

BRAZILIAN TAX REFORM (PEC 45/2023)

In July 2023, the House of Representatives approved Constitutional Amendment (PEC) No. 45, which may introduce significant changes to the consumption taxes in Brazil. Effectiveness of these changes is still subject to the Senate's Approval. The Ministry of Treasury is also examining potential changes to the corporate income tax, including the introduction of dividend taxation.

Main amendments:

New taxes:

Replacement of State and Municipal Sales Taxes (ICMS/ISS), Social Security Charges (PIS/COFINS) and Excise Tax on Manufactured Products (IPI) by a dual IVA (Value Added Tax) model, consisting of CBS (Contribution on Goods and Services) and IBS (Tax on Goods and Services). Introduction of an excise tax on goods and services that are harmful to health and the environment (IS).

Taxable event:

CBS and IBS will be levied on transactions with tangible or intangible goods, including rights or services, under a full non-cumulative system. IS will be levied on the production, marketing or importation of assets and services that are harmful to health or the environment.

Calculation basis:

IBS and CBS will be calculated based on the transaction value. Contrary to the current regime, taxes will not be computed on their own calculation basis. By eliminating the "gross-up methodology", taxpayers will have more transparency on the tax burden.

Consumption or destination-based principle:

Taxation where the consumption of goods or services takes place.

Tax rates:

Resolution of the Senate will establish the tax rate, which will apply indistinctly to all transactions with goods or services. IS rate to be defined by the Federal government, subject to limitations described in the law.

Tax incentives:

Reduction of IBS and CBS rates by 60% for education, health, medicine, agricultural, fishing, forestry, and extractive products; agricultural inputs, food, hygiene products, and artistic activities.

Tax exemption on transport services as well as on medical and accessibility devices, drugs, vegetables, fruits and eggs, and integrated producer operations. CBS exemption on PROUNI (Brazilian public policy towards higher education) and services benefited by PERSE (Emergency Program for Events Sector).

Fuels and lubricants; financial institutions, real estate, health plans; government procurement, cooperatives; tourism.

Maintenance of the Manaus Free Trade Zone and the simplified tax regime for small businesses (SIMPLES). Presumed credit to purchasers of rural products from small rural producers.

"Cashback" for low-income families and other tax exemptions:

A cashback mechanism for returning taxes to low-income families. Full exemption of the items that as part of the so-called basic-needs grocery package.

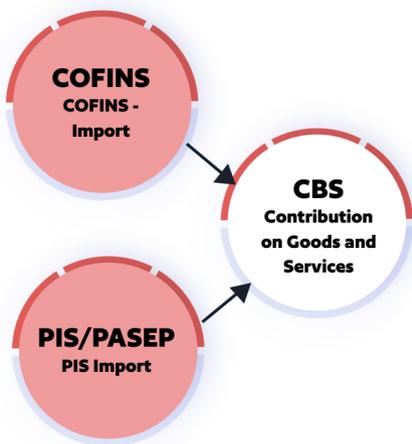
Transition rules and ICMS tax incentives:

CBS and IBS will come into force in FY 2026, with a federal rate of 0.9% and a subnational rate of 0.1%. In 2027, PIS/COFINS and IPI will be extinguished. In 2033, ICMS and ISS will be fully extinguished. Existing ICMS tax benefits will be preserved up until 2032. Remaining ICMS tax credits may be offset against the IBS in 240 successive installments.

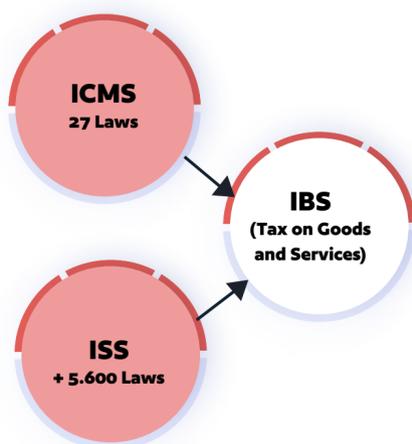
Changes to current property and inheritance taxes

Tax on motor vehicles to be charged also on water and air vehicles. Inheritance and donation tax to reach assets and inheritances abroad.

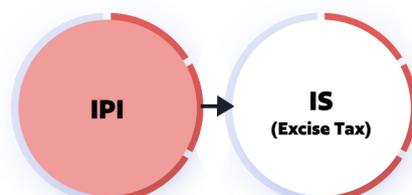
NEW TAXES



CBS: Contribution on Goods and Services replacing PIS and COFINS



IBS: Tax on Goods and Services of State and Municipal jurisdiction in replacement of ICMS and ISS



IS: Excise Tax on assets and services harmful to health and the environment in replacement of IPI

THE ADVANTAGES OF THE NEW SYSTEM

IBS will have a **single legislation**, applicable throughout the national territory.



Uniform legislation and interpretation, resulting in **reduced litigation**.



IBS and CBS will have **broad non-cumulativeness** (except for assets and services for personal use or consumption).



Reduction in the number of **ancillary obligations**: single tax document



Unified IBS administration and supervision.



CBS/IBS will be calculated based on the transaction value and taxes will not be computed on their own calculation basis.

