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Elites, the Tax System and Inequality in Chile

Background and Perspectives

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Abstract
The tax and benefits system has little influence on redistributing income in Chile, making reduction of inequality more difficult due to insufficient tax collection, several exemptions and problems of evasion and avoidance. This work explores some of the main features of the Chilean tax system, particularly tax evasion and tax avoidance among the elite, because they contribute more (at least in absolute terms) with their tax payments, they also have the highest levels of information (or the resources to get it), and a greater interest in and more knowledge regarding the payment of taxes. This motivates for example the use of tax advisory services. In addition, the influence of economic groups permits the reproduction of a tax system with several regressive elements. A broader perspective is suggested, considering the role of institutions, discourses and everyday practices, in order to explore whether the Chilean tax system contributes reproducing a privileged position for the elite, with consequences on progressivity, and legitimizing a reductionist vision of taxes, that avoids considerations about social inequality.

Keywords: inequality | Chilean tax system | elites | tax evasion and avoidance

Biographical Notes
Jorge Atria is a Ph.D. candidate in sociology at Freie Universität Berlin in Germany, with research interests primarily in economic sociology, taxation and sociology of culture. His work focuses on social inequalities, linking the economic and fiscal dimension with cultural and social relations analysis. Jorge received a BA in Sociology and a Master in Sociology from the Pontificia Universidad Católica de Chile (Santiago, Chile). His work experience includes positions as advisor of the Labor and Welfare Minister in Chile (2009-2010) and Research Director in “Un Techo para mi País” the Foundation (2006-2009). He has been teaching about poverty and inequality (2008, 2009 and 2010) and the sociology of inequality (2015) at the Sociology Department of the Pontificia Universidad Católica de Chile. In 2014 he edited his first book, Tributación en Sociedad: Impuestos y Redistribución en el Chile del Siglo XXI (Santiago de Chile: Uqbar editores).

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1. Introduction[1]

In recent years fiscal policy has been increasingly considered a fundamental dimension to understand the possibilities and limits of states, as well as the different ways of development of contemporary societies. In particular in Latin America, this research field has become increasingly important, given the well-known pattern of high income concentration, how much economic and social disparities are reproduced in the long run.

Within fiscal policy analysis, there is a clear consensus in the literature with respect to the role played by public spending, and more specifically by social expenditure. This would be one of the decisive factors in the progress in Latin American countries in terms of income inequality in the last decade. However the role of taxation, that is, the way the states collect resources to support their aims and functions, remains a more disputed topic, leading to multiple economic policy debates in order to determine the extent to which tax systems may increase redistribution without affecting the structure of economic incentives.

In the realm of social sciences, the differences between spending and tax collection are also clearly observed, not referring to controversial debates, but rather to the notorious neglect in the study of the latter (Martin, Mehrotra and Prasad 2009), in comparison to a wider research program of subjects such as public spending, welfare states or targeting social expenditure, among others. As a consequence, perspectives of state capacity lack often a more integrated approach that would take advantage of taxation as a substantial sphere of public issues, given its importance as a means for examining how social duties and benefits are distributed among citizens, expressing particular distributive conceptions and putting concrete cooperation and reciprocity social networks into practice. Examining income distribution taxation contributes, in this sense, to the identification of which inequalities that are acceptable and which are not.

This paper attempts to make progress in that direction, bringing together a framework of economic and social aspects of taxes to examine the case of Chile, taking into consideration aspects such as the income concentration or social position of elites, as well as redistribution, the tax structure and levels of tax compliance in order to look for linkages that help to explain the reproduction of inequality.

1 A previous version of this paper was presented at the 7th European Council for Social Research on Latin America - CEISAL Conference “Past, Present and Future in Latin America” (Porto, Portugal June 2013). All translations from Spanish are by the author.

Taxation has been the last years at the center of controversy in Chile. More than two decades after the return to democracy, the “Chilean Model”–usually acclaimed as having high growth rates and a drastic and rapid poverty reduction–is being questioned due to insufficient progress in tackling inequality, for maintaining extremely high and durable income gaps between the haves and the have-nots. In this context, two tax reforms were made (2012 and 2014), the latter having a broader aim, namely, a more redistributive profile of taxes, adding elements of progressivity and diminishing legal loopholes leading to evasion and avoidance. Even if some years are needed to evaluate the impact of such reform, it reflects an expansion of inequality debates, recognizing it as a multi-causal phenomenon, which entails integrating different social perspectives and policies. This is imperative in a region whose tax structures are result of reforms in which the criteria of neutrality and efficiency rather than progressivity and redistribution have had priority (Jimenez y López Azcúnaga 2012). At the global level, more attention paid to taxation has also made possible new strands to revitalize a ´fiscal sociology` (Martin, Mehrotra and Prasad 2009), and to explore top incomes in depth, using historical tax data to characterize current wealth accumulation and its effects on capitalism (Piketty 2014).

