.1 *Calculation of gross benefit*

Workers have the right to make so many monthly withdrawals from their individual account as their savings permits. The amount of money corresponds to the percentage of the average salary of the last 6 months for fixed-term employees and 12 months for permanent contract employees prior to dismissal, according to the following table.

Month of Unemployment	Replacement Rate from individual account
First	70%
Second	55%
Third	45%
Fourth	40%
Fifth	35%
Sixth	30%
Seventh or over	30%

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Savings in the unemployment insurance's individual account that were financed by the employer are used to pay for the severance payments when the separation responded to needs of the company (Art. 161 of the Labour Code).

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### 2.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

In addition, workers entitled to unemployment insurance get health benefits through FONASA (public health financier) and the Family Allowance<sup>5</sup> while collecting the benefit.

Those who start a new job can choose to get an additional monthly benefit that follows the rules in 2.2.1 or to save that amount in the individual savings account.

### 2.3 *Tax treatment of benefit and interaction with other benefits*

The contributions, withdrawals and interest earned in the individual accounts are exempt from taxes.

### 2.4 *Benefit duration and waiting periods*

Workers have the right to make as many monthly withdrawals from their account balance as their individual savings permit, while unemployed.

### 2.5 *Treatment of particular groups*

#### 2.5.1 *Young persons*

Not available for people under 18<sup>th</sup> years old.

#### 2.5.2 *Older workers*

If the worker has never been unemployed during his/her working life, he/she may alternatively withdraw in a single turn all funds without paying taxes at the moment of his retirement or transfer the unemployment savings in the individual account to the pension savings account.

Not available for old-age pensioners.

#### 2.5.3 *Others if applicable*

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<sup>5</sup> Financial benefit assigned to workers for each of the people living at their expenses that comply the requirements established by law.

### 3. Unemployment assistance

The unemployment insurance has a solidarity fund, financed by employer and state contributions, to fund the minimum benefits that the law guarantees to those members who do not have enough resources in their individual accounts at the time of being unemployed.

#### 3.1 *Conditions for receipt*

##### Unemployment Solidarity Fund

Workers under the unemployment insurance scheme are entitled to receive benefits from the Unemployment Solidarity Fund, if they meet the following requirements:

- Subscribe to the National Employment Inter-change to certify monthly the unemployed status.
- Keep an updated C.V to the National Employment Inter-change.
- The resources of the individual account are insufficient to finance a benefit according to the amounts set by law:

Month of Unemployment	Minimum Amount <sup>6</sup> for 2015
First	\$ 157.500
Second	\$ 123.750
Third	\$ 101.250
Fourth	\$ 90.000
Fifth	\$ 78.750
Sixth <sup>7</sup>	\$ 67.500
Seventh	\$ 67.500

- Have 12 contributions in the past 24 months. The last three must be continuous and with the same employer.
- The employment contract has been terminated by agreed deadline for completion of the work or service which gave rise to the contract, a fortuitous event, force majeure or because of needs of the company.
- Less than 10 payments from the Unemployment Solidarity Fund during the last 5 years.

The benefit from the Solidarity Fund is automatically suspended if the worker:

- Losses his/her unemployed status (finds a new job);

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<sup>6</sup> The values shall be adjusted on February 1<sup>st</sup> of each year, in 100% of the variation experienced in the previous calendar year by the Index of Consumer Prices, as determined by the National Institute of Statistics or the body that replaces it. Moreover, this value will be adjusted on the same occasion indicated above, at 100% of the variation experienced in the previous calendar year, by the index of real wages determined by this body. These values will be adjusted by the wage index referred to above, provided that the change is positive.

<sup>7</sup> Sixth and Seventh months are paid only if the national unemployment rate, published by the National Institute of Statistics, exceeds by 1 percentage point the average rate of the four previous years. In 2015 this condition holds.

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- Rejects a job without good cause with a remuneration offered equal to or greater than 50% of the last salary received;
- Rejects without cause a training grant offered by the Municipal Offices of Employment Information or leaves a course before completion.

### Unemployment Subsidy

The unemployment subsidy covers workers that are not covered by the Unemployment Insurance System, a group that is expected to decrease over time. As such, this scheme is not included in the modelling.

