



DOING BUSINESS IN BRAZIL CORPORATE AND TAX ASPECTS

Brazil at a glance

World 5th largest country
213 million people (6th)
2nd economy of the Americas
13th world economy
LATAM's largest share of global wealth
Economy: Agriculture (5,5%)
Industry (18,5%) and Services (76%)
21 Forbes 2000 companies

2020 World Bank Doing Business Rank (124th of 190 economies)

TOPIC RANKINGS	DB 2020 RANK	ESTIMATED TIME
Starting a Business	138	13,5 days
Dealing with Construction Permits	170	384 days
Getting Electricity	98	132 days
Registering Property	133	24,5 days
Getting Credit	104	-
Protecting Minority Investors	61	-
Paying Taxes	184	1501 hours / year
Trading Across Borders	108	61 hours to export / 54 to import
Enforcing Contracts	58	911 days
Resolving Insolvency	77	4 years

Challenges

Complex tax system
Strict visa regulations
Old Labor Law
Hard to find qualified professionals
English not common knowledge
High tax-to GDP ratio (on par with OECD)
Paper trail for funding
Paper trail for Import / Export
Heavy tax reporting structure

Positive Aspects

Biggest economy of Latin America
210 million people consumer market
2021 Q1 GDP back to pre-pandemic levels
Mature democratic institutions
Respect for private property
Capability to host large events such as Olympics
Rich mineral and energy resources (Pre Salt)
Clean energy matrix above 50%
Despite complexity, tax system is manageable with proper knowledge

Creating a company

Step 1

1. Grant a PoA to the shareholder's legal representative in Brazil (to be done in the Country of origin)
2. Request Company Registration office for proof of existence (to be done in the Country of origin)
3. Notarize and apostille the above documents (to be done in the Country of origin) - **If Country of Origin is not a Apostille Hague Convention Signatory, documents must be registered in the Brazilian Consulate.**
4. Translation of PoA and company chapters to Portuguese - **8 days**
5. Registration of PoA and company chapters in a Brazilian Notary - **8 days**
6. Requesting CPF (tax registration) for the individual shareholder(s) (to be done in the country of origin)

Step 2

7. Registrations of shareholder(s) in the Brazilian Central Bank
8. Requesting CNPJ (Central Bank) for foreign shareholder(s) (legal entities) - **Along with #7**
9. Writing Brazilian company statutes collecting signatures and registration in the Board of Trade
10. Register PoA and Company Chapters in the Board Trade - **Along with #8**
11. Requesting CNPJ (Federal Revenue) for the local company - **Simultaneous with #9 and #10, this will allow starting activities: opening a bank account, signing contracts, hiring staff and other relevant matters**
12. Requesting city administration for functioning permit and invoice clearance - **This will allow issuing service invoices (nota fiscal) to any parties**
13. Requesting state administration for invoice clearance - **This will allow raising invoices (nota fiscal) for import, remittances and sale of products**
14. Request Social Security Registration - **This is the basic social security registration, necessary to hire staff and issue letters of good standing**
15. Request CEF (Federal Bank) Employee Fund Registration - **Registration is mandatory even if staff is not being hired, to issue letter of good standing.**



Funding

INTERNATIONAL CAPITALS



Free flow, but monitored

INVESTMENT, LOANS



Long term imports and rentals require reporting

REPATRIATION OF FUNDS



Dividends
Loan Repayment (note fx effect and interest WIT)
Hiring intercompany services – careful with taxes

POPULAR FUNDING OPTIONS



Share Capital (easy but not flexible)
Loans (beware thin cap and transfer price rules)
Services (beware TP rules) subject to some taxes

