

September 4, 2011 4:03 pm

Business braced for Chile tax rise

By Jack Farchy in Santiago and Jude Webber in Buenos Aires



Companies in Chile, the world's largest copper producer, are bracing themselves for tax hikes amid expectations that the centre-right government will be forced to bow to pressure for education reform.

Sebastián Piñera, the president, has stuck to his guns during more than three months of convulsive protests by students seeking free public education and though no firm tax plans are on the table yet, government sources concede a new increase cannot be ruled out.

Mr Piñera, whose popularity has slumped to a historic low of 26 per cent 18 months after taking office, says free public education for all is "neither appropriate nor fair" but he has offered to slash the interest rate on student loans and increase grants to help address long-standing problems with the system.

He raised taxes last year to 20 per cent from 17 per cent to fund reconstruction after a devastating earthquake. The rate was intended to revert to 17 per cent in two years but Santiago's business community now sees few alternatives to another hike.

"I think it is taking shape within the political sector and also the economic sector that the 20 per cent will remain," says Marcelo Awad, chief executive of Antofagasta, the London-listed Chilean mining company, in a view shared by other mining companies. "And one of the reasons it will remain is to finance education."

Mr Piñera held four hours of talks with university leaders and student representatives on Saturday, which both sides welcomed as positive. The government will on Monday present more detailed proposals.

"At the end of the day, if you want something you have to pay for it. If you want to have a developed economy, taxes will need to go up," noted César Pérez-Novoa, head of research at Celfin Capital, a Chilean brokerage.

However, any new hike – perhaps even to 21 per cent – was likely to be across-the-board, rather than targeting mining companies specifically, despite near-record commodity prices that have prompted tax grabs in other countries and a new wave of "resource nationalism".

Peru's government is currently finalising the details of a new mining royalty that it says will raise an extra \$1.1bn a year in tax revenues, while Bolivia's deputy mining minister last week said that it, too, was planning a mining royalty. Australia and the UK have also lifted taxes on commodity producers.

Chile, which supplies a third of the world's copper, is the destination of large investments by most of the world's top miners, including **BHP Billiton**, **Anglo American**, **Xstrata**, **Freeport-McMoRan** and **Barrick Gold**. Last year, it amended the royalty scheme and mining companies are expected to pay about \$11bn in taxes this year – a quarter of total government revenues.

"It will be difficult to put another royalty on mining companies," says Patricio Navia, of New York University.

However, some industry observers fear Peru's move could lend legitimacy to another rise in Chile.

"I am sure the mining guys would like to stay below the radar, but I don't think they'll be able to. It's very hard to explain why Chile has such a low tax rate compared to Peru," says Juan Carlos Guajardo, executive director of Cesco, Chile's copper industry think-tank. He reckons the overall tax burden on the mining industry in Chile is currently 43 per cent, compared to 48 per cent in Peru before the new tax.

Foreign mining companies hope the government will shield them from any change by keeping the overall rate of tax on profits distributed abroad at 35 per cent.

In that case, a rise in taxes would affect only the portion of their profits reinvested in Chile. If the corporate tax rate were raised to 20 per cent, but the overall rate remained at 35 per cent, the net impact on foreign miners would be roughly 1 per cent of their profits, analysts estimate.

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