

TITULO: Chilean firms prepare for Boric era				
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Chilean firms prepare for Boric era

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As left-wing President Gabriel Boric takes office in Santiago, Chilean law firms are keeping a close eye on his packed reform agenda which is expected to boost the need for labour, tax, mining and ESG-related legal advice.

Boric, 36, took office on 11 March, becoming the youngest-ever head of state in Chile. He won the second round of elections with an 11 percentage point margin to right-wing candidate José Antonio Kast in December.

He replaced 72-year-old conservative politician and billionaire Sebastián Piñera, who has led the country over the last four years. Piñera was Chile's president also between 2010 and 2014.

Boric's inauguration signals a clear shift for Chile, once lauded for its neoliberal economic model. As a former student leader, he campaigned on a social-democratic platform promising to revitalise Chile's pension programme, introduce a universal public healthcare system, combat climate change and reform the tax code. "A new chapter of Chilean political history has begun," says Geert Aalbers, a Latin America-focused partner at global consultancy firm Control Risks.

While his presidency is expected to bring about an era of historic change for Chile, lawyers remain optimistic. Prieto partner Benjamín Grebe expects that, under Boric's leadership, the country will achieve "changes that will not affect the improvements that Chile made in the last few years [under Piñera] and will enhance the conditions of all Chileans."

Chile is known for being one of the most politically stable countries in Latin America, but the last few years have been marred by deep-seated inequality, rising levels of social unrest and political polarisation. As a result, Boric and his administration face a raft of challenges including a slowing economy, high inflation and a split legislature that will test his ability to push through the reforms he has planned.

Without a majority in Congress, Boric will also have to rely on support from other political groups. "Boric seems to be open to receiving support from those of the left-wing that governed Chile during the last decades," comments Víctor Manuel Avilés from Larrain y Asociados. This will be paramount to passing legislation in a divided Chilean Congress, he explains.

Chile's new administration will be overseeing a referendum on a new constitution, which is currently being drafted by a new constituent assembly, after the country electorate voted to re-write the one currently put in place during the Augusto Pinochet dictatorship. The new progressive constitution, which is expected to cover aspects relating to gender equality, access to water, property and animal rights, universal education, legalisation on cannabis and protecting the environment, is set to be approved during Boric's first year in office.

One of the most controversial aspects surrounding his agenda, and one which lawyers will be monitoring closely, are Boric's plans to overhaul Chile's tax system, including increased taxes for the country's wealthiest. Adding a 2.5% tax rate on the wealth of the highest earners would raise some US\$5 billion, the equivalent of 1.9% of the country's GDP, and help Boric fund his social policies. In 2020, tax revenues made up just 19.3% of Chile's GDP, far less than the 33.5% average of the Organisation for Economic Cooperation and Development (OECD) member countries, of which Chile is one.

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Changes to Chilean taxes will likely have an impact on legal advice in the field. Larrain's Avilés foresees an increase in tax work in the legal sector to get to grips with new reform and regulation.

While these changes could have a huge impact on corporations operating in the country, many legal practitioners remain unconcerned about the potential impact on the economy at this stage. "The new president will experience difficulties passing his agenda, particularly the most ambitious reform," explains Leandro Lima, partner at Control Risks. Grebe reaffirms that "changes to taxation have not been unusual during recent decades, but both clients and our tax practice are adapted to react to any tax increases."

Other Latin American countries have introduced similar wealth taxes to help reduce growing debt piles. Argentina **introduced** a tariff on individuals with assets worth more than US\$2.5 million to pay up to 3.5% on their wealth in 2020. Bolivia also passed a wealth tax, while similar propositions were discussed in Mexico and Peru.

Another area in which law firms may experience an increase in work is labour law. Boric wants to end Chile's private pension system, another hallmark of the Pinochet regime, which is a significant change for lawyers focused on social security matters. Similarly, he plans to raise social benefits and increase the minimum wage, which will give labour law departments a lot to think of when navigating clients through new regulation in their employer-employee relationships.

Boric's reform agenda does not end there. During his campaign, he vowed to raise mining royalties and nationalise mines in the country's copper and lithium sectors. Chile is the world's largest copper producer and the mining sector accounts for 11% of its GDP. In a recent move that may benefit Boric, the constituent assembly approved a proposal to include a paragraph in the new constitution that could lead to the nationalisation of companies in Chile's mining sector. Cristóbal Morandé, natural resources partner at Larrain, says a state-owned lithium company "could be beneficial for the industry that is trying to become the world's largest," but also points out that it remains to be seen whether such venture would exploit the lithium on its own or support private developers.

Talks of nationalisation and an overhaul of the country's long-standing tax regime certainly made international investors hesitant and wary during Boric's campaign, but since his election in December, he has made a number of moves aimed at bolstering confidence in his administration. One such move was the appointment of former Central Bank head Mario Marcel as the administration's new finance minister, reassuring investors that his left-wing government will not increase Chile's national debt, which currently stands at over US\$100 billion, around 37% of its GDP.

In neighbouring Peru, left-wing President Pedro Castillo – who took office in July – made similar campaign promises of increasing taxation on the country's thriving mining industry. Since then, the country's Congress has voted down any such proposals, so it remains to be seen whether or not Boric will succeed in seeing his plans through.

Chile's lawyers also expect a greater emphasis on environmental regulations and protections. "Boric is clearly a leader that sees climate change as a major issue," remarks Morandé. As a result, the government will likely favour ESG-related financing transactions, which means that Chilean law firms will see more green, social and sustainability-linked financing deals in the years to come. The Andean country is already at the forefront in Latin America in this regard – Chile **issued** the world's first-ever sovereign sustainability-linked bonds earlier this month.

Under the Piñera administration, Chile pledged to become fully carbon neutral by 2050 – a commitment Boric will continue to work towards. This goal has also led to substantial investment in the country's renewables sector. Prieto's Grebe predicts that the Chilean energy and infrastructure sectors will continue to attract foreign investment, despite the political changes. Control Risks' Lima agrees. "Green energy and renewables are increasingly important for the economy and recent moves to help develop a green hydrogen industry come on the back of plans to diversify the economy."