

# BRAZIL TAX GUIDE FOR FOREIGN INVESTORS



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*Published on 2019.  
Information updated until the publication date.*

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# Country Introduction

Brazil is the largest country in South America. It has a land area of over 8.5 million square kilometers - or 3.3 million square miles - and a population of approximately 208 million people, with 80% of it living in urban areas.

Brazil's official language is the Portuguese and English is the foreign language most used by its business community. The country's Constitution guarantees freedom of religion in Brazil.



There are five geographic regions in Brazil: North, Northeast, Southeast, South and Central-West. Economically speaking, the Southeast Region is the most important of them.

Administratively, Brazil is divided into 26 states and one Federal District where the city of Brasília, the country's capital, is located. In economic terms, the three states with largest Gross Domestic Product (GDP) are São Paulo, Rio de Janeiro and Minas Gerais. All of them are located in the Southeast Region, which concentrates approximately 42% of the Brazilian population.

The largest city in the country is São Paulo, which is also the capital of São Paulo State, and the largest city in South America. The Brazilian government estimates that the Gross Domestic Product (GDP) grows 1.6% in 2018. In current values, GDP in 2017 was R\$ 6.6 trillion (Brazilian Reais).

Brazil is a federative republic and consists of the indissoluble union of its States, Municipalities and Federal District. With a representative form of government, all the power is derived from the people and is exercised in their name at three separate levels: federal, state and municipal.

The Federal Constitution, promulgated in October 1988, establishes a presidential system of government with three independent branches: executive, legislative and judicial. The executive power is vested in the President, who is elected by direct vote for a term of four years and eligible for re-election. The legislative branch consists of a two-chamber structure, the National Congress, which is composed of the Federal Senate and the House of Representatives. The judicial branch is composed of federal and state courts, which are headed by the Supreme Court.



The Federal Constitution is the highest law in Brazil and it establishes rights, obligations and directives regarding all aspects of life in the country. No executive, legislative or judicial act has the power to disregard or infringe the rulings of the Federal Constitution. Furthermore, the Federal Constitution also establishes the fundamental rules for the imposition and collection of taxes by the authorities of the Federal Government, States, Federal District and Municipalities, in addition to providing for the method of distribution of the taxes collected by the Federal Government.

# Foreign direct investment

Foreign direct investment (IED) means that the foreign investor has either established some sort of corporate entity to achieve their intended objectives or acquired an ownership interest in a Brazilian company that already exists.

All IED must be registered before the Central Bank of Brazil (BACEN) in the original foreign currency. The investor has 30 days from the inflow of funds to apply for the registration of the IED. Foreign capitals may take the form of: Cash, rights and assets sent to Brazil at fair market value, reinvested earnings, conversion of foreign-currency loans or current-account balances, liabilities and others.

All external loans, direct or through the issuance of securities abroad, as well as other forms of foreign capital, such as royalties due abroad, long-term import financing, are subject to the Financial Operations Registry (ROF), with the BACEN, and export prepayments. All this information is recorded in the Central Bank Information System (SIBACEN), which allows the inclusion and exclusion of agents (individuals or legal entities), in addition to conducting consultations, records and updates as necessary.

The National Monetary Council (CMN) has the highest regulatory authority over foreign investments.

Furthermore, the foreign-exchange policy is controlled and supervised by BACEN.



In general terms, there are no restrictions in respect of the repatriation of funds or remittance of profits, regardless of the time the funds remain in Brazil, provided that the sum of capital to be sent abroad is the same as the sum registered with the BACEN. Corporate entities recipient of foreign investment are subject to the same general tax rules applicable to Brazilian companies owned by individuals or other corporate entities residing and domiciled in Brazil.

Usually, foreign ownership of local enterprises is allowed and, in general, no particular type of operation receives special treatment. However, there are some restrictions on foreign investor control in some economic segments such as communications (television, radio stations and newspaper), aviation (airlines), shipping (coastal and freshwater shipping), mining (exploration and extraction of mineral resources), hydroelectricity (electricity generation) and property of rural lands and lands near Brazil's borders.

There are some lawful means by which foreigner investors can make direct investments in Brazil. Currently, there are two types of entities most commonly used for direct investments:

Sociedade Limitada – Ltda.  
(similar to the LLC)

The Ltda. has its capital divided into units of ownership (quotas) representing the interest of each member in the capital of the company.