Workers under the unemployment subsidy scheme entitled to receive the unemployment subsidy must meet the following requirements:

- Being unemployed for reasons beyond their control;
- Have contributed for at least 52 weeks or 12 months, continuous or discontinuous, in any pension system within two years prior to the date of the layoff;
- Being registered in the Unemployment Records that each pension institution must keep and in the municipality, in order to assign him relief work for the benefit of the community;
- Not be incorporated to the Unemployment Insurance System.

The unemployment subsidy is suspended if the worker rejects a job offered by the National Training and Employment Service without cause, unless the wage offered is less than fifty percent of his last income; or if he refuses to perform the work assigned by the Municipality.

#### *3.1.1 Employment conditions*

To be unemployed.

#### *3.1.2 Contribution conditions*

### Unemployment Solidarity Fund

The worker must register 12 contributions to the Unemployment Solidarity Fund in the 24 months prior to dismissal, to be entitled to its benefits. Also, the last 3 should be continuous contributions credited with the same employer that may have been paid for months other than those immediately prior to dismissal.

### Unemployment Subsidy

Within the unemployment insurance system, for the unemployment subsidy the worker must have impositions for at least 12 months, continuous or discontinuous, in any pension system two years prior to the date of the layoff.

## **3.2 Calculation of benefit amount**

### *3.2.1 Calculation of gross benefit*

### Unemployment Solidarity Fund

Beneficiaries are entitled to receive a maximum of 5 withdrawals in the case they were employed under a permanent contract and 3 withdrawals in the case of employees with fixed term contract.

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Exceptionally, workers are entitled to a sixth and seventh withdrawal if had an indefinite contract or fourth and fifth if had fixed-term one, if the unemployment rate published by the National Institute of Statistics exceeds by one percentage point the average rate over the last 4 years.

The replacement rate will be calculated based on the average of the 12 salaries before the end of the employment relationship, with minimums and maximums, according to the following:

#### Indefinite contract

Month of Unemployment	Replacement Rate	Minimum Benefit (2015)	Maximum Benefit (2015)
First	70%	\$ 157.500	\$ 525.000
Second	55%	\$ 123.750	\$ 412.500
Third	45%	\$ 101.250	\$ 337.500
Fourth	40%	\$ 90.000	\$ 300.000
Fifth	35%	\$ 78.750	\$ 262.500

#### Fixed-term contract

Month of Unemployment	Replacement Rate	Minimum Benefit (2015)	Maximum Benefit (2015)
First	70%	\$ 112.500	\$ 375.000
Second	45%	\$ 90.000	\$ 300.000
Third	40%	\$ 78.750	\$ 262.500

#### Additional payments

Month of Unemployment	Replacement Rate	Minimum Benefit (2015)	Maximum Benefit (2015)
Sixth for indefinite contract Fourth for fixed-term contract	30%	\$ 67.500	\$ 225.000
Seventh for indefinite contract Fifth for fixed-term contract	30%	\$ 67.500	\$ 225.000

These amounts are financed first with the individual account balance and complemented with the solidarity fund, when eligible.

The values are adjusted on February 1st of each year, in 100% of the variation experienced in the previous calendar year by the Index of Consumer Prices, as determined by the National Institute of Statistics, only if the change is positive.

#### Unemployment Subsidy

Workers which are not covered by the Unemployment Insurance System (that is those who have not initiated or reinitiated labour contracts after October 2002, are entitled to receive an allowance for periods



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of 90 days, renewable if it is established that persists in his unemployed condition, to a total maximum of 360 days. The amount is monthly decreasing over time according to the following<sup>8</sup>:

Period	Subsidy per month
First 90 days	\$17.338
Between 91 and 180 days	\$11.560
Between 181 and 360 days	\$8.669

#### *3.2.1.1 Irregular additional payments*

There are no irregular additional payments.

#### *3.2.1.2 Obligations of family members*

There are no obligations for the family members.

#### *3.2.2 Income and earnings disregards for benefit recipients and those starting a new job*

In addition, workers receiving benefits from the unemployment insurance (either from the individual accounts or from the Solidarity Fund) have health coverage through FONASA (public health financier) and get the Family Allowance<sup>9</sup>.

### **3.3 Tax treatment of benefit and interaction with other benefits**

The payments of the unemployment insurance, including the Solidarity Fund, are exempt from taxes.

The unemployment Subsidy is not considered income for any legal purpose, therefore is exempt from taxes.

