Taxing Energy Use 2019: Country Note – Chile

This note explains how Chile taxes energy use. The note shows the distribution of effective energy tax rates – the sum of fuel excise taxes, explicit carbon taxes, and electricity excise taxes, net of applicable exemptions, rate reductions, and refunds – across all domestic energy use. It also details the country-specific assumptions made when calculating effective energy tax rates and matching tax rates to the corresponding energy base.

The note complements the Taxing Energy Use 2019 report that is available at http://oe.cd/TEU2019. *The report analyses where OECD and G20 countries stand in deploying energy and carbon taxes, tracks progress made, and makes actionable recommendations on how governments could do better to use taxes to reach environmental and climate goals.*

The general methodology employed to calculate effective energy tax rates and assign tax rates to the energy base is explained in Chapter 1 of the report. The official energy tax profile for Chile can be found in Chapter 2 of the report. Chapter 3 additionally shows effective carbon tax rates per tonne of CO_2, and presents the corresponding carbon tax profiles for all countries. The report also contains StatLinks to the official data.

Structure of energy taxation in Chile

As at 1 July 2018, the main taxes on energy use in Chile are the following:

- The Oil Tax (*Impuesto al petróleo*), classified as a fuel excise tax in TEU, applies to road fuels. Oil Tax rates are expressed in Unidad Tributaria Mensual (UTM), an official unit of account whose value is adjusted monthly based on the consumer price index. The fixed component of the excise tax was converted from UTM to CLP so as to reflect tax rates as at 1 July 2018, using data from Servicios de Impuestos Internos (SII).
- As part of the Green Tax, a CO_2 tax applies to CO_2 emissions at a uniform rate of USD 5 per tonne of CO_2. The tax, which is classified as an explicit carbon tax in TEU, applies to facilities of which the total thermal power capacity of boilers and turbines is at least 50 MWt. There is no tax on emissions from fixed sources for which the primary source of energy is biomass.[1]
- In addition to IEC, the Stabilisation Mechanism of Fuel Prices (Mecanismo de Estabilización de Precios de los Combustibles, MEPCO) works to soften

[1]The Green Tax also applies to PM, NO_X, and SO_2,emissions. In line with the TEU methodology, these tax components are not included in TEU.

international oil price fluctuations for domestic consumers through increases and decreases in fuel specific taxes. MEPCO values are updated on a weekly basis.

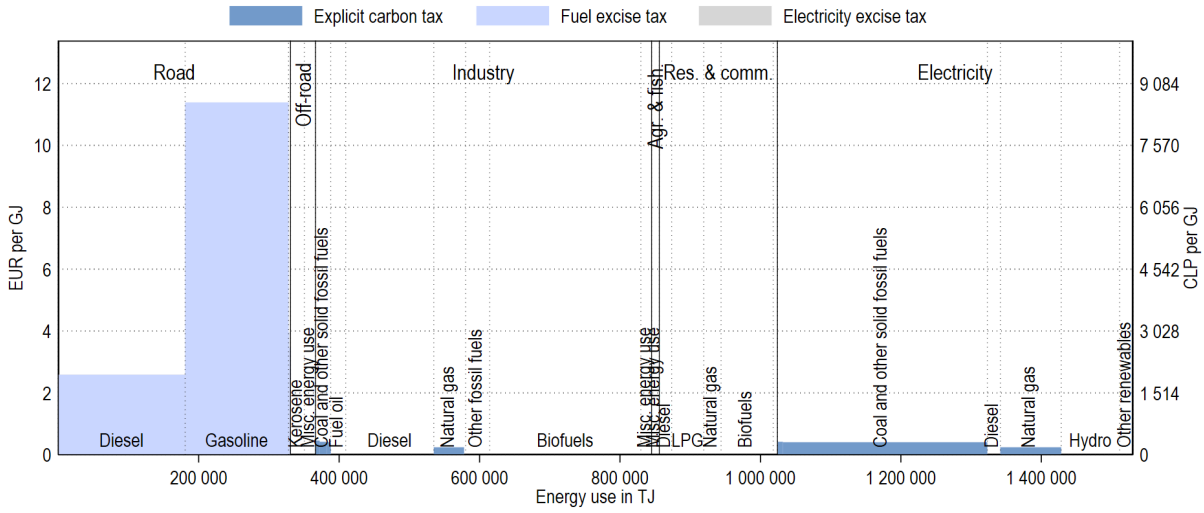
- Although not a tax under Chilean law, it's important to mention that Kerosene for residential use is subject to the Stabilization Fund for Petroleum Prices *(Fondo de Estabilización de Precios del Petróleo* (FEPP)), which also serves to smooth price fluctuations for domestic consumers of kerosene. FEPP values may vary on a weekly basis. For the first half of 2018, the rate was consistently zero, however.