Sociedade por Ações - S.A.  
(similar to the Corporation)

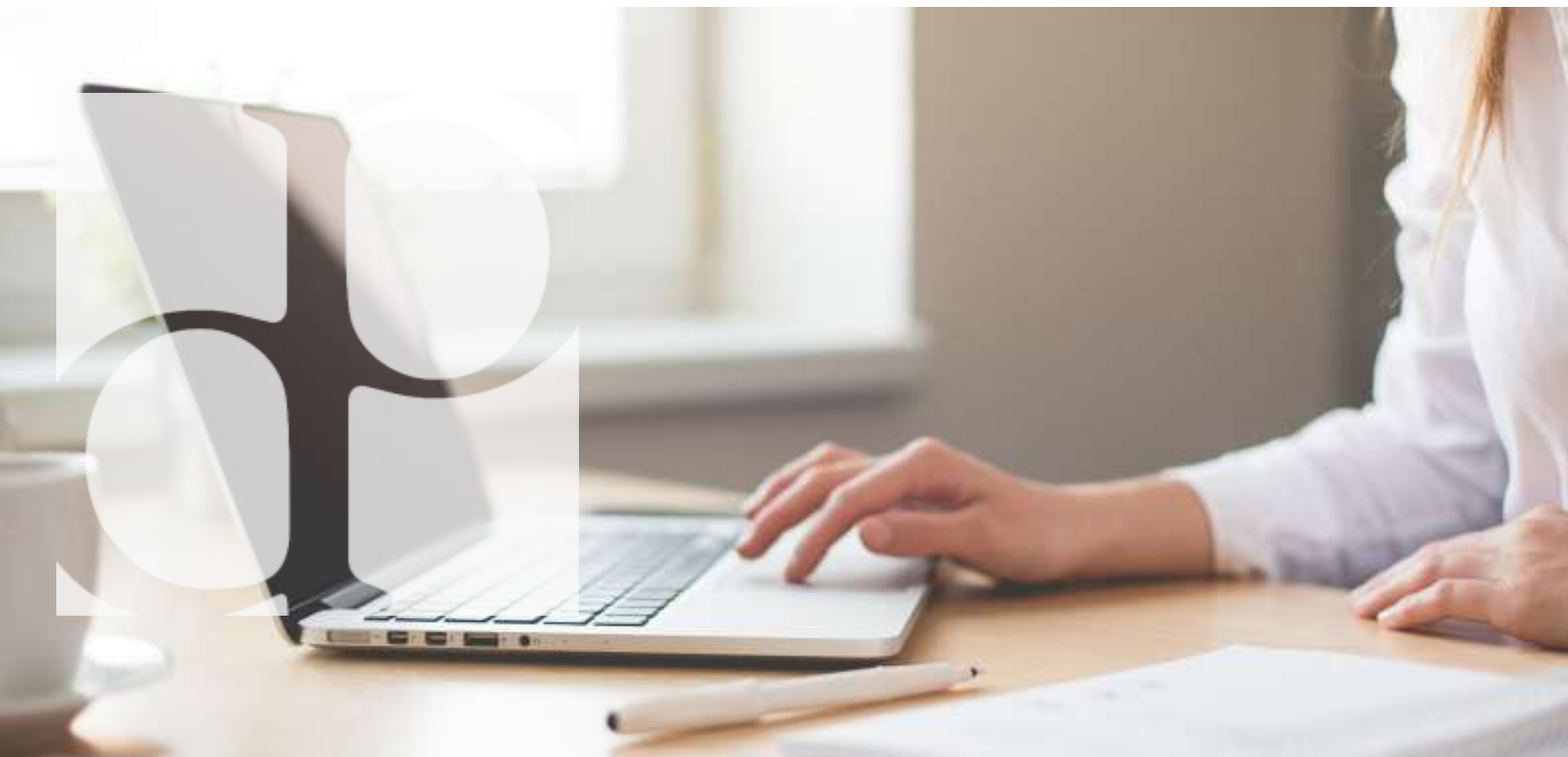
In the case of the S.A. its capital is divided into shares and it may be a privately held or publicly traded company. Publicly traded companies are subject to normative rules enacted by the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários – CVM).

Brazil requires that foreigner investors, whether individuals or legal entities, are registered with a tax ID number provided by the Brazilian Federal Revenue Secretariat (RFB).

In the case of individuals, this tax ID number is called **CPF**, and legal entities are registered with a **CNPJ**.