### **3.4 Benefit duration and waiting periods**

#### Unemployment Solidarity Fund

Beneficiaries are entitled to receive a maximum of 5 withdrawals in the case they were employed under a permanent contract and 3 withdrawals in the case of employees with fixed term contract.

Exceptionally, workers are entitled to a sixth and seventh withdrawal if had an indefinite contract or fourth and fifth if had fixed-term one, if the unemployment rate published by the National Institute of Statistics exceeds by one percentage point the average rate over the last 4 years.

The worker cannot receive more than 10 payments from the Unemployment Solidarity Fund in a period of 5 years.

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<sup>8</sup> Source: <http://nuevo.ips.gob.cl/servlet/internet/content/1421810902708/montos-de-beneficios-previsionales-y-laborales>

<sup>9</sup> Financial Benefit assigned to workers for each of the people living at their expenses that comply the requirements established by law.

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## Unemployment Subsidy

Workers which are not covered by the Unemployment Insurance System (that is those who have not initiated or reinitiated labour contracts after October 2002, receive the subsidy for periods of 90 days, renewable if it is established that persists in his unemployed condition, to a total maximum of 360 days.

### **3.5** *Treatment of particular groups*

#### **3.5.1** *Young persons*

The Solidarity Fund is not available for people under 18<sup>th</sup> years old, unlike the unemployment subsidy.

#### **3.5.2** *Older workers*

Not available for old-age pensioners.

#### **3.5.3** *Others if applicable*

## **4. Social assistance**

Social assistance is carried out by the central government through the Ministry of Social Development, primarily through a program called "Chile Solidario".

Alongside with limited cash transfers, "Chile Solidario" gives the beneficiary families psychosocial support that is personalized through a system of regular visits to each household. The fundamental role of Family Support is to become a liaison between the family and the public and private social promotion in areas such as: identification, health, education, family dynamics, habitability, work and income. This support lasts 24 months, becoming an incentive to leverage the strength of the family as well as assistance in the pursuit of their goals.

The Subsistema de Seguridades y Oportunidades was created in 2012 by law N°20.595 and began to be implemented in all its stages in 2013 under the name of Ingreso Ético Familiar (IEF). Also, the temporary transfer program which served as a transition to IEF (Asignación Social (AS)) prevailed in 2013.

Following the design in mind for IEF, AS consisted of a set of additional benefits granted to Chile Solidario families consisting of: conditional and unconditional cash transfers, a bonus for academic performance of students and subsidy to wages of women under specified thresholds.

The next sections of this document will include the amounts and requirements of these transfers alongside the original Chile Solidario benefits that were already in place, and those of the Ingreso Ético Familiar programme.

### **4.1** *Conditions for receipt*

Chile Solidario and Ingreso Ético familiar are targeted to families in extreme poverty, which implies a score below 4.213 in Ficha de Protección Social (the proxy means test used in Chile between 2006 and 2015 to assign social benefits. Since 2016, the FPS was replaced

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by the Households Social Registry). In the model the means-test is approximated with the extreme poverty line, i.e. the per capita gross household income (including employment income, family benefits, unemployment benefits and in-work benefits) should be below the following thresholds:

Number of people in the household	Extreme poverty line (CLP per year)
1	101 113
2	164 258
3	218 167
4	266 838
5	311 949
6	354 414

Chile Solidario and Ingreso Ético Familiar are targeted to extremely poor families according to the Ficha de Protección Social, and for people who meet the following:

-Having 65 years old or older, living alone or with another person and in conditions of extreme or vulnerable conditions.

- Living in the streets.

- Being underage with parents deprived of liberty, in which case his carer can also be beneficiary of the IEF.

## **4.2 Calculation of benefit amount**

### **4.2.1 Calculation of gross benefit**

#### *Chile Solidario*

Its benefits are:

- i. Psychosocial support that allows access to all the benefits it delivers social network (education, health, housing, training, employment and others).
- ii. Guaranteed access to cash benefits if they meet the necessary requirements.
- iii. Preferential access to Social Promotion programs, Employee Benefits and Welfare, which include remedial education programs and job skills, technical aids for people with disabilities, drug prevention and rehabilitation, care for family members at-risk of domestic violence, among others.
- iv. Chile Solidario, also provides two cash transfers for families involved in the programme:
  - a. Bono de Protección: Benefits decrease over the first 24 months according to the following table:

Month 1 to 6	\$15.516
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Months 7 to 12	\$11.823
Months 13 to 18	\$8.127
Months 19 to 24	\$9.242

- b. Bono de egreso: once they finish the psychosocial support phase and comply with the established requirements, families receive a fixed amount for 36 months of \$ 9,242

v.

