INTRODUCTION


GUIDE TO GOING GLOBAL SERIES

Many companies today aim to scale their businesses globally and into multiple countries simultaneously. In order to help clients meet this challenge, we have created a handy set of global guides that cover the basics companies need to know.

The Guide to Going Global series reviews business-relevant corporate, employment, intellectual property and technology, global equity and tax laws in key jurisdictions around the world.

TAX

Multinational companies continue to expand globally at an ever faster pace. Successful expansion depends, in part, on strategic and effective tax planning and compliance. This guide, brought to you by DLA Piper’s Tax group summarizes the key features of tax laws in 41 popular jurisdictions.

This guide addresses common tax questions, by jurisdiction, including:

- Taxation of resident companies and non-resident companies
- Availability of tax holidays, rulings, and favorable tax regimes
- Ability to use losses to offset income
- Anti-deferral (ie CFC) rules
- Withholding taxes
- Employment tax issues

With more than 300 tax lawyers and economists in offices throughout the Americas, Europe and Asia Pacific, DLA Piper’s global tax advisory services help multinational companies address the complex challenges of international commerce and business operations as well as manage and resolve tax audits. Our global tax group also assists clients in structuring a wide range of transactions, from private equity deals to corporate acquisitions and disposals. We provide these tax services across our global platform, while at the same time offering clients the benefits of the attorney-client and work-product privileges.

The information in this guide is an accessible, high-level summary of the tax laws in each jurisdiction. This is not a substitute for legal or tax advice. If you have specific questions or require detailed advice, we encourage you to contact one of the attorneys listed in the contributors section of this guide.

We hope that you find this guide valuable and we welcome your feedback.
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This is a general reference document and should not be relied upon as legal advice. The application and effect of any law or regulation upon a particular situation can vary depending upon the specific facts and circumstances, and so you should consult with a lawyer regarding the impact of any of these regimes in any particular instance.

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RESIDENCE AND BASIS FOR TAXATION

Domestic

A legal entity incorporated under Brazilian legislation will be treated as a domestic legal entity.

A Brazilian national is automatically a resident while legally domiciled in Brazil or, if not domiciled in Brazil, upon his or her election to be treated as a resident for tax purposes.

Foreign

In principal, foreign legal entities are not subject to Brazilian taxes except when carrying out activities in Brazil through a permanent establishment.

Foreign individuals are considered residents for tax purposes from the moment they enter the country to work under an employment contract. Foreign individuals appointed to management positions in Brazilian companies (officers) are required to obtain a permanent work permit and a visa.

Non-resident individuals and legal entities who render services to a Brazilian party are subject to Brazilian withholding income tax received from Brazilian sources. Other taxes may apply depending on the transaction at hand.

TAXABLE INCOME

Domestic

Corporate income tax (IRPJ)

As a general rule, Brazilian legal entities are required to pay corporate income tax (IRPJ) in Brazil. The IRPJ may be calculated under two different methods, the actual profits method or under the deemed profits method.

Brazilian legal entities are taxed by the IRPJ on their worldwide income and capital gains, regardless of their origin. Under the actual profits method, the IRPJ may be accrued and paid on a quarterly or annual basis. If quarterly, a 15 percent rate will levy over the net income of the period, plus a 10 percent surtax over the net income exceeding
BRL$60,000, per quarter.

On the other hand, if the IRPJ is calculated annually, taxpayers are required to anticipate monthly installments, which are calculated on an estimated income basis. The estimated income shall correspond to 8 percent up to 32 percent of the total monthly gross revenue, depending on the taxpayer’s activity, in addition to any capital gains perceived in the period, as well as other revenues and positive results incurred by the company. Over this estimated basis, the IRPJ shall levy at a 15 percent rate, plus an additional 10 percent surtax over the estimated income that exceeds BRL$20,000 per month.

At the end of the year, the taxpayer may request the reimbursement of overpaid amounts, or be required to pay the difference between the amount paid monthly and the one calculated based on the annual income.

Note that certain taxpayers are allowed to accrue the IRPJ under the deemed profits method, as long as certain thresholds set in the legislation are met.

Under this method, the IRPJ is calculated on a quarterly basis. Similar to the monthly anticipations made under the actual profits method, the taxable basis of the IRPJ will vary from 8 percent up to 32 percent of the legal entity’s revenues, depending on the taxpayer activity. Over such basis, the IRPJ shall levy at a 15% rate, in addition to a 10 percent surtax on the excess of deemed profits of BRL$60,000, per quarter.

Please note that if the deemed profits method of taxation is adopted, the taxpayer will not be able to make any adjustments to the IRPJ’s taxable basis.

**Social contribution on net income (CSLL)**

The CSLL is a social contribution that funds the social security system. The CSLL is assessed on net profits before income tax (ie, IRPJ) and after the adjustments for non-deductible items and deemed profits.

The rules for calculating the CSLL are substantially the same as those for IRPJ. In effect, CSLL is a true corporate income tax surcharge, that levies at 9 percent rate over taxpayer’s net income specifically adjusted for CSLL purposes.

Together with the IRPJ, the combined corporate income taxes rate (ie, IRPSJ and CSLL) for most companies is currently 34 percent.

**Interest on net equity (INE)**

INE is a hybrid instrument used to transfer funds from a company to its shareholders and, simultaneously, generate a deductible expense at the company level. Accordingly, INE may be paid or credited to the relevant shareholder, provided that the company:

- Dduly deliberates the INE’s payment or credit Has retained or current year earnings and
- Follows specific thresholds limits set in the legislation

The amount of INE to be paid or credited to the shareholder shall be calculated by applying the government long-term interest rate (Taxa de Juros de Longo Prazo - TJLP), calculated on a pro rata die basis, over the following net equity accounts:
• Corporate capital
• Capital reserve
• Profit reserve
• Treasury shares and
• Accumulated losses.

The withholding income tax shall be levied over amounts paid or credited at a 15 percent tax rate.

For purposes of corporate income tax (IRPJ and CSLL) deduction, the following limits must be adopted, whichever is higher:

• 50 percent of the taxpayer's net profit accrued at the end of the year before the INE deduction or
• 50 percent of the sum of the accumulated and reserve profits

We highlight that the Brazilian Government is studying possible changes to the rules regarding the payment of INE and its respective tax effects.

**TAX RATES**

See Taxable income.

**TAX COMPLIANCE**

Legal entities must file tax returns at federal, state and local levels depending on their activities. Some of these returns are monthly obligations.

**ALTERNATIVE MINIMUM TAX**

Brazilian legislation does not provide for alternative minimum tax.

**TAX HOLIDAYS, RULINGS AND INCENTIVES**

**Tax rulings**

On certain issues, taxpayers can request a private letter ruling that applies only to the specific issue.

**Tax incentives**