

GENERAL IBS AND CBS RULES

Taxable Events

- **Payments for goods, services and rights** arising from any legal act or onerous transaction.
- **Certain non-onerous transactions** involving goods and services as defined by supplementary law (goods for personal consumption and use, donations to related parties, gifts and bonuses).

Tax Rates

- IBS and CBS tax rates will be established by specific laws issued by each **federal/state/municipal entity**.
- IBS rate will be the **sum** of the **destination state's** and **destination municipality's** respective rates.
- The rate that each entity establishes will **apply to all transactions** involving goods and services, except those specifically provided for in supplementary law.

26.5%

Ministry of Finance's estimated average tax rate

Tax Base

- **Transaction value** – the full amount charged by the supplier, which includes: **(i)** extra costs stemming from readjustments to the value of the transaction; **(ii)** interest, fines, extra costs and charges; **(iii)** conditional discounts; **(iv)** freight/transportation charges included in the transaction **(v)** taxes borne by the supplier.
- **IBS and CBS are not included into their own calculation base.**
- IPI and unconditional discounts are also not included into their own calculation base.

Taxpayers & Responsible Parties

- **Taxpayer:** a supplier who conducts economic activities involving transactions, or the acquirer of a public bid or auction.
- **Domiciled abroad:** **(i) digital platforms**, even when domiciled abroad, are considered responsible for tax collection with regard to transactions conducted through such platforms; **(ii) suppliers** resident or domiciled abroad are considered taxpayers, and are required to register in the standard IBS and CBS regimes; and **(iii) lottery and betting service** suppliers are considered taxpayers, even when domiciled abroad (despite current regulation limiting the exploitation of such activities from abroad).

Payments

- Four payment methods:
- **Compensation through offset with IBS and CBS credits** obtained by the taxpayer.
 - **Payment by the taxpayer or responsible party.**
 - **Split payment** – collection upon settlement of the transaction by the payment service provider.
 - **Payment by the purchaser**, if the payment to the supplier is made via a method that does not allow for split payment.

Tax Credits

- **Non-cumulative taxes:** IBS or CBS taxpayers may appropriate IBS and CBS credits when these taxes have been paid in previous transactions.
- IBS and CBS credits do not arise from the acquisition of **goods and services for personal use** (jewelry, gemstones, artworks, antiques, alcoholic beverages, tobacco products, firearms and ammunition, among others).
- No credits arise from transactions that are **immune or exempt** from taxation, or that are subject to a **0% tax rate** (except exports).
- **There is a five-year term for using tax credits (statute of limitations).**

Joint liability provided for in certain circumstances

Reimbursements

- Requesting the full or partial reimbursements is possible if the taxpayer upholds more credits than debts at the end of the assessment period (month).
- Reimbursement is provided at **nominal value**.
- The **steering committee** will be responsible for assessing reimbursement requests.
 - Assessments will occur within 60 days for (i) credits arising from the acquisition of **fixed assets**; and (ii) requests with a value based on 150% of the average credit balances in the 24 months prior to the calculation period.
 - In other cases, assessments will occur within **270 days**. Taxpayers will be reimbursed within 15 days of approval or in the event the committee does not respond within the stipulated deadlines.

Reduced Tax Rates

- *Cesta Básica* – reduced to zero
- Intellectual professions – 30% reduction
- Education services – 60% reduction
- Listed health services, medicines and medical devices – 60% or 100% reduction
- Accessibility devices for people with disabilities – 60% or 100% reduction
- Basic menstrual healthcare products – 60% or 100% reduction
- Food for human consumption – 60% reduction
- Personal hygiene/cleaning products – 60% reduction
- Agricultural inputs (on Mercosur NCM list) – 60% reduction
- Artistic/cultural productions – 60% reduction
- Sports activities – 60% reduction
- Passenger cars for people with disabilities or autism spectrum disorder – 100% reduction

Special Regimes

- Fuels and lubricants;
- Financial services, health Insurance plans, lottery and betting services;
- Real estate transactions,
- Cooperatives;
- Bars, restaurants, hotels, amusement/theme parks, travel and tourism agencies;
- Intercity and interstate road, rail, waterway, and regional air passenger transport services;
- *Sociedades Anônimas do Futebol* (SAFs);
- Diplomatic missions: transactions carried out in line with international treaties and conventions;
- ProUni student assistance program (CBS only)

Tax Immunity

- Regulates tax immunities provided for in the Brazilian Constitution:**
- Reference to Article 14 of the Brazilian Tax Code** applicable to education institutions and social assistance institutions.
- Definitions provided for religious entities**, social assistance and charity organizations.
- Not applicable to goods and services acquired** by federative entities, religious entities, political parties, labor unions, education institutions and social assistance institutions.
- Complying with **ancillary obligations** is necessary.