### *Ingreso Ético Familiar*

Its benefits are:

- i. Psychosocial support aim to promote skills development to social inclusion, and work accompaniment aim to improve employability conditions and to develop skills to generate autonomous income.
- ii. Guaranteed access to cash benefits if they meet the necessary requirements.
- iii. Preferential access to Social Promotion programs, Employee Benefits and Welfare, which include remedial education programs and job skills, technical aids for people with disabilities, among others.
- iv. The IEF provides several unconditional cash transfers for families involved in the programme, such as:
  - a. “Bono Base Familiar”: the amount of this monthly cash transfer depends on the sum of other benefits that the family perceives. It lasts for 24 months at the most.

- b. “Bono de Protección”: Benefits decrease over the first 24 months according to the following table:

Month 1 to 6	15.516
Months 7 to 12	11.823
Months 13 to 18	8.127
Months 19 to 24	9.899

- v. In addition to the unconditional transfer described in (i), IEF granted two conditional cash transfers for families participating in the program:
  - a. School attendance: \$6.000 per child (between 6 and 18 years old) per month as long as school attendance is at least 85% (paid in March 2015)
  - b. Health check-ups for children: \$6.000 per child (under 6) per month as long as attendance to regular health check-ups is certified

Beneficiaries of the IEF or Chile Solidario can have access to conditional cash transfers for people within the 30% most vulnerable population of the country. These are:

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- a. Reward for academic performance: \$53.893 per child in middle school and high school (11 to 18 years old), who belong to the 30% most vulnerable population and finished 2014 school year within the top 15% of their schools promotion. For children within the top 30% of their schools promotion, but below the top 15% of them, the transfer comes to \$32.336 per child. The bonus was paid in September 2015.
- b. Bono Trabajo Mujer (BTM): The BTM is targeted to employed woman, between the ages of 25 and 59, who belong to the 40% most vulnerable population, according to a score determined as following: 75% to the Ficha de Protección Social<sup>10</sup> and 25% to an Employment Index<sup>11</sup>.

When the gross monthly earnings are equal to or less than \$423.685, the subsidy is equal to 30% of the gross monthly earnings. The amount paid to the employee is 2/3 of the total benefit, while the difference is paid to the employer (1/3 of the total benefit).

The BTM payment for the employed woman is limited for four continuous years, and is paid monthly or yearly (at the 2nd semester of the year after the income was received by the employee).

The amount of the subsidy paid to the worker was determined in 2015 as follows:

- 20% of total wage for women with monthly wages under \$188.303
- 20% of \$188.303 for women with monthly wages between \$173.974 and \$235.380
- $0.2 * \$188.303 - 0.2 * (\text{actual wage} - 235.380)$  for women with monthly wages between \$217.468 and \$423.685.

This subsidy is therefore inversely proportional to income in the second and third bracket and it declines gradually to \$0 for incomes above \$423.685. Needless to say that the design attempts to follow a negative income tax framework.

#### 4.2.1.1 *Irregular additional payments*

It guarantees the following traditional cash benefits to families who join the “Chile Solidario” or the “Ingreso Ético Familiar”:

- i. Single Family Subsidy (SUF) to less than 18 years, subject to school attendance.
- ii. Basic Solidarity Pension former welfare pensions (PASIS) of old age or disability.

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<sup>10</sup> Ficha de Protección Social was the tool for assessing the families' socioeconomic conditions in Chile until December 2015. Since January 2016, the tool is the Households Social Registry.

<sup>11</sup> For this matter, the employment index is equal to the quotient between total household's income within the past 12 months and the number of people of the household. The worker's annual income considers the worker's income within the past 12 months and the total amount of her contributions for the same period.

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- iii. Grant Water Consumption (SAP) to 100% of 15 cubic meters of consumption.
- iv. School Retention Grant Program. Of Law No. 19,873 of 2003 and Preferential Educational Grant.
- v. Subsidy for obtaining the Identity Card, only for the “Chile Solidario” beneficiaries.

#### *4.2.1.2 Obligations of family members*

To stay in Chile Solidario or Ingreso Ético Familiar the obligations are:

- i. The family must not misuse the benefit.
- ii. They should not abandon or suspend psychosocial support.