In both cases, the legal investor must appoint a person residing in Brazil to be their legal representative. The legal representative will be responsible and liable for the among others withholding and payment of income tax levy on the capital gains earned by a foreign-based individual or legal entity with the sale of assets or rights located in Brazil.

As of 2004, the transactions abroad involving the sale of assets or rights in Brazil exclusively between foreign-based seller and foreign-based buyer is subject to tax levy in Brazil. However, this taxation is still a questionable issue.



# Financial reporting and auditing

Publicly held companies that are subject to control by the CVM, must publish audited financial statements annually, together with the report of independent auditors. The financial statements consist of a balance sheet, an income statement, a statement of retained earnings or accumulated losses (generally provided as a part of the statement of shareholders' equity), a statement of cash flows, value-added, and notes to the financial statements.

The audited financial statements must be submitted to the CVM annually, to the appropriate government agency if the company is a public utility, and to the BACEN and other regulatory agencies if the company is engaged in banking, leasing or insurance activities.



Regulatory bodies require companies in regulated industries, such as banking, public utilities and insurance, to prepare detailed uniform financial statements and to conform with specific accounting requirements relevant to their industries.



Companies with limited liability, in turn, are not obliged to annual independent audit, and are not required and report to CVM.



All accountants in Brazil must be registered with the **Brazilian Federal Accountants' Council** (Conselho Federal de Contabilidade or CFC), which has primary responsibility for regulating and overseeing the accounting profession in Brazil; and the Regional State Boards regulate the accounting profession.

The CFC is also responsible for issuing statements on professional ethics, bylaws and auditing standards. Until recently, Brazilian Institute of Independent Accountant and Auditors (Instituto dos Auditores Independentes do Brasil – IBRACON) has been the entity responsible for issuing statements on accounting and auditing. Membership in the institute is voluntary and consists primarily of independent auditors. The institute remains supports the CFC on issuing the Brazilian generally accepted auditing standards.

# Tax system summary

The Brazilian tax system is governed by the Federal Constitution and by the National Tax Code (CTN). All the federal, state and municipal tax authorities abide by this Fundamental Law, which contains all general provisions, definitions, competences, procedures and limitations regarding the Brazilian tax system.

In general lines, income, capital gains and other types of compensation paid, credited, delivered or remitted to nonresidents are subject to withholding income tax (IRF).

The main federal taxes imposed on business entities are: corporate income tax (IRPJ); social contribution on net income (CSLL); contribution for social security financing (COFINS); contribution for the Social Integration Program (PIS); federal value-added or excise tax on manufactured goods (IPI); import duty (II); tax on financial transactions (IOF); contribution for Intervention in the Economic Domain (CIDE).

In addition to those taxes, international transactions, especially those related to interest, royalties and service rendering, can be affected by the Brazilian Withholding Income Tax on Outbound Remittances (IRRF) and by the Contribution for Intervention in the Economic Domain (CIDE).

PIS and COFINS are calculated and paid on a monthly basis based on gross revenue and sales. Rates are PIS 1,65% Calculated on gross revenues and COFINS 7,6% (being subject to a “cumulative or non-cumulative” mechanism in which some credits are allowed. Mechanism will be established base on the objective of the company and the tax regime adopted.



Additionally, the States, including the Federal District, impose mostly a value-added tax on the circulation of goods and services (**ICMS**), and taxes on inheritances (**ITCMD**) and motor vehicles (**IPVA**).

There are also the local taxes imposed by the Municipalities and the Federal District: the tax on services (**ISS**), the tax on urban property (**IPTU**) and the tax on transfer of urban property (**ITBI**).

In order to record amounts due and payment of such taxes, Brazil has been implementing a new public digital bookkeeping system known as **SPED**. The main objectives of the SPED system are to:

- integrate the tax offices of different spheres (federal, state and municipal) by standardizing and sharing tax and accounting information;
- streamline and standardize tax returns;
- improve the identification of tax violations.

The SPED system is being implemented gradually and corporate entities are required to issue documents in SPED format, accordingly to the different criteria for each SPED module. The files relating to the SPED modules usually must be signed through a digital certificate approved by a specific program created by the Brazilian Federal Revenue Secretariat.

