

# Bonus Depreciation in Chile

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## Executive Summary

This policy brief evaluates the impact of bonus depreciation on investment and productivity in Chile. Introduced as part of the 2014 Tax Reform, the bonus depreciation policy aimed to stimulate investment by allowing firms to accelerate their tax deductions for depreciable assets. However, despite the potential benefits, take-up among micro, small, and medium enterprises (SMEs) remains low. This report highlights key findings regarding the effectiveness of the policy and presents recommendations to improve adoption and its impact on economic growth.

### Key Findings

- **Low Adoption Rate:** Less than 0.1% of microenterprises and 3% of medium-sized enterprises utilized bonus depreciation. This suggests a significant gap between the policy's intent and its real-world impact.
- **Limited Economic Impact:** Statistical analysis shows minimal effects on firm investment and overall economic activity, calling into question the policy's efficacy.
- **Barriers to Adoption:** Administrative complexity and lack of awareness are key factors limiting participation in the bonus depreciation program.

### Recommendations

- **Simplify the Process:** Streamlining the administrative process for claiming depreciation benefits could increase participation.
- **Targeted Outreach Campaigns:** Government-led efforts to educate SMEs about the benefits and processes of bonus depreciation could improve adoption rates.
- **Consider Alternative Incentives:** If the adoption remains low, policymakers should explore complementary or alternative measures that encourage investment among SMEs.

## Introduction

In 2014, Chile enacted a series of tax reforms designed to stimulate economic growth, mainly through investment in depreciable assets. One of the key policies introduced was bonus depreciation, which allowed firms to accelerate tax deductions on capital expenditures. The goal was to provide immediate tax relief, especially for small and medium enterprises (SMEs), encouraging them to invest in new assets and improve productivity.

Despite these ambitions, the uptake of the bonus depreciation policy has been far lower than expected. The policy's low adoption rates raise important questions about its design and implementation. This policy brief reviews the key findings from a detailed evaluation of the policy and offers recommendations to improve its effectiveness.

## Context: Bonus Depreciation in Chile

The 2014 Tax Reform introduced two key forms of accelerated depreciation:

1. **Instant Depreciation:** Firms with an average earnings of less than UF 25,000 could deduct the total value of their capital expenditure in the first year of purchase.

2. **Ultra-Accelerated Depreciation:** Firms with earnings between UF 25,000 and UF 100,000 could depreciate their assets over one-tenth of the assigned useful life, accelerating tax deductions.

Both policies aimed to reduce the tax burden on smaller firms, allowing them to reinvest their tax savings into business growth. However, the policy encountered significant barriers to implementation, including administrative complexity and limited outreach to the firms that would benefit the most.

## Main Findings

### 1. Low Adoption of Bonus Depreciation

The evaluation of the bonus depreciation policy reveals a significant gap between the intended beneficiaries—small and medium enterprises (SMEs)—and actual participants. Data from 2015-2019 show that fewer than 0.1% of microenterprises and less than 3% of medium-sized enterprises utilized the instant or ultra-accelerated depreciation provisions. These numbers highlight a disconnect between policy design and execution, suggesting that many firms may not have been aware of the policy or found it too administratively burdensome to take advantage of.

### 2. Limited Economic Impact

Although bonus depreciation was supposed to boost business investments, companies using the policy didn't show much difference in their investment behavior compared to those that did not use it. This finding is concerning because it indicates that the policy, in its current form, is not achieving its primary goal of encouraging investment among SMEs. This result is likely driven by the low take-up of the policy.

### 3. Administrative Barriers

Interviews with business owners revealed that many firms found the process for claiming bonus depreciation to be overly complex. The paperwork required to prove eligibility and correctly apply for the accelerated depreciation was a significant deterrent. Additionally, firms in more remote areas or those with limited access to legal and financial advice were less likely to participate in the program due to a lack of understanding of the benefits.

### 4. Comparisons with International Policies

Countries such as the United States and the United Kingdom have implemented similar bonus depreciation policies with varying degrees of success. In the United States, bonus depreciation has had a positive impact on corporate investment, particularly in the manufacturing and technology sectors. However, these successes were often supported by extensive government outreach and a simplified claims process, factors that are currently lacking in Chile's implementation.



## Policy Recommendations

### 1. Increase Awareness and Accessibility

A significant barrier to the success of bonus depreciation is the lack of awareness among potential beneficiaries, particularly SMEs. The government should consider launching an awareness campaign targeting small business owners to explain how bonus depreciation can benefit them and how to apply it. This campaign could include workshops, online resources, and direct engagement with business associations.

### 2. Simplify the Administrative Process

Streamlining the administrative requirements for claiming bonus depreciation is crucial to increasing uptake. The current process is seen as overly complex and inaccessible, particularly for smaller firms without dedicated financial or legal teams. Simplifying the forms, reducing documentation requirements, and providing step-by-step guides could significantly reduce the barriers to participation.

### 3. Consider Offering Additional Incentives

If bonus depreciation continues to have low adoption rates, policymakers should consider offering additional incentives for firms to invest in capital assets. This could include direct grants, tax credits, or low-interest loans for businesses that meet certain investment thresholds. These additional measures could complement the existing policy and provide a more immediate and tangible benefit for firms.

