



Taxation Issues Your Client  
Will Need to Be Aware of in Brazil

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### Brazil at a glance



- World 5th largest country
- 192 million people (5th)
- 2nd economy of the Americas
- 8th world economy (7th on purchase power)
- Per capita GDP bigger than China and India
- Economy: Agriculture (5,1%), Industries (30,8%) and Services (64,1%)
- 7 Global 500 companies

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### Rio de Janeiro



- 16 million people
- 23.664 industries
- Economy comprised of services (62%), industries (37,5%) and agriculture (0,5%)
- Area: 43k Km<sup>2</sup> (0,5% of Brazil) (bigger than Denmark)
- GDP: USD 215 bi (11,3% of Brazil) (40th world economy)
- Investments of USD 110 billion (2011 - 2013)
- Biggest investment concentration in the world: USD 2,5 million per square km

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### Brazil is complicated...

- Very complex tax system
- Considerable bureaucracy
- Heavy tax burden
- Old and hyper protective Labor Law
- Most people only speak portuguese
- Hard to find qualified professionals
- Visa regulations are very strict
- Some grey zones on laws
- Sky high interest rates

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### Brazil is complicated...

- 2011 World Bank Doing Business Rank (127th of 183 economies)

TOPIC RANKINGS	DB 2011 Rank	Estimated Time
Starting a Business	128	120 days
Dealing with Construction Permits	112	411 days
Registering Property	122	42 days
Getting Credit	89	-
Protecting Investors	74	-
Paying Taxes	152	2600 hours / year!
Trading Across Borders	114	13 days to export / 17 to import
Enforcing Contracts	98	616 days
Closing a Business	132	4 years

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### But it is a possible challenge!

- Political stability
- Respect for private property
- Heavy investments by large Brazilian companies and Government authorities
- Big events such as FIFA World Cup and Olympics
- Pre Salt
- Lower production costs than US and Europe
- Foreign investment: USD 48 bil.(2010), 65 (2011)
- VERY rich on natural resources

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## Creating a company – Step 1

#	Description	Days	Responsible	Comments
1	Provide templates for the partners to issue PoA for the legal representative in Brazil	2	Grupo Planus	
2	Request Company Registration office for proof of existence (company chapters)		Customer	
3	Notarize and register above documents in the local Brazilian Consulate		Customer	
4	Translation of PoA and company chapters to Portuguese	8	Grupo Planus	
5	Registration of PoA and company chapters in a Brazilian Notary	8	Grupo Planus	

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## Creating a company – Step 2

#	Description	Days	Responsible	Comments
6	Writing Brazilian company statutes, collecting signatures and registration in the Board of Trade	20	Grupo Planus	On completion, company is legally incorporated (little practical effect)
7	Register PoA and Company Chapters in the Board of Trade	0	Grupo Planus	This process is done simultaneously with item 6 above
8	Requesting CPF (Federal Revenue) for the individual partners	0	Grupo Planus	This process begins after item 5 and runs simultaneously with following items
9	Registrations of both partners in the Brazilian Central Bank	5	Grupo Planus	
10	Requesting CNPJ (Central Bank) for Foreign partners (legal entities)	3	Grupo Planus	
11	Requesting CNPJ (Federal Revenue) for the local company	5	Grupo Planus	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	10	Grupo Planus	This will allow issuing invoices (nota fiscal) to any parties
13	Request Social Security Registration	5	Grupo Planus	This is the basic social security registration - necessary to hire staff and issue letters of good standing
14	Request CPF (Federal Bank) Employee Fund registration	5	Grupo Planus	Registration is mandatory even if staff is not being hired, to issue letters of good standing

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## Creating a company – Step 3

#	Description	Days	Responsible	Comments
15	Wiring the capital value to the Brazilian company		Customer	
16	Updating Central Bank investment information	0	Grupo Planus	This begins after item 15 and runs simultaneously with following items
17	Amending the acts of incorporation with final capital value + electing expat as Manager	15	Grupo Planus	
18	Visa application	60	Grupo Planus	
19	Amending the acts of incorporation with making the expat effective manager of the company	15	Grupo Planus	
20	Issuing new PoA (Item 1) enabling the manager to act on behalf of the foreign partners; legalization of this document as items 3, 4 and 5 above	15	Grupo Planus	
21	Updating Federal Revenue - capital and manager information	5	Grupo Planus	
22	Updating City Revenue - capital and manager information	5	Grupo Planus	
23	Updating Social Security - capital and manager information	5	Grupo Planus	
24	Travel to country of origin to pick up the visa in the Brazilian Consulate		Customer	As soon as the Visa application from item 18 above has succeeded.
25	Registration procedures in the Federal Police	5	Grupo Planus	