The implementation of SPED requires changes in the relationship between taxpayers and tax authorities. Possible inconsistencies found in the cross-checking of databases will be under increased visibility and monitoring by the Brazilian tax authorities. Despite of Brazilian Revenue Department effort by creating an efficient electronic tax reporting system, it does not on the other hand makes taxpayer life easier. Brazil time to prepare and pay taxes is extremely high and expensive. As per World Bank studies and surveys, Brasil is ranked 109th, requiring 1,958 hours per year to comply with tax demand on the several level of Government Authorities. This is how much it takes to prepare, file, and pay (or withhold) three major types of taxes: the corporate income tax, the value added or sales tax, and labor taxes, including payroll taxes and social security contributions.

In Brazil, companies are not required to obtain in advance an approval from the tax authorities before carrying out transactions involving significant amounts. However, when dealing with public sector organizations, most of the times the government requires a tax clearance certificate (CND). The Brazilian tax law does not allow the tax consolidation. Thus, each legal entity is taxed separately from other related entities.

With the proper tax planning it is possible to obtain the most advantageous tax results. However, the Complementary Law 104/2001 allows tax authorities, pursuant to the implementing procedures to be set forth by a future ordinary law, to disregard lawful acts or transactions carried out with the purpose of dissimulating the occurrence of a taxable event or the elements of tax liability. To this date, the Complementary Law 104/2001 is still unenforceable due to the lack of required implementing regulations.

# Withholding income tax and tax treaties

In general, all income, capital gains and other compensations paid, credited, delivered or remitted to nonresidents are subject to withholding income tax (IRF) as of below:

Income Tax Calculation Basis (BRL)	Tax Rate %	Deductible Amount (BRL)
Up to 1.903,98	-	-
From 1.903,99 to 2.826,65	7,5	142,80
From 2.826,66 to 3.751,05	15,0	354,80
From 3.751,06 to 4.664,68	22,5	636,13
Above 4.664,68	27,5	869,36

Capital Gain Calculation Basis (BRL)	Tax Rate %
Capital Gains up to 5.000.000,00	15
Capital Gains from 5.000.000,01 to 10.000.000,00	17,5
Capital Gains from 10.000.000,01 to 30.000.000,00	20
Capital Gains over 30.000.000,01	22,5

However, this IRF rate is increase to 25% if:

- such payments are compensations for services provided; or
- the nonresident is domiciled in a tax haven or low-tax jurisdiction, i.e. a country where the income tax is levied at a rate up to 20%.

On the other hand, **Dividends** paid to nonresidents are not subject to IRF tax.

**Interest** paid to nonresidents is generally subject to an IRF tax rate of 15%. But if the recipient is a resident of a country that is deemed to be a low-tax jurisdiction by Brazilian tax authorities, the IRF tax rate increases to 25%.

Payments of **Royalties, Technical Assistance, Administrative Assistance** and **Technical Services** to nonresidents are generally subject to an IRF tax rate of 15%. But if the recipient is a resident of a country that is deemed to be a low-tax jurisdiction by Brazilian tax authorities, the IRF tax rate increases to 25%. These payments are also subject to the CIDE tax.

According to Brazilian Federal Revenue Secretariat, the following countries are regarded as tax havens or low-tax jurisdictions:

Andorra, American Samoa, Anguilla, Antigua and Barbuda, Aruba, Ascension Island, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Brunei, Campione d'Italia, Cayman Islands, Channel Islands (Alderney, Guernsey, Jersey and Sark); Cook Islands, Curaçao, Cyprus, Djibouti, Dominica, Federation of Saint Christopher and Nevis, French Polynesia, Gibraltar, Grenada, Hong Kong, Isle of Man, Ireland Kiribati, Labuan, Lebanon, Liberia, Liechtenstein, Macau, Maldives, Marshall Islands, Mauritius Islands, Monaco, Montserrat, Nauru, Niue Isle, Norfolk Island, Oman, Panama, Pitcairn Island, Qeshm Island, Saint Helena Island, Saint Lucia, Saint Martin, Saint Pierre and Miquelon, Saint Vincent and the Grenadines, Seychelles, Solomon Islands, Sultanato of Oman, Swaziland, Tonga, Tristan da Cunha Island, Turks and Caicos Islands, United Arab Emirates, United States Virgin Islands, Vanuatu, and Western Samoa.

Brazil has also entered into a number of tax treaties with foreign countries, which resulted in the reduction of withholding income tax rates on interest, royalties and technical assistance fees. The foreign countries, among others, that have entered into tax treaties with Brazil are:

Argentina, Austria, Belgium, Canada, Chile, China, Czech Republic, Denmark, Ecuador, Finland, France, Hungary, India, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Norway, Philippines, Peru, Portugal, Slovakia, Russia, South Africa, South Korea, Spain, Sweden, Trinidad Tobago, Turkey, Ukraine and Venezuela.



