United Nations Research Institute for Social Development

# Business Elites' Attitudes Toward Taxation and the State

*The Case of Chile*


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**Overcoming Inequalities in a Fractured World: Between Elite Power and Social Mobilization**


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## List of Acronyms

| | |
|---|---|
| CASEN | National Socioeconomic Characterization Survey (Encuesta de Caracterización Socioeconómica Nacional) |
| ECLAC | United Nations Economic Commission for Latin America and the Caribbean |
| GDP | Gross domestic product |
| IMF | International Monetary Fund |
| OECD | Organisation for Economic Co-operation and Development |
| PPP | Purchasing power parity |
| SII | Servicio de Impuestos Internos |
| UNDP | United Nations Development Programme |
| VAT | Value-added tax |
| WEF | World Economic Forum |
| WGI | World Governance Indicators |
| WID | World Inequality Database |

## Abstract

What do the wealthiest groups in society think about tax payment? What is their view of the role of the state? How do these perceptions influence the ways in which the government collects taxes and provides social spending? This paper addresses these questions focusing on the case of Chile. Although Chile is considered one of the countries with highest state capacity in Latin America, its tax policy shares several features with lower-performing countries in the region, such as limited redistribution and a regressive tax structure, showing little ability to tackle economic inequality. Based on extensive analysis of state performance that included a comparison with Uruguay and Portugal as well as 32 in-depth interviews with members of the Chilean economic elite, we show divergences between the quality of government spending and elite perceptions on this issue. Elites' distrust of state action leads to unwillingness to pay taxes, which they see primarily as a cost rather than an instrument to promote solidarity or social cooperation. Taxes are also perceived as too high, though the effective tax rates of high-income taxpayers are on par with that of lower classes. We highlight the need to analyse fiscal performance, taking into account both spending and tax collection—including more opaque indicators such as tax expenditures—and rethink communication strategies to present state performance more clearly.

## Keywords

Chile; consent; elites; redistribution; taxation

## Bios

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## Introduction

Tax collection is a crucial mechanism for tackling inequality from the side of the state. Collection not only aims to raise funds to finance public goods, but it also has a redistributive function defining who should pay, why this contribution is justifiable, and the appropriate amount of money in each case. Based on these functions, tax collection and redistribution are key aspects of building state capacity, thus helping a state become truly representative of a community of citizens (Atria 2014).

From a taxpayer perspective, tax payment is an everyday requirement which, while not always visible, is a form of economic and political participation in society. Following Martin, Mehrotra and Prasad (2009:3), this paper understands taxation as "the obligation to contribute money or goods to the state in exchange for nothing in particular." As the authors emphasize, although this definition does not contest the fact that in some cases taxes can be intended for specific purposes and that there is an implicit promise that the resources will be spent on collective goods and services, it highlights that they are not "a fee paid in direct exchange for a service, but rather an obligation to contribute that the state imposes on its citizens and, if necessary, enforces" (Martin et al. 2009:3).

What do the wealthiest groups think about tax payment and social spending? What is their view of the role of the state? How do these perceptions influence the ways the government collects taxes and provides social spending?

This paper addresses these questions, focusing on the case of Chile. Although deemed one of the strongest states in Latin America, its tax policy shares several features with lower-performing countries in the region, such as limited redistribution and a regressive tax structure, leading to a fiscal policy regime that has little impact on inequality. Measured in terms of the effective tax rate, the Chilean economic elite has a low tax burden similar to the rate paid by the lower classes (Fairfield and Jorratt 2016; Castelletti 2013).[1] A low tax burden for the elite has previously been related to strong opposition to progressive tax reforms through elite exercise of structural and instrumental power (Fairfield 2010). Thus, knowing the tax perceptions and beliefs of the economic elite—understood here as business people in positions of power and influence[2]—is necessary to understand how those at the very top of the income distribution make sense of taxation and, based on this, what strategies should be favored to increase redistribution in the future.

This paper is based on the analysis of secondary data sources to examine state performance in Chile in terms of key dimensions related to spending, tax collection and redistribution. In addition, we present data from Uruguay and Portugal concerning the same dimensions for comparative purposes. Subsequently, 32 interviews with members of the Chilean economic elite were

1 Castelletti (2013) finds similar effective tax rates between the top 10% and the bottom 40%.
2 We follow here Khan's (2011:362) definition of elites as: "Those who have vastly disproportionate control over or access to a resource. Within this definition we can think of elites as occupying a position that provides them with access and control or as possessing resources that advantage them—the difference is in our unit of analysis (individuals or the structure of relations). Important for this definition is a secondary point: The resource must have transferable value."

conducted to examine the social meanings of taxes in their views as well as their perceptions and beliefs about the state.

Our findings allow for the comparison of elite views on fiscal issues with the main fiscal performance indicators of the Chilean state. They also give a glimpse of what tax payment means to the wealthiest groups and their willingness to pay, yielding insights on the levels of consent and the challenges to state spending presented by this group of the Chilean society.

This paper has five sections. Section 2 presents the theoretical framework while discussing the meanings of taxation, redistribution and consent. This section also explains the main features of the Chilean tax system. Section 3 portrays the methodology used and data collection techniques for this study. Section 4 analyses the main findings. This section is presented in two parts: the first compares the state performance regarding tax collection and social spending of Chile, Uruguay and Portugal, and the second examines Chilean economic elite members' perceptions of taxation and the role of the state. Finally, section 5 concludes.

## Theoretical Framework and Context

In recent years, there has been a growing interest in studying the social, political and cultural foundations of taxation, taking up the classical concerns of sociologists and economists (Schumpeter 2000; Schultz 1992). This new fiscal sociology helps unveil the reasons why taxes go beyond being a technical issue and a matter of specialists, rather comprising the very foundations of state and citizenship.

First, tax systems are related to the emergence of modern states, embodying the ability to obtain resources from citizens to finance wars and support other state functions (Goldscheid et al.1976). Second, social relations are affected by tax systems (Campbell 1993), as they establish differentiated obligations according to criteria such as the level of income and wealth, possession of property, or the consumption of certain goods and services. This influence not only lies within an economic dimension, but also within political and social dimensions; tax payment shapes citizenship and also impacts inequality, either maintaining or reducing disparities that jeopardize people's dignity, respect and recognition (Atria et al. 2019). Third, the observation of states is broadened: on one hand, the study of social expenditure is complemented with that of revenue, an integrated perspective which allows to explore processes of contestation and bargaining, changes in social relations and institutions, and pathways toward progressive fiscal contracts (Hujo 2020). On the other hand, such focus allows us to shed light on fiscal legitimacy processes by illustrating the ways in which citizens identify themselves as part of a political community and the role they assign to the state (Grimson and Roig 2011).

The abovementioned definition of tax payment, which underlines the obligation that the state imposes in exchange for "nothing in particular" (Martin et al. 2009:3), is present in this analytical framework for two reasons. On the one hand, it allows distinguishing taxes from prices or rates, thus following a different rationale that goes beyond the notion of taxes merely as an exchange, which prevailed in tax systems preceding the massification of progressive taxation in the twentieth century (Rosanvallon 2012). On the other hand, the inability to link taxes with specific goods and products in exchange impedes individuals' ability to fully estimate the implicit expected return on the tax payment (Williamson 2017). Hence, taxation exceeds the market logic, making citizens part of a generalized network of reciprocity (Martin et al. 2009).