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### Tax Returns – Federal Revenue

Name	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 an yearly base	Year	End of February, following year
DSPI	Main Office	Income Tax statement (replaces DIP, DCTF, DACON and DIRF in case of inactive companies).	Year	End of March, following year
DIP	Main Office	Corporate Income Tax Report, with detailed information about monthly / quarterly turnover, income tax and social contribution taxes, assets, liabilities, P&L.	Year	End of June, following year
DCTF	Main Office	Monthly tax return, comprising information of net payable taxes (income tax, social contribution, PIS, COFINS and their retention variations), as well as vinculation of payment forms and compensations with the payable tax declared	Month	5th working day of the second following month
DACON	Main Office	Monthly tax return comprising monthly gross turnover information, PIS and COFINS calculation, including offsettable credits originated from expenses / costs, and taxes retained by payment sources	Month	5th working day of the second following month
SPED - Accounting	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
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

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### Tax Return – State Revenue

Name	Who	Description	Time	Deadline
GIA	Each company branch delivers its report	Monthly tax return with a compilation of all ICMS related operations (buying and sales of goods / fixed assets, as well as consignment, transfers for lease and other operations comprising movementation of any kind of goods)	Month	Between 11th and 20th the following month
GIA-ST	Each company branch delivers its report	Same as above, for the operation where the company is responsible for collecting third parties ICMS	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
Sintegra	Each company branch delivers its report	Digital file containing the detailed ICMS related operations of any nature. This file contains several sub registries comprising information of every single item traded, stock movementation, retail sales, etc.	Month	25th of the following month
Sintegra - Interstate	Each company branch delivers one for each state it dealt with	Same as above, separating the specific operations with the reported state	Month	15th of the following month
SPED - Tax	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 a specific file layout	Month	15th of the following month
DUB	Each company branch delivers its report	Information about any tax benefits and incentives, used or not, by the company; any operation where ICMS was not fully paid must be disclosed detailedly.	Every six month	March 31st / Sep. 30th

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### Other Tax Returns

CITY REVENUE TAX RETURNS				
Name	Who	Description	Time	Deadline
Nota Cartoca	Each company branch delivers its report	Information about services hired from other companies	Month	10th of the following month
SOCIAL SECURITY / LABOR TAX RETURNS				
Name	Who	Description	Time	Deadline
GFIP/ SEFP	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
RAIS	Each company branch delivers its report	A compilation of information on all company's employees during the year, including admission, contract termination, transfers, sickness leaves and salaries throughout the period	Year	Ministry of Labor determines the date - generally during March
CAGED	Each company branch delivers its report	Monthly forms to report admission, firing and transfer of employees	Month	7th of the following month
MANAD	Each company branch delivers its report	Digital file containing all information about payroll, as well as accounting entries related to these operations	Year	the file must be kept and presented to a tax inspection when requested

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## Most Common Taxes

- ▶ II – Import tax (customs only)
- ▶ IPI – Tax on Manufactured Products
- ▶ PIS and COFINS – taxes on gross revenue or imports, with a social destination
- ▶ ICMS – Sales Tax
- ▶ ISS – Services Tax
- ▶ IRPJ – Income Tax
- ▶ CSLL – Social contribution (Income Tax related)
- ▶ IOF – Tax on Financial Operations

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## Taxes charged in an import operation (nationalization)

Import Taxes			
Name	Rate	Recoverable?	Base
II	Tariff Code	Non Recoverable	Cost Value
IPI	Tariff Code	Sometimes	Cost Value + II
ICMS	14 (air), 16% (sea)	Yes, if sale	Cost Value + II + PIS + COFINS
PIS	1,65%	Yes, if EBT	c x (VA x X)
COFINS	7,60%	Yes, if EBT	d x (VA x X)

Note: Temporary Admission :  
1% / month

$$X = \left[ \frac{1 + e \times [a + b \times (1 + a)]}{(1 - c - d) \times (1 - e)} \right]$$

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## Taxes Charged on a Sales Operation

