

Helping companies survive and thrive in the turmoil of Chile social instability and covid-19

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Speakers



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Details

09:30 - 09:35 AM Welcome and Opening remarks

09:35 - 10:20 AM Presentation

10:20 - 10:28 AM Questions and answers

10:28 - 10:30 AM Closing remarks

Topics

Social and political context

Tax and Labor Regulations

Current investment environment

What has not change

Instructions



The last 10 minutes will be dedicated to answer questions.



To ask questions, go to the bottom of the screen and type your question into the Q&A box.

The background of the slide is a dark, high-angle photograph of a large crowd of people walking in a public square or plaza. The people are small and scattered across the frame, creating a sense of a busy, social environment.

Social environment

18 0 / Covid-19

As **one of the worlds fastest growing economies with GDP and investments on a constant increase**, Chile has become to be recognized as one of the most politically and economically stable countries within Latin America.

Nonetheless, there is **certain group of Chileans that are not aligned with the economic experts and politician thoughts**, because they do not feel that **the economic benefits are fairly distributed**.

Most of the social demands that triggered the riots in Chile are related to the following items.



Fair
income



Corruption
and
collusion



Health
and
pensions



Cost of
living



Education



Fair
income

Corruption
and
collusion



50% of the population
receive a monthly salary
of less than \$400
thousand (INE).

72% of the country's
wealth is held by the 20%
richest.