Tax Returns – Federal Revenue

	WHO	DESCRIPTION	TIME	DEADLINE
DIRF	Main Office	Retained Tax information: all taxes retained when paying individuals or legal entities, in any kind of payment, are reported in yearly basis	Year	End on February, following year
ECF	Main Office	Annual tax file containing the monthly calculations for corporate taxes, reconciliation between accounting result and taxable base and other adjustments	Year	End of July, following Year
DCTF	Main Office	Monthly tax return, comprising information of net payable federal taxes of any kind as well as vinculation of payment forms and compensations with the payable tax declared	Month	15th working day of the second following month
DCTF-Web	Main Office	Monthly tax return, comprising information of net payable social security contributions and retentions, as well as vinculation of payment forms and compensations with the payable tax declared	Month	15th calendar day of the following month
ECD	Main Office	Digital file containing the complete bookkeeping information of the company in the Day / Ledger Book + monthly trial balances format, according to a standard chart of accounts and layout file stated by Federal Authorities	Year	End of June, following year
EFD Contribuições	Main Office	Digital file containing detailed information on PIS, COFINS and Social Security, demonstrating taxable base, tax credits, tax retention, tax benefits and such	Month	10th working day of the second following month
EFD Reinf	Main Office	Declaration of services taken with staff allocation, tax retentions on services hired, report of Social Security on income and specific segment information and some kinds of industries	Month	15th calendar day of the following month
Earnings Report	Main Office	A detailed report containing monthly payments made throughout the year to individuals and corporations, regardless of tax retentions	Year	End of February, following year



Most Common Taxes

II - Import tax (customs only)

IPI - Tax on Manufactured Products

ICMS - Sales Tax

ISS - Services Tax

IRPJ - Income Tax

CSLL - Social contribution (Income Tax 2)

IOF - Tax on Financial Operations

CIDE - Special Economical Contribution

INSS /CPRB - Social Security

PIS and COFINS - Taxes on gross revenue or imports, with a social destination

Tax Return State, City, Payroll

	WHO	DESCRIPTION	TIME	DEADLINE
STATE REVENUE TAX RETURNS				
GIA-ST	Each company branch delivers its report	Monthly tax return with a compilation of all ICMS related operations subject to tax substitution	Month	9th/10th day of the following month
DECLAN	Each company branch delivers its report	A compilation of ICMS related operations + tax information + inventory information	Year	State authorities determine the date - generally between April and May
EFD ICMS / IPI	Each company branch delivers its report	Digital file containing detailed ICMS related operations, with a compilation of the tax calculations. This is reported to the Federal Revenue AND states, in specific file layout	Month	20th of the following month
SOCIAL SECURITY / LABOR TAX RETURNS				
GFIP / SEFIP	Each company branch delivers its report	Monthly tax return comprising all payroll (employee + directors + freelancers) information of each branch of the company	Month	7th of the following month
E-SOCIAL	Each company branch delivers its report	Real time system covering bookkeeping payroll, maintaining a complete and updated register of employees, as well as all social events related to workers. Information about vacations, certified occupational health, termination of contract and even information about labor actions.	Real time	Following day / 7th of the following month
CITY REVENUE TAX RETURNS				
NOTA CARIOCA	Each company branch delivers its report	Information about services hired from companies in different cities	Month	10th of the following month

Classic mode: Real Profit

- Similar to Global Calculation: Income Tax over adjusted results
- Income Tax – 25% over tax base
- Social Contribution (CSLL) – 9% over tax base
- Higher PIS and COFINS at 1,65% and 7,6%, with possibility of tax credits
- Loss compensation limited to 30% of profits; balance carries forward indefinitely
- Conservative, good for loss or low margin, e.g., pre-op period
- Attention to deductibility of expenses
- High compliance required

Real Profit (Lucro Real)	
Gross Revenue - Sales	3.000.000,00
PIS 1,65%	(49.500,00)
COFINS 7,6%	(228.000,00)
ICMS 20%	(600.000,00)
Net Sales	2.122.500,00
Costs paid to legal entities in Brazil	(1.200.000,00)
PIS/COFINS Credits	111.000,00
Other costs	(200.000,00)
Gross Profit	833.500,00
Overheads	(200.000,00)
Profit Before Taxes	633.500,00
Profit Taxes	(191.390,00)
Net Result After Taxes	442.110,00

Two tax modes to choose from (changeable at every new year)