- ▶ **ICMS**  
inside sales price. 19%, 12% or 7%
- ▶ **PIS**  
inside sales price. 0,65% or 1,65%
- ▶ **COFINS**  
inside sales price. 3% or 7,6%
- ▶ **IPI**  
(charged if sale of imported goods / own manufacturing) – rate according to tariff code, outside sales price

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### Practical example – import and sell

**Example: Subsea tubes made of steel / plastics**

Tariff Code: 8307.10.10

II: 2%, IPI: 5%

Import made by sea: ICMS 16%

Total price FOB + expenses = 1.000

Tariff Code	Import cost	Tax Rates and values					Total Import Value
		II	IPI	PIS	COFINS	ICMS	
8307.10.10	1.000,00	2%	5%	1,65%	7,60%	16%	1.421,10
		20	51	21,89	100,83	227,38	

Total cost = 1.020  
IPI credit = 51  
PIS credit = 21,89  
COFINS credit = 100,83  
ICMS credit = 227,38

### Practical example – import and sell

Selling at break even:

Tariff Code	Net Inventory Value	Tax Rates			Sales Value	IPI rate 5%	Nota Fiscal Value
		PIS	COFINS	ICMS			
8307.10.10	1.020,00	1,65%	7,60%	16%	1.421,60	74,82	1.496,42
		23,46	108,04	270,10			

Base for ICMS, PIS and COFINS

Base for IPI

### Important note: REPETRO and DRAWBACK

#### REPETRO

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

#### DRAWBACK

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

## Wire Transfer Taxes

Technical Services, Technology Transfer, Royalties, management services

COUNTRY WITH DOUBLE TAXATION AGREEMENT		
TOTAL WIRE COST		125,70%
WITHHELD INCOME TAX	CIDE (10%)	10%
	ISS (5%)	5%
	PI/COFINS (9,25%)	10,70%
TRANSFER VALUE		100%
WITHHELD INCOME TAX	IRRF 15%	-15%
NET VALUE RECEIVED AT DESTINATION		85%

COUNTRY WITHOUT DOUBLE TAXATION AGREEMENT		
TOTAL WIRE COST		147,89%
WITHHELD INCOME TAX	CIDE (10%)	11,76%
	ISS (5%)	5,88%
	PI/COFINS (9,25%)	12,59%
GROSSED UP VALUE		117,65%
WITHHELD INCOME TAX	IRRF 15%	-17,65%
TRANSFER VALUE		100%

## Wire Transfer Taxes

Services in General

COUNTRY WITH DOUBLE TAXATION AGREEMENT		
TOTAL WIRE COST		115,70%
WITHHELD INCOME TAX	ISS	5,00%
	PI/COFINS	10,70%
TRANSFER VALUE		100,00%
WITHHELD INCOME TAX	IRRF 25%	-25,00%
NET VALUE RECEIVED AT DESTINATION		75,00%

COUNTRY WITHOUT DOUBLE TAXATION AGREEMENT		
TOTAL WIRE COST		154,27%
WITHHELD INCOME TAX	ISS	6,67%
	PI/COFINS	14,27%
GROSSED UP VALUE		133,33%
WITHHELD INCOME TAX	IRRF 25%	-33,33%
TRANSFER VALUE		100,00%

## List of countries with double taxation agreements with Brazil

Argentina	Finland	Netherlands
Austria	France	Norway
Belgium	Hungary	Peru
Canada	India	Philippines
Chile	Israel	Portugal
China	Italy	South Africa
Czech Republic	Japan	Spain
Slovakia	Korea	Sweden
Denmark	Luxembourg	Ukraine
Ecuador	Mexico	

## Profit Taxes

### Classic mode: Earnings before tax

- Income Tax (IR) – 15% + 10% of net profit
- Social Contribution (CSLL) – 9% of net profit
- In this mode, PIS and COFINS are 1,65% and 7,6%, with possibility of tax credits

### Alternative: Deemed Profit

- Taxes are calculated on a fixed percentage of the gross revenue (some exceptions apply):
  - Service Providers: 32%
  - Sales / Industries: 8% for IR, 12% for CSLL
- In this mode, PIS and COFINS are 0,65% and 3%, with no tax credit possibility