#### *4.2.2 Income and earnings disregards for benefit recipients and those starting a new job*

No.

#### *4.3 Tax treatment of benefit and interaction with other benefits*

No.

#### *4.4 Benefit duration and waiting periods*

No.

#### *4.5 Treatment of particular group*

##### *4.5.1 Young persons*

In Chile Solidario and Ingreso Ético Familiar there is special treatment to provide protection to children whose parents have been deprived of freedom and whose goal is to provide support for optimal development of children, accompanied by an adequate risk control, through tutors trained in repair and prevention.

Also, as mentioned above, the Ingreso Ético Familiar includes bonuses for academic performance and school attendance of middle and high school students. Along with that, it includes bonuses for health check-ups for children.

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#### 4.5.2 *Older workers*

In Chile Solidario and Ingreso Ético Familiar there is special treatment that links to adults over 65 who live alone and in poverty and vulnerability, with public services and social networks of their common article about “Chile Solidario”. In this way, they are guaranteed subsidies and preferential access to social services relevant to their needs.

#### 4.5.3 *Others if applicable*

In Chile Solidario and Ingreso Ético Familiar there is special assistance to people on the street that offers personalized psychosocial support services provided by NGOs specialized in working with these people. The program provides subsidies and guaranteed old-age welfare pensions and disability benefits, family allowances and the allowance only to pay the cost of issuing identity cards, as well as free in the processing of criminal background regularization.

As mentioned above, the Ingreso Etico Familiar includes a Bono Trabajo Mujer targeted to employed woman, between the ages of 25 and 59, equal to 30% of the gross monthly earnings. 2/3 of the total benefit is paid to the employee, while the difference is paid to the employer (1/3 of the total benefit).

## **5. Housing benefits for rented accommodation**

Housing subsidies in Chile are a direct help to families who need support to finance the purchase or building the first home, there is also a benefit associated with the rent (lease) housing. In addition, subsidies are seeking partners to support improved housing or existing neighbourhoods.

### **5.1 Conditions for receipt**

The Subsidio de Arriendo targets young families in need of rent for a given time of maximum 8 years, with a Ficha de Protección Social score below 13.484 combined with a score of social vulnerability using the following criteria:

- Head of household is between 18 and 30 years old
- Is not a homeowner
- Minimum savings of 4 UF
- Family size
- Single parent family
- Presence of children in the household (under 5 years old)
- Family members between 6 and 18 years old
- Elderly family members (more than 60 years old)
- Family members with disabilities
- Political prison and torture survivors
- Military service
- The applicant's previous number of applications for the program (a maximum 3 application are allowed)

### **5.2 Calculation of benefit amount**

The Subsidio de Arriendo can benefit the applicant for a monthly maximum of 3UF<sup>12</sup> for 60 month or 5 years, considering \$210.000 as the maximum monthly rent, with the exception of extreme region where the maximum monthly rent could be 10 UF.

#### **5.2.1 Calculation of gross benefit**

No.

#### **5.2.2 Income and earnings disregards**

No.

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<sup>12</sup> UF (Unidad de Fomento): monetary unit adjusted for inflation.



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5.2.3 *Costs eligible for housing benefits*

No.

5.3 *Tax treatment of benefit and interaction with other benefits*

The Subsidio de Arriendo is connected with other housing social programmes.

5.4 *Treatment of particular groups*

5.4.1 *Young persons*

The Subsidio de Arriendo targets people between 18 and 35 years old.

5.4.2 *Older workers*

No.

5.4.3 *Others if applicable*

No.

## 6. Family benefits

The “Family Allowance” is paid on a monthly basis to any employee paying social security contributions and to pensioners, for their legally recognized dependants. The main originators of family allowance are: the worker’s dependant family member, including: disabled family members, disabled husband, children under the age of 18 and unmarried children above that age if they are studying, up to 24 years of age, a widowed mother, and parents, grandparents and great grandparents of the worker who are over 65 years of age.

The amount of the payment depends on the number of dependants 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 if both spouses are working.

2015 Transfer by Dependant	
Annual Income Range (CLP)	Annual Payment (CLP)
0 – 3 034 584	118 788
3 034 596 – 4 432 344	72 900
4 432 356 – 6 912 960	23 040
6 912 972 and over	0

Source: <http://www.biblionet.cl/tablas/datos/tabla8-2015.htm>

As well as the “Family Allowance”, the government provides the called “bonus per child”, which is a cash amount to improve women pensions. This benefit is for all women not pensioners at July 2015, regardless of employment status, social and economic. The “bonus per child” is not included in the modelling as it is like a one-off maternity bonus.