## Consent to pay taxes

From an anthropological approach, taxes can be understood as a sacrifice enabling the existence of a community. The notion of sacrifice (Hubert and Mauss 1964) does not associate the obligation to pay taxes with satisfaction with what has been received, but rather with the recognition of a sovereign entity, to which citizens give up part of their property to improve their own moral condition and also participate in the regeneration of community (Abelin 2012). Thus, paying taxes entails that the state is seen as a worthy distributor of surplus wealth, which in turn relies on the state's ability to project an image of credibility and transcendental authority. That image requires the moral recognition of citizens' generosity towards society, as they seek membership through payment (Abelin 2012). Following this approach, we use the concept of sacrifice to explore the tax payment beyond its economic dimension, thus examining to what extent elite meanings of taxes involve social cooperation and community belonging.

In light of this perspective, consent to pay is part of a broader relationship between the state and citizens: a fiscal bond that involves the dynamics of intersubjective recognition—how the state is perceived and how individuals understand social cooperation, among others (Grimson and Roig 2011; Abelin 2012).

For instance, Lieberman (2001) argues that elites' consent to pay taxes is strongly related to their perception of shared interests within societies. Comparing the tax systems of Brazil and South Africa, he finds that in Brazil, elites' regional identities had sharper differences than those based on race. Inversely, in South Africa, racial differences were more salient. Thus, the Brazilian case prevented cross-class solidarity, whereas a "spirit of sacrifice" in South Africa made possible cross-class empathy within the white polity, favoring progressive taxation. In this regard, consent to pay taxes is based on the sense of belonging to a common nation (Ardant 1975; Rosanvallon 2012), although in South Africa this common nation excluded black people. Hence, taxes reflect citizens' civic engagement and they can be a tool to distribute the burden of financial contributions across the nation (Atria et al. 2019).

Paying taxes and being part of a generalized reciprocity network requires a leap of faith from taxpayers: they must believe that they will receive something in return in the future, and that other taxpayers will contribute as well (Steinmo 2018). While some countries demonstrate low levels of trust in the state and in other taxpayers to indeed pay what they should, others show higher levels (Bergman 2009). In addition, there are differences across societies regarding the prospect of return or regarding the willingness to pay, which can be low (Todor 2018). Indeed, a growing lack of trust in the state, particularly in taxation as a redistributive tool, has been observed (Steinmo 2003; Tanzi 2014). Sloterdijk (2010) has even proposed gradually transforming the current paradigm of taxation to understand taxes as donations. Thus, he argues, it puts an end to the notion of taxpayers as debtors, reinvigorating democracy.

According to Steinmo (2018), understanding why tax systems produce different outcomes requires analysing (a) the ways in which social and political institutions structure the behavior of taxpayers, (b) how and why societies have developed different social and political institutions, and (c) the attitudes, beliefs and political culture of each society. This latter aspect relates to consent, as it refers to tolerance of different levels of taxation and citizens' expectations of the state.

The need for consent is not only present in taxation, but it is a pillar for the creation of a society and an essential source of state legitimacy. For John Locke, consent, either express or tacit, is the mechanism expressing the voluntary fulfillment of special obligations and the constitution as a full member of society (Tuckness 2018).

Focusing on taxes, consent would be a condition differentiating a contractual tax system—an explicit exchange of taxes for services—from a coercive one involving a rather arbitrary collection of taxes, in which taxpayers are not part of tax policy decision making (Moore 2008)[3]. In today's world, the prevailing taxation system is the former. Although the notion of the fiscal contract has different definitions and scopes,[4] the historical evolution of a contractual tax system is based on bargaining processes between citizens and the state that helped expand the representativeness, responsiveness and effectiveness of governments (Moore 2008), that is, participation in collective decisions, access to public or semipublic assets, and higher government accountability to understand the use of tax revenue, among others (Bräutigam 2008).

At any rate, a contractual tax system can have diverse outcomes. On the one hand, some social scientists argue that the evolution of tax systems has followed two main divergent trajectories according to different waves of democratization (Kato and Toyofuku 2018). The first pattern mostly relies on progressive income taxation and is associated with mature democracies. The second pattern represents recently democratized countries and is based on indirect taxation, relying particularly on the value-added tax (VAT).

On the other hand, another strand of research underlines different levels of power to tax. This approach has been largely used in Latin America, especially with regard to the limits to "going where the money is" (Fairfield 2015). Fairfield contributes to this approach by showing explicitly the elites' sources of bargaining power based on the distinction between business's instrumental power and structural power. This framework allows to examine the constraints that Latin American governments face in progressive tax reform discussions.

Consent is also more specifically analysed by scholars as a key determinant of tax compliance, along with the exchange of goods and services and the costs involved in fulfilling tax obligations (Easter 2008). On one hand, previous evidence reports that enforcement only partly explains tax payment: compliance tends to be higher than expected if only relying on enforcement, suggesting that other motivations and social rules, such as prosocial or cooperative behavior, also have influence (Cummings et al. 2009). On the other hand, enforcement can have a negative impact on compliance. At a certain level, higher penalty rates and the use of threat and coercion do not necessarily reduce tax evasion, and could even reduce tax morale (Frey and Holler 1998; Taylor 2002).

One of the most influential works in this respect is that of Levi (1988), who proposes a model of quasi-voluntary compliance. The voluntary component is reflected in taxpayers' choice to pay.

[3] Coercive taxation has prevailed in history, especially in agricultural societies. It has also been the core reason for several of the most important protests in the last centuries, such as the English, French, American and Chinese revolutions (Moore 2008; Ardant 1975).

[4] See for example Timmons (2005), Martin et al. (2009) and Braithwaite (2002).

On the other hand, those who do not pay are threatened by coercion. For Levi (1988), paying taxes can be considered neither a matter of principle alone, nor purely self-interest, and can rarely be accounted for only by positive incentives. Taxpayers are seen as strategic players willing to cooperate when they expect others to cooperate as well. In turn, governments have a key role in building trust. This is due to their capacity to establish themselves as credible institutions, competent in providing the expected goods and services in return, as well as in convincing taxpayers that their contributions are key to accomplishing this goal. Furthermore, Levi argues that tax compliance can be improved if governments prove that tax systems are fair. On the contrary, if people think that everybody cheats, tax evasion may even be perceived as fairer (Bergman 2009).

## Latin American tax systems and the Chilean case

Latin American tax systems have been characterized by the inability to ensure market efficiency, mobilize public revenue, secure macroeconomic stabilization, or enhance equality via redistribution (Hujo and McClanahan 2008). In addition, low tax rates for the elites and the lower importance of direct taxation compared to indirect taxes, such as the VAT, configure tax systems in which income tax remains class-based—that is, a tax only paid by the wealthy (Biehl and Labarca 2018). Despite that progressive reforms have been implemented in the region during the last decades, tax revenues are still low, with significant levels of tax non-compliance (ECLAC 2015).

Comparing the tax-to-GDP-ratio between Latin American countries and those of the Organisation for Economic Co-operation and Development (OECD), it appears that, on average, Latin American countries collected 11.4 percent less revenue than their OECD counterparts (22.84 percent versus 34.27 percent) in 2015 (OECD et al. 2017). As Bird, Martínez-Vasquez and Torgler (2008) suggest, a higher level of tax take has several preconditions, including a legitimate and responsive state, which means that the tax ratios are conditioned by factors such as the performance of the governing institutions. Part of this paper's aims is to explore this performance in Chile compared to Uruguay and Portugal.