## EBT / Deemed Profit comparison Trading / manufacturing companies

Scenario 1: Month result: Operational Profit			
	EBT	DEEMED PROFIT	
<b>Revenues</b>			
Gross Revenue	100.000	100.000	
<b>Revenue Deduction</b>			
Costs	(20.000)	(20.000)	
ICMS	(19.000)	(19.000)	
PIS/COFINS	(9.250,00)	(3.650)	
<b>Expenses</b>			
Payroll	(10.000)	(10.000)	
Administrative	(5.000)	(5.000)	
General / other	(5.000)	(5.000)	
<b>Result</b>			
Equity Before Tax	31.750	37.350	
<b>Profit Tax calculation</b>			
IRPJ	(4.763)	(1.200)	
Additional IRPJ	(3.175)	(800)	
CSLL	(2.857)	(1.080)	
<b>Result</b>			
<b>Net Profit</b>	<b>20.955</b>	<b>34.270</b>	

Scenario 2: Month Result: Operational Loss			
	EBT	DEEMED PROFIT	
<b>Revenues</b>			
Gross Revenue	100.000	100.000	
<b>Revenue Deduction</b>			
Costs	(15.000)	(15.000)	
ICMS	(19.000)	(19.000)	
PIS/COFINS	(9.250)	(3.650)	
<b>Expenses</b>			
Payroll	(27.000)	(27.000)	
Administrative	(10.000)	(10.000)	
General / other	(19.750)	(19.750)	
<b>Result</b>			
Equity Before Tax	(0)	5.600	
<b>Profit Tax calculation</b>			
IRPJ	0	(1.200)	
Additional IRPJ	0	(800)	
CSLL	0	(1.080)	
<b>Result</b>			
<b>Net Profit</b>	<b>0</b>	<b>2.520</b>	

## EBT / Deemed Profit comparison Service Providing companies

Scenario 1: Month result: Operational Profit			
	EBT	DEEMED PROFIT	
<b>Revenues</b>			
Gross Revenue	100.000	100.000	
<b>Revenue Deduction</b>			
Costs	(20.000)	(20.000)	
ISS	(5.000)	(5.000)	
PIS/COFINS	(9.250)	(3.650)	
<b>Expenses</b>			
Payroll	(10.000)	(10.000)	
Administrative	(5.000)	(5.000)	
General / other	(5.000)	(5.000)	
<b>Result</b>			
Equity Before Tax	45.750	51.350	
<b>Profit Tax calculation</b>			
IRPJ	(6.863)	(4.800)	
Additional IRPJ	(4.575)	(3.200)	
CSLL	(4.117)	(2.880)	
<b>Result</b>			
<b>Lucro Final</b>	<b>30.195</b>	<b>40.470</b>	

Scenario 2: Month Result: Operational Loss			
	EBT	DEEMED PROFIT	
<b>Revenues</b>			
Gross Revenue	100.000	100.000	
<b>Revenue Deduction</b>			
Costs	(20.000)	(20.000)	
ISS	(5.000)	(5.000)	
PIS/COFINS	(9.250)	(3.650)	
<b>Expenses</b>			
Payroll	(20.000)	(20.000)	
Administrative	(20.000)	(20.000)	
General / other	(15.750)	(15.750)	
<b>Result</b>			
Equity Before Tax	(0)	5.600	
<b>Profit Tax calculation</b>			
IRPJ	0	(4.800)	
Additional IRPJ	0	(3.200)	
CSLL	0	(2.880)	
<b>Result</b>			
<b>Lucro Final</b>	<b>(0)</b>	<b>(5.280)</b>	



## Payroll taxes

### Company Taxes

- 20% Social Security
- 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 406,09)

### 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 (tickets, not money)

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## Payroll taxes

MONTHLY SIMULATION - IN BRL	
SALARY (EMPLOYEE)	
TOTAL COST - COMPANY	13.680,00
FGTS 8%	800,00
SOCIAL ASSISTANCE 5.8%	580,00
SOCIAL SECURITY 20%	2.000,00
ACCIDENT INSURANCE 3%	300,00
GROSS SALARY	10.000,00
(-) RETAINED INSS	(406,09)
(-) IRRF	(1.914,38)
NET WAGES	7.679,53
ACCRUALS	2.660,00
1/12 VACATION	1.111,11
1/12 CHRISTMAS WAGE	833,33
CHARGES OVER ACCRUALS	715,56
TOTAL MONTHLY COST	16.340,00

MONTHLY SIMULATION - IN BRL	
DIRECTOR'S FEE	
TOTAL COST - COMPANY	12.000,00
SOCIAL SECURITY 20%	2.000,00
GROSS WAGE	10.000,00
(-) RETAINED INSS	(406,09)
(-) IRRF	(1.914,38)
NET WAGES	7.679,53

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