Chile does not operate an emissions trading system for GHG emissions from energy use (OECD, 2018[1]).

Effective tax rates on energy use in Chile

Tax rates can differ across energy products and users, as described below. Figure 1 provides an overview of how energy and carbon taxes apply to different energy categories across the economy. The remainder of this document discusses details on tax rates and tax bases for each of the six economic sectors.

Figure 1. Effective tax rates on energy use by sector and energy category

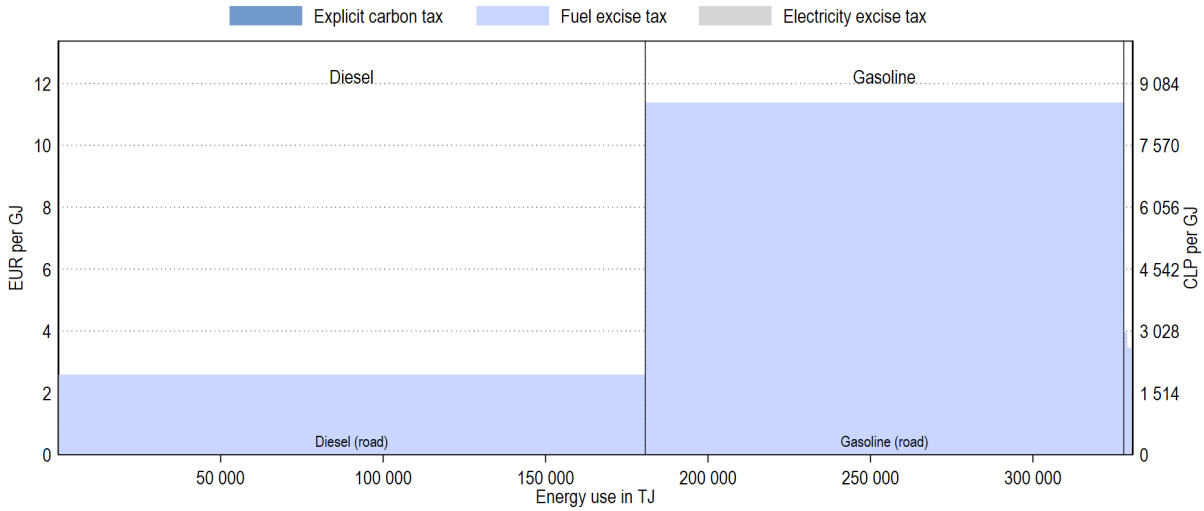


Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018[2]), *World Energy Statistics and Balances.* Energy categories (labelled at the bottom) that represent less than 1% of a country's energy consumption are grouped into "misc. energy use" and may not be labelled.

Road

Figure 2 shows that within the road sector, gasoline is taxed at a higher effective tax rate than diesel.