In the context of high levels of income concentration (Flores et al. 2019), Chile has low levels of redistribution, partly explained by the weak redistributive effects of the tax system (OECD 2015) and by low social spending (OECD 2019b). Despite being considered one of the strongest states in Latin America, the Chilean tax regime shares several weaknesses with other countries in the region: a regressive tax structure, an income tax with a low tax base and different treatment of capital and labour earnings, low effective rates for top incomes, high government tax expenditures such as exemptions,[5] low tax rates for the exploitation of natural resources, and problems with tax non-compliance.

Regarding tax non-compliance, income tax evasion is far more problematic than VAT evasion. Following Atria (2019), in 2011, VAT evasion was estimated at close to 14 percent (although it was only 8 percent in 2007), which is low compared to other Latin American countries. On the other hand, income tax evasion reached 34 percent by 2009 (Jorratt 2013). The income tax only affects the wealthiest 19 percent, since the rest of the population earn wages below the income

[5] Tax expenditures are "concessions and exemptions from a tax structure that reduce government revenue collection and, because the government policy objectives could be achieved alternatively through a subsidy or other direct outlays, the concession is regarded as equivalent to a budget expenditure" (IMF 2007).

tax threshold. Moreover, an OECD report on base erosion and profit shifting (OECD 2013) indicates that Bermuda is the third largest investor in Chile in 2010, and a study by Global Financial Integrity (Kar and Spanjers 2015) shows Chile ranking 27th among emerging economies with the highest flows of illicit resources. Overall, this evidence suggests that there are problems of tax non-compliance in Chile, not only through evasion but also avoidance. Avoidance may take place in the case of the inheritance tax, which collects 0.1 percent of total tax revenue and is often dodged through legal tax planning (Micco 2013).

As many studies reveal, many of the political factors determining the current tax structure stem from the role of elites.[6] In such an unequal tax system, modifying the tax structure would necessarily affect the very rich. Elite opposition is exercised through instrumental and structural power, rendering tax reform processes inefficient (Fairfield 2015). Although in 2014 the government of Michelle Bachelet partially addressed this problem by enacting a progressive reform that raised taxes on high-income taxpayers, a 2015 reform and a new project currently under discussion have sought to revert some of its main changes, aiming to maintain the regressive taxes and low redistribution.

## Methodology

The research conducted for this study involved two stages. First, we compared the state performance regarding redistribution and social spending of Chile, Uruguay and Portugal through quantitative data. Second, using qualitative methods, the perceptions and beliefs of the economic elite in Chile around the meanings of taxation and the role of the state were explored. By doing this, we intended to compare fiscal performance with elite attitudes towards taxation.

The first stage was aimed at gathering a set of indicators to objectively understand the redistributive effects of the Chilean state compared to Portugal and Uruguay. This stage assessed the participation of subsidies in monetary income of households, market income and multidimensional poverty rates. These indicators were constructed based on the National Socio-Economic Characterization Survey (CASEN) for the year 2017. Participation of subsidies in monetary income of households is equal to the share of direct cash transfers (from the government) of the monetary household income. This indicator is grouped into primary income deciles. For this exercise, primary income is equal to monetary income minus cash subsidies.

We also show the average monetary income adjusted to purchasing power parity (PPP). Primary income includes all payments received by people, from work and the ownership of assets, compulsory pensions, and private current transfers (from non-profit institutions and other households). Direct subsidies are all monetary contributions made by the state to households through social programs. Finally, monetary income is the sum of primary income and monetary subsidies received by households.

Multidimensional poverty rates are estimated based on the multidimensional poverty variable and household primary income deciles. In Chile, the Ministry of Social Development and Family uses two approaches to measure poverty: income poverty and multidimensional poverty. The former is based on a monetary approach, where a minimum income threshold to fulfill the basic needs of a household is established. The latter is based on a broader approach to welfare considering four

6 Fairfield 2010; López and Figueroa 2011; Boylan 1996; Napoli and Navia 2012.

dimensions: a) education, b) health, c) work and social security, and d) housing (Ministerio de Desarrollo Social 2016). Although this measurement was modified in 2015 to include one additional dimension (networks and social cohesion), we chose to exclude it, as it can only be replicated for years 2015 and 2017, whereas the measurements of the four original dimensions have been available since 2009.

For the qualitative component, we conducted thirty-two in-depth interviews to study perceptions of the economic elite—that is, evaluative and non-evaluative understandings that combine cognitions, norms and values (Reis and Moore 2005). Interviews were performed from February to May 2013 in Santiago, Chile. Sampling was based on two selection criteria: belonging to the top 5 percent (average household per capita income, according to CASEN 2011), and holding a prestigious position within a company, foundation or business group, or working as an independent consultant.

Since elites are a difficult group to gain access to and previous knowledge of insiders is useful (Atkinson and Flint 2001), we identify an initial set of nine respondents using a chain-referral method to request that they suggest other individuals with similar criteria (Tansey 2007). We employed this strategy to reach thirty-two interviewees. The sample included participants from eight productive sectors: transportation, food service activities, mining, consulting services, electricity and gas, financial and insurance activities, business associations, and private foundations.

The sample was unbalanced along gender lines (87 percent men and 13 percent women), which reflects the very low proportion of women occupying management or board member positions in Chile (DESUC 2018). The interviews lasted between 35 and 100 minutes each, they were recorded and transcribed, and later codified and analysed using the software Dedoose. The interview guidelines included six modules (general perception, compliance, tax structure, tax reform, institutions and inequality). Each interview was assigned an identification number, noted within brackets when quotes are employed to illustrate findings. In this paper, only results concerning the general perception module are presented.

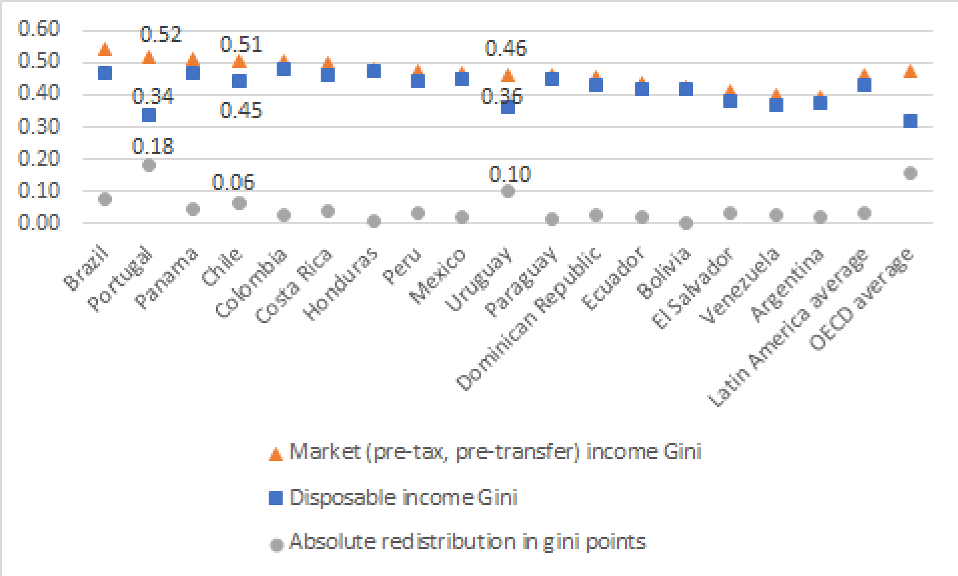
The analysis of interviews started with a coding process, by which relevant excerpts were assigned specific codes. The codes refer to the main concepts and themes of our research. The code analysis was based on different coding stages considering descriptive, interpretative and causal aspects (King and Horrocks 2010). By combining inductive reasoning and previous knowledge, we aimed at replacing the traditional coding with a "flexible coding" (Deterding and Waters 2018:13). The main aim of the coding is to obtain a set of cross-sectional narratives that become a way to overcome contradictions inherent to individual discourses (Sølvberg and Jarness 2019).

