

Taxation

Taxation in Brazil

Taxation in Brazil occurs at three levels of government: federal, state, and municipal. In broad terms, the main federal taxes cover excise duties, import and export duties, financial transactions, taxes on revenue, profits and income, as well as contribution charges that fund social security and employment benefits, managed by the [Federal Revenue Service](#) ("Receita Federal").

Aware of its complexity, the government is committed to simplifying the Brazilian tax system. Some of the contemplated reforms include a proposal to standardize two contribution charges, namely PIS and Cofins, currently divided into two categories, under a single regime. Other legislative proposals aim at standardizing larger sets of taxes.

All existing legal entities must calculate and pay taxes regularly (monthly, quarterly, or annually, depending on the tax due) and file a yearly tax return consolidating the results from the previous calendar year. Regardless of capital control, the law acknowledges as a domestic company any foreign corporation that has a subsidiary, branch, agency, office, representative, or the like in Brazil. Therefore, all companies should obtain a Corporate Taxpayer Identification Number (CNPJ, in the Portuguese acronym for "National Register of Legal Entities") to collect taxes in the Brazilian system.

Tax holidays are offered to certain industries operating in specific areas. No tax consequences arise from converting a non-incorporated business into an incorporated entity or from changing the corporate form, such as from a private limited liability company ("limitada") to a corporation ("sociedade anônima").

Main taxes and contributions in Brazil

SERVICES

ISS (Municipal Services Tax)

Varies between 2% to 5% (depending on the type of service), on the service price.

INSS (Social Security Contribution)

Varies between 7,5% to 14%, depending on the salary range. INSS is paid both by the employee, discounted from the gross salary (Service), and by employers, on total payroll (Payroll).

PRODUCTS

ICMS (State Goods and Services Tax):

Intrastate rates are defined and levied by states on the circulation of goods within its borders. Standard intrastate rates may vary considerably.

Interstate levels are generally levied at 7% and 12%, and 4% on imported goods (the final product must include more than 40% imported content).

IPI (Tax on manufactured goods)

Ranging generally from 0% to 45%, with few exceptions up to 300%, (such as cigarettes), depending on the product. Rates are defined by product code (HS code) and are informed by the IPI Tax Rates Table – TIPI.

II (Import Duty)

Foreign merchandise entering Brazil incurs import duties generally ranging from 0% to 20%, depending on the product. Rates are contained in the Mercosur Harmonized Tariff Schedule (TEC).

IE (Export Tax)

Generally 30% when applicable (most exports do not collect it), but it may be raised or lowered to meet the objectives of Brazil's exchange rate and foreign trade policies. The maximum rate may reach 150%.

IOF (Tax on Financial Transactions)

Levied on credit, exchange, insurance, and financial operations in general, ranging from 0% to 25%, depending on the transaction. The current IOF rate for exchange operations (buying and selling dollars) is 1.1%. Payments abroad with Brazilian credit cards, prepaid cards, and travelers' cheques have a 6.38% IOF rate.

SERVICES AND PRODUCTS

IRPJ (Corporate Income Tax)

At a rate of 15% on profit, plus an additional 10% on the monthly income that exceeds BRL 20,000.

PIS/Pasep (Social Contribution on Gross Revenue)

Used to fund unemployment insurance and the Workers' Assistance Fund. There are two different regimes, which vary on the tax calculation method chosen by the company. Cumulative Regime (applied to legal entities collecting IRPJ by Presumptive Profit): 0.65% of gross revenue. Non-Cumulative Regime (IRPJ by Taxable Profit): 1.65% of gross revenue.

Cofins (Social Contribution Tax)

Used to fund social security. It is usually paid alongside PIS and follows the same regimes. Cumulative Regime (IRPJ by Presumptive Profit): 3% of gross revenue. Non-Cumulative Regime (IRPJ by Taxable Profit): 7.6% of taxable revenue.

CSLL (Social Contribution Tax on Profit)

9% (15% for insurance companies, financial institutions and credit unions).