Finally, a perspective that merges empirical evidence with sociological interpretation of tax phenomena may also facilitate the development of more complex models to explain the persistence of inequality and to detect concrete mechanisms through which these distributive patterns are conducted, providing new inputs to investigate a diversity of issues such as the role of elites in those processes (Burchardt and Weinmann 2012), the coexistence of high inequality and democracy (Wehr 2011), or the influence that tax systems may have in the formation or reinforcement of interdependent inequalities (Braig, Costa and Göbel 2015: 229).

This article is organized as follows: First, it provides evidence of income inequality and mobility. Second, it presents some considerations about the Chilean elite. Third, it describes some elements of the tax system, paying special attention to the issues of tax avoidance and tax evasion. Finally, it provides some reflections in order to promote a sociological framework that adequately accounts for the social relevance of evasion and avoidance in the contemporary discussions regarding social inequality and the elite.

2. Longstanding Social Inequality and Stability of Position

It is well settled that Latin America constitutes the most unequal region of the world, at least since the Second World War, with the possible exception of Sub-Saharan Africa

(De Ferranti et al. 2004). This can be especially seen through a high concentration of income in a small group of society. According to ECLAC (2012), the average of the values for 18 countries in Latin America indicates that the top 10% receive 32% of the total income, while the poorest 40% of the population receive 15%.[2] Even though the last decade has showed progress in terms of inequality reduction for several Latin American countries (Cornia 2012), it is insufficient to modify the situation previously described in a meaningful way.

The consequences of the abovementioned cannot be fully understood without paying attention to social mobility. Recent research by Ferreira et al (2013), shows improvement in terms of upward economic mobility–movements from poverty to conditions of vulnerability or from vulnerability to middle class–during the last 15 years. Intergenerational mobility, however, remains limited in Latin America.[3] The same report refers to literature showing the correlation between low intergenerational mobility and high levels of income inequality.[4] Of course, there are a vast variety of cases and experiences among distinct countries within the region. One element appears to be constant though: mobility toward the upper classes–despite the positive trends of the last 15 years–remains quite rare.

What can be said about inequality and mobility in Chile? In terms of income distribution, Chile reflects a clear example of concentration in the upper socioeconomic groups. According to Sanhueza and Mayer, who conducted research on top incomes during 50 years in Chile (1957 - 2007),

> in periods of growth of the top decile (p90-100) it was primarily due to growth in the richest part of the top decile: p95-99 and p99-100. The indicator for p90-95 percentile even decreases gradually in the period under study […] the

2 There are, of course, some relevant differences between the Latin American countries included in this analysis. According to this report, for instance, Brazil, Chile or Guatemala are part of the group with highest income concentration in the richest decile, while the share of the bottom 40% varies between 11% and 15%. At the other extreme, Uruguay and Venezuela have the lowest concentration at the top of the distribution (approximately 20-23%). A similar percentage goes to the bottom 40% (ECLAC 2012).

3 This conclusion is valid both considering the relationship between parents' education and their offspring's schooling years, and to a lesser extent, when observing the effects of parents' background in the performance of students. According to the report cited here, the effect of parents' background in the performance of students is measured by using scores on standardized tests from the Programme for International Student Assessment, PISA. See Ferreira et al. (2013: 7)

4 This statement is based on a forthcoming work of Miles Corak. This positive relationship would have significant consequences, skewing opportunities and lowering intergenerational mobility. See Ferreira et al. (2013:10) (Overview in Spanish) and Corak (2013). Sanhueza (2013) refers to this approach to describe the Chilean case.

concentration in the upper part of the distribution is mainly determined by what happens in the richest 5% of the population (2011: 177).

More recently, López, Figueroa and Gutiérrez (2013) have provided further evidence on income concentration in Chile, showing that the share of the total income in the upper group is extremely high, capturing in average more than 30% for the top 1%, 17% for the top 0.1% and more than 10% for the top 0.01% on average during the period 2004-2010. According to these results, the top Chilean income groups would have the highest share in international comparison.