If the domestic tax rates are lower than the ones set forth by the tax treaties, the former applies. Likewise, the same applies in the case of tax treaties that do not provide for a reduced tax rate.



# Federal taxes

## IRPJ and CSLL – Taxes on Profit

The IRPJ (corporate income tax) is levied at 15% on the taxable profit determined at the end of each fiscal year. A surtax of 10% is charged on the taxable profit exceeding the amount of R\$ 240K per year.

The CSLL (social contribution on net income) is levied at 9% and is calculated on the net profits before the allowance for IRPJ. In the case of financial institutions, the CSLL rate is of 9%.

In Brazil the fiscal year is the same as the calendar year, but taxes are due and payable on a monthly basis. Although the corporate year end is not important for tax purposes, in practice most companies close their accounting period on December 31st of every year. Nevertheless, a legal entity may elect to have its corporate tax determined on quarterly or yearly basis.

The Brazilian corporate entities are subject to tax on all Brazilian and foreign-source income. Both foreign branches' and subsidiaries' profits are taxed as earned.

Operating costs and expenses are deductible from the gross income from a company's core activity and supplementary businesses when the taxpayer deems their real profit as the tax base. However, some of these costs and expenses cannot be deducted because of their nature or amounts involved.



The Act 11638/2007 introduced new rules to adapt Brazilian accounting practices to the international accounting standards (IFRS). Additionally, the Act 11941/2009 guaranteed fiscal neutrality, i.e. no adverse tax consequences should arise from the adoption of the new accounting criteria regarding the recognition of revenue, costs and expenses used to determine net income.

Tax losses must be segregated as operational losses and non-operational losses. Tax losses reported in past tax returns can be carried over up to 30% of the taxable income in each year and they do not expire. Consequently, the legal entities have to pay tax on at least 70% of the taxable income every year. Non-operational losses may be set off only against non-operational gains.

In some circumstances, a legal entity may elect to be taxed based on its estimated profit rather than its real profit.



The taxable profit can be either a company's real profit or the presumed profit for the year. Exceptionally, the tax authorities may define the taxable profit for a certain company, pursuant to specific rules provided by law.

## ■ Tax Regime

A Brazilian company may opt to pay corporate taxes based on a presumed profit method (lucro presumido); or based on actual taxable income (lucro real). The election is annual and binding for the entire calendar year and is generally driven by the profitability of the company and its plans for future investments, among other factors.

Under the presumed profit system, corporate taxes are charged on a presumed profit that is generally calculated by applying a fixed percentage to the gross sales or service revenue (the percentage is based on the type of activity undertaken by the company), plus 100% of the company's passive income. Therefore, no expense deductions are allowed and tax losses may not be deducted or carried forward. Corporate taxes are computed on a quarterly basis. A legal entity qualifies for the estimated profit regime if its total gross revenue is equal to or under R\$ 78MM in the preceding fiscal year.

Under this tax regime, the company's gross revenue is submitted to a certain rate for the determination of the tax base, in accordance with the company's activity. In this tax regime both IRPJ and CSLL are levied quarterly.

A Brazilian company may also adopt the actual profit method to pay corporate taxes. In this case, the tax is charged on the company's actual profit adjusted for nondeductible expenses and nontaxable revenues. Corporate income tax is calculated on a monthly basis.

## ■ Books and records

Corporate entities and individuals engaged in commercial activities must maintain proper accounting books and record transactions in these books as required by law. Corporate entities must maintain books and records:

Official records must be written in Portuguese with values expressed in Reais. Transactions must be recorded in chronological order. Manual or computerized subsidiary ledgers for cash receipts and disbursements and for purchases and sales are permitted if they are properly registered. Records must be clear and without erasures. Blank lines and alterations are not permitted.

## ■ Method of accounting

Companies in Brazil must use the accrual method for computing the results of their activities. A cash method is available for small companies that elect for the simplified taxation system.





## ■ Accounting practices

On December 28, 2007, after seven years of discussions in the Brazilian Congress, Law no. 11.638 was approved. This law makes relevant amendments to Law no. 6404, of December 15, 1976, as amended by Law and 11,941 of 2009, regarding the preparation of financial statements for corporations and large companies, even if they have not been organized as corporations (“S.A.”). Besides those Laws, the Comitê de Pronunciamentos Contábeis (CPC) has the authority to issue accounting statements in Brazil.