Health
and
pensions



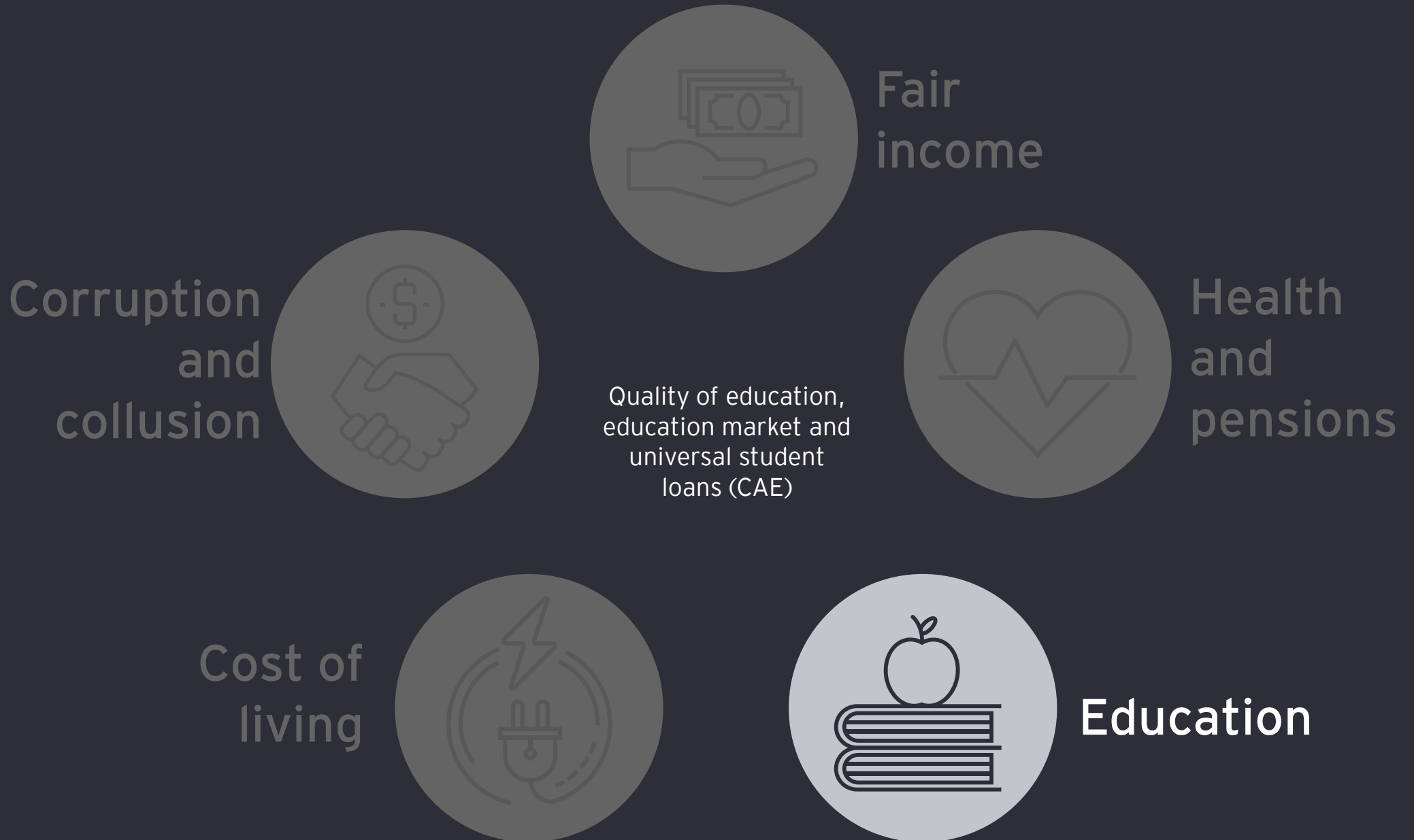
Cost of
living

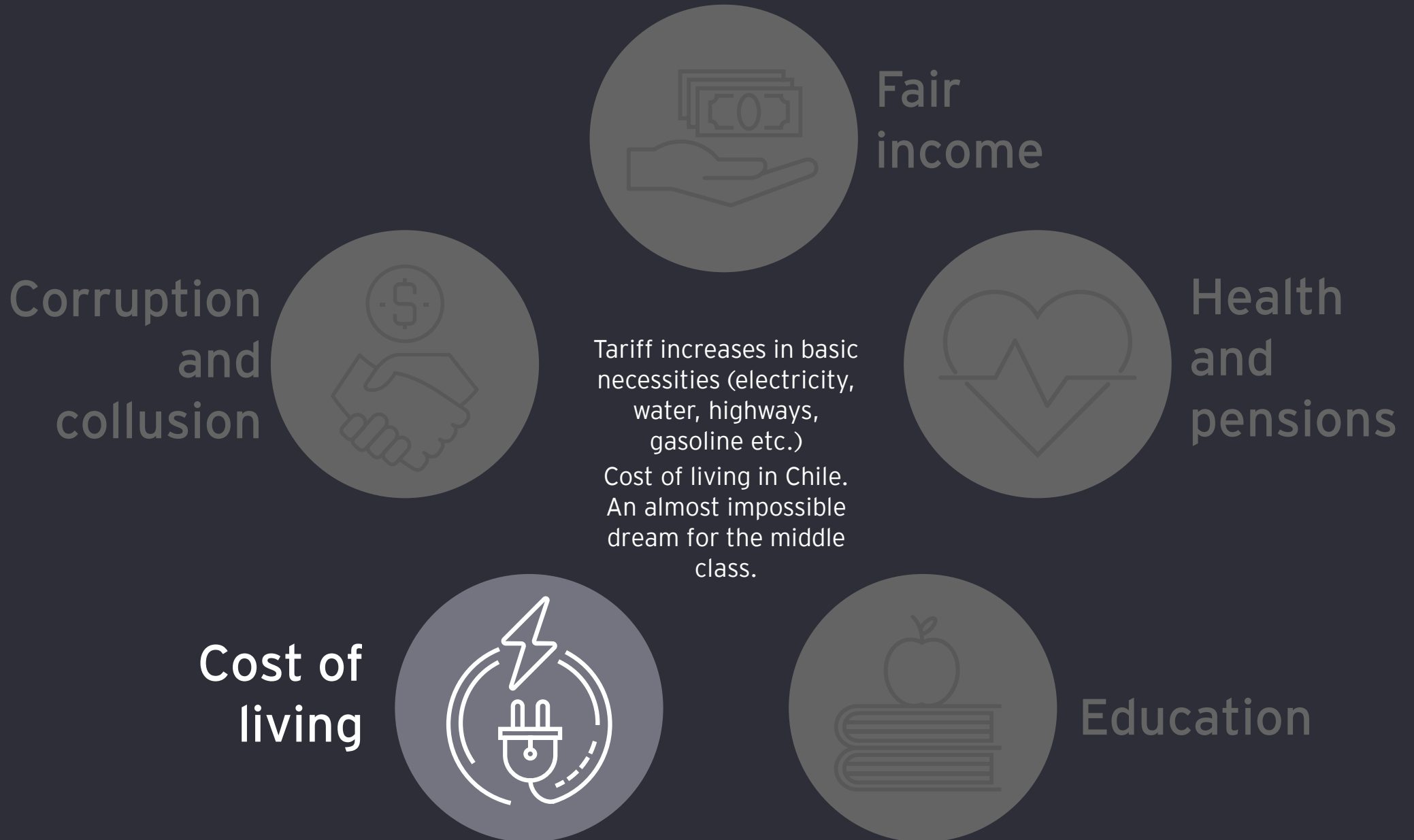


Education









Corruption and collusion



Corruption cases in politics, military and police institutions.

Collusion in industries such as toilet paper (tissues), chicken, drugstores, among others.

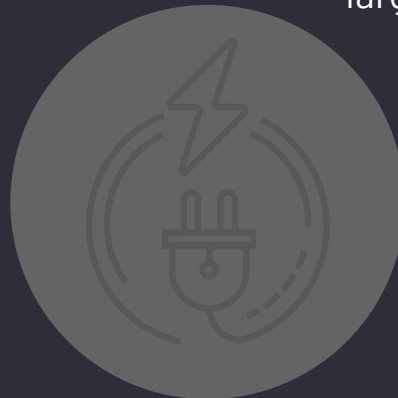
Tax rebates and waivers for large enterprises.



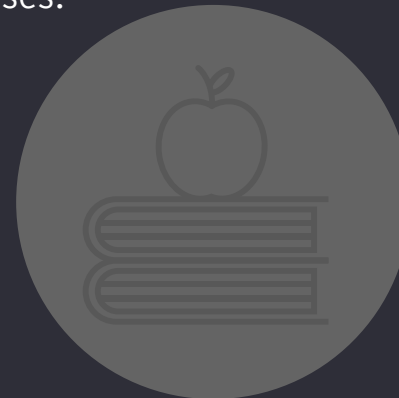
Fair income



Health and pensions



Cost of living



Education

Key milestones - Social environment



October 6

Government announces **public subway fare increase of \$30 (US\$ 0.04).**

Subway fare reaches \$830 (US\$ 1.15) during peak hours, \$750 intermediate hours and \$640 (\$30 less) during off-peak hours.

October 7

Fare evasion is initiated by students from the National Institute.

Minister of Economy said: "Those who get up early will be helped with the lower tariff."

The fare evasion continued by the students and the subway was destroyed.

October 18 (18/O)

In broad daylight students stopped the normal working of the subway

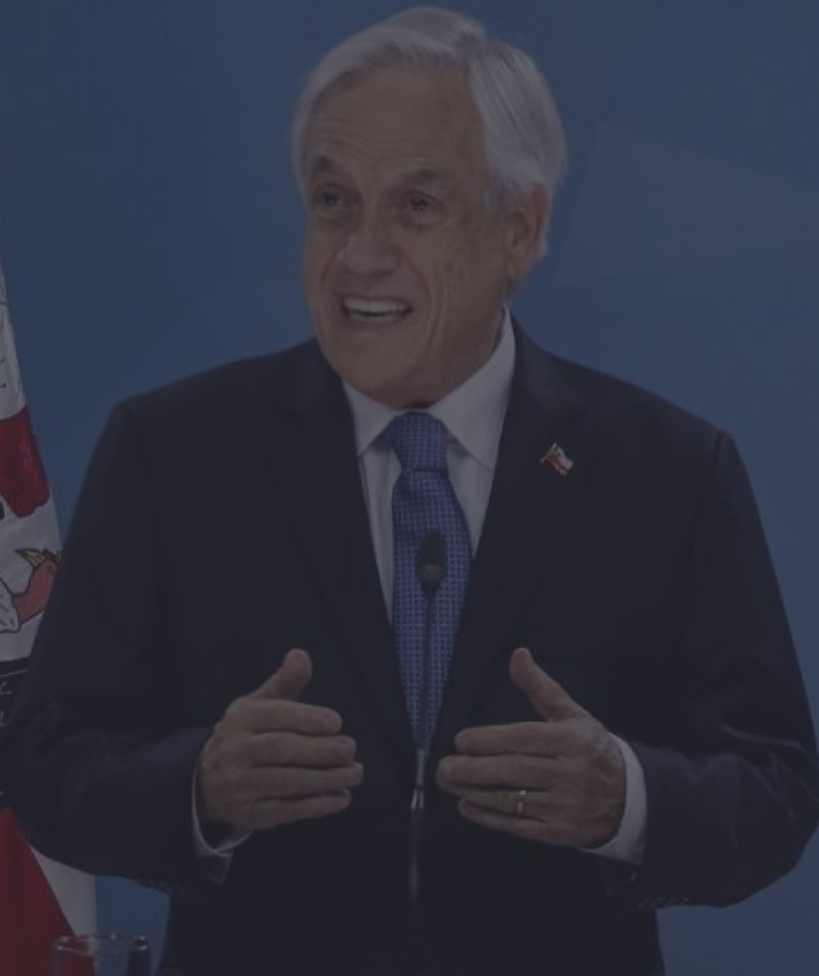
That night, 74 subway stations were all burnt at similar times.

Following days

Looting.
Destruction of private and public spaces.
Peaceful protests.



PALACIO de
LA MONEDA



Pensions

**Minimum Salary
Guaranteed**

Health Insurance

Medications

Electricity rates

Municipal funds

Politicians salaries

After the announced social agenda, the Chilean Government yielded over other political and social demands that aimed to change sensible aspects of the system. In this scenario, and after a change of the Minister Board, **an important amendment to the tax reform under discussion was announced.**

Afterwards, under the pressure of some political sectors, **the Government also announced the review of the Chilean Constitution.**

Turnover of the Tax reform

The Government added a package of measures to the tax reform bill of 2018 that provoked a turnaround of its main objectives. **The main goals of the 2018 tax reform bill was to improve economic growth and investment.** Since 18/O the Government proposed a turnover of the goals, aiming to **produce more resources to finance social demands by increasing the taxation of the most favored groups and people and the repeal of certain tax benefits that favored Chilean and international economic groups.**

The latter may impact the economic growth and new investments in Chile.