Furthermore, the Chilean case is consistent with the previously mentioned evidence from Ferreira et al. (2013), in a way that provides a prominent example of positive upward mobility, but with restrictions. Previous research has described social mobility in Chile as having "significant hierarchical barriers, especially between the upper social stratum and the rest of the social structure, [which] combines with weak sectorial barriers between classes that do not differentiate significantly in terms of socioeconomic status" (Torche 2005: 19). Given the existence of social mobility, therefore, Chile appears to offer a positive case within the Latin American spectrum. Nevertheless, a significant barrier separating the elite from the rest of society persists, preventing social mobility from reaching the upper tier.[5]

3. The Chilean Elite

The characteristics of income concentration and social mobility described in this paper are useful for understanding that in Latin America and Chile there is a well-defined upper group, stable and difficult to permeate or renew. Given those elements, it becomes easier to associate high income with an advantaged social position, characterized by features that go beyond the mere possession of material resources.

Sociology has discussed, for instance, the difference between the notions of dominant class, prominence and elite.[6] Within the concept of elite, many authors have proposed categories to distinguish those who hold different positions, and to understand the role and influence of each one in society.[7] In a contemporary approach, Joignant and

5 The positive view about upward mobility is currently discussed in Chile. For instance, a recent paper by Espinoza and Nuñez (2014), argues that mobility in Chile becomes more rigid, especially due to hierarchical and sectorial barriers.

6 See for example Münkler (2006) and Rovira (2011).

7 See, for example, the distinction between strategic elites and non-strategic elites (Keller 1963), the idea of "Power Elite" in Wright Mills (1978 [1956]) and the notion of Leistungseliten and the criticism it generates (Hartmann 2008).

Güell (2011: 12) define the elite as "a group of notable men and women according to some aspect or foundation [such as]: economic or cultural capital, expert or specialized knowledge, select social networks, scarce know-how in connection with the practical functioning of some activity–for example politics–exploitation of socially valued surnames in a specific moment and a specific society".

When analyzing the debate on elites in Germany, Hartman (2008) mentions the discontent that those groups provoke in the general population, and how they are usually associated with unjustified privileges, detachment from reality and the arrogance of power. One way of understanding such a negative connotation is by considering that upon those elites fall "all kinds of responsibility and capacity attributions in connection with the transformations of the State or of societies, which turn them, at the same time and without contradiction, into a source of popular aggression and a source of popular identification and imitation" (Joignant and Güell 2011: 12).

To explore the relationship between inequality and taxes with an emphasis on the elite, it is important to pay attention to the position that they hold in society and their degrees of influence. In this section, three arguments will be presented, related to different spheres of the country:

(1) Business structure: the predominance of what are called grupos económicos is relevant. These groups are diversified among the different branches of production and controlled by a handful of families. The resilience that would characterize these groups contradicts many existing theories on corporate governance in developed countries, as well as the expectation for rapid and unidirectional institutional change in response to globalization (Ross Schneider 2008, 2009). These theories do not stand up to the evidence seen in the countries in Latin America that have already modernized their legal and financial systems in recent years. A clear example of this would be Chile, whose legal and financial indicators are indeed similar to standards in developed countries, but where business groups continue to predominate nevertheless.

    Without mentioning that business groups might be considered inappropriate in and of themselves, Ross Schneider highlights the economic disadvantages that they have, in particular due to the low specialization in productive areas, the management of information that impedes the entrance of other companies, for example multinationals, the reclusion on the part of the family (not from the top managers) and the greater risk of succession crisis. Finally, the strategies of these business groups are defensive and cautious, which does not breathe any life into

the search for greater competition, innovation and risk-taking, and reduces the contribution of private investment to national development.

(2) Institutional modernization: Ardanaz and Scartascini (2011) indicate that the institutional characteristics introduced by strategic politicians during the transition to democracy play a role in explaining why personal income taxes remain relatively low in Latin America despite the democratic transitions during the 1980s and 1990s, as well as the level of economic development in the region. This would be particularly driven by legislative malapportionment, introducing a concentration in the political representation that provides greater influence for some groups at the expense of others in the creation of public policies. Given that the overrepresented electoral districts tend to be aligned with parties with conservative tendencies, legislative malapportionment would serve the economic interests of elite groups interested in maintaining their fiscal contributions at levels as low as possible in a democratic regime. The authors demonstrate that these levels of legislative malapportionment are associated with low percentages of personal income taxes in 17 Latin American countries. At the same time, they document that those countries with greater wealth inequality and income tend to present systematically higher levels of legislative malapportionment.[8] Chile would be representative of how a set of institutional arrangements established at a non-democratic moment (the 1980 Constitution, approved by the military dictatorship) has allowed for the survival of undemocratic enclaves, reducing the space for the creation of redistributive policies and having a persistent impact on electoral maps.[9]