Customs & Capital Goods Regimes

- **Customs:** transit, deposit, temporary stay and improvement regimes will continue, as will REPETRO and Export Processing Zones (ZPEs).
- **Capital goods exemptions:** the REIDI and REPORTO regimes will continue.

Transition Period Rules

- 2026:** 0.9% CBS rate and 0.1% IBS rate. Offset with PIS/COFINS or federal taxes. Payment waived if ancillary obligations are complied with.
- 2027 & 2028:** IBS levied at 0.1% (0.05% states and 0.05% municipalities); Offset with reduced CBS rate; Applicable to specific and special tax regimes; Not applicable to fuels.
- 2027-2035:** Rules define criteria for calculating reference tax rates: (1) for CBS between 2027 and 2033, and (2) for IBS between 2029 and 2033, and regulate the 'tax burden ceiling' for CBS in 2030 and for IBS and CBS in 2035.

SELECTIVE TAX (IS) – GENERAL RULES



Levied on the production, extraction, sale, or imports of goods harmful to human health or the environment.

Goods explicitly mentioned on Mercosur's NCM/SH list include:

- Automobiles;
- Boats and aircraft;
- Tobacco products;
- Alcoholic beverages;
- Sugary drinks;
- Extracted minerals (iron, oil, and natural gas)



Cumulative taxation: The IS will be levied once and the appropriation of tax credits is prohibited.



Tax triggering events:

- The first commercial transaction involving the product;
- The sale of the product at a public auction;
- Non-onerous transfers of extracted or produced mineral products;
- Products that are incorporated into fixed assets;
- Exports of extracted or produced mineral products; or
- Consumption of the product by the producer/extractor or manufacturer.



Rates still need to be defined. There will be a maximum 1% IS rate for extracted mineral goods.

- For alcoholic beverages, specific rates should consider the **alcohol content** by volume.
- A zero rate applies to **natural gas** (including imported natural gas) intended for use as an input in industrial procedures.
- For Vehicles the rates will be determined based on criteria such as power, energy efficiency, recyclability, and carbon footprint. Cars and light commercial vehicles deemed sustainable will be **exempt**.
- Rates will be adjusted annually by the IPCA rate.



IS assessment period: monthly or for a shorter period (as determined by regulations).



Minimum taxable amount in transactions between related parties (*ad valorem* rate and without a reference value):

- The tax calculation basis must not be inferior than the market value of the products – understood as the amount used in comparable transactions between unrelated parties.



Excluded from the IS tax base: The IS tax calculation basis does not include CBS, IBS, or the IS itself, nor does it encompasses unconditional discounts.



Exemptions: (i) exports, except for those of extracted or produced mineral products; (ii) goods and services with a 60% reduction in IBS and CBS, and services for public road and rail passenger transport.



MANAUS FREE-TRADE ZONE (ZFM) AND FREE-TRADE AREAS (ALCs)

In light of the tax reform, the following mechanisms have been put in place to ensure the ZFM and ALCs maintain their competitive advantage:



ZFM:

1. IBS and CBS suspended on imports of material goods by incentivized industries. Once requirements have been met, the suspension will be converted into an exemption;
2. IBS and CBS rates reduced to zero for transactions conducted outside the ZFM that result in the sending of domestically manufactured goods to the ZFM;
3. Presumed IBS credits for taxpayers within the ZFM who acquire goods covered by the rate reduction in item 2 above;
4. IBS and CBS rates reduced to zero for transactions in which an incentivized industry within the ZFM supplies intermediate goods to another incentivized industry in the same zone;
5. Presumed IBS credits for final goods manufacturers within the ZFM that acquire intermediate goods subject to the rate reduction in item 4; and
6. Presumed IBS and CBS credits for sales of final goods that incentivized industries produce in the ZFM.

ALCs:

1. IBS and CBS suspended on imports of inputs by incentivized industries within ALCs. Once requirements have been met, the suspension will be converted into an exemption;
2. IBS and CBS rates reduced to zero for transactions conducted outside the ALCs that result in the sending of domestically manufactured goods of to them;
3. Presumed IBS credits for taxpayers within ALCs who acquire goods covered by the rate reduction in item 2 above;
4. Presumed IBS and CBS credits for sales of goods produced in ALCs provided there is a prevalence of raw materials of regional origin.



Beneficiaries of ZFM and ALC-related incentives must be qualified by control bodies, while industries must have an economic project approved by the same bodies.