## Findings

### The performance of the state: Comparing Chile, Uruguay and Portugal

Both tax structures and public expenditure are essential in determining the state's fiscal role in correcting market income distribution. As is the case of most Latin American countries, the redistributive effect of fiscal spending in Chile is very low. The average Gini coefficient for Latin American countries regarding market income distribution is 0.46, which drops to 0.43 after taxes and transfers (figure 1). In OECD countries, in contrast, redistribution reduces the Gini coefficient from 0.47 to 0.32. It is worth mentioning that in those countries, the market income distribution is as unequal as in Latin America, but the key role of the state allows more equitable levels of distribution.

**Figure 1: Gini coefficients for market income and disposable income* circa 2016**




*Source: Authors' own elaboration based on Solt (2020)*
*Notes: *The disposable income is the market income after taxes and state transfers.*

In order to analyse the redistributive role of the Chilean state, we must compare it with countries with similar economic development. In terms of development thresholds, Chile, Uruguay and Portugal are quite similar. According to Infante (2011), the development threshold corresponds to a PPP of USD 22,000 per capita income. Chile and Uruguay are among the emerging economies[7] with the highest per capita income in Latin America, with PPPs of USD 21,415 and USD 19,401, respectively. On the other hand, Portugal is classified as an advanced economy with one of the lowest incomes (PPP USD 27,404), only surpassing Greece (PPP USD 24,647). Additionally, Chilean GDP per capita has rapidly converged with that of Portugal in the last twenty-seven years. By 1990, Chilean per capita income was equivalent to 31 percent of Portugal's, while by 2000 it was 44 percent and, by 2017, 71 percent.

Although Chile has similar income levels as those of Uruguay and Portugal, its redistributive role is very limited compared to these two nations (table 1). Chile's market income inequality is similar to that of Portugal, with Gini values of 0.51 and 0.52,[8] respectively, but after including taxes and transfers, inequality rates in Portugal drop by 0.18 points, three times more than Chile's 0.6 points reduction. On the other hand, Uruguay has lower market income inequality and its government is able to reduce inequality to a greater extent than Chile's. In the same fashion, wealth is more concentrated in Chile, with a higher Gini coefficient of financial assets. These differences are not only evidenced in the Gini levels, but also in other economic and social indicators related to state

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7 The international classification of advanced and emerging economies for 2017 is available at IMF (2017).

8 There is evidence that Chilean Gini values using household surveys usually underestimate income inequality, because they do not capture precisely capital gains of the top incomes (López et al. 2013). Using capital gains and tax evasion correction, these authors estimate that the Chilean Gini on average for the period 2004-2013 was 0.61. Despite the fact that this estimation is more precise for inequality estimations, there is still scarce availability of tax data across countries for the same years and using the same methodology.

and market performance, such as higher poverty rates, higher top 1 percent income share, and higher number of billionaires per million inhabitants.[9]

**Table 1: Chilean, Uruguayan and Portuguese social, economic and tax indicators (circa 2017)**

| Indicator | Chile | Uruguay | Portugal |
|---|---|---|---|
| Gross national per capita income (PPP)* | 21,415 | 19,401 | 27,404 |
| Market Gini coefficient | 0.51 | 0.46 | 0.52 |
| Redistributive effect (change in Gini points) | 0.06 | 0.10 | 0.18 |
| Poverty rate** | 6.4 | 2.9 | 3.0 |
| Social expenditure as percentage of GDP*** | 11.3 | 12.1 | 23.7 |
| Tax burden as percentage of GDP | 20.1 | 29.0 | 34.4 |
| Tax on goods and services as percentage of GDP | 11.1 | 11.5 | 13.8 |
| Tax on income and profits as percentage of GDP | 6.9 | 7.3 | 9.7 |
| Tax expenditures as percentage of GDP | 3.1 | 6.4 | 5.0 |
| Income share of the top 1% | 22.6 | 14.0 | 10.5 |
| Billionaires per million inhabitants | 0.6 | 0.0 | 0.1 |
| Financial assets Gini coefficient | 0.72 | 0.66 | 0.67 |

*Source: For gross national per capita income and poverty rate statistics, 2017 data were used, available at World Bank Data (2019); Gini market and distributive effect data from Solt (2020); Share of top 1% from WID.world (2019); The number of billionaires per million inhabitants is based on Forbes (2020) and population statistics in World Bank data (2019); financial assets Gini coefficient for Chile and Uruguay are taken from ECLAC (2019a) and Portugal on INE (2019); tax revenue, tax on goods and services, and tax on income and profits are taken from OECD (2019a); social expenditure for Chile and Uruguay are taken from ECLAC (2020) and for Portugal from OECD (2019b); tax expenditures for Chile and Uruguay are taken from ECLAC (2019b), and for Portugal from IMF (2014).*
*Notes: *Constant 2011 international dollars; **Percentage of people living on less than PPP USD 5.5 per day; ***This information does not include expenditures on education.*

Distributive differences among these countries may be explained by the level of public spending, the progressiveness of spending and tax system performance. When comparing Chile and Portugal, the latter has much higher levels of social spending, while Chile and Uruguay almost have the same level. These figures only consider spending of central governments; hence, in the case of Uruguay, the estimation excludes social security spending by the Social Security Bank of Uruguay (ECLAC 2019a), which has public solidarity components.[10] Thus, faced with the same levels of expenditure, inequality may be reduced through pensions when a solidarity pillar is included for Uruguay. On the other hand, the Chilean pension system is mostly based on

[9] According to Forbes (2019), Chile has eleven individuals with fortunes greater than one billion dollars, Portugal has only one person in the ranking, and Uruguay none.
[10] The Social Security Bank of Uruguay guides Uruguay's national social security system. This system combines pay-as-you-go schemes and individual capitalization pensions (Ministerio de Desarrollo Social 2009).