(3) Public discussion: the constant absence of tax debate is evident, as well as the minor importance attributed to the issue of taxes with respect to their relationship to inequality. One concrete example was the creation of the Consejo Asesor Presidencial Trabajo y Equidad (Presidential Consulting Council on Labor and

8 According to the author´s explanations and reviews of literature, income inequality may influence the “under-investment” in the extractive function of the State, to the extent that one of two groups be in power, and in this group the elite has a hold on political power. They will then invest less in fiscal capacity, since the resources it can be taken from taxpayers is small, given the uneven income distribution, which produces that the income of the majority is low. Legislative malapportionment would be therefore a specific institutional device translating economic power into political power in Democracy. See Ardanaz and Scartascini (2011: 7).

9 According to the authors, it is particularly notable how the elite utilized information about sizes of the electoral districts and opposition to the regime in order to redesign the electoral map for the democratic system that would succeed the dictatorship. Equipped with information about the areas with strong electoral support and those with weak support, they redrew the districts, reflecting a premeditated strategy followed by the military elite to assure representation of the heirs of the authoritarian political regime in the new democratic system. This would have favored the right-wing parties, influencing as a result the legislative and institutional development of the following periods (Ardanaz and Scartascini 2011: 18).

Equality in 2007, which brought together academics, businessmen and social actors associated with labor, economic and social issues. Interestingly, the report did not incorporate a diagnostic of the Chilean tax system, or the relationship that this system could have with inequality problems in Chile, nor were recommendations made with respect to this issue. For Agostini "this omission is interesting and strange because you cannot separate the cost of a Government from the taxes that finance it" (2008: 6). For this author, one possible explanation of this absence would be the belief that taxes are not effective for redistributing wealth. A second possible explanation for this absence would be the government's veto (implicit or explicit) of tax reform for fear of an unpredictable result, in a context where economists pursue greater efficiency and interest groups search for privileges and special treatment, as opposed to pursuing tax simplicity, which economic theory says should prevail in every tax system. The reforms of 2012 and particularly of 2014 brought taxation, after a long time, again into the center of debate, this time highlighting the redistributive role of taxes as an indispensable contribution to address income inequality. Nevertheless, some components of the bill that contributed to that aim were modified in order to reach an agreement with the opposition. The impact of the reform and the influence of public debate still needs to be evaluated.[10]

4. Taxes and Inequality: Main Elements of Analysis

To provide an analysis that accounts in all of its extension and complexity for the links between the tax system and inequality is something that is beyond the purposes and possibilities of this paper. Nevertheless, it will take into consideration three main elements of analysis, in order to facilitate the discussion around the available base of empirical evidence.

4.1 Redistribution

Understood as a function of the State and a crucial part of the fiscal policy, redistribution is inevitably associated with tax systems. Grimson and Roig, from the perspective of Polanyi, highlight that redistribution

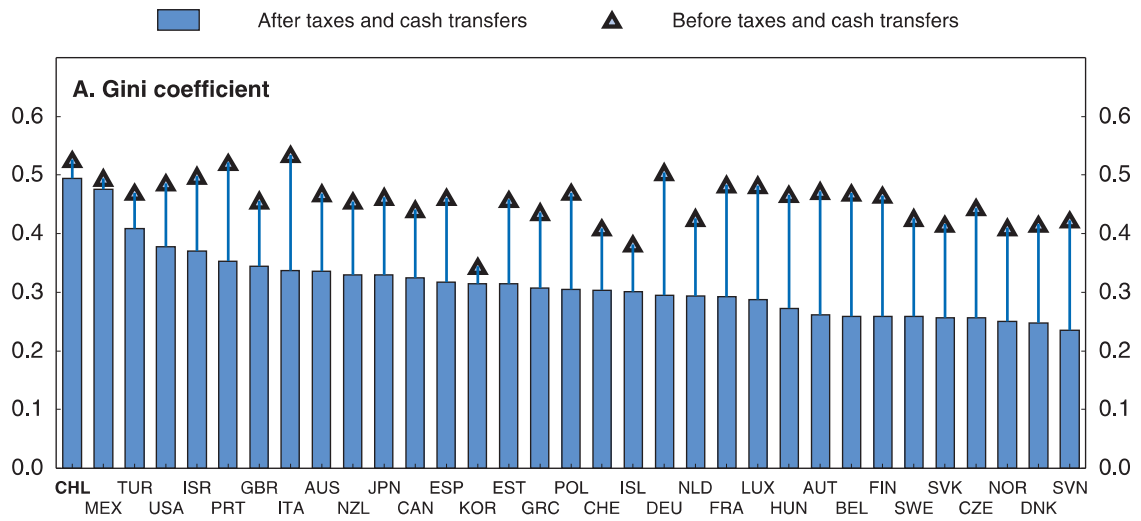
> [...] has a predominant place in human life in both centralized gathering processes and distribution of wealth. The tax systems appear then as one more element, together with exchanges, of domestic life and the reciprocity of increase or decrease in material inequality (2011: 88).