This Brazilian Law represents a major step in the process towards harmonization with International Financial Reporting Standards (IFRS).

Brazil is a member of the International Accounting Standards Board (IASB). In general, accounting practices adopted in Brazil are comparable to those prescribed by IASB because CPC take IASB statements into consideration when preparing accounting standards.

## ■ Transfer pricing

Brazil's transfer pricing rules apply to cross-border transactions between related parties and transactions with entities located in tax havens. Transfer pricing rules are intended to avoid the transfer of profits overseas by way of price manipulation in product or service imports or exports between related or affiliated companies.



For the imports carried out by Brazilian legal entities, it must be checked whether prices were determined on usual market conditions. The tax authorities set certain limitations on expenses or costs and the excess price must be added to the taxable profit.

As for exports, transfer-pricing rules are adopted to check whether the prices are not substantially lower than those on usual market conditions. In these cases, the tax authorities set minimum values to be the taxable income from the sale of products or the rendering of services to foreign related parties.

The most important characteristics of the Brazilian transfer-pricing regime are as follows:

- Exclusive use of transactional methods for determining the price of uncontrolled transactions with property, service and commercial rights;
- Statutory fixed profit margins applied through the prescribed methods, unless a different profit margin is established by official publication or research conducted by a technically qualified entity;
- Export safeguard rules are available to avoid application of the prescribed transactional methods; and
- Specific interest rates for controlled cross-border loans.



Brazil's law foresees some methods that legal entities can elect when ascertaining the parameter prices to be compared with the import and export prices.

There are four methods that can be applied to **import** transactions:

1

**Comparable Uncontrolled Price Method** (Método dos Preços Independentes Comparados - PIC, as known in Brazil): It is the weighted arithmetic mean of the prices of identical or similar goods, services or rights prevailing in the Brazilian or foreign markets in purchase or sale transactions carried out by the legal entity itself or a third party, under similar payment conditions.

2

**Resale Price less Profit Method** (Método do Preço de Revenda menos Lucro - PRL, as known in Brazil): It is the weighted arithmetic mean of the sale prices in Brazil of imported goods, rights or services under similar payment conditions. The profit margin changes according to the legal entity's economic activity and it may be set in forty percent (40%), thirty percent (30%) or twenty percent (20%). The twenty-percent profit margin is applied to the majority of the economic activities.

3

**Production Cost plus Profit Method** (Método do Custo de Produção Mais Lucro - CPL, in Brazil): It is the weighted average production cost of identical or similar goods, services or rights in the country they originated plus export taxes charged by said foreign country and profit margin of twenty percent (20%) of the cost.

4

**Quotation Price on Imports Method** (Método do Preço sob Cotação na Importação - PCI, in Brazil): It is the average daily price of goods or rights subject to the public prices in internationally recognized commodities and futures exchange market.

Additionally, there are five methods applicable to **export** transactions:

1

**Export Sale Price Method** (Método do Preço de Venda nas Exportações – PVEx, as known in Brazil): It is the arithmetic mean of the sale prices of the export transactions carried out by the legal entity to other customers, or by another Brazilian company exporting identical or similar goods, services or rights during the same fiscal period and under similar payment conditions.

2

**Wholesale Price in the Country of Destination less Profit Method** (Método do Preço de Venda por Atacado no País de Destino, Diminuído do Lucro – PVA, as known in Brazil): It is the average wholesale price of identical or similar goods in the country of destination under similar payment conditions less the taxes levied by said country that are included in such price and profit margin of fifteen percent (15%) of the wholesale price.

3

**Retail Price in the Country of Destination less Profit Method** (Método do Preço de Venda a Varejo no País de Destino, Diminuído do Lucro – PVV, in Brazil): It is the average retail price of identical or similar goods in the country of destination under similar payment conditions less the taxes levied by said country that are included in such price and profit margin of thirty percent (30%) of the retail price.

4

**Acquisition or Production Cost plus Taxes and Profit Method** (Método do Custo de Aquisição ou de Produção mais Tributos e Lucro – CAP, in Brazil): It is the average acquisition or production cost of exported goods, services or rights plus the taxes levied in Brazil and profit margin of fifteen percent (15%) of the total sum of costs and taxes.

5

**Quotation Price on Exports Method** (Método do Preço sob Cotação na Exportação – PECEX, in Brazil): It is the average daily price of goods or rights subject to the public prices in internationally recognized commodities and futures exchange market.