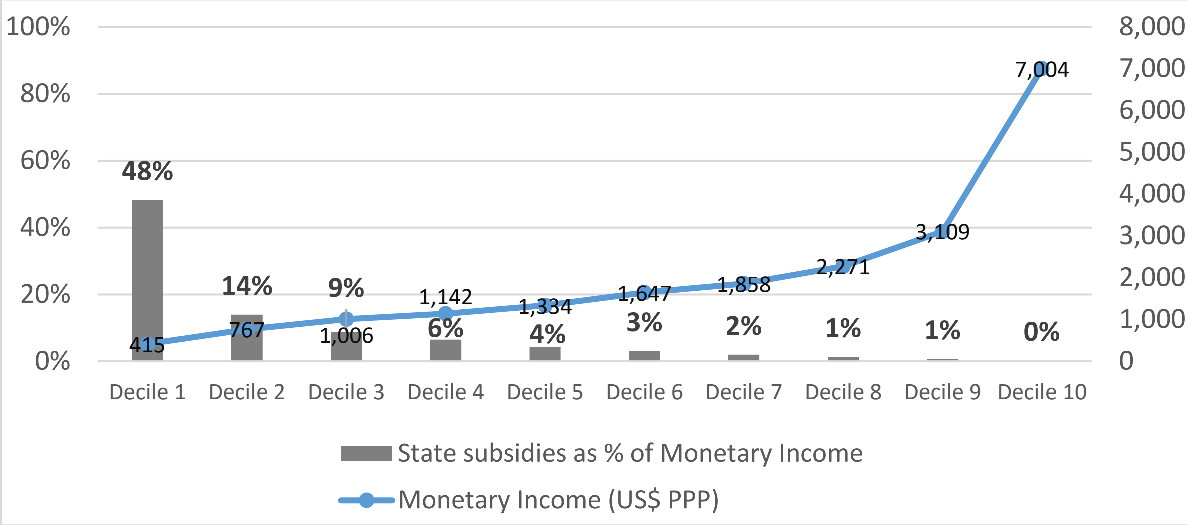
individual capitalization accounts: the only redistributive elements are the Pensión Básica Solidaria (Basic Solidarity Pension) and the Aporte Previsional Solidario (Solidarity Pension Contribution), which are solidarity pensions for the poorest groups already included in social programmes with a positive effect on poverty reduction (Subsecretaría de Previsión Social 2017). However, the impact of this policy over income inequality is low: based on data from the CASEN survey, we found that these solidarity pensions reduce the Gini coefficient by 0.007 points. The findings of Lustig (2017) confirm that Uruguay is one of the Latin American countries where income inequality is reduced the most through compulsory pensions, whereas in Chile the redistributive effect is very low.

Chile has been highly ranked regarding effectiveness of public spending. For instance, in the 2013-2014 Global Competitiveness Report, where a lower numbered ranking indicates better performace, Chile ranked 13 out of 148 countries in terms of wastefulness of government spending (WEF 2013), while Uruguay ranked 108 and Portugal 118. In the 2017-2018 report, Chile ranked 39 out of 137 countries in the indicator "diversion of public funds" (Uruguay ranked 40 and Portugal 46).[11] Moreover, in terms of efficiency Chile ranked 80, similar to Portugal (position 72) and more efficient than Uruguay (position 117) and all other Latin American countries (WEF 2017). Indeed, according to the Worldwide Governance Indicators, Chile ranked in the 81st percentile in 2018 in terms of government effectiveness, just a few positions behind Portugal (86th), far ahead of Uruguay (73.8th) and better than the rest of Latin America (Kaufmann et al. 2010). Consequently, both rankings prove that Chile's public spending does not perform worse when compared to Portugal or Uruguay.

The efficiency of Chilean public spending is illustrated by its ability to focus on the lowest income population. According to the income reported in the CASEN survey, the higher the income, the lower the government subsidies received by households (figure 2). In decile 1, the share of direct transfers equals 48 percent of the monetary income. Thus, public transfers play a key role in increasing household incomes and reducing poverty. Moreover, social policy is also efficient from a multidimensional perspective of welfare. Figure 3 shows the multidimensional poverty rate in income deciles for 2009, 2013 and 2017. This graph shows that the incidence of poverty has been steadily dropping to a greater extent in the lowest income deciles, improving the living conditions of the poor both in monetary and non-monetary terms. Indeed, compared with the Latin American region, Chile has a higher reduction of poverty incidence by means of direct transfers (Martínez et al. 2017).

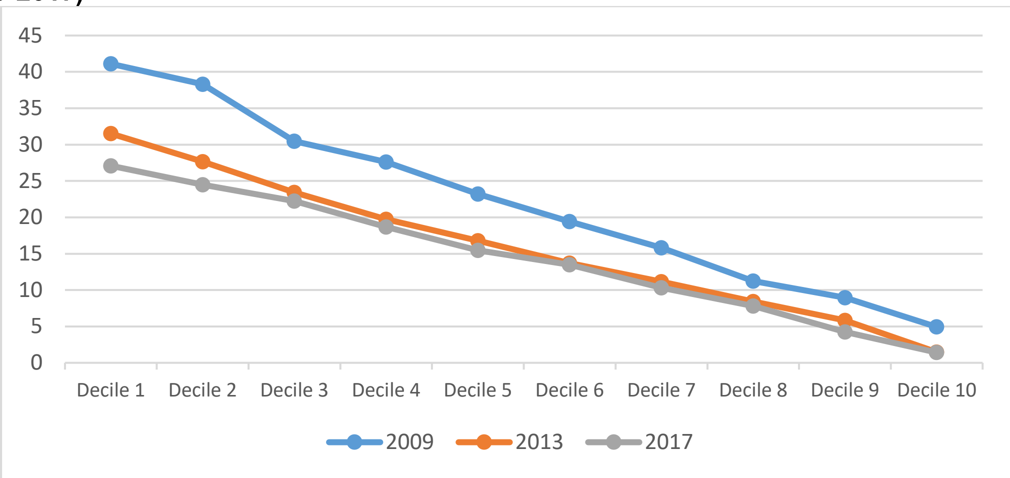
[11] In this report the indicator "Wastefulness of government spending" is not available.

**Figure 2: Participation of direct subsidies (left axis) and monetary incomes (right axis) according to the primary household income decile (2017)**




*Source: Authors' own elaboration based on Ministerio de Desarrollo Social (2017) and the World Bank PPP conversion factor.*
*Notes: Participation of subsidies in households' monetary income is equal to the share of direct cash transfers of the monetary household income.*

**Figure 3: Multidimensional poverty rate, according to primary household income deciles (2009-2017)**




*Source: Authors' own elaboration based on Casen (2009, 2013, 2017)*

From decile 2 onwards, the number of subsidies sharply drops[12] to the median of the distribution, where transfers have a minor share in income. This proves that direct cash transfers are mainly allocated to the most disadvantaged households, while the significant reduction in the subsidy levels in deciles 2 to 7 leaves them in a vulnerable situation. Though there are other public resources beyond subsidies, we concentrate on direct cash transfers to analyse the redistributive capacity of the state with regard to monetary income. Indeed, low income differences distinguish lower and middle groups, which is illustrated by the fact that 54 percent of those in the fourth to seventh deciles say they are struggling to meet all expenses despite working (OECD 2019c). Hence, Chile's social policy is characterized by a strong focus on social spending on poor populations, leaving a significant percentage of national households unprotected (Repetto 2016).

[12] This decrease occurs in relative and in absolute terms (i.e., as the primary household income increases, direct subsidies from the state are reduced, representing a lower percentage of participation in household income).