10 Atria (2015) and Saffie (2014) shed some light on the characteristics and effects of the reforms of 2012 and 2014, respectively.

The redistribution proposes a question with respect to the ability of the State to collect funds that make possible the provision of public goods and the diminution of vast differences among citizens. Naturally, the State's redistribution capacity is the result of a political process, into which institutional factors and social preferences that the importance that a society gives to this function both intervene. Furthermore, it is important to note that the capacity of the State to collect funds does not imply necessarily redistribution: this depends on which taxes are chosen and the exceptions and exemptions that may reduce the tax burden of some taxpayers, among others aspects. On the social expenditure side, redistribution has also concerns the amount of resources invested in the less advantaged groups.

One way to observe redistribution with empirical evidence would be to analyze the role of the State in its social collecting and spending functions. A recent report from the OECD (2012) for Chile provides this information in comparison with that from the organization's own member countries:

Figure 1: Inequality across OECD countries: 2009 or latest year available



1. Household income is adjusted by the square root of the number of persons in the household. Provisional estimates.
2. Before transfers only for Greece, Hungary, Mexico and Turkey. Subsidies to buy a home are not included in Chile.

Source: OECD (2012: 12), used with permission.

According to this report, the tax and benefits system has little influence on redistributing income, making reduction of inequality more difficult. This evidence is consistent with other previous studies, both for observing comparisons between Latin America and

Europe (Goñi, López and Servén 2008), as well as for analyzing the Chilean case exclusively (López and Figueroa 2011).

4.2 Progressivity and Regressivity

According to Gaggero (2008), tax progressivity arose during the French Revolution, referring to taxes as instruments of economic and social change. Specifically, the 1793 Convention was the favorable stage for overcoming the established vision of taxes, proposing a limitation on property rights through the notion of progressivity.

Pierre Rosanvallon by contrast locates the origin of progressivity of the income tax in the beginning of the 20th Century. This implied two important revolutions: in the area of fiscal issues and from the point of view of principles, on linking progressivity to the idea of redistribution among social groups. Thus, fiscal justice came to be associated with redistribution, and together with that the State was given the role of "social institutor": "It was thought of as a moment of conformation of social solidarity and the correction of inequalities, one which intervened a little more each time in areas of daily life" (Rosanvallon 2012: 207). The progressivity becomes an operative principle, which is to say that it becomes legitimated by various national legislatures.

According to ECLAC (2010),[11] with respect to the discussion on equality and tax policy, there are two principles that should be examined: (1) equality or justice in the application of taxes; and (2) sufficiency (the need for specific resources to finance goods and services, and the criteria for financing sources to achieve quality standards in their provision). For the purposes of this paper, it is especially important to focus on the first principle.

Regarding this first principle, ECLAC (2010) indicates that the tax system would have to be equitable in the distribution of fiscal burdens between different people, in pursuit of a criterion of tax justice. It could be summarized in the phrase, "everyone should contribute in the same way to sustaining public responsibilities", and from this follow the two criteria that solidify its application: (1) horizontal equity ("equal treatment of those who are found in equal circumstances"), and (2) vertical equity ("appropriately unequal treatment for those who are found in different circumstances" (ECLAC 2010: 14-15). This objective would be expressed through the idea of progressivity, which implies that those who have more income or economic capacity pay proportionately more.

11 For this issue see especially ECLAC (2010: 14-15).

Progressivity and regressivity may be understood as two parts of a binary code that expresses the ability of the tax system to increase or reduce the inequality that exists. Each tax can also be separately evaluated as progressive or regressive, which, taken together with the aforementioned, allows for a more detailed analysis of tax structures, their collection formulas and decisions relating to how to invest the revenue, introducing redistributive considerations in the evaluation.

