

Taxes, person and family

A fair tax system may not lose sight of taxpayers' real capacity to pay.

In Chile, individuals and their families receive today a more onerous treatment than companies. The Company Income Tax rate is 17%, while persons may pay up to 40%. Undoubtedly, this is the first and most serious injustice of our tax system. When a company calculates its income tax it may deduct from its revenues all the expenses needed to generate said revenues, while natural persons may not deduct certain daily life expenses. This inequity is made worse if we consider that both companies and the wealthy may reduce or avoid taxes with expert advice, while middle and low income taxpayers have no access to it.

Another problem in our tax system is that it affords the same treatment to taxpayers with different family compositions. If we compare two persons with identical incomes, but different expense levels, we will find that both of them must pay exactly the same Personal Income Tax. One of these individuals can be single and have low personal expenses, while the other may be a father with significant housing, food, clothing, health and education needs, among others. Do these two taxpayers have the same capability to contribute to State sustenance? On what grounds does the law treat in the same manner people in so contrasting conditions?

In addition, real estate taxes and inheritance taxes also have a seriously adverse effect on natural persons and their families. The first one obligates to pay taxes on the family home with funds that already paid personal income taxes; companies, on the other hand, may deduct real estate taxes as expenses. The second one normally taxes the property that descendants receive from their parents, where said property was bought with resources that were also subject to income taxes.

Compared law teaches us that in many countries individuals may deduct from their income certain expenses such as, for example, those related to their own and their family dependents' subsistence in areas like housing, education and health.

We are well aware that the measures suggested here increase tax administration complexity, but we believe that this objection may not uphold the maintenance of an unfair system, which creates a tax burden that is not distributed making allowances for people's contributing capacity.

The time has come to correct these injustices with mechanisms that consider lower personal income taxes, the possibility of deducting certain expenses and the elimination of inheritance taxes.