PAYROLL

FGTS (Guarantee Fund for Continuing Service)

8% of employee's gross salary.

INSS (Social Security Contribution)

20% on total payroll. INSS is paid both by the employee, discounted from the gross salary (Service), and by employers, on total payroll (Payroll)

SAT/RAT (Occupational Hazards Insurance)

1% to 3% of payroll, according to the risk level of the activity.

Third Party Contribution Taxes (“Contribuição a terceiros”)

Contributions paid for social entities and funds, according to business activities (determined by the FPAS code table). SESI/SESC Social Programs, SENAI/SENAC Training Programs, SEBRAE Program for Small Companies, and INCRA Supplementary rural pension are some of these entities.

Total contribution per business activity range from 0% to 7.7%. The general categories for Industry and Commercial Services incur on a final rate of 5.8%, while general categories for Agribusiness and Transportation Services incur on a final rate of 5.2%.

PROPERTY

IPTU (Urban Real Estate Tax)

There is no minimum or maximum rate established by federal law (it is therefore established by each municipality). Escalation criteria: location, value, use, and social function.

ITR (Rural Real Estate Tax)

Ranging from 0.03% to 20% (depending on land area and degree of land use).

ITBI (Stamp Duty on Real Estate Transfers)

There is no minimum or maximum rate established by federal law (it is therefore established by each municipality). Single rate, non-progressive regime.

Business accounting

For tax purposes, business profits are calculated based on net income, as reported on the income statement (profit and loss account) and adjusted for non-taxable income and non-deductible expenses. Intercompany transactions are subject to transfer pricing rules.

Capital gains are taxed as ordinary income. The cash basis may be used to calculate profits on certain long-term sales of permanent assets. Capital losses may only be offset by capital gains. Unused capital losses are treated similarly to income tax losses with regard to limits on use and the carryforward period.

Gains from the sale of depreciable property are treated as ordinary non-operating income and not as capital gains. Corporate taxpayers may choose to include exchange gains and losses in their taxable income, on an accrual basis (whether or not realized, monthly exchange gains will be taxable and exchange losses will be deductible) or on a cash basis (it will be taxable or deductible only when realized). Companies participating in specific industries, such as banking, insurance, and leasing, are subject to special tax rules.

Dividends

Dividends are not subject to withholding income tax and neither is the recipient. Received from other local companies, including subsidiaries and affiliates, they are not subject to corporate income tax. The payment of dividends in kind is not prohibited by corporate law, provided that specific rules and terms are clearly defined in the Articles of Incorporation or the payment is approved at the Annual Shareholders' Meeting.

Taxation of Equity Investment Funds

Due to the fact that Equity Investment Funds (in Portuguese "Fundos de Investimento em Participação" – FIPs) are deemed to be a condominium, the sale of any asset is exempt of Brazilian taxes (income taxes and tax on financial transactions "IOF") until income is distributed to its shareholders. In general, the gains obtained by the portfolio of the investment funds are exempt of withholding tax (WHT). However, where FIPs do not hold a portfolio comprising at least 67

percent of stocks of corporations, convertible debentures or subscription bonuses, it will be treated as a fixed income investment and thus subject to income tax at rates ranging from 15% to 22.5%, depending on the term of the investment.

Any gains obtained upon sale or redemption of shares of FIPs by investors resident in Brazil, are generally subject to withholding tax at a 15% rate.

Brazilian regulation allows foreign investors to invest in the same financial products as the ones available for Brazilian investors, as long as the foreign investor is duly registered with the Brazilian Securities and Exchange Commission ("Comissão de Valores Mobiliários" – CVM), is represented by a financial institution and the foreign investment is registered in accordance with [CMN Resolution n. 4.373/2014](#).

The acquisition of shares of investment funds in Brazil will generally be subject to the tax on transactions with bonds and securities (usually known as IOF/Bonds) if the investment in such shares lasts less than 30 days. Investments that last longer than 30 days will not be taxed.

For more information, [talk to our team](#).