In addition, the Minister of Finance announced on January 3rd the **creation of a tax commission to review existing tax exemptions - there are more than 100 exemptions in the Chilean system which reduce fiscal collection in more than US\$ 9 billion per year.**

Status: The tax reform has been passed and most of its provisions will enter into force in March 1st.

New Constitution

After the social protests, on December 23rd 2019 the Constitutional reform was approved which allows to **convoke a ballot to decide if Chilean voters want or not a new constitution.**

The New constitutional process aims to refund the Chilean system, at all levels. One of the main aspects that will be discussed is the package of constitutional rights and benefits that all the people in Chile have, such as the health and social security guarantees.

Status: April 26th ballot delayed to October 25th

Is this really a solution?

Covid 19 - Key milestones



Tax reform 2020



Measure	Brief summary
<i>One general tax system</i>	Semi-Integrated regime - tax rate 27%
<i>Depreciation</i>	<p>Fixed assets bonus depreciation: possibility to depreciate in the first year 50% of an asset useful life. Benefit available until Dec. 31, 2021.</p> <p>The remaining useful life can still be depreciated following regular Chilean depreciation rules.</p>
<i>Tax refund gradually elimination</i>	Gradual elimination of the corporate tax refund available to local holding companies in a tax loss position that receive dividends with corporate tax credits from local subsidiaries. Full implementation would occur in 2024 (between 2020 and 2023 the refund would be gradually reduced)
<i>Advanced monthly CIT payments (PPMs) rate recalculation</i>	In case the earnings substantially decrease taxpayers are allowed to recalculate the PPM rate (at least 30% of decrease).
<i>Foreign Financial Institutions</i>	New legal definition of FFI
<i>Back to Back</i>	Back to back structure will be now prevented from access the 4% WHT.
<i>VAT credit refund - shorter term to request</i>	Possibility to request refund of VAT obtained in the acquisition of fixed assets after 2 months (instead of 6).

Measure	Brief summary
<i>Expenses</i>	<p>New definition of tax expenses, now understood as expenses related to the prospective generation of income.</p> <p>New expenses are allowed as tax expenses (provided certain requirements are met)</p>
<i>Foreign tax credit</i>	<p>FTC is set at 35% regardless of country of residence. Elimination of royalty as passive income in companies with heavy R&D investment.</p>
<i>Digital tax</i>	<p>19% applicable to digital platforms Withholding agents are the issuers of debit/credit cards.</p> <p>Presumed as rendered in Chile if the IP address is in Chile or the credit card is issued in the country.</p>
<i>Property tax surplus</i>	<p>Surplus of property tax applicable to property which IRS appraisal exceeds CLP 400 million (US \$500k). This would affect properties which FMV revolves around US 1 million.</p> <p>CLP 400 - 700 million: 0,075%</p> <p>CLP 700 - 900 million: 0,15%</p> <p>CLP 900 + higher: 0,275%.</p> <p>Not applicable to small businesses</p>

Measure	Brief summary
<i>Small and medium-sized enterprises (SMEs) tax system</i>	Full integration between corporate tax (25%) and individual taxes
<i>Decrease of PPMs rate for SMEs</i>	Between 0,2% and 0,5% over gross earnings

SMEs	Capital not exceeding UF 85k (USD 3.1M)	Business earnings not exceeding UF 75k (USD 2.7M)	Max 35% earnings arises from rural real estate, limited liability company's rights and funds quota	In order to calculate the threshold , gross income of those entites considered related will be computed
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The background of the slide is a dark, grayscale image of a woman with long hair, wearing glasses and a dark jacket. She is looking down and to the right, with her hand near her face. The image is semi-transparent, allowing the text to be clearly visible.

New Transitory tax measures

Covid 19

New transitory tax measures



Measure	Brief summary	Beneficiary
<i>Suspension of PPM</i>	For a 3 month period.	Tax payers under the obligation to make PPM payments.
<i>Deferral of VAT payments</i>	VAT payments for the next three months can be paid in 12 interest free installments.	Entities with annual sales below UF 350k (USD 13M).
<i>Deferral of CIT payment for SMEs</i>	CIT payments due in April, may be deferred until July.	SMEs
<i>Deferral of Real Estate Tax</i>	Real estate tax due in April may be deferred until 31 December 2020.	Entities with annual sales below UF 350k (USD 13M).
<i>Stamp Tax exemption</i>	0% rate during following six months.	Not specified
<i>Taxable expenses</i>	Deductibility of sanitary contingency expenses.	All CIT payers
<i>Tax debt flexibility</i>	Flexibility on tax debts	SMEs and low income individuals

New Transitory labor measures

Covid 19

Labor measures - Law 21227



Labor measures	Brief summary	Beneficiary
<i>Suspension employment contract effects by authority act or declaration</i>	Suspension of employees and employer duties. Employees can use the unemployment insurance.	All companies
<i>Agreements to suspend the employment contract</i>	Those not covered by the above measure can agree the suspension of employees and employer duties.	All companies
<i>Temporary working hours narrowing</i>	Agreement to temporary reduce the working hours (50% or more). The agreement cannot exceed 5 months. Employer must pay the worked hours.	Certain conditions must be met
<i>Social Security</i>	Employer must pay social security duties.	All companies that suspended the employment contracts
<i>Other working hours narrowing agreements</i>	Parties can voluntary constrain the working hours and proportion remunerations	All companies
<i>Other remunerations narrowing agreements</i>	Parties can voluntary constrain remunerations	All companies

Current investment environment and potentially attractive sectors



Investment opportunities in the Latin American Business Hub



Chile is the region's gateway and investment platform



Programs & Incentives for Investment



Incentives granted by public institutions such as: the Chilean Economic Development Agency (CORFO), the National Training and Employment Service (SENCE), among others.

1

Setup

- Pre-Investment Stage
- Implementation Stage
- Investment & Working Capital guarantees
- VAT Exemption
- Remote areas

2

Innovation

- R&D Tax Incentive
- Business Technological Innovation Programs

3

Talent

- Visa Tech - Talent Attraction Program
- Training Tax Franchise
- Scholarship

Opportunities and challenges



Growth is on the agenda with bolt-on acquisitions providing the gateway to new markets.

30%



- Gateway to new markets

28%



- Acquiring technology, new production capabilities or innovative startups

22%



- Sector convergence/growth into adjacent business activity

20%



- Response to regulatory or tariffs and trade changes/secure supply chain

Executives continue to look at a range of drivers for M&A to complement their strategic direction. Growth in new markets and adjacent sectors is key as companies will look to expand opportunity. But they will also look to acquire new capabilities and protect against disruption of all kinds.

Current investment environment and potentially attractive sectors



Potentially attractive sectors



Chile is a country that exhibits competitive advantages and business opportunities for foreign investors

Chile: Top 1

In investments in clean energy and in solar energy generation

China: Chile's main business partner

32,5%

Of the total Chilean exports

Renewable Energy and Waste Management

- In recent years, the country has positioned itself as a relevant player in renewable energy.
- Chile's objective is to eliminate all coal power plants by 2040, creating an excellent opportunity for renewable energy.