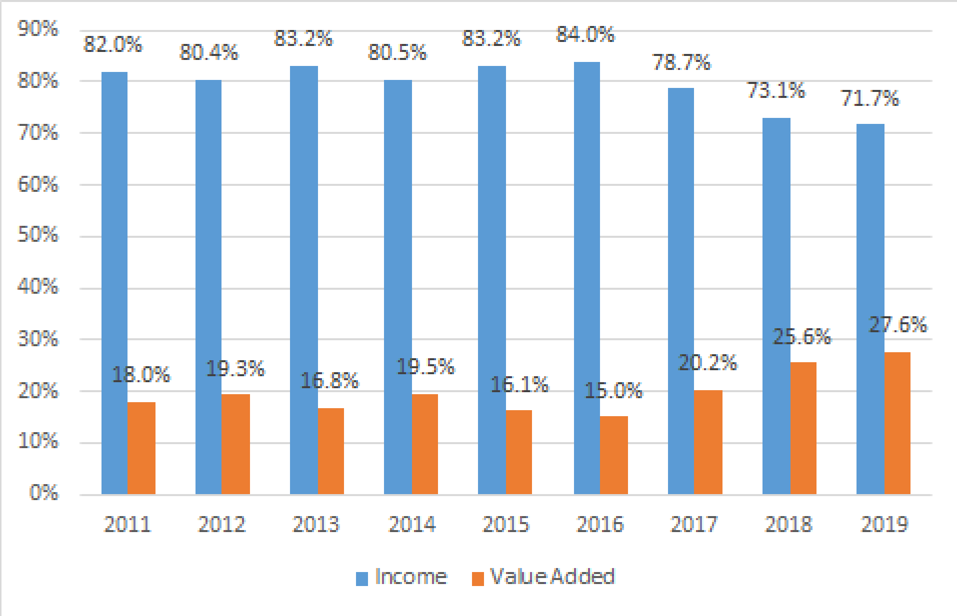
Vulnerability to economic and financial risks is also observed when analysing the financial burden, which represents 27 percent of monthly income in the lower brackets, compared to 23 percent of the upper income (Banco Central 2018). Additionally, the poorest households obtain loans with higher interest rates and weaker regulation due to loans and payments with credits linked to department stores instead of to banks (Han 2011).

Despite the good performance of Chilean government spending targeting poverty reduction, income redistribution does not substantially alter the high levels of inequality because the level of expenditure is low compared to Chile's level of development. The amount and progressivity of fiscal spending and the manner in which it is financed determine the redistributive potential of a country (Lustig 2017). Thus, considering Chile's performance, we should expect that fiscal redistribution would be higher if both the tax revenue and social spending in Chile were increased. Furthermore, there is evidence in Latin America that the broader the coverage of public social spending, the greater the distributive effects (Ocampo 2008).

The weak redistributive effect is also visible when examining taxation. Chile's tax burden is not high, and it is also far below Uruguay and Portugal: while the tax burden in Chile is 20.1 percent, in Uruguay it is 29 percent and Portugal 34.4 percent (see table 1). Furthermore, the tax system is slightly regressive (Repetto 2016) with higher dependency on indirect taxes. As table 1 shows, taxes on goods and services are equal to half of tax revenues, while income tax revenue is low (6.9 percent of GDP) compared to Uruguay (11.5 percent) and Portugal (13.8 percent). In addition, wealth tax collection is low (Atria 2015).

The Chilean tax system gives preferential treatment to capital gains, providing a disproportionate advantage to high-income taxpayers. According to Fairfield and Jorrat (2016), the effective tax rate in Chile is 16 percent for the taxpayers of the top 1 percent, which is substantially lower than other OECD countries such as the United States and Germany. The level of government tax expenditures such as concessions and exemptions, equivalent to 3 percent of the GDP, is also relevant. Although this figure is lower than that of Uruguay and Portugal, most of Chile's tax expenditures (around 80 percent) benefit income taxpayers, comprising the top 19 percent of taxpayers (Atria 2015). Measures mostly provide saving and investment incentives, the impact of which is the subject of controversial debates since they facilitate tax non-compliance, increasing the regressivity of tax incentives and reducing the already weak redistributive capacity of the tax system (Jorratt 2013). Figure 4 shows the amounts of income tax and VAT tax expenditures as percentage of total tax expenditures. Table 2 examines tax expenditures broken down by the sectors or objectives benefitted.

**Figure 4: Income tax and value-added tax expenditures as percent of total tax expenditure (2011-2019)**




*Source: Authors' own elaboration based on SII (2019)*

**Table 2: Classification of tax expenditures by sectors or objectives (2011-2019)**

| Sector or Objective | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Saving-Investment | 63.9 | 61.6 | 69.9 | 67.4 | 67.2 | 69.9 | 62.3 | 51.7 | 50.2 |
| Education | 5.6 | 6.8 | 5.1 | 5.6 | 6.2 | 7.9 | 9.5 | 12.0 | 11.3 |
| Health | 6.9 | 8.8 | 4.4 | 4.3 | 4.8 | 5.7 | 7.4 | 8.8 | 8.7 |
| Real Estate | 10.0 | 11.4 | 7.8 | 8.3 | 7.5 | 4.8 | 6.0 | 7.0 | 7.9 |
| Micro and small enterprises promotion | 4.6 | 4.0 | 3.2 | 3.2 | 4.6 | 3.2 | 3.2 | 6.9 | 7.5 |
| Rest of Sectors | 4.3 | 4.1 | 5.3 | 6.5 | 7.4 | 7.7 | 9.6 | 6.2 | 5.8 |
| Transportation | 1.3 | 1.0 | 0.9 | 1.7 | 2.3 | 2.4 | 2.5 | 3.9 | 4.0 |
| Regional Promotion | 1.7 | 1.9 | 1.7 | 1.6 | 1.7 | 1.9 | 2.3 | 3.9 | 3.8 |
| Insurance | 0.4 | 0.5 | 1.2 | 1.3 | 1.5 | 1.3 | 1.4 | 1.5 | 1.5 |
| Exportation | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| No assigned | 1.3 | -0.2 | 0.6 | 0.1 | -3.3 | -4.9 | -4.2 | -1.9 | -0.7 |
| TOTAL | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

*Source: Authors' own elaboration based on SII (2019)*

## Elite perceptions: A qualitative analysis

So far, findings suggest that the Chilean state has failed to effectively address economic inequality. Although targeted spending and social policies reduce poverty, the redistributive effects are weak. Moreover, a rather low tax burden, a regressive tax structure and tax expenditures/incentives which mostly benefit high-income taxpayers show that tax collection worsens the market income distribution, rather than improving it.

Economic elites have been described as having high levels of ideological homogeneity and cohesion.[13] In addition, previous studies reveal that the elite's social preferences are different from those of the general population regarding key social issues such as pensions, healthcare, or education (UNDP 2015), as well as high levels of influence to impose their views while blocking redistributive reforms (Fairfield 2015; Atria 2015).

In what follows we will explore this matter by delving into 32 in-depth interviews conducted with economic elite members. This section is organized in two parts, shedding light firstly on perceptions around tax payment and the role of the state, and secondly on the willingness to pay that can be inferred from the economic elites' perceptions and beliefs.