As for intercompany international loans, the Brazilian borrower is allowed to deduct the interest amounts payable to nonresident related party from its taxable income, if such deduction does not exceed the six-month LIBOR rate corresponding to the loan agreement's currency, increased by the spread percentage margin. In the case of loan agreements in a currency without a corresponding LIBOR rate, the calculation for such deductions is based on the LIBOR published for US dollar deposits.

However, in the case of the loans in US dollar contracted with a preset interest rate, the calculation is based on the market price of the Brazilian government bonds issued in the foreign market in USD. Likewise, for the loans in Brazilian real (BRL) contracted with a preset interest rate the calculation is based on the market price of the Brazilian government bonds issued in the foreign market in BRL. On the other hand, for the loan agreements in BRL made abroad with floating interest rate, the Brazilian Minister of Finance has the power to set a rate for the calculation of the interest parameter.

Additionally, the Brazilian Minister of Finance has the power to set the spread percentage margin based on the market average to be added to the interest rate used for the calculation of the interest parameter.

These rules shall be applied only to the loan agreements executed as of January 1, 2013. Therefore, the loan agreements dated before 2013 are still under the rules valid until the end of 2012. However, if such agreements are renewed or renegotiated as of 2013, the new rules apply. Thus, for the loans dated before January 1, 2013 the calculation is based on the LIBOR rate for six-month US dollar deposits, increased by an annual spread of three percent (3.5%) in the same proportion as the period which interest is due.

Furthermore, the excess of expenses with interest must be added to the taxable income. The same rules above apply to Brazilian lenders. In this case, the lender must add to its taxable income the difference between the interest charged against the nonresident related party and the interest calculated according to the rules above.

## ■ Thin Capitalization

The thin capitalization rules were introduced in the Brazilian tax law in January 2010. Until then, there were not rules on the proportion between debt and direct equity investment made by related parties.

As general rule, the interest expenses are necessary for a company's activities. The transfer pricing rules affecting cross-border loans remain in effect, as do the general requirements for deductibility.



Furthermore, the interest paid to nonresident related parties may be deducted for corporate income tax purposes only if the following thresholds are complied with:

- each nonresident related party debt-to-equity ratio cannot exceed twice (2:1) the value of the direct equity investment made by such nonresident related party in the Brazilian recipient company;
- the overall indebtedness cannot exceed the same proportion (2:1) in relation to the aggregate amount of the direct equity investments made by all nonresident related parties in the Brazilian recipient company.

Additionally, if the recipient of interest payments is located in a tax haven or benefits from a favored tax system, the interest paid to such recipient may be deducted for corporate income tax purposes only if the following thresholds are complied with:

- the amount of the Brazilian entity's indebtedness to the tax haven resident does not exceed 30% of the net equity of the Brazilian company;
- the Brazilian company's total indebtedness to all entities located in a tax haven or benefiting from a preferential tax regime does not exceed 30% of the net equity of the Brazilian company. Any and all excess interest will be treated as nondeductible expense for IRPJ and CSLL purposes.

## COFINS and PIS – Social Contributions

COFINS and PIS are social contributions on billing. COFINS resources are used to finance social security expenses in the health and social welfare sectors. PIS contributions are used to create a fund for employees that can be withdrawal in the event of marriage, retirement, disability, or purchase of a home.

COFINS and PIS are charged monthly on the gross revenue earned by legal entities, usually through a non-cumulative calculation method. COFINS and PIS are respectively levied at 7.6% and 1.65% rates. However, it is possible to offset the tax due against certain credits on consumables and other expenses, according to applicable law.

The revenue from the export of goods and services is exempt from COFINS and PIS, provided that the funds from such exports effectively enter Brazil.

Legal entities under the presumed profit regime for income tax purposes are taxed by COFINS and PIS at the rates of 3.0% and 0.65%. However they are not allowed to deduct credits. Special calculation methods may apply to specific industries and types of revenue.



Furthermore, COFINS and PIS are levied on the import of goods and services at the rates of 7.6% and 1.65%. The amount paid is recoverable as input tax credits when the taxpayer is under the non-cumulative regime.



## IPI – Value-added Excise Tax

IPI is a tax charged on the manufacture of domestic products, as well as on the imports of foreign products. This tax must be paid by the manufacturer and/or importer.