Food Industry

- Chile's a mature market for production and export of functional ingredients, oriented in sustainable agriculture and technical specialization, where advances in technology, biotechnology and research are keys in supporting this effort

Sustainable tourism

- Throughout the years, Chile has received a substantial number of foreign tourists.
- The industry is constantly growing with the development of new sustainable tourist attraction areas, with investment potential in infrastructure: nautical tourism, business tourism, astro-tourism, eco-tourism.

Venture Capital

- Chile serves as an excellent laboratory for companies to test their business model before expanding to other countries in the region.
- Investment in venture capital and private equity funds increased by 125% between February and April, compared to the same period last year.

Mining

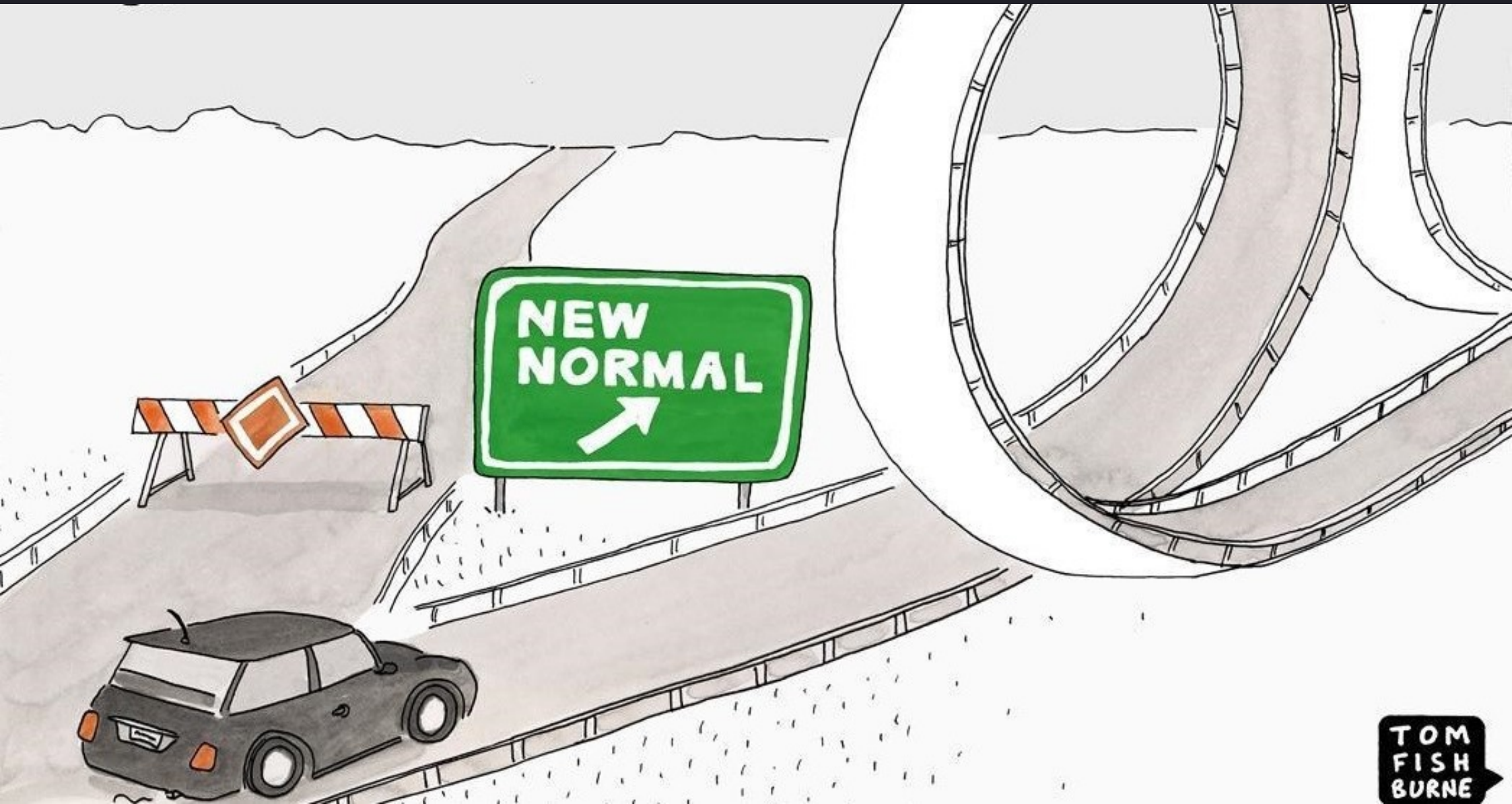
- In Chile we have 22% of the world's copper reserves, 11% of molybdenum, 5% of silver and 7% of gold reserves. In addition to 48% of the world's lithium reserves.
- Chile has a mining investment and a portfolio of projects for the period 2019-2026 of US \$31,000 million under evaluation.
- An updated national mining catalog with more than 30 exploration projects, available for acquisitions, joint ventures, or financing.



What has not changed?

"New Normal"

Normality as we know it, will probably take time to come back



EY Business Resilience Framework



Our approach marks 3 reference states to face the crisis



What has not changed?



