TozziniFreire.

TAX NEWSLETTER

Extraordinary Edition | November 6th, 2025

Brazilian Congress approves 10% withholding tax on dividends

After months of political articulation, President Lula's administration has managed to have the Congress pass Bill No. 1,087/2025, which increases the personal income tax exemption bracket to BRL5,000, thereby benefiting a great majority of Brazilian population. To offset the resulting revenue loss, the Bill introduces a 10% minimum tax for the so-called high-income individuals (High Income Minimum Tax – "HIMT"), which is charged through a 10% withholding tax ("WHT") on dividends along with a corporate-shareholder integrated calculation that enables shareholders to have a tax credit in the event the company's effective tax rate reaches a certain threshold. The new rules will be effective as from January 2026.

Since 1996, Brazilian tax policy is to concentrate taxation of business profits at the company level and to exempt dividend distributions, regardless of the shareholder location. Given that Brazilian nominal corporate income tax ("CIT") rate is 34%[i], this approach theoretically ensures an adequate level of taxation for business profits. On the other hand, it is widely known that Brazil grants certain tax incentives to large companies and adopts simplified tax regimes for small and mid-size companies[ii], both of which tend to reduce the amount of CIT actually paid and thereby affect the level of tax revenues. HIMT will indirectly neutralize the effects of those tax incentives when profits are distributed to shareholders.

As a starting point, Bill No. 1,087 introduces a 10% WHT on dividends paid to Brazilian individual shareholders whenever the amount paid exceeds BRL50 thousand per month. Foreign shareholders will be subject to the same 10% WHT regardless of the amount distributed. No WHT applies to distributions made to local corporate shareholders or collective investment vehicles, such as investment funds.

The WHT will represent an advance tax, the actual cost for the shareholder depending on a final computation that contemplates annual consolidated earnings and the percentage of taxes paid at the company level. Brazilian individuals will prepare this final computation when filling their annual personal income tax return, which is due on the fourth or fifth month after the fiscal year ("FY") ends.

The HIMT will reach only Brazilian individuals with annual income exceeding BRL600 thousand. HIMT will be initially calculated as a separate basket in the personal tax return and will include 100% of the person's earnings over the FY (including dividends), but will exclude capital gains, donations and inheritances as well as income from certain exempt securities. Definition of the final HIMT will consider income taxes already paid over those earnings, including the 10% WHT on dividends and the so-called "reduction factor", which will be calculated with reference to taxes paid at the company level.

To determine the reduction factor, one should combine the HIMT effective tax rate and the company's effective t ax rate. If those two rates exceed the CIT nominal rate (usually 34%), the excess will represent a deduction on the HIMT. In practice, this means that the lower the company's effective CIT rate[iii] (compared to the nominal rate), the greater the chances that the WHT will translate into an effective cost for the shareholder. From that perspective, WHT represents a top-up tax for the shareholder, whose function is to ensure a minimum taxation on companies' profits when they are distributed.

Foreign shareholders will be particularly impacted by the new regulations. Any amount of dividend distribution will be subject to the 10% WHT, with few exceptions[iv]. Once the Brazilian company closes its balance sheet for the relevant FY, the foreign shareholder will be able to determine the company's effective CIT rate and calculate the reduction factor, as explained above. In general terms, the 10% WHT will represent a final cost for the foreign shareholder if the Brazilian company's effective CIT rate is equal or lower than 24%. If such rate is higher than 24%, the shareholder will be entitled to a credit to be claimed within 360 days from the end of each FY. Further regulations will determine how such credit will be monetized.

Below is a comparative example of how the new rules will affect foreign investors. The example assumes a foreign shareholder having a 100% ownership in a Brazilian company under two scenarios: one in which the Brazilian company enjoys tax incentives that reduces its effective CIT rate and the other in which no tax incentives apply (effective CIT rate being equal to the nominal CIT rate). The example assumes the Brazilian company is subject to the standard 34% CIT rate.

Brazilian Company's Income Statement	**Scenario 1 - Tax incentives**		**Scenario 2 - No tax incentives**	
	Current regime	**New regime**	**Current regime**	**New regime**
Revenues	1.000	1.000	1.000	1.000
Costs and expenses	(820)	(820)	(820)	(820)
Profits before CIT	180	180	180	180
CIT basis	125	125	180	180
CIT expense (34% tax rate)	(43)	(43)	(61)	(61)
Effective CIT tax	**24%**	**24%**	**34%**	**34%**
Dividends (profits after CIT)	138	138	119	119
10% WHT (anticipation)	-	(14)	-	(12)
Reduction factor applies?	-	NO	-	YES
Credit/adjustment	-	-	-	12
Effective tax burden on dividends	-	10%	-	0%
Net profit/dividend	138	124	119	119
Shareholder overall tax burden	**24%**	**34%**	**34%**	**34%**

Bill No. 1,087 contains a transition rule that ensures full exemption for dividends paid out of profits accrued up to 2025, provided that (i) the distribution is deliberated up to December 31, 2025, and (ii) the payment thereof occurs under the terms originally described in the corporate deliberation. Also, as far as Brazilian shareholders are concerned, the application of the transition rule requires dividends to be paid up to FY 2028. Special attention should be paid to the interaction between this transition rule, corporate regulations and special rules in each company's bylaws.

Multinationals and local groups wishing to benefit from the transition rule should accelerate their decision-making regarding the allocation of accumulated profits, as the new rules will come into effect in 2026. Furthermore, a medium-term assessment is recommended to understand the potential impacts on their investments in Brazil and what alternatives are available to mitigate those impacts.

[i] Insurance companies and financial institutions are subject to nominal CIT rates of 40% and 45%, respectively.

[ii] Among those benefits, one may consider regional tax incentives to reduce the CIT rate for company located in the SUDAM/SUDENE regions, which encompass northeast States, part of the States of Minas Gerais and Espirito Santo as well as the Amazon region, special incentives for P&D activities, goodwill tax amortization etc. Brazil simplified CIT regime includes the so-called presumed profit regime, under which CIT is calculated as a pre-determined percentage of the company's revenues.

[iii] The Brazilian company effective CIT rate is determined based on the ratio, in the FY to which the dividends relate, between (i) the amount of CIT due and (ii) the accounting profit before CIT. Effective CIT rate may also be determined based on consolidated financial statements.

[iv] Except for payments to foreign governments, sovereign funds and entities whose main activity is the administration of social security benefits (e.g. pensions funds).

Our Team


BRUNO TEIXEIRA
bteixeira@tozzinifreire.com.br

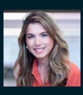

CARLOS RENATO VIEIRA
canascimento@tozzinifreire.com.br


ERIC VISINI
evisini@tozzinifreire.com.br


FERNANDA PAZELLO
fpazello@tozzinifreire.com.br


GUSTAVO NYGAARD
nygaard@tozzinifreire.com.br


RAFAEL MALLMANN
mallmann@tozzinifreire.com.br


RENATA EMERY
remery@tozzinifreire.com.br


RICARDO MAITO
rmaito@tozzinifreire.com.br


THIAGO MEDAGLIA
tmedaglia@tozzinifreire.com.br

This is an informative newsletter produced by the Tax practice of TozziniFreire Advogados.