IPI is calculated on non-cumulative basis and the tax amount due can be reduced by deducting the IPI already paid in past stages of the production chain relating to a same transaction. The IPI paid on raw and packaging materials, among others items, may be used as tax credit. IPI rates vary according to the product, ranging from 0% to 330%. Currently, the higher rates are reserved for non-essential products, such as cigarettes, liquor, cosmetics, and similar products. The export of products manufactured in Brazil is exempt from IPI.

## II – Import Duty

The II is levied on imports of goods into the Brazilian territory. This tax is not recoverable, so the amount paid becomes part of the importation cost. The tax base for the II is the CIF price of a product. Import duty rates range from 0% to 35%, according to the nature of the products and the MERCOSUR Common Nomenclature (NCM).

## CIDE – Tax on Overseas Remittances

The CIDE is levied on remittances abroad for payment of royalties, technical services and assistance and administrative support. This tax is levied at a rate of 10% on the amounts remitted abroad, and it is payable by the Brazilian company. The CIDE tax is not levied on payments regarding software license or trade/distribution rights.

## IOF – Tax on Financial, Insurance and Exchange Transactions

The IOF applies to various types of transactions, including:

- credit transactions made by financial institutions;
- intercompany loans between non-financial companies;
- loans between individual and legal entity acting as borrower;
- securities transactions in the securities market;
- insurance transactions made by insurance companies;
- exchange transactions made by institutions authorized to deal in the exchange market.

Currently, the IOF rate for domestic credit transactions carried out by legal entities is 0.0041% per day. Additionally individuals or legal entities impose a surtax of 0.38% on all credit transactions carried out whether. The IOF imposed on foreign exchange transactions is levied at different rates per type of deal, up to a maximum rate of 25%. Presently, some currency inflows and outflows are subject to IOF tax rate of 0%. In general, the IOF is levied at the rate of 0.38% on foreign exchange transactions.

# State taxes

## ICMS – Value-added Tax

ICMS is a VAT on the circulation of goods, provision of intrastate and interstate transportation and communications services, and electric power. For taxation purposes, each operational location is deemed as an ICMS taxpayer.

Normally, intrastate transactions are taxed at a rate of 18% or 19%. The interstate transactions are subject to a rate of 4%, 7% or 12%, depending on the location of the purchaser or recipient. There are specific rates imposed on the goods considered superfluous (beverages, perfumes, firearms etc.), and for electricity and communications services. Generally, the transaction price is the ICMS tax base. In some situations, the tax law establishes a minimum tax base. The ICMS is also due on the import of goods. As general rule, exports are not subject to ICMS.

## ITCMD – Property Transfer Tax

ITCMD tax is levied on inheritances and donations of real estate properties, rights and movable properties. The rates vary from 0% (in some exempt transactions) to 8% (maximum rate). In addition, States may indicate minimum and maximum values for ITCMD operations, and the tax base is the market value of the property or right inherited or donated.

## IPVA – Vehicle Property Tax

IPVA tax is assessed on a yearly basis and it is imposed on the ownership of all kinds of vehicles, including airplanes and boats. The tax rate varies from state to state, ranging from 1% to 4%. The tax base is the market value of the vehicle at the beginning of the year.

# Municipal taxes

## ISS – Service Tax

ISS tax is levied on services rendered, except those subject to the ICMS tax (certain transport, communication services and electricity). The ISS is not a VAT tax. The ISS tax rates range from 2% up to the maximum rate of 5%, depending on the municipality and the type of service. The taxable base of ISS is the price of the service rendered. The import of services is subject to ISS levy, while the export of services is exempt if the service is entirely rendered abroad.

## IPTU – Real Estate Property Tax

IPTU tax is due every year based on the fair market value of real properties in urban areas. The rate varies from municipality to municipality and according to the location of the property. The maximum rate is 5% and, in a few cases, it is possible to obtain tax exemption.

## ITBI – Real Estate Transfer Tax

ITBI tax is levied upon the transfer of property deeds, and it is payable by the acquirer. The tax rate ranges from 2% to 6% and the tax base is the sale price.

*Published on November 2019.  
Information updated until the publication date.*





## About DPC

Reference in **outsourcing accounting and business management services** since 1984, DPC is expert in translating Brazil's different economic and tax contexts and in providing customized management solutions, helping more than 500 multinationals and Brazilian companies in various areas to overcome challenges and to build strong and successful businesses.

DPC's priority is to ensure **outstanding** services through the **expertise** of a **highly qualified team**, constantly updated on international accounting standards and on the latest changes in Brazilian legislation.



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