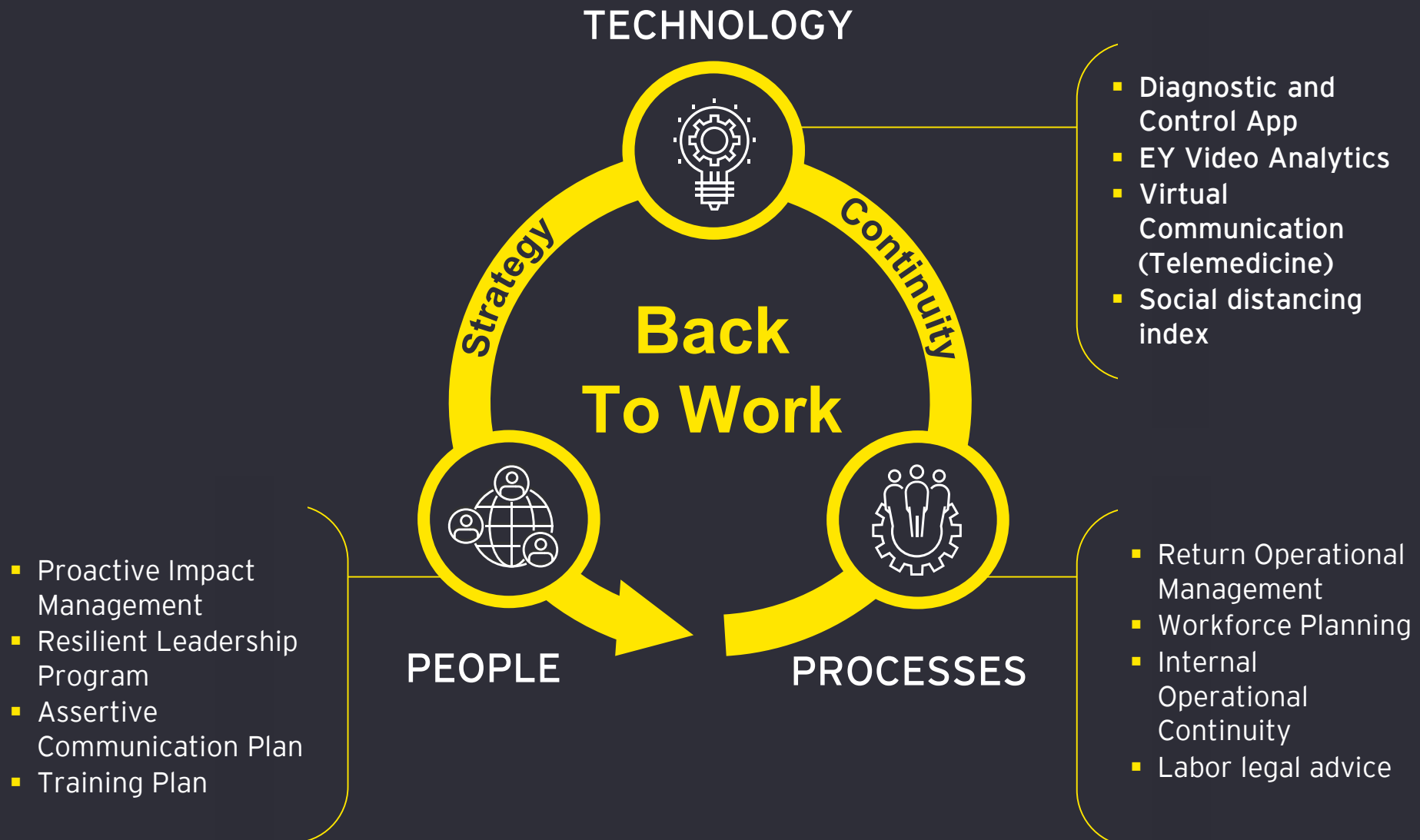
Crisis

危机

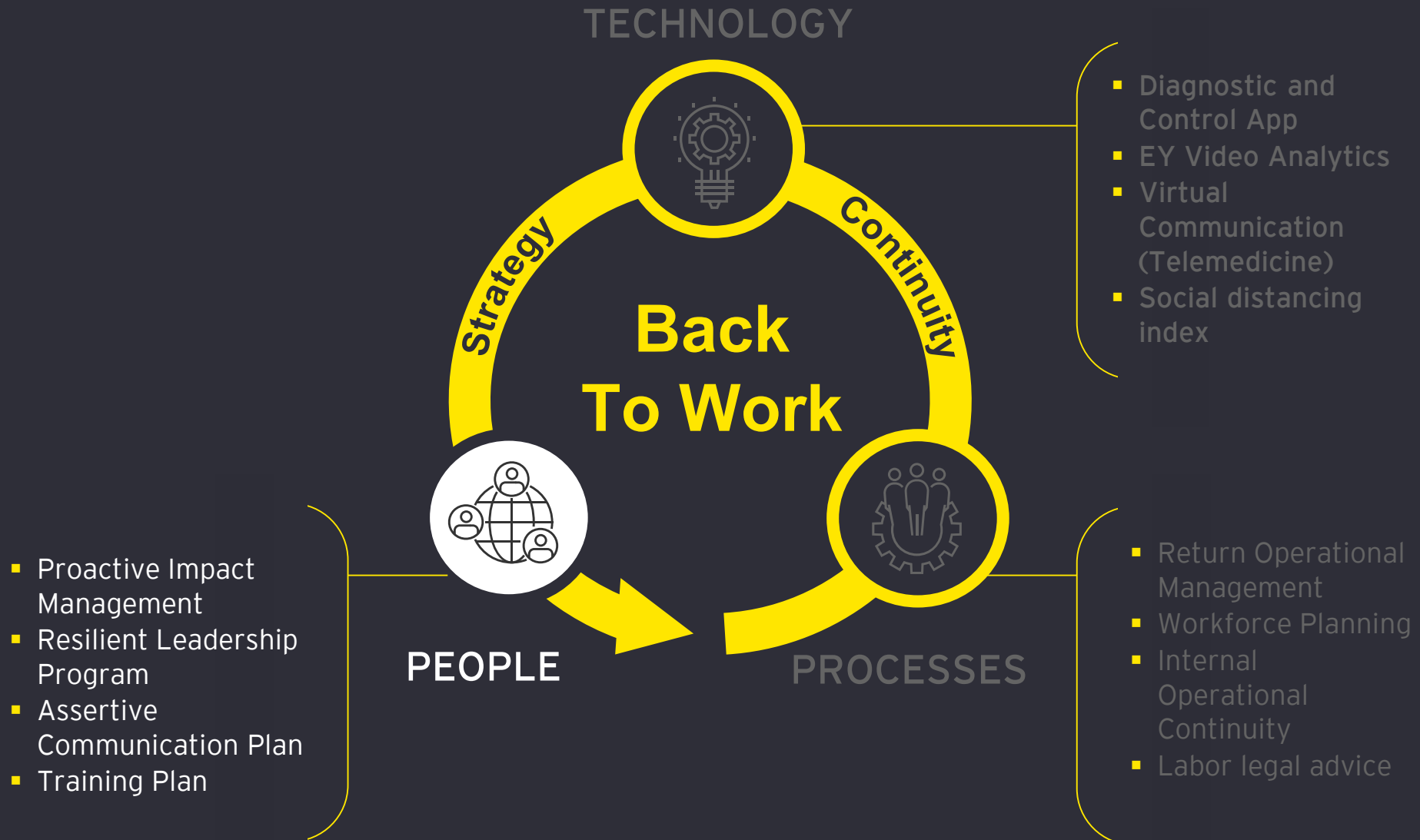
Danger

Opportunity

What has not changed?



What has not changed?