### *Tax payment and the role of the state*

Most interviewees believe the payment of taxes is similar to an economic contract whose justification relies on a set of benefits that cannot be provided by private agents. Thus, the relationship with the state mainly appears based on a direct exchange. In this regard, as we will examine below and in opposition to the empirical evidence on state performance, much of elites' criticism of taxation is based on the assumption of an ineffective state, either because benefits can hardly be identified or because of the state's perceived general inability to manage money efficiently. Indeed, our participants often evaluated their relationship with the government using parameters of efficiency taken from the business sector, suggesting that the fiscal contract can be comparable to private contracts or projects.

Starting from this view, two positions on the role of taxation are distinguished. The first position, to which most respondents adhere, understands taxes as a burden or obligation necessary to ensure the existence of the state and its essential functions. The most extreme version of this position interprets taxation as a theft.

> The existence of the state implies that it must be paid. And the manner in which it is paid is through taxes. I believe they are what we pay in order for the state to exist and fulfill the role we entrusted to it. (EE28)

[13] Fourcade and Babb 2003; Thumala 2007; Undurraga 2013.

> How do I feel about taxes? First, they are a burden. And if they are indeed a burden, I accept it, but I also want that the counterpart is generating productivity gains…better conditions for the people, tax-related benefits impacting workers in this country. (EE26)

Participants adhering to this position identified three main types of public spending: basic functions of the state (e.g. justice and maintenance of domestic order), social policy and administrative spending. Regarding administrative spending, related to maintaining the public administration and its officials, their statements pose doubts about the suitability of public officials, and the allegedly large amounts of money allocated to administrative expenditures are often perceived as wasteful.

Regarding social policy preferences, distrust of state actions leads to preferences for targeted social policy to address the problem of poverty, particularly conditional cash transfers and social programmes to level the playing field and equalize opportunities for disadvantaged groups. While targeted social policy is clearly visible when analysing state performance, previous studies allow to compare different policy preferences between elite groups and the rest of the population. First, based on public surveys, Maldonado, Iturra, Atria and Meneses (2019) show the rise of social pressures for a more strategic role of the state in the provision of social services. This data places Chile among the countries with higher preferences for redistribution in international comparison. Second, UNDP (2015) analyses divergent preferences between elites and citizens on the role the state should play in key public issues. Table 3 presents a selection of these results regarding four key social policy areas: healthcare, education, public transport and the pension system. While most citizens support that the state should be responsible for these areas, economic elite preferences show strong opposition to this view.

**Table 3: Preference for the state to take charge in different areas, by type of elite* and citizens (percentage)**

| Social Services | Economic Elite | Political Elite | Symbolic Elite | Social Elite | Citizens |
|---|---|---|---|---|---|
| Healthcare | 0 | 31 | 22 | 77 | 72 |
| Education | 1 | 28 | 27 | 77 | 74 |
| Public transport | 11 | 28 | 38 | 67 | 65 |
| Pension system | 3 | 27 | 38 | 80 | 80 |

*Source: Authors' own elaboration based on UNDP (2015).*
*Notes: The original table also included water and electricity, telephone services, television services, and copper exploitation. All of them also exhibit substantial differences between elite preferences and citizen preferences: considering the 8 areas, the average difference is 61%.*
**According to UNDP (2015) the economic elite refers to positions of power in different economic sectors: the political elite is composed of influential positions in different branches of government; the symbolic elite describes leaders capable of influencing public debates; and the social elite includes those able to represent the interests of citizens beyond political parties.*

The second position—to which a lower number of our respondents adhere—understands tax payment as a fundamental civic responsibility or duty, which includes more explicitly a redistributive function. This view highlights that to be sustainable the country requires policies aimed at reducing income inequality. In this line of thought, for example, one of the respondents stated that paying taxes "is being part of society, having the right to act in society and being personally and professionally legitimized. I'm a citizen for paying taxes" (EE9). Similarly, another respondent stated that "it means fulfilling a role of equity. It means that taxes somehow help support an apparatus aimed at the common good of society" (EE2).

However, this minority position shares with the majority a negative view of fiscal performance. In particular, 22 out of 32 respondents expressly criticized the state for inefficiency, and the majority of the remaining ten respondents believed this to be a controversial aspect. Inefficiency is articulated through descriptions such as "waste of money," "poor execution," "slowness," "unnecessary bureaucracy" and "poor management" in addressing and solving the country's problems. This lack of trust in the state has an obverse in the private sector: anything the public sector does would eventually improve if done by the private sector. The fact that the state performs certain activities exclusively is viewed as a necessary evil that cannot be avoided. As an interviewee remarks:

> The state needs an income to do things that are not done by the market or the private sector, either because it is not profitable or extremely risky to do. But I am sure that a private company would do things much more efficiently than the state. In the end, the state always makes you doubt about what portion of your taxes were used in bureaucracy, corruption or inefficiency. (EE25)

Lack of trust in the state is manifested in two different ways: one group of respondents provided specific and concrete references, through experiences of irregular operations or by having witnessed legal offenses or acts of corruption. The rest of the respondents based their distrust on an abstract perspective, revealing a generally negative attitude towards the state regarding the loss of decision-making power associated with its role.

### *Willingness to pay?*

Although many of our respondents view tax payment as an economic contract, the mandatory nature of this relationship generates discontent and suggests, to an extent, a lack of consent. Some interviewees' discontent arises from what they believe to be an inconvenient use of resources, either because the amounts are high or because they believe money is not utilized as efficiently as in the private sector. Hence, tax payment is defined by an exercise of authority by an institution in which many people do not trust.

This is aggravated by the inability to earmark tax revenue. Several interviewees argued that if they were at least partially able to decide how and where to invest that money, then they would be more satisfied, because they would have more clarity and tools to systematically control and evaluate the extent to which the economic contract of taxation is fulfilled. This idea, which a respondent referred to as "taxes with name and surname" (EE18), is similar to Sloterdijk's view on taxes as donations. For the respondents supporting this proposal, earmarking taxes would allow monitoring of and deciding on how the money is used. In suggesting that this would increase their willingness to pay taxes, elites justify their opposition. This is clear to one of the participants, who says, when talking about the implication of paying taxes:

> My first impression? A blatant waste of money. … If I were told "look, you can choose the use of the money you pay in taxes," I would be glad to pay my taxes. The problem is that they go to *x* institution where they are wasted, because we clearly see that they are being wasted; we have a large number of politicians that need to be financed (EE7).