Figure 2. Effective tax rates on energy use in the road sector

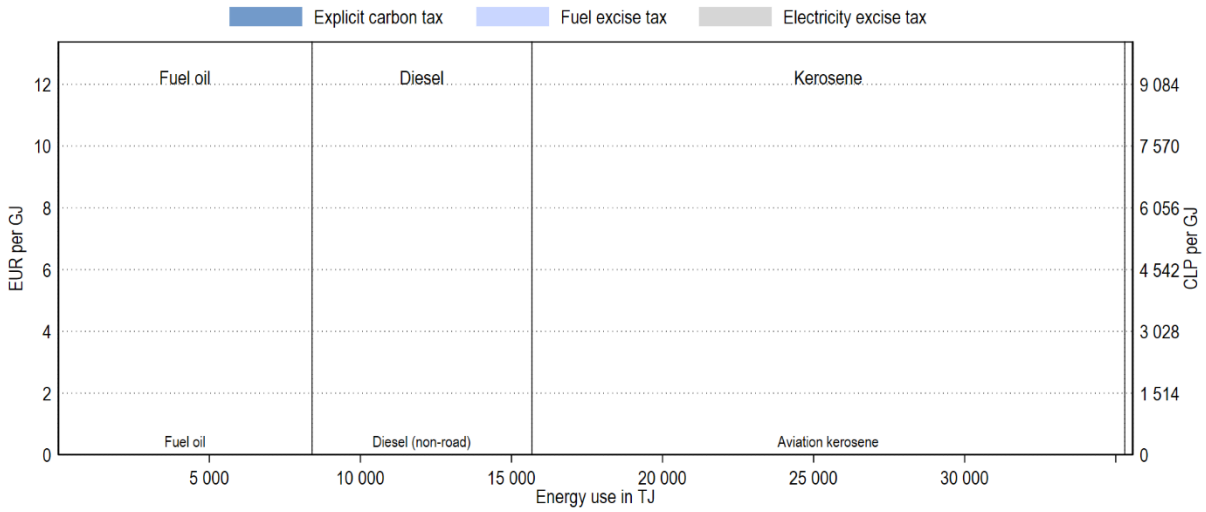


Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018[2]), *World Energy Statistics and Balances.* Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

Off-road

In the off-road sector, fossil fuels are untaxed.

Figure 3. Effective tax rates on energy use in the off-road sector

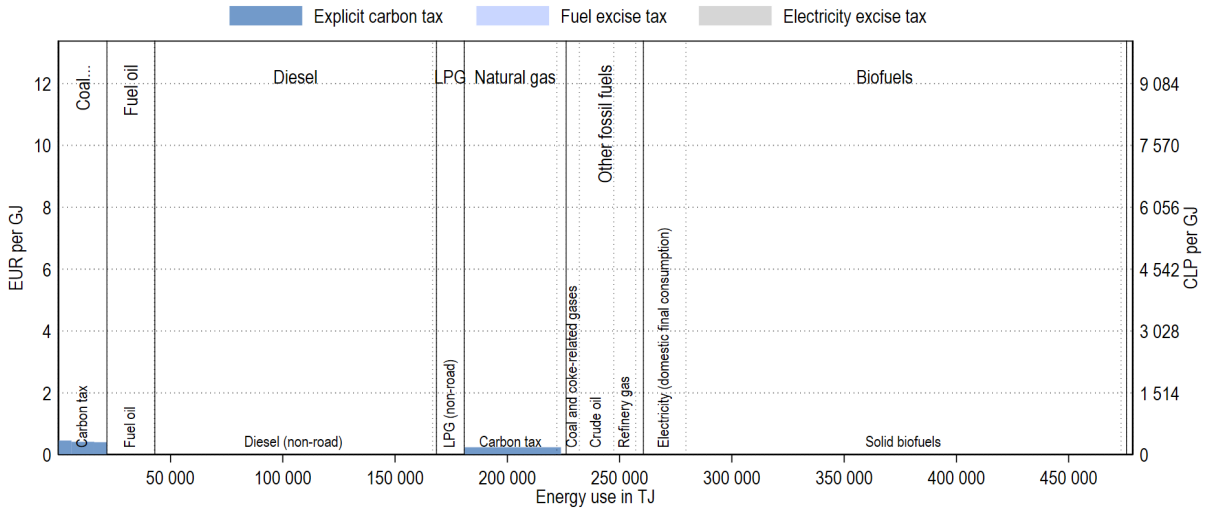


Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018[2]), *World Energy Statistics and Balances*. Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

Industry

Fossil fuels used in the industry sector (Figure 4) is only taxed if the emissions resulting from their use are subject to the explicit carbon tax, which applies to emissions from boilers and turbines from facilities of which the total thermal power of this sources has a capacity at least 50 MWt.[2]