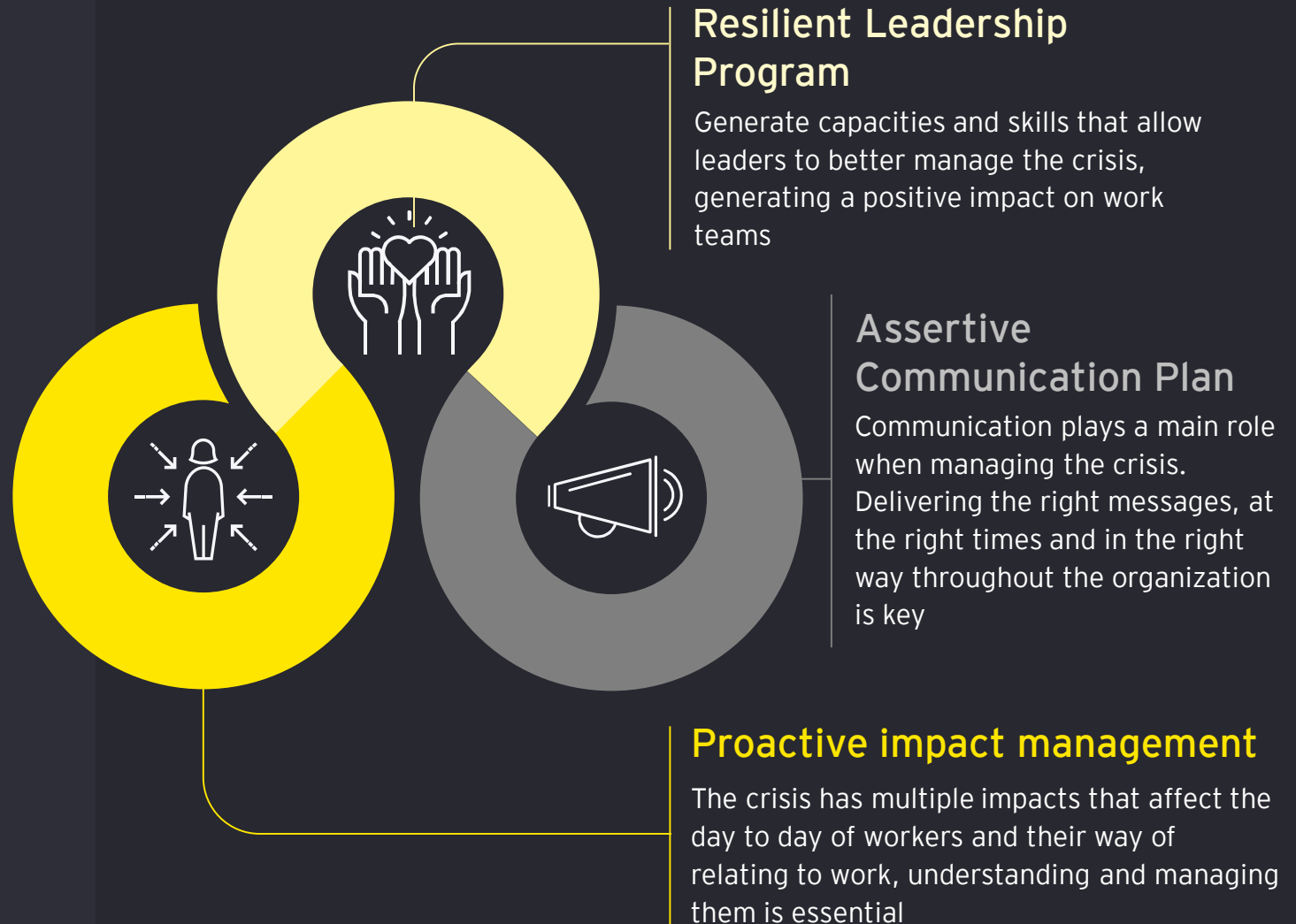


Address the cultural dimensions of a company

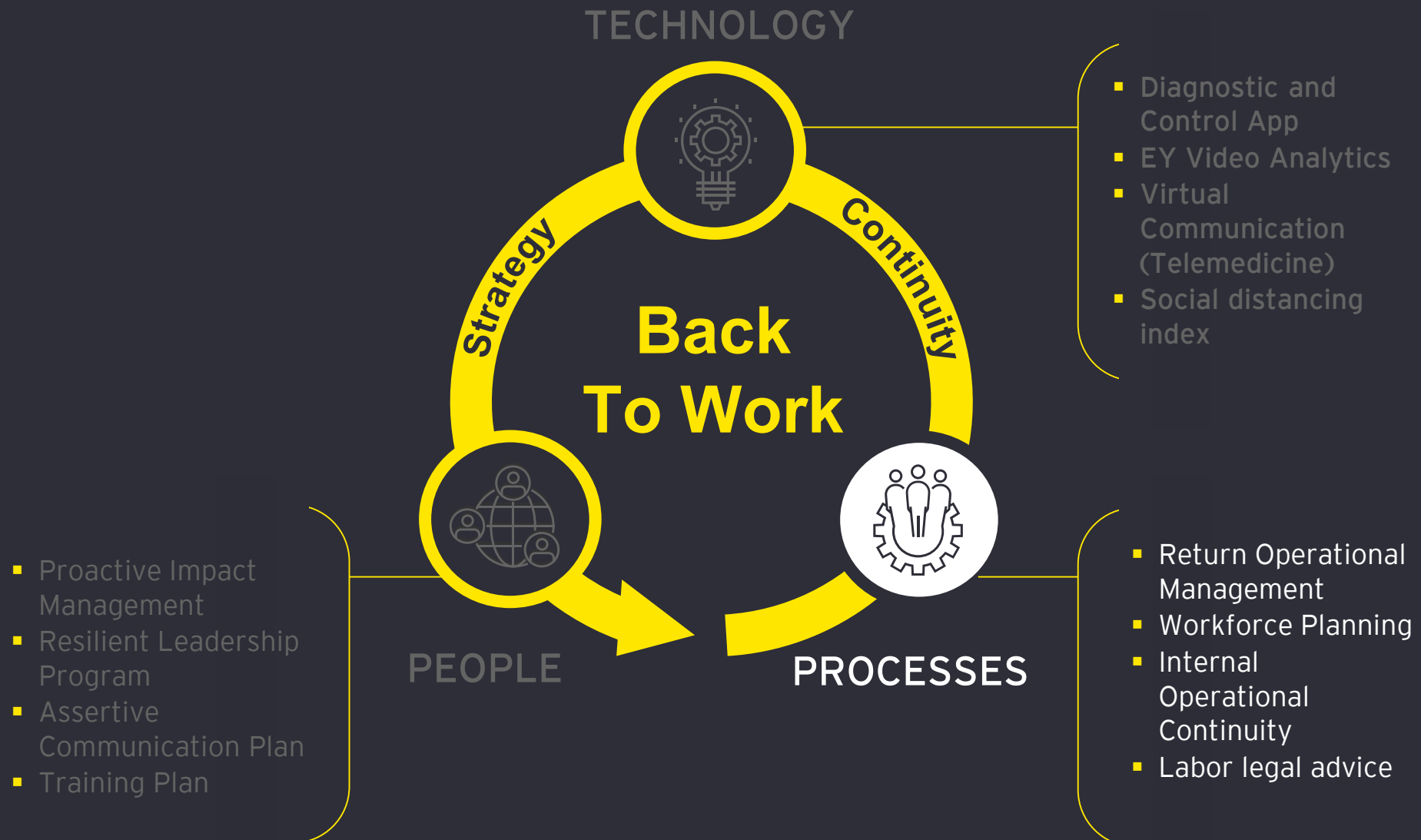


This allows us to understand the impacts on workers and support them in their return process, in the short, medium and long term.

The COVID-19 pandemic has brought critical health problems to get people back to work. Organizations around the world are evaluating alternatives that will ensure a safe and calm return.



What has not changed?



Four operational aspects



There are four operational aspects that a company must address to establish a physical return framework with safety and containment of its workers.

Back to Work involves developing rapid evaluations, design and redesigns of processes that were strongly impacted by the crisis, and that are established as a key element and enablers for the physical return to offices and operations.