Evaluations of tax systems from the standpoint of considering progressivity and regressivity generate enormous debate. Regarding the Chilean case, Engel, Galetovic and Raddatz (1997) carried out simulations of the tax system, concluding that taxes would have limited ability to generate redistribution, it being much more effective to discuss the amount of social spending, the focus of public spending and the relative efficiency of alternative taxes, rather than the progressivity of the tax system. The generalization and misinterpretation of the work´s findings would have influenced the belief in the limited redistributive capacity of taxes during the last decades (Agostini 2008).

However, more recent evidence by Cantallopts, Jorrat and Scherman (2007) study the tax equality of the Chilean system using a broader definition of income, one that includes the participation of individuals in profits retained by companies, among other additional methodological changes. The results show a more regressive distribution of income than is considered by the normal definition of income,[12] due to the fact that retained profits are more concentrated than other income. Thus, the study confirms the evaluation of the Chilean system as “slightly regressive,”[13] but proposes a reform with changes toward greater redistribution and progressivity–a strong reduction of VAT and a broader income tax base, while holding total revenue constant–which might lower income inequality and increase the average income of the poorest deciles.

4.3 Tax Expenditure

In simple terms, tax expenditure is

12 Following the authors, the omission of the profits retained by firms would underestimate the results of income concentration and redistributive ability of taxes. This is a crucial aspect due to the characteristics of the Chilean tax system, which integrates income tax, treating the corporate tax as an advance payment against personal income tax of the owners. Because the personal income tax rate is much higher than the corporate tax rate, most of the profits remain in the firm, facilitating tax avoidance. Hence, “ignoring retained profits in income distribution studies[…] significantly underestimates the vast material resources at the disposal of Chile´s economic elites” (Fairfield and Jorratt 2014:9), and a broader definition of income would be necessary.

13 According to the authors, this would be the result of a regressive VAT with a progressive income tax. This evaluation was first made in the work of Engel, Galetovic and Raddatz (1997).

> the collection that the revenue service does not perceive because of the application of special concessions or special tax regimes [...] Their purpose is to favor or to stimulate certain sectors, activities, regions or economic agents [...] through this the revenue service desists in whole or in part from applying the general tax regime, prioritizing a superior objective of social or economic policy (Villela et al. 2009: 2).

These objectives can be related, for example, with an incentive to save, stimulating employment or protecting national industry. In those cases, the tax obligations of contributors are reduced, instead of providing them with some type of subsidy or transfer (Jorratt 2013).

For Villela et al. (2009), the study of tax expenditures includes, among other aspects, examining the political economy that underlies their creation, review and updating, as well as determining the equality assumptions of its operation. This should help in understanding the tax system and its evolution over time, as well as its preferences and risks, because tax expenditures involve compromising relevant fiscal resources.

According to Jorratt (2013), together with the advantages that tax expenditures have (incentivizing the participation of the private sector, promoting private decision-making, or reducing the need for state supervision of equivalent direct costs), there are also disadvantages, including among others: (1) they are regressive by nature (by benefiting those who pay taxes, they affect the progressivity of the system, because those who do not pay taxes are not benefited by them); (2) they create unanticipated earnings (because in many cases the incentive may not be necessary to get people to make a certain decision or take certain action); (3) they are difficult to administer and control; (4) they distort market decisions (by favoring a certain sector of the economy);[14] (5) they create horizontal inequality (by incentivizing a certain expense or consumption, they benefit only some people, because not all people have the same preferences or needs); and (6) they stimulate evasion and avoidance (by making the tax structure more complex) (Jorratt 2013: 44-46).

Regarding Chile, the same study reveals that 40% of tax expenditures are directed at incentivizing savings and/or business investment, and almost all of that percentage is linked with incentives on income tax. The tax expenditures related to income tax

14 In Jorratt's judgment, some of these disadvantages can be further understood according to the group of decisions that accompany tax expenditure. For example, this could mean that a certain tax (for example, VAT) does not generate regressivity but rather progressivity, or that it generates a distortion that is not negative to the extent that it is correcting an earlier distortion (see Jorratt 2013: 44-46).

represent 31% of what it could potentially collect. As a consequence, the author indicates that a large part of current exemptions are regressive.

4.4 Tax Compliance

Tax compliance is directly related to the phenomena of evasion and avoidance, and expresses the influence of social norms, their degree of identification and internalization (Wenzel 2004), as well as the perceptions that each citizen has of paying taxes. To the extent that the tax system is considered unfair, there will be less willingness to meet tax obligations, perhaps even going so far as to understand evasion as an act of justice and not a crime (Jorratt 2013).