Figure 4. Effective tax rates on energy use in the industry sector



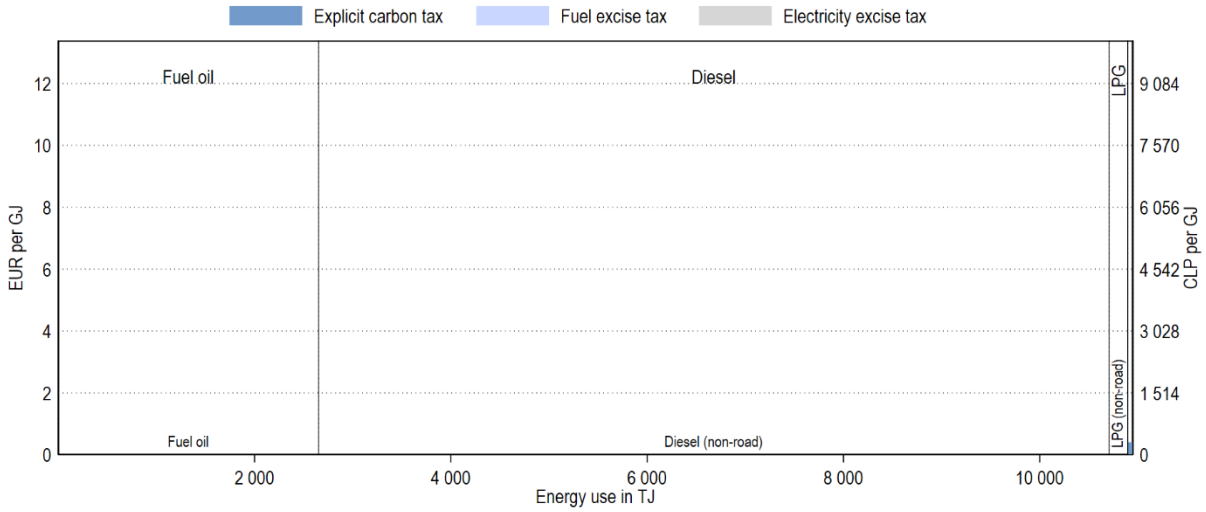
Note: Tax rates applicable on 1 July 2018. Energy use data is for 2016 and adapted from IEA (2018[2]), *World Energy Statistics and Balances.* Energy categories (labelled at the top) that represent less than 1% of a sector's energy consumption are grouped into "misc. energy use" and may not be labelled. Similarly, rate labels (shown at the bottom) are grouped into "misc. rates" using the same threshold.

[2] Fuel use data in the IEA energy balances is not linked to facilities. Due to this data limitation, TEU assumes that all consumption of coal and other solid fossil fuels as well as natural gas in the industry and electricity and fishing sectors is subject to the explicit carbon tax, whereas other energy use, especially diesel, LNG and CNG is not concerned by the tax. This assumption that was made by the OECD Secretariat due to data limitations; it was *not* suggested by Chile. The rationale is that the latter fuels tend to be used in smaller installations that are likely to fall below the threshold of the carbon tax. Based on a presentation made by Chile to the OECD's Joint Meeting of Tax and Environment experts, in 2017 only 3% of all covered emissions stem from petroleum products.

Agriculture and fisheries

Fossil fuel use in the agriculture and fisheries sector (Figure 5) is only taxed if facilities exceed the thermal power threshold (50 MWt) such that the associated emissions are subject to the explicit carbon tax.

Figure 5. Effective tax rates on energy use in the agriculture & fisheries sector