Labor Legal Issues

The "New Normality" mobilizes us to have adequate regulations and procedures in consideration of labor standards, regulations and work contracts

Workforce Planning

The physical return of work process, under current containment conditions, requires establishing strategies under different management scenarios for the workforce

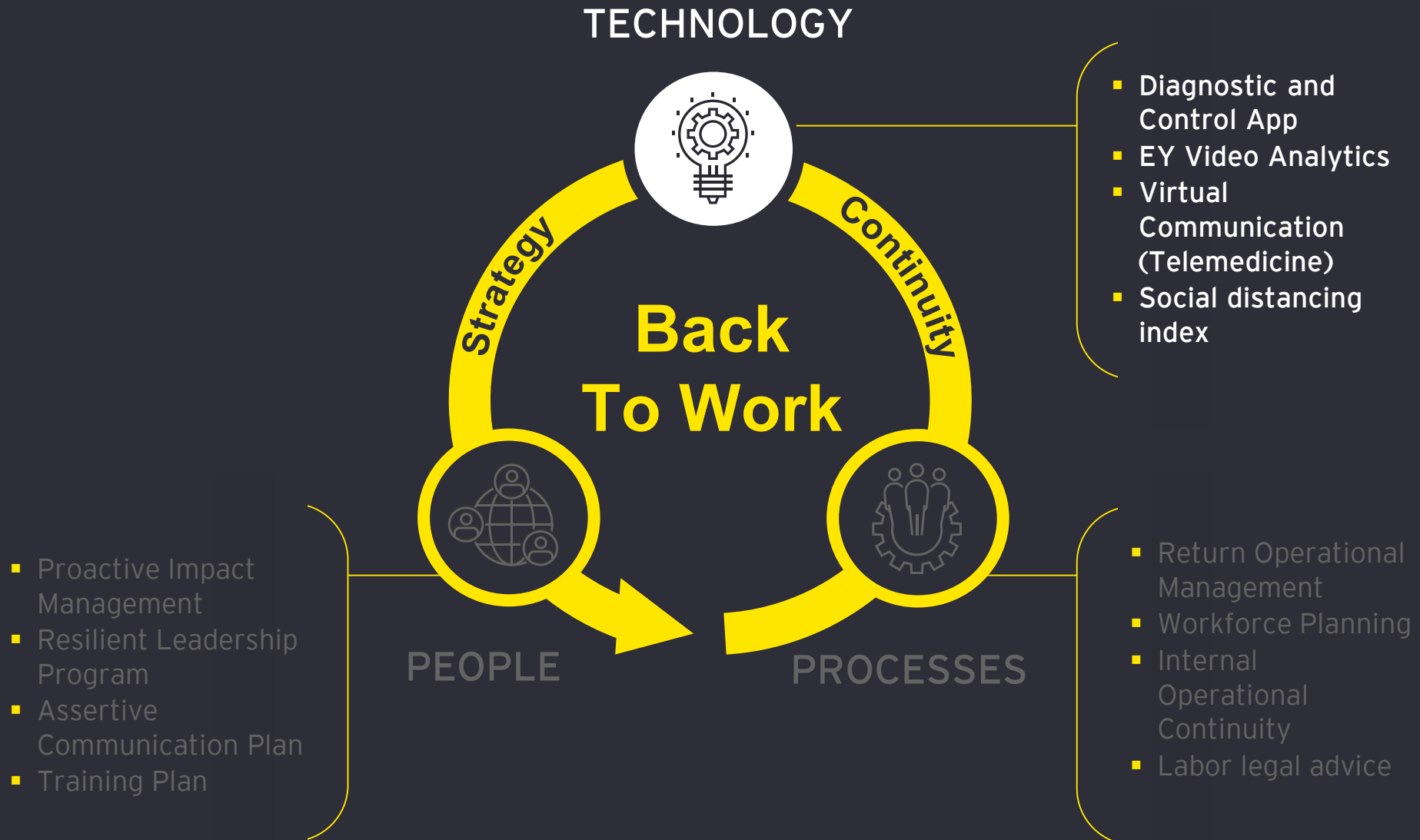
Return Operational Management

The return of work suggests defining and executing an immediate set of processes that allow a control and security environment.

Internal Operational Continuity

The "internal customer" and their experience should be addressed or through the development of an internal process optimization plan

What has not changed?



Solutions will encompass a set of technologies and cover the complete cycle of diagnosis, control and containment for the mitigation of high impact events



DIAGNOSTIC AND CONTROL APP



VIDEO ANALYTICS



TELEMEDICINE PLATFORM



SOCIAL DISTANCE INDEX

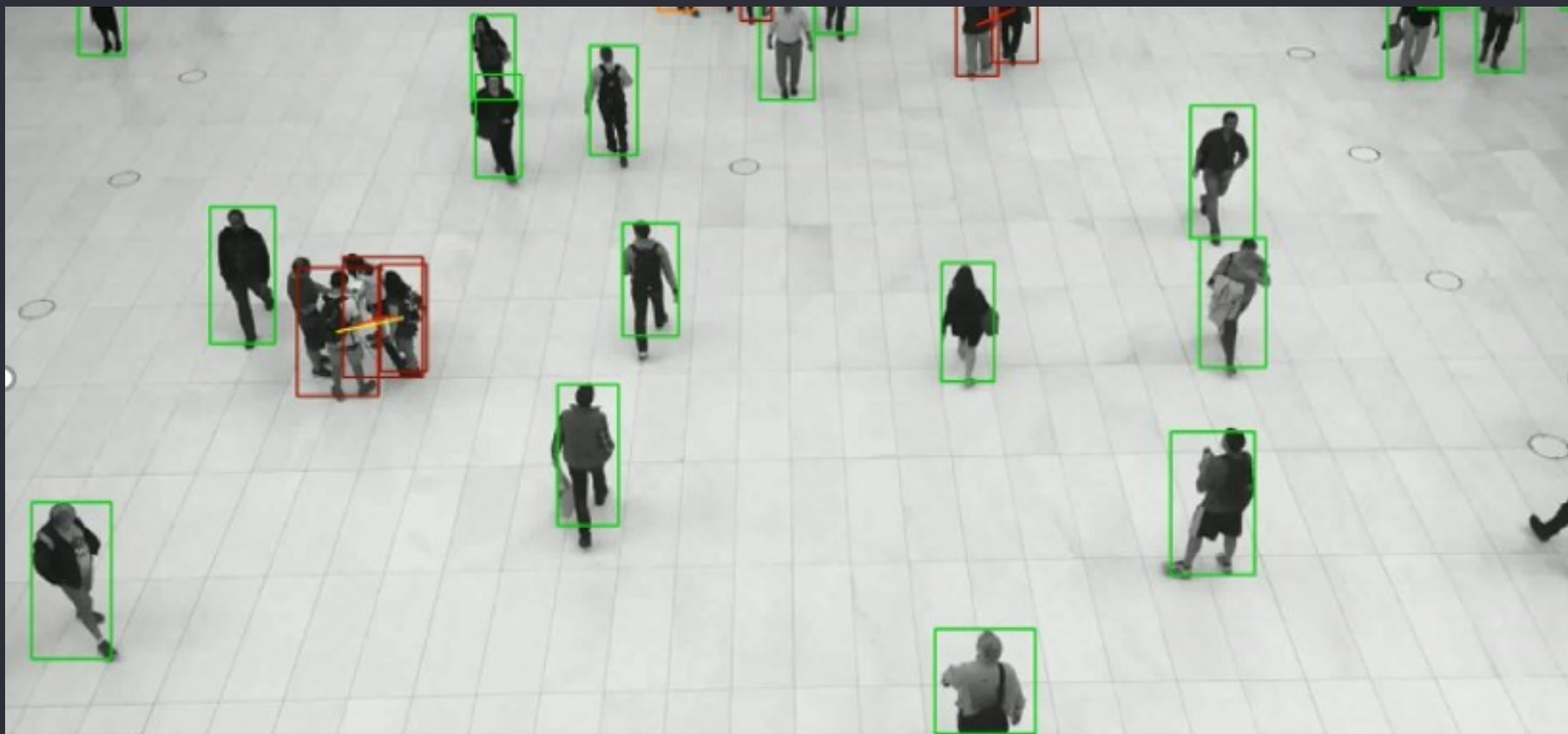


CONTACT TRACING

Video Analytics



Social distancing



N personas: 39 N Sin Riesgo: 29 N Riesgo Bajo: 1 N Riesgo Alto: 9

Analisis de distanciamiento social COVID-19

Líneas muestran proximidad entre las personas.