Example 1 Sales Company

Alternative: Deemed Profit

- Income Tax and CSLL are mostly calculated on a fixed percentage of the gross revenue:
 - Service Providers base: 32%
 - Sales / Industries base: 8% for IR, 12% for CSLL
- Lesser PIS and COFINS at 0,65% and 3%, with no tax credits
- No loss compensation; no loss carry-forward
- Good for high profit activities
- Deductibility of expenses not a concern
- Less compliance required
- Capped at BRL 78 million / year

Deemed Profit (Lucro Presumido)	
Gross Revenue - Sales	3.000.000,00
PIS 0,65%	(19.500,00)
COFINS 3%	(90.000,00)
ICMS 20%	(600.000,00)
Net Sales	2.290.500,00
Costs paid to legal entities in Brazil	(1.200.000,00)
PIS/COFINS Credits	-
Other costs	(200.000,00)
Gross Profit	890.500,00
Overheads	(200.000,00)
Profit Before Taxes	690.500,00
Profit Taxes	(87.000,00)
Net Result After Taxes	603.500,00

Clever planning, optimized tax!



Real Profit x Deemed Profit

Example 2 – Service Company



Real Profit (Lucro Real)	
Gross Revenue - Sales	3.000.000,00
PIS 1,65%	(49.500,00)
COFINS 7,6%	(228.000,00)
ISS 5%	(150.000,00)
Net Revenue	2.572.500,00
Costs paid to legal entities in Brazil	(850.000,00)
PIS/COFINS Credits	78.625,00
Other costs	(1.200.000,00)
Gross Profit	601.125,00
Overheads	(400.000,00)
Profit Before Taxes	201.125,00
Profit Taxes	(48.270,00)
Net Result After Taxes	152.855,00

Deemed Profit (Lucro Presumido)	
Gross Revenue - Sales	3.000.000,00
PIS 0,65%	(19.500,00)
COFINS 3%	(90.000,00)
ISS 5%	(150.000,00)
Net Revenue	2.740.500,00
Costs paid to legal entities in Brazil	(850.000,00)
PIS/COFINS Credits	-
Other costs	(1.200.000,00)
Gross Profit	690.500,00
Overheads	(400.000,00)
Profit Before Taxes	290.500,00
Profit Taxes	(302.400,00)
Net Result After Taxes	11.900,00

Not so brilliant



Taxes charged in an import operation (nationalization of goods)

Import Taxes			
Name	Rate	Recoverable?	Base
II	HS Code	Non Recoverable	Customs Value
IPI	HS Code	If resale / manufact	Customs Value + II
ICMS	18%	If resale / manufact	Customs Value + II + IPI + PIS + COFINS + itself!
PIS	2,1%	Yes, if cost and Real Profit	Customs Value
COFINS	9,65%	Yes, if cost and Real Profit	Customs Value

Important note: REPETRO and DRAWBACK

REPETRO

Tax benefit to the Oil & Gas industry
Exemption of import taxes for O&G equipment on temporary admission

DRAWBACK

Tax benefit to export industries
Exemption of nationalization tax, conditioned on a future export

Taxes Charged on a Sales Operation

ICMS

On gross revenue. 17% to 20%, 12%, 7% or 4%

PIS

On gross revenue minus ICMS. 0,65% or 1,65%

COFINS

On gross revenue minus ICMS. 3% or 7,6%

CPRB Social Security (some activities)

1%, 1,5% or 2,5% of gross revenue

IPI

Rate according to HS code
(charged if sale of imported goods / own manufacturing)

Practical example – Import and Sell

Example: Subsea tubes made of steel / plastics

HS Code: 8307.10.10	II: 2%, IPI: 5%	ICMS 18%
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Total Customs Value = 1.000

HS Code	Import cost	Tax Rates and values					Total Import Value
		II	IPI	PIS	COFINS	ICMS	
8307.10.10	1.000,00	2%	5%	2,1%	9,65%	18%	1.449,39
		20,00	51,00	21,00	96,50	260,89	