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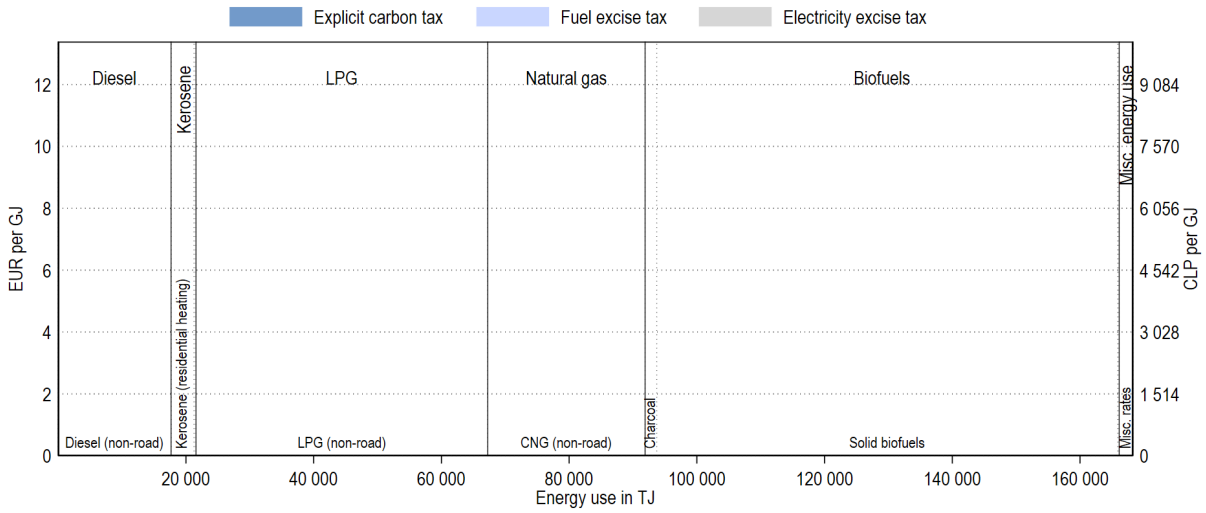
Residential and commercial

In the residential and commercial sector (Figure 6), energy use is not taxed.

Notice that TEU reports the energy use associated with electricity consumption in the industry and electricity sector as that is where the primary energy consumption occurs.

Figure 6. Effective tax rates on energy use in the residential & commercial sector



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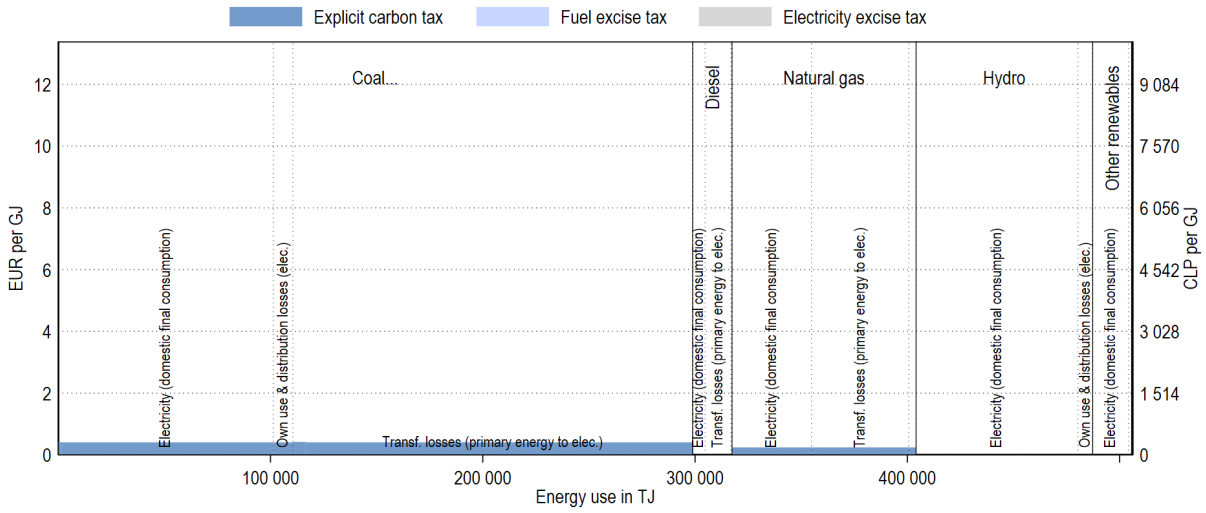
Electricity

Figure 7 shows how the electricity sector, as defined in TEU, is taxed in Chile. Emissions from fuels used to generate electricity are subject to the explicit carbon tax if facilities are above the threshold for inclusion. No other taxes apply. The final consumption of electricity, on the other hand, is not taxed.

Figure 7. Effective tax rates on energy use in the electricity sector



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References

IEA (2018), "Extended world energy balances", *IEA World Energy Statistics and Balances* (database), http://dx.doi.org/10.1787/data-00513-en (accessed on 16 October 2018). [2]

OECD (2018), *Effective Carbon Rates 2018: Pricing Carbon Emissions Through Taxes and Emissions Trading*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264305304-en. [1]