- Amarillo: Cercano
- Rojo: Muy Cercano

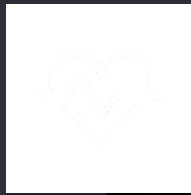
Rectángulos muestran el nivel de riesgo de la persona.

- Rojo: Riesgo Alto
- Naranja: Riesgo Bajo
- Verde: Sin Riesgo

Diagnostic and control app



Conditions and
Information



Report of contagion



Self diagnosis





TEST



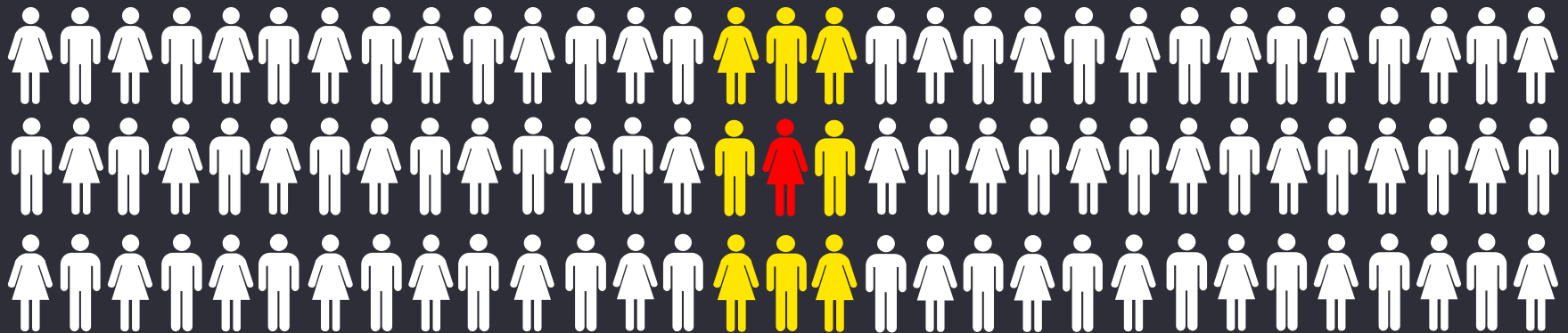
Contact tracing



Contact tracing



This applications establish a safe zone and records the close contacts of the last 14 days for each worker



Contact tracing

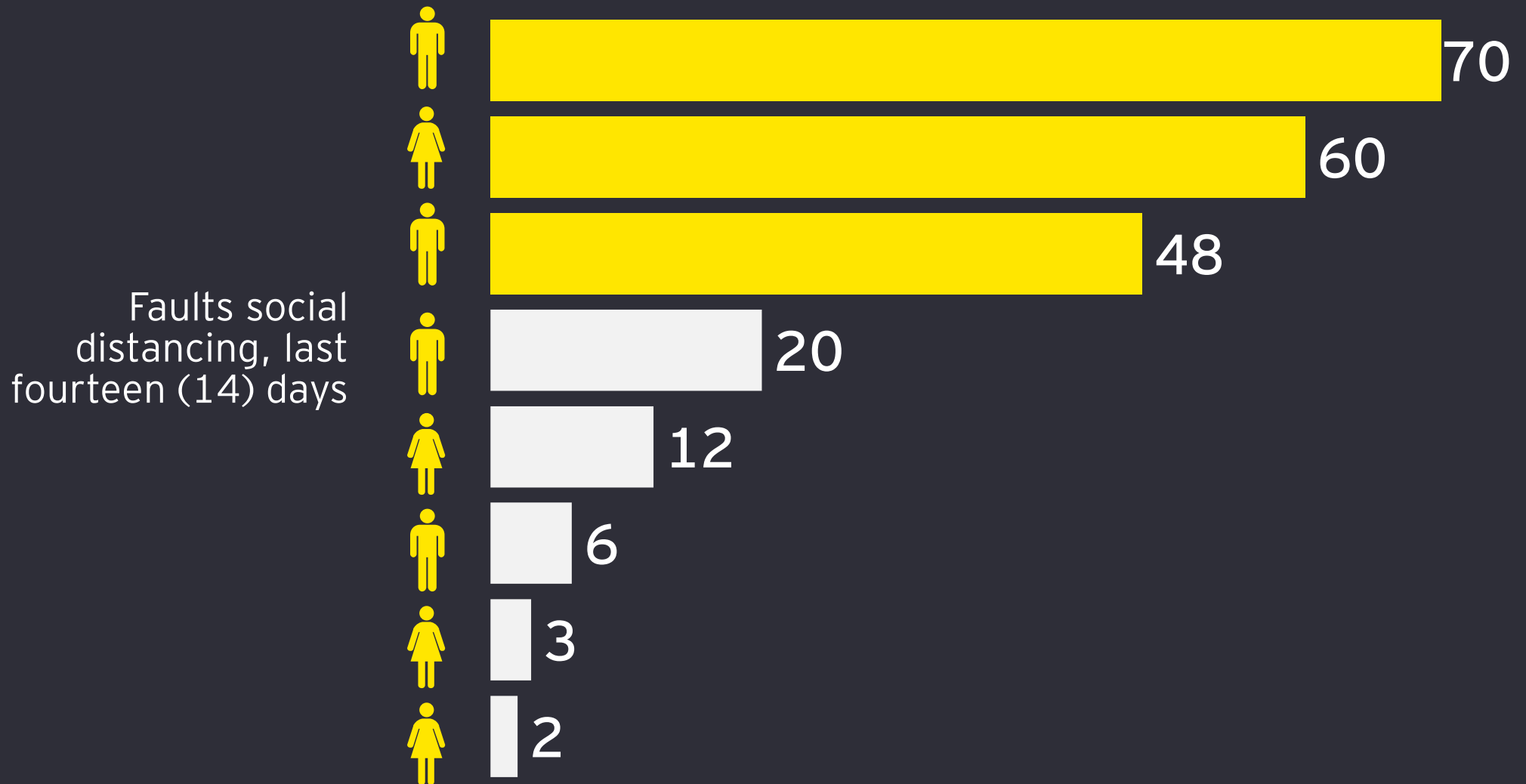
This applications establish a safe zone and records the close contacts of the last 14 days for each worker

Quarantine

TEST



Workers ranking according to close contacts



Critical Risk Index of Operational Continuity (CRIOC)



Value chain



What has not changed?



Crisis

危机

Danger

Opportunity

Contacts



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