Tax Assets, not cost (cash only)	Total cost = 1.020	COFINS credit = 96,50
	IPI credit = 51	ICMS credit = 260,89
	PIS credit = 21,00	

Practical example – Import and Sell

Selling at break even:

HS Code	Import cost	Tax Rates			Gross Revenue	IPI rate	Nota Fiscal Value
		PIS	COFINS	ICMS		5%	
8307.10.10	1.020,00	1,65%	7,60%	20%	1.404,96	70,25	1.475,21
		18,55	85,42	280,99			

Mostly no cash used, as tax credits offset against these

Base for ICMS and IPI

Withholding Taxes (services – legal entities)

IRRF – 1,0%, 1,5% or 4,8%

PIS – 0,65%

COFINS – 3%

CSLL – 1%

INSS – 11% (allocation of manpower)

CPRB – 3,5% (allocation of manpower)

ISS – 2% to 5%, for specific services, according to local city laws and service code;

ISS – CEPOM – 5%

Taxes charged on Services Providing

ISS

2% to (mostly) 5% – applied on gross revenue

PIS

0,65% or 1,65% on gross revenue

COFINS

3% or 7,6% – on gross revenue

CPRB Social Security (some activities)

2%, 3% or 4,5% of gross revenue

Wire Transfer Taxes

General rule for technical services, technology transfer, royalties and management services

COUNTRY <u>WITH</u> DOUBLE TAXATION AGREEMENT		
TOTAL WIRE COST		125,70%
IMPORT TAXES TO BE PAID BY THE BRAZILIAN COMPANY	CIDE (10%)	10%
	ISS (5%)	5%
	PIS/COFINS (9,25%)	10,70%
INVOICE VALUE		100%
WITHHOLDING INCOME TAX	IRRF 15%	-15%
NET VALUE RECEIVED AT DESTINATION		85%

COUNTRY <u>WITHOUT</u> DOUBLE TAXATION AGREEMENT		
TOTAL WIRE COST		147,00%
IMPORT TAXES TO BE PAID BY THE BRAZILIAN COMPANY	CIDE (10%)	11,76%
	ISS (5%)	5%
	PIS/COFINS (9,25%)	12,59%
GROSSED UP VALUE		117,65%
WITHHOLDING INCOME TAX	IRRF 15%	-17,65%
INVOICE VALUE (NET DESTINATION)		100%

Services in General / Cost Recharge / Refunds

COUNTRY <u>WITH</u> DOUBLE TAXATION AGREEMENT		
TOTAL WIRE COST		115,70%
IMPORT TAXES TO BE PAID BY THE BRAZILIAN COMPANY	ISS (5%)	5%
	PIS/COFINS (9,25%)	10,70%
INVOICE VALUE		100%
WITHHOLDING INCOME TAX	IRRF 25%	-25%
NET VALUE RECEIVED AT DESTINATION		75%

COUNTRY <u>WITHOUT</u> DOUBLE TAXATION AGREEMENT		
TOTAL WIRE COST		152,6%
IMPORT TAXES TO BE PAID BY THE BRAZILIAN COMPANY	ISS (5%)	5%
	PIS/COFINS (9,25%)	14,27%
GROSSED UP VALUE		133,33%
WITHHOLDING INCOME TAX	IRRF 25%	-33,33%
INVOICE VALUE (NET DESTINATION)		100%

PIS/COFINS may be taken as a credit if, cumulatively: Brazilian entity is Real Profit AND the invoice relates to Cost of Sales / Services, not overheads

