



Brazil's Tax Reform

Constitutional Amendment Bill (PEC) No. 45/2019

Key points of the bill approved in the Brazilian Senate

Key Aspects



Unified taxes

- PIS
- COFINS
- IPI
- ISS
- ICMS



Dual IVA (VAT)

The federal government will administer CBS exclusively; a Steering Committee will determine how IBS collection is divided between Brazil's states and municipalities



Specific tax regimes

Fuels and lubricants, financial services, healthcare plans, regional aviation services, sanitation and highway concession services and transactions involving the provision of shared telecommunications infrastructure



Transition period

2026 – Creation of CBS and IBS
2027 – Creation of Excise tax. End of IPI and PIS/COFINS
2033 – End of ICMS and ISS. IPI may end in 2027 if CIDE-ZFM is instituted



Tax base

VAT will be levied on tangible and intangible goods and services (and any rights linked to them)



Manaus Free Trade Zone (ZFM)

Creation of a new Contribution Tax for Intervention in the Economic Domain (CIDE) that would be charged on the import, production or sale of incentivized goods in the ZFM to maintain the region's competitiveness



Calculation method

The state goods and services tax (IBS), federal goods and services contribution tax (CBS) and excise tax (IS) will not be included in their own calculation base – no cascading taxation



Digital platforms

IBS and CBS could be levied on entities (including digital platforms) involved in carrying out or paying transactions, even if not domiciled/headquartered in Brazil



State-level sales tax (ICMS) incentives

A fund financed by the federal government will be created to compensate taxpayers for the end of their tax benefits, granted from 2029 onwards for a certain period and under certain conditions

% CBS & IBS rates

Rules:

CBS – Single rate
IBS – Rate standardized at each level (state, municipal) for all products, services and related rights, with certain exceptions provided for in the Constitution

Examples of exceptions:

Specific tax regimes, 60% IBS reductions for certain goods and services, exemptions authorized for public transportation, among others

Limit to avoid increasing the tax burden:

A provision expressly indicates the Senate will limit/lock the reference rates of the new taxes to ensure the tax burden remains proportional to GDP as the old taxes are phased out. If the tax burden surpasses this limit, these reference rates will be reduced



Tax credit refunds (extinct taxes)

- ICMS: except in some specific cases, credits may be offset (upon approval) with IBS credits in 240 installments **starting from 2033** – i.e., the year after remaining balances are adjusted in line with the consumer price index (IPCA)
- PIS and COFINS: a supplementary law will regulate refunds; it could establish compensation via CBS or other federal taxes, or via cash refund programs



Unified legislation

CBS and IBS will be subject to the same triggering events, calculation bases, non-incidence hypotheses, and taxpayers; specific, exceptional, or favored tax regimes, as well as rules covering non-cascading taxation and tax credits will be ruled by the same supplementary law



Regional Development Fund (FDR)

Potential use in infrastructure, scientific development, and job-creation projects, favoring environmentally sustainable projects



Steering Committee

27 members for the states and the Federal District & 27 members for the municipalities and the Federal District

Quorum required for approval:

- An absolute majority
- State and Federal District representatives' votes representing at least 50% of Brazil's population
- An absolute majority of the municipal and Federal District representatives' votes



Capital goods

The supplementary law regulating IBS and CBS could introduce rules to exempt acquisitions of capital goods from these taxes. This could be implemented by a 100% reduction in the applicable rates



Third sector

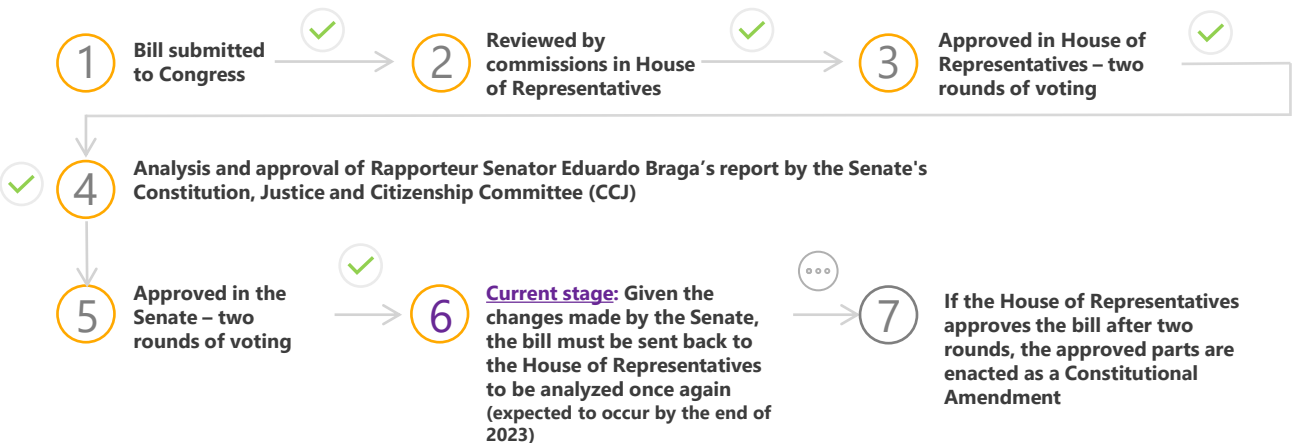
Non-profit entities will be exempt from **IBS** and **CBS** taxation and no specific prior certification will be required.

Donations to non-profit institutions working with public and social causes – including charitable organizations linked to religious organizations and science and technology institutes (ICTs) – will be exempt from paying ITCMD (Tax on Inheritance and Donations)

100% reduction in IBS and CBS for services provided by non-profit ICTs and purchases of essential medication and medical devices social assistance entities mentioned in Article 150, item VI, 'C' of the Brazilian Constitution

60% reduction in IBS and CBS for Brazilian artistic, cultural, journalistic and audiovisual productions, sporting activities and institutional communication

Status



Our Expertise

Legal support with the legislative process for the tax reform

Strategic analysis of the proposed amendments, reviews of the amendments from a constitutional and legal perspective and the bill's potential impacts, among other services

Legal advice

Assessments and analysis of the potential impacts on different sectors' tax burdens, the impact of tax credits on transactions, complying with ancillary tax obligations, among other services