The contribution made by the State for each child is 10% of the sum of 18 minimum wages exists in the month of birth of the child (currently are USD\$ 667, which is deposited in the individual capitalization account for pension or distributed in monthly payments, as applicable, which improves the final amount of the pension. Since the child is born, the bond begins to be profitable every month until the mother reaches 65 years of age.

### 6.1 Conditions for receipt of “bonus per child”

- Be mother or foster child.
- Be affiliated with an AFP or a Basic Solidarity Pension beneficiary, or receive a survival pension (widow) without being affiliated to a pension scheme, provided that you also have the right to Solidarity Pension Contribution.
- Be 65 years or older.
- Have lived at least 20 years in Chile, and have 4 years of residence in the last 5 years immediately preceding the date of filing.
- Have retired from July 1, 2009.

Reference date for all information is **July 1<sup>st</sup> 2015**

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## 7. Childcare for pre-school children

For the following categories:

- Day Care: from 0 to 23 months.
- Middle Level: years 2 to 3 and 11 months
- Transition Level 1 (Pre - Kinder): years 4 to 4 and 11 months
- Transition Level 2 (Kinder): years 5 to 5 and 11 months.

Fraction of children in childcare		
	N	%
Day Care	79,057	13%
Middle Level	158,915	25%
TL1(Prekinder)	177,680	28%
TL2(Kinder)	211,807	34%
Total	627,460	100%

Source: Research Center, Planning and Budget Division, Ministry of Education of Chile.

Compulsory education (1st year of elementary school) begins at age 6.

### 7.1 *Out-of-pocket childcare fees paid by parents*

All government provided preschool services and government dependent private (without shared financing) provided pre-school services are free.

There is no information on independent private schools.

### 7.2 *Child-care benefits*

None.

#### 7.2.1 *Conditions for receipt*

#### 7.2.2 *Calculation of benefit amount*

##### 7.2.2.1 Calculation of gross benefit

##### 7.2.2.2 Income and earnings disregards

Reference date for all information is **July 1<sup>st</sup> 2015**

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7.2.3 *Tax treatment of benefit and interaction with other benefits*

7.2.4 *Treatment of particular groups*

## 8. Employment-conditional benefits

Two programs:

- “Subsidio al Empleo Joven” (Young Employment Subsidy), SEJ (18-24): Benefit for workers and employers.
- “Bono al Trabajo de la Mujer” (Bonus for worker women), BTM (25-59), explained on Chapter 4.

In addition there are programs providing benefits for employers only:

- "Aprendices": A benefit is given to the employer to hire young people who are in parallel in training courses.

[http://www.sence.cl/601/articles-5488\\_archivo\\_02.pdf](http://www.sence.cl/601/articles-5488_archivo_02.pdf)

- "Franquicia": Tax benefits are given to companies that train their workers.

### 8.1 Conditions or receipt

- SEJ: The beneficiaries have to be between 18 and 24 to be eligible, and belong to the 40% most vulnerable population. To receive the benefit, the workers have to meet the following requirements:

- Belong to the 40% most vulnerable population, according to the Registro Social de Hogares.
- Have a monthly wage below \$453.281 or an annual wage below \$5.439.368.
- Do not have debts on contributions for pensions and health insurance.
- Do not work on a public institution or an institution with more than 50% of fiscal contributions.

Those beneficiaries who have access to the SEJ, will be required to have completed High School education when turning 21 years old, in order to keep receiving the benefit.

### 8.2 Calculation of benefit amount

#### Subsidio Empleo Joven

Monthly payment<sup>13</sup>:

- a. When the gross monthly earnings are equal to or less than \$453.281, the subsidy is equal to 30% of the gross monthly earnings. 2/3 is paid to the worker and 1/3 to the employer.

The amount of the subsidy paid to the worker is:

- 30% of total wage for workers with monthly wages under \$201.457
- 30% of \$201.457 for workers with monthly wages between \$201.457 and \$251.822.
- $0.3 * \$201.457 - 0.3 * (\text{actual wage} - \$251.822)$  for workers with monthly wages between \$251.822 and \$453.281.

