

## LATAM Insights

### The current state of taxes on wealth in Latin American countries

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In the wake of the pandemic and the ongoing energy crisis, the financial resources of the public sector of Latin American countries have been under significant strain. As borrowing expenses soar and budget shortfalls widen, governments are exploring options to bridge the funding gap. Given the evolving global political landscape, higher taxes on affluent individuals are becoming increasingly probable. Taxes on wealth have long been a topic of debate globally, but recently, certain Latin American countries have been at the forefront of experimenting with them. These taxes apply to an individual's net worth, equity, or assets rather than to just their income.

Argentina, Colombia, and Bolivia are among the countries that have implemented such taxes on their high-net-worth individuals. Chile and Brazil are currently discussing potential tax reforms, which in the case of Chile specifically includes forms of taxation on wealth.

In the case of Colombia, on November 17, 2022, congress approved a tax reform bill introducing a series of amendments, including a new tax on wealth. Residents will be subject to taxation on their global net worth and nonresident entities will have to pay this tax on their assets in Colombia (such as real estate, yachts, artwork, boats, and planes, among others). This tax will have four brackets from 0% to 1.5% for the wealthiest taxpayers.

In Chile, the government has already announced an ambitious tax reform bill, which is currently being discussed in congress. Specifically, the bill includes a marginal tax rate of 1% for taxpayers with wealth ranging from approximately US\$5 million to US\$15 million and 1.8% for those above the latter figure. Taxpayers with an overall wealth of less than the lowest threshold would still be subject to administrative fillings requirements if their wealth exceeds approximately US\$3.2 million.

Regarding Brazil, the recently elected president, Luiz Inacio Lula da Silva, has already announced that tax reform will be one of the priorities of his government. While the proposals are still under discussion by congress, President Lula da Silva has already indicated that the tax reform aims to (i) adjust the rates on income tax and (ii) reinstate taxation on dividends, the latter of which had been revoked in 1995. In January 2022, President Lula da Silva declared his intention to increase the rates applicable to wealthy taxpayers and exempt income taxes from individuals that receive wages up to R\$5,000.

The increase in taxation for wealthy and high income taxpayers arising from various new taxes is currently generating a wave of inquiries from individuals exploring a change of tax residence particularly to the United States or Europe, seeking greater stability and protection of assets.

It is well known that both the implementation of wealth taxes or the increase on the rates for the wealthy taxpayers have historically been hindered by concerns that capital will shift to other jurisdictions. However, the ongoing experimentation with new taxes in Latin America will certainly provide a significant body of evidence, and perhaps a blueprint for other countries.

We will continue to monitor these developments in Latin America and around the world and keep you updated.

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