Finally, notwithstanding the prevalence of a discourse in favor of targeted social spending, which has represented the main approach of public policy in Chile in the last decades,[14] the interviewees criticized the lack of a visible fiscal exchange: they believe that the state gives little in return for their taxes. Whereas a few respondents admit that benefits related to public infrastructure and a legal framework do exist, for most of them the problem lies in the fact that public goods are either scarce or of poor quality as a result of the state's inefficiency, which leads to high private spending. Other participants cite the loss of freedom to control resources to make personal decisions, arguing that individuals must be able to choose according to their preferences. Two interviewees illustrate these arguments:

> We are not Europe, we do not have their culture. Hence, I cannot give the state half of my household's income and keep the other half and expect that the state will use it properly…. Why would the state have to do things that I can do better?... I can also choose what school my kids will go to, if I will have to pay or not, etc. (EE25)

> Today, I pay for highways, health, education.…Truth is, you work to pay for services…. So finally, you come to the conclusion that thanks to this system, individuals are getting used to looking after themselves. This also generates selfish behavior, because you think: I struggle to look after myself, so don't you dare come with more taxes. The way our mindset has been structured plays a key role, and also our view to be willing to pay more taxes. (EE23)

To what extent does the elite consider taxes a sacrifice? Although some interviewees argue that paying taxes is a painful handing over of large sums of money, in many cases required to maintain social order, very few relate such effort to a civic duty implying a social contract to make collective cooperation concrete. Public action appears associated with a minimal state approach. For this reason, tax sacrifice is evaluated in an instrumental way—only based on individual costs or benefits rather than collective ones. As we have shown previously, this coincides with low willingness to pay, since people expect to be taxed at the minimum rate required for the state to exist and fulfill only basic functions that the private sector cannot perform. Also, this explains the apparent contradiction between the discourse of the economic elite and the empirical evidence regarding an excessive tax burden, when in reality, as Fairfield and Jorratt (2016) demonstrate, it is particularly low when compared to countries such as the United States, Germany or Uruguay. Additionally, given that most of the participants expect little in terms of public action and believe that it should not cover too many functions, aggressive tax planning is socially legitimized as a legal way to reduce tax obligations (Atria 2019).[15]

[14] UNDP 2015; Espinoza 2012; Repetto 2016.

[15] Furthermore, opposition of the economic elite to progressive tax changes has been well portrayed in the press in times of recent tax reform debates. See Atria (2015) for media analysis during the 2012 tax reform.

## Conclusions

Findings of the quantitative analysis suggest that Chile's fiscal redistribution could be greater if both the tax burden for higher income groups and social spending increased. One should not expect this impact in all countries, as redistribution levels vary depending on revenue, efficiency and public policy design. However, we provide evidence to support this argument. On one hand, from a comparative approach, the tax burden in Chile leaves room for increases. On the other hand, international comparisons reveal that the Chilean state's performance is positive in terms of efficiency and equality, disproportionately benefiting the poorest groups if we only consider social spending. In this regard, greater resources could effectively increase its redistributive potential.

An aspect that must be taken into account is the preference for redistribution. A general overview of recent studies suggests consistent citizen demand exists for increased redistributive capacity.[16] For instance, support for the claim that "the government should take action to reduce income differences between rich and poor" increased from 75 percent in 2000 to 91 percent in 2016 (UNDP 2017). The same study shows that about 80 percent of respondents agree to statements such as "the government should guarantee every person a minimum standard of living" or "the government should provide jobs to people that need to work." Such results reveal that the state plays a crucial role in meeting public demands for reducing inequality in Chile.

A regressive tax system is a key element when explaining weak redistribution, and tax expenditure plays a role in this matter: a very high percentage of those resources are aimed at encouraging private saving and investment (Jorratt 2013). Tax expenditures, although also part of public policy, are usually left out of targeting analyses because they are opaque and less visible (Howard 2009). Despite the fact that there are few studies about the efficiency of tax expenditures to encourage investment for Chile, Bustos, Engel and Galetovic (2004) find that the corporate tax rate does not significantly affect the long-run capital stock. Even so, the ratio of private investment vis-à-vis the income share of the top 10% is around one third in Chile and Latin America, while in most of Asia it amounts to at least double (Palma and Stiglitz 2016). Tax expenditures tend to benefit wealthier groups, thus reducing the progressive outcomes of public policy. Including tax expenditures when evaluating government performance to reduce inequality provides a more realistic overview of the allocation of public money and their beneficiaries.

In turn, qualitative results show a largely critical perception on taxation and unwillingness to pay, which is consistent with previous studies (e.g., Fairfield 2010; López and Figueroa 2011). Our participants beliefs depict taxes as a burden or punishment rather than a social contribution, and their ideas on exchange are more comparable to an economic contract than to participation in a generalized reciprocity network, the likes of which gave rise to contemporary welfare states (Rosanvallon 2012). Though our research does not analyse different government functions specifically, our participants were mainly unambiguous when portraying the lack of credibility of state institutions. Further studies should examine tax attitudes of lower- and middle-class taxpayers to determine whether differences exist in terms of willingness to pay, views of the government and perceptions of tax inequality. As the literature shows, perceptions of unfairness in tax systems may encourage non-compliance.

[16] Maldonado et al. 2019; UNDP 2017; Espinoza 2012.

The expectations of economic elites are higher than the benefits they receive from the state: they believe they pay more than what they receive in return. This argument was present in the public debate over the 2014 tax reform. Although some interviewees believe that the state should ideally have a more limited role, exhibit less influence and focus only on functions that cannot be performed by private actors, negative assessments reflect dissatisfaction, as they think that what they currently pay should entitle them to more benefits. Nonetheless, the quantitative analysis suggests that given the size of the government, fiscal performance seems to be relatively positive in providing basic functions and efficient in the progressive targeting of social spending. Although elites opt out of public provision in areas such as education and healthcare, public benefits such as a clear and stable legal framework (Bergman 2009) and internal security (See UNDP 2013) provide a suitable business environment to attract foreign investment, which has been highlighted as a key attribute of the Chilean economy[17]. Moreover, public revenue channeled via tax expenditures offers excellent conditions for corporate saving and investment, which mostly benefit high-income taxpayers.

States with greater extractive capacity need more stringent fiscal pacts, which require a leap of faith of their taxpayers (Steinmo 2018). This often fails in middle- and low-income countries, especially among the wealthiest groups (Fairfield 2015; Atria et al. 2019). In the current context of severe inequalities, rethinking the state's role and its contribution to economic and social development is needed to make progress in the negotiation over economic resources with economic elites in the global South (UNRISD 2016). Furthermore, economic elites should be interested in social and tax policies aimed at redistributing income and wealth and shoring up democracy, as these measures can reduce the costs of high inequality while also protecting them (López 2019). Further studies could explore the historical evolution of the Chilean tax regime to examine how the Pinochet dictatorship and its deep transformation of the economic model influenced elites' attitudes about taxes. Such analysis would allow a more comprehensive exploration of the conditions that gave shape to the fiscal pact and shed light on the critical factors that are needed to increase resource mobilization in the future.

Based on our results, to increase the elites' consent to pay taxes, two recommendations should be considered: First, a communication strategy is needed for better dissemination of tax revenue information. Evaluations of the Chilean state should highlight the redistributive role of its social spending and formulate strategies to overcome all inefficiencies. Moreover, the positive contribution of public policies to private business, such as stability, the legal framework internal security and investment in human capital should also be communicated. The second recommendation is educational, and it suggests further fiscal education to explain the role of taxes and their contribution to development. While an increasing number of studies emphasize other dimensions of education in economic aspects, such as financial literacy, as a means to improve economic growth and reduce inequality, we argue that higher levels of tax education for the general population should have a huge impact by favoring a close monitoring of tax policy and making clear that social demands to reduce inequality should also consider the revenue side of the state.

[17] An example of this favorable tax treatment is the 2010 tax reform that affected the foreign cooper mining companies. This reform aimed to obtain resources to finance the reconstruction of the country after the 2010 earthquake in the Maule Region and led to a three-point increase in the corporate tax rate for two years. However, the reform included an extension of 15 years of tax invariability to the foreign cooper mining companies (Law No. 20.469, 2010). This suitable framework to foreign investment and the stability of the Chilean legal framework have also been analysed by previous studies (Bergman 2009; World Bank 2019).

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