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<sup>13</sup> If the worker so decides there may be an annual payment that considers 20% of the remuneration.

<http://www.subsidioempleojoven.cl/cuanto-y-como-se-paga/#title>

Reference date for all information is **July 1<sup>st</sup> 2015**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

8.2.1 *Calculation of gross benefit*

8.3 *Tax treatment of benefit and interaction with other benefits*

None

8.4 *Benefit duration*

- BTM: 6 months

- SEJ: Permanent while employed and in the age range (18-24)<sup>14</sup>.

8.5 *Treatment of particular group*

8.5.1 *Young persons*

- SEJ

8.5.2 *Older workers*

None

8.5.3 *Others if applicable*

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<sup>14</sup> The benefit may have an additional period when: 1. Workers for each child born alive between the age of 18 and before the age of 25. The additional term will be equivalent to the maternal rest, both pre and post natal, corresponding in total to 18 weeks. 2. Workers who have studied regularly between the ages of 18 and before the age of 25, in a State Higher Education Institution or recognized by the State may request an additional period to access the youth employment subsidy.

Reference date for all information is **July 1<sup>st</sup> 2015**

Country chapter for OECD series *Benefits and Wages* ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives))

## **9. Lone-parent benefits**

None. There are indirect benefits to single parents through getting priority in means-test that are used to target most of the safety net benefits.

### **9.1 *Conditions for receipt***

### **9.2 *Calculation of benefit amount***

#### **9.2.1 *Calculation of gross benefit***

##### **9.2.1.1 *Irregular additional payments***

#### **9.2.2 *Income and earnings disregards***

### **9.3 *Tax treatment of benefit and interaction with other benefits***

### **9.4 *Benefit duration***

### **9.5 *Treatment of particular group***

#### **9.5.1 *Young persons***

#### **9.5.2 *Older workers***

#### **9.5.3 *Others if applicable***

Reference date for all information is **July 1<sup>st</sup> 2015**

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## 10. Tax system

### 10.1 Income tax

#### 10.1.1 Tax allowances and credits

##### 10.1.1.1 Standard allowances

There is a general allowance (i.e. a zero-tax bracket) equivalent to 13.5 UTA<sup>15</sup> that is deductible from the annual income (around 7 283 000 pesos). Also, there is another relief for social security contributions in which employer's compulsory social insurance contributions are deductible from income tax payments regardless of whether these payments are paid to government or private health insurers.

There are two non-standard tax reliefs related to Voluntary Contributions and Voluntary Pension Fund Savings (APV, Ahorro Previsional Voluntario) and Housing Mortgage Loan Payments (DFL2).

Additionally, recipients of solidarity pensions who live in poor socio-economic conditions are not affected to health contributions (in the case of full time workers this tax is equivalent to 7% of the monthly income).<sup>16</sup>

##### 10.1.1.2 Standard tax credits

#### 10.1.2 Income tax schedule (central government income tax)

Employees are subject to a monthly income tax calculated on the basis of the following tax rates. These payments are paid by employers (AT2015).

Monthly Taxable income (Expressed in UTA)	Monthly Taxable income (CLP thousands)	Tax rates
0–1.2	0–587	exempt
1.21–2.6	587–1 305	4%
2.61–4.3	1 305–2 174	8%
4.31–6	2 174–3 045	13.5%
6.1–7.7	3 045–3 915	23%
7.8–10.3	3 915–5 220	30.4%
10.4–12.8	5 220–6 525	35.5%
12.9 and over	6 525 and over	40%

Source: [http://www.sii.cl/valores\\_y\\_fechas/impuesto\\_2da\\_categoria/impuesto2015.htm](http://www.sii.cl/valores_y_fechas/impuesto_2da_categoria/impuesto2015.htm)

In the case of self-employed workers, income taxes are applied on monthly income at a tax rate of 10%. These monthly payments (PPM, Pagos Previsionales Mensuales) are considered a tax credit against personal taxes and can be paid by the employer or the employee depending on whether the employer is obligated to pay social contributions or not.

<sup>15</sup> The July 2015 value of UTA (*Unidad Tributaria Anual*), 526 176 is applied in the model.

<sup>16</sup> Source: [http://www.previsionsocial.gob.cl/subprev/?page\\_id=251](http://www.previsionsocial.gob.cl/subprev/?page_id=251)



### *10.1.3 State and local income taxes*

No taxes apply to income at state or local government.