Countries with double taxation agreements with Brazil

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



Countries considered Tax Havens

Andorra	United Arab Emirates	French Polynesia
Anguilla	Gibraltar	Qeshm Island
Antigua and Barbuda	Grenada	American Samoa
Aruba	Hong Kong	Western Samoa
Ascension Island	Kiribat	Saint Helena
Bahamas	Labuan	Saint Lucia
Bahrain	Lebanon	Saint Kitts and Nevis
Barbados	Liberia	Saint Pierre and Miquelon
Belize	Liechtenstein	Saint Vincent and the Grenadines
Bermuda	Macao	Seychelles
Brunei	Maldives	Solomon Islands
Campioni D'italia	Isle of Man	Swaziland
Channel Islands	Marshall Islands	Oman
Cayman Islands	Mauritius	Tonga
Cyprus	Monaco	Tristão da Cunha
Cook Islands	Montserrat	Turks and Caicos Islands
Djibout	Nauru	Vanuatu
Dominica	Niue	US Virgin Islands
	Norfolk Islands	British Virgin Islands
	Panama	Curacao
	Pitcairn Islands	Saint Martin
		Ireland

Privileged Tax Regimes



Uruguay – For legal entities constituted in the form of "Inversion Financial Companies" until December 31, 2010.

Denmark – For "holding company" which are not engaged in a substantial economic activity.

Netherlands – For "holding company" which are not engaged in a substantial economic activity.

Iceland – For "International Trading Company" (ITC).

United States of America – For state "Limited Liability Company", whose participation is composed of non-residents, not subject to federal income tax.

Spain – For "Entidad de Tenencia de Valores Extranjeros".

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United States of America – For state "Limited Liability Company", whose participation is composed of non-residents, not subject to federal income tax.

Spain – For "Entidad de Tenencia de Valores Extranjeros".

Malta – For "International Trading Company" and "International Holding Company".

Switzerland – For holding/ domiciliary/ auxiliary/ mixed/ administrative companies (including other types of companies created by tax authorities' rulings) that pay Income Tax in less than 20%.

Austria – For "holding company" which are not engaged in a substantial economic activity.

Costa Rica – For "Free Zone Regime".

Portugal – For "International Business Center of Madeira".

Singapore – A number of special tax regimes are deemed as privileged.

Dividends

Cost for remitting dividends, after taxes, provided accumulated losses have been absorbed: 0%

There is currently a bill in Congress that may impose taxation on dividends as a counterpart to corporate income tax reduction.



Payroll taxes

Company Taxes

20% Social Security (not if INSS is charged on revenue)
5,8% Social Assistance
1% to 3% accident insurance
8% FGTS (severance fund / saving account)

Employee Taxes (retained by company)

Up to 27,5% Income Tax
Social Security (maximum of BRL 752,00)

Other elements to consider

Christmas Wage (extra salary at the end of year)
Vacation (extra salary + 1/3 for every 12 months)
Food and Transport (vouchers, not money)

		REGULAR EMPLOYESS	OFFSHORE EMPLOYESS	EXECUTIVE OFFICER
	TOTAL MONTHLY COST ACCRUALS	17.330,00	38.572,00	12.000,00
Vacation and 13th salary - accruals and social charges on accruals	Charges over accruals	715,56	1.645,78	-
	1/12 vacation	1.111,11	2.555,56	-
	1/12 christmas wage	833,33	1.916,67	-
	DIRECT MONTHLY COST - COMPANY	14.670,00	32.454,00	12.000,00
Direct Social Charges on gross payable	FGTS 8%	800,00	1.840,00	-
	Social Assistance 5,8%	580,00	1.334,00	-
	Social Secutity 20%	2.000,00	4.600,00	2.000,00
	Accident Insurance 3%	300,00	690,00	-
	GROSS AMOUNT DUE	10.990,00	23.990,00	10.000,00
Allowances - don't integrate taxable base, as long as not given in money	Offshore Additional 130%	-	13.000,00	-
	Meal Tickets	660,00	660,00	-
	Transport Tickets	330,00	330,00	-
	GROSS SALARY	10.000,00	10.000,00	10.000,00
Taxation and co-participation of employee on allowances	(-) Withheld Social Security	828,38	828,38	828,38
	(-) WIT	1.652,84	5.259,54	1.684,54
	(-) Co-participation on meals	132,00	132,00	-
	(-) Co-participation on transport	330,00	330,00	-
	NET PAYABLE	7.056,78	16.565,37	7.602,37
Total Burden		68,68%	281,10%	20,00%



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