


















Brazil's Tax Reform

Constitutional Amendment Bill (PEC) No. 45/2019

Key points of the final bill approved in Brazil's Congress

Key Aspects

 <p>Unified taxes</p> <ul style="list-style-type: none"> • PIS • COFINS • IPI • ISS • ICMS 	 <p>Dual IVA (VAT)</p> <p>The federal government will administer CBS exclusively; a Steering Committee will determine how IBS collection is divided between Brazil's states and municipalities</p>	 <p>Specific tax regimes</p> <p>There may be specific regimes for fuels and lubricants, financial services, healthcare plans, hotels, bars and restaurants, travel agencies, regional aviation services, and intercity or interstate road, railway and waterway collective public transport services, among others</p>
 <p>Transition period</p> <p>2026 – CBS and IBS created 2027 – Beginning of IS, end of IPI and PIS/COFINS. 0% IPI for products not subsidized within the ZFM 2033 – ICMS and ISS end</p>	 <p>Tax base</p> <p>VAT will be levied on tangible and intangible goods and services</p>	 <p>Manaus Free Trade Zone (ZFM)</p> <p>A development fund will be created to maintain the region's competitiveness Starting from 2027, IPI will be used to ensure the ZFM remains competitive</p>
 <p>Calculation method</p> <p>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</p>	 <p>Digital platforms</p> <p>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</p>	 <p>State-level sales tax (ICMS) incentives</p> <p>A fund financed by the federal government will be created to compensate taxpayers for the end of their ICMS benefits, granted from 2029 onwards for a certain period and under certain conditions</p>
<p>% CBS & IBS rates</p> <p>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</p> <p>Examples of exceptions: Specific tax regimes, 60% IBS reductions for certain goods and services, exemptions authorized for public transportation, among others</p> <p>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</p>	 <p>Tax credit refunds (extinct taxes)</p> <ul style="list-style-type: none"> • 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) • IPI and PIS/COFINS: a supplementary law will regulate refunds; it could establish compensation via CBS or other federal taxes, or via cash refund programs  <p>Unified legislation</p> <p>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</p>	 <p>Regional Development Fund (FDR)</p> <p>Potential use in infrastructure, scientific development, and job-creation projects, favoring environmentally sustainable projects</p>  <p>Steering Committee</p> <p>27 members for the states and the Federal District & 27 members for the municipalities and the Federal District</p> <p>Quorum required for approval:</p> <ul style="list-style-type: none"> • 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  <p>Capital goods</p> <p>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</p>

-  **Third sector**
 - Non-profit entities will be exempt from **IBS** and **CBS** taxation. In the case of CBS, no specific prior certification will be required
 - Non-incidence of ITCMD (Tax on Inheritance and Donations) on donations to non-profit institutions working with public and social causes – including charitable organizations linked to religious organizations and science and technology institutes (ICTs).
 - 100% reduction in IBS and CBS for services provided by non-profit ICTs.
 - 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