### *10.2 Treatment of family income*

Each family member declares and pays taxes separately.

### *10.3 Social security contributions and payroll taxes*

#### *10.3.1 Contributions payable by employees and benefit recipients*

In the case of dependent workers whose ages are less than 60 and 65 years old for women and men respectively, the employers should pay 10% of the gross income in order to finance social contributions for the pension funds and 7% of their gross monthly income to finance health services, both contributions estimated over a maximum monthly income 73.2 UF<sup>17</sup>. The modelling also assumes a management fee of 1.16 per cent of gross income.

Also, full time workers whose job contracts began after October 2002, should contribute to the Unemployment Insurance System with 0.6% of their gross monthly income. This payment has an upper limit of UF 109.8. For all of those workers whose job contracts began before October 2002, the affiliation to the UI is optional.

#### *10.3.2 Contributions payable by employers*

Employers should pay the equivalent to 0.95% of their employee's taxable income in order to finance occupational accidents (it can also reach 2% for dangerous activities) and disease insurance policy. Also, employers should pay 2.4% of their employees' income to finance unemployment insurance. In the case of workers with fixed contracts, employers should pay 3% of the gross income (2.8% correspond to payments for the employee's individual account and the 0.2% correspond to contributions to the solidarity fund).

Employers have to pay a disability insurance of 1.15 per cent of the employees' gross income, to the pension fund manager.

#### *10.3.3 Payroll taxes*

Both, self-employed and employees are subject to the same tax rates. Main difference is that in case of employees tax is calculated on salary and it is withhold by employers monthly, while in case of self-employed workers, tax is withhold upon each payment at a 10% tax rate which is considered as a tax credit against personal taxes.

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<sup>17</sup> UF = 24984.62 CLP in July, 2015. Source: [http://www.sii.cl/valores\\_y\\_fechas/uf/uf2015.htm](http://www.sii.cl/valores_y_fechas/uf/uf2015.htm)

Reference date for all information is **July 1<sup>st</sup> 2015**

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#### **10.4**     *Treatment of particular groups*

##### *10.4.1*     *Young persons*

##### *10.4.2*     *Older workers*

Workers, whose ages exceed the mandatory age for retirement and continue working, are only required to contribute to the pension fund as their payments to social security. Therefore, they are not required to contribute the funds for payment of social security pensions.<sup>18</sup>

##### *10.4.3*     *Others if applicable*

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<sup>18</sup> <http://www.safp.cl/573/article-3800.html>

## **11. Part-time work**

### ***11.1 Special benefit rules for part-time work***

From the tax perspective, part-time workers can have the same conditions as full-time workers, i.e. health care, pension, accident and unemployment or are those who generate income associated to the emission of fee slips (boletas de honorarios<sup>19</sup>). They do not have long term contracts and are not dependent workers. They are independent and provide services. They can receive tax benefits associated with Voluntary Pension Fund Savings (APV, Ahorro Previsional Voluntario) and home purchases with mortgage credits. On the other hand, part time workers can deduct from their income tax payments the annual amounts of their interest payments associated with mortgages obligations of purchasing new houses under the DLF2 legislation.

### ***11.2 Special tax and social security contribution rules for part-time work***

From the perspective of social contributions, part time workers are not obligated to make social contributions related to health and pensions. However, recent modifications establish that from 2015 there will be a mandatory affiliation to the pension fund system and from 2018 payments related to health insurance will be mandatory too.

Workers who generate fee slips can pay social contributions if their annual taxable income is at least the minimum income at December of the year they are generating revenues (from July 2012 to June 2013, the minimum income is \$193.000 per month<sup>20</sup>). The annual taxable income corresponds to 80% of the sum of the gross revenues received during the calendar year, without considering any kind of discount. (Source: <http://www.previsionsocial.gob.cl/cotizacion-honorarios/pagina3.html> )

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<sup>19</sup> Can not access the unemployment insurance.

<sup>20</sup> Source: [http://www.leychile.cl/Consulta/listado\\_n\\_sel?\\_grupo\\_aporte&sub=807&agr=2&comp](http://www.leychile.cl/Consulta/listado_n_sel?_grupo_aporte&sub=807&agr=2&comp)

Reference date for all information is **July 1<sup>st</sup> 2015**

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## **12. Policy developments**

*12.1 Policy changes introduced during 2015*

*12.2 Future policy changes announced in 2015*