

Unlocking Opportunities: United States – Chile Tax Treaty Implications for Transfer Pricing Strategies



United States companies operating in Chile are not the only ones poised to benefit significantly from the recent enactment of the United States – Chile Tax Treaty, which took effect last December. This treaty presents a pivotal opportunity for Latin American businesses conducting operations in the United States to gain tax certainty and potentially achieve tax savings.

For businesses involved in international trade and investment, stability and predictability are paramount. Tax treaties play a crucial role in preventing double taxation, reducing withholding rates, and promoting cross-border investment. Chile becomes the third country in Latin America, following Mexico and Venezuela, to sign a tax treaty with the world's largest economy. Chile boasts one of the most extensive tax treaty networks, with treaties in force with the following Latin American nations: Argentina, Brazil, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay.

The significance of this treaty for Chile is substantial. On one hand, American companies operating in Chile will benefit from a more favorable tax environment, including reduced tax rates and lower withholding rates on interest payments, royalties, and capital gains taxes. This advantage provides them with a competitive edge in the Chilean market. Moreover, the treaty ensures that workers from both nations can live and work in either country without the burden of double taxation. Provisions benefiting individuals facilitate the movement of labor and expertise across borders, ultimately benefiting the entire region.

On the other hand, Chile has the potential to become a hub for Latin American businesses trading with the United States by reducing tax barriers, thus making imports and exports of goods and services from and through Chile more accessible. Specifically, from a transfer pricing perspective, Latin American groups from various industries can now view Chile as an attractive location for structuring their operations involving the United States.

Furthermore, the newly enacted tax treaty allows taxpayers from both countries to mitigate double taxation resulting from transfer pricing adjustments determined by the tax authority in each country, as outlined in the Mutual Agreement Procedure (MAP) contained in the treaty. Additionally, bilateral Advance Price Agreements (APAs) will become available as a tool for transfer pricing certainty.

Ready to elevate your transfer pricing practices and minimize risk? Reach out to us today for tailored solutions and expert guidance.