According to this last study, acceptance of the tax system involves various factors, among them: (1) moderation of the tax burden, because if it is considered excessive, perceptions of injustice may arise; (2) the equity of the system, with evasion being one of the main sources of inequality. This creates a vicious circle; (3) the opinion of contributors regarding where taxes are destined, which suggests that at least in part tax behavior will be related with how they perceive the type of spending on public resources, efficiency, etc. (Jorratt 2013: 54).

Kirchler, Maciejovsky and Schneider define tax avoidance, tax evasion and tax flight showing the deterioration or vulnerability of tax compliance:

> Tax avoidance refers to an attempt to reduce tax payments by legal means, for instance by exploiting tax-loopholes, whereas tax evasion refers to an illegal reduction of tax payments, for instance by underreporting income or by stating higher deduction-rates. Tax flight refers to the relocation of businesses, only in order to save taxes, for instance by making use of offshore tax havens (Kirchler, Maciejovsky and Schneider 2003: 536).

Given that tax flight is solely an expression of avoidance or evasion, it is particularly relevant to distinguish the behavior behind these two actions. For Saffie,

> evasion tends to be talked about as illegal conduct (an action that goes against an express law); while avoidance is treated as something that is allowed, as an action that the legislator did not consider and therefore is not prohibited. It would be, in some respect, an ingenious act on the part of the contributor (Saffie 2012: 1).

Tax noncompliance can be studied in all segments of society, for example through the payment or nonpayment for public transportation tickets. In Chile, however, it is in high-income groups where it has more serious consequences. Four elements that help to argue this are the following:

(1) Given that in absolute terms, they are the people who should contribute more with their tax payments, and that they also have the highest levels of information (or the resources to get it), the high-income groups have a greater interest in and more knowledge regarding the payment of taxes. This facilitates tax advisory, destined in many cases not only at streamlining tax payments, but also at searching for mechanisms that reduce the tax burden. A good example is the inheritance tax, which in Chile represents only 0.2% of annual tax revenue. This is mainly due to the fact that people with high income plan their inheritance ahead of time, thus avoiding corresponding payments when the time comes.

(2) In Chile, a little more than 80% of citizens do not pay income taxes, because their income is so low that they remain exempt from payment (Agostini 2013). And it is in income tax where rates of evasion are the highest. López and Figueroa (2011) indicate that the tax evasion of VAT reaches 10%, one of the lowest rates in the world. On the other hand, income tax evasion reaches approximately 50%, a level much higher than in the majority of other countries in the world.

(3) Within the reduced group that pays income tax, only the richest can evade, because income tax is automatically discounted from workers' salaries. On the other hand, "wealthier individuals with nonwage income must file tax returns, and therefore have opportunities to underdeclared assets. In Chile, only 5 percent of adults receive income from nonwage sources" (Fairfield 2010: 47). Figueroa and López (2012) estimate that 90% of evasion in Chile is done by the richest 5% of the population.

(4) The Chilean tax structure exhibits a great disparity between taxes on people (which can reach 40%) and taxes on companies (raised from 17% to 20%, after the 2012 tax reform),[15] incentivizing the creation of investment partnerships, which transform income that would be subject to a personal income tax into income that pays corporate tax. This, together with the underreporting of distributed profits, results

15 The tax reform of 2014 made new changes in terms of tax rates, creating two mechanisms of shareholder-level income taxation: (1) attribution basis shareholder taxation, and (2) a semi-integrated system. In the first case, the corporate rate will increase to 25% and the marginal personal tax rate can reach 35% in 2017. In the second case, the corporate rate will increase to 27% and the marginal personal tax rate can reach 44.45% in 2018.

in very low effective income tax rates for the richest groups in the society (Fairfield 2010).

Evasion and avoidance form part of the tax problems in Chile. This does not only have to do with institutional weaknesses, but also with practices that are legitimized in everyday life, as well as with discourses that help to naturalize the actual functioning of the system, minimizing public discussion and consecrating the expert as the only one capable of elaborating proposals for change. How these problems are faced, however, seems to have an influence on the accumulation of income in the most advantaged groups of the population, and should be cause for deeper reflection both on the position of the elite and in more general terms, on decreasing inequality in Chile.

5. Concluding Remarks

Tax evasion and avoidance currently does and always will constitute a problem in all societies (Collier 2013; Oppenheimer 2013; CNN 2013). Governments in Europe, the United States or Latin America have recently declared the need to advance toward new fiscal policies that allow for coordinating criteria, standardizing control policies, making information more transparent and increasing sanctions. Chile does not escape this phenomenon of reforms. Although in some analyses, compared with other Latin American countries, the evaluation is positive, highlighting the modernization of the tax system and the levels of confidence that lend formality and seriousness to the operations,[16] there are still aspects in which more progress should be made to assure less distorted and more equitable tax collection.

This article has reviewed some of these aspects that help in understanding the Chilean social and tax structure, as well as some of consequences thereof. In general terms, the tax system presents slightly regressive characteristics in its collection, gives priority to indirect taxes, and has a tax expenditure that includes exemptions that are regressive in nature, to the extent that they focus on income tax. Additionally, although progress has been made in the last few years, numerous legal loopholes facilitate underreporting and movement between income tax and corporate tax among advantaged groups, limiting state redistribution.

From a broader perspective, the weaknesses can be seen not only as a product of a loss-producing institutional design, but as the result of the interaction between institutional, discursive and practical aspects: (1) institutionally, some characteristics of the tax structure–such as the disparity between personal taxes and corporate taxes

16 See for example Bergman (2009).

–certain legal loopholes, some exemptions, as well as insufficient control, incentivize evasion and avoidance; (2) in other cases, the institutional operation is adequate, but the problem arises in the area of everyday practices that interpret legislation in a different way in search of personal convenience, although it may be evident that such interpretations go against the interests of the State; (3) finally, dominant discourses in the public sphere–a sphere of limited participation because it does not normally discuss taxation issues publicly, and is also reduced to the criteria and technical proposals of experts–reinforce and naturalize the system's functioning, prioritizing an economic conception of taxation rather than a political one (Saffie 2014), neglecting the critical relevance of distributive problems at the level of tax collection, and making it so that many questionable everyday practices are seen as something normal and legal. Thus, a differentiation between moral obligation toward the community and legal obligation to pay taxes is produced, such that evasion and avoidance need not produce a moral problem for their beneficiaries (Nun 2011).

The problem could also be analyzed in conjunction with the inequality and stability of the position of the elite. Their high concentration of income, strong barriers to access, and the notable influence they exert in different areas of society should be elements for consideration in analyzing tax problems. If the tax structure presents conditions of regressivity, social spending is insufficient, there are benefits and legal loopholes that benefit the top 5%, and evasion and avoidance are produced particularly within that group, then the tax system operates as a driver of inequality, one which facilitates the reproduction of privileged social position and enormously complicates the redistributive capacity of the State.

The tax behavior of the Chilean elite easily fits into the notion of creative compliance (McBarnet 2003), which cannot strictly be considered illegal, although it has consequences for the State's revenue. Thus, following McBarnet's work, compliance becomes the problem and not the solution, raising questions with respect to the damage done to social cooperation and solidarity between citizens. This coincides with Rosanvallon's analysis, which refers to a process of denationalization in democracies, especially characterized by the "secession of the rich":

> [...] which is to say, the fact that the most favored slice of the population already lives outside of the common world. Fiscal exiles constitute the most notable example. The rich practice this secession openly, materially withdrawing from national solidarity. From a legal point of view, they continue to be citizens, but they are no longer a part that is interested in communality (Rosanvallon 2012: 339).

In this process, the delegitimization of redistributive tax and urban segregation would have a high degree of responsibility, withdrawing vitality from the democratic order and the deliberate organization of common life, and also shedding light on the functioning of inequalities at the level of social interactions between different groups of society (Araujo 2013).

The aforementioned arguments, however, should not lead to a simplistic conspiracy theory where one imagines a plot made by a small group of people, capable of designing and predetermining society's functioning. Within the elite, different visions and social evaluations coexist; essentialisms that conceive of a social order without breaks, unaffected by contingency and unchangeable, should be put aside. Nevertheless, deeper reflection is necessary on the continuity of social positions that generate privileges for some, and prejudice to others. As has been said, this can be easier to observe if the institutional factors, discourses and practices behind evasion and avoidance are accounted for.

As in any social sphere, the Chilean tax system has weaknesses that should be improved, a process that would bring with it positive consequences not only for its functioning, but also for alleviating inequality and improving democracy. Accepting this implies understanding the importance of deepening the reflection on taxes, because in modern societies they embody the nucleus of preferences and tensions surrounding distributive justice, self-interest and the role of the State (Murphy and Nagel 2002). Only thus can the need for a more inclusive discussion be understood, one which involves and represents all citizens, and pursues a social pact that provides possible transformations with a new legitimacy, emphasizing the importance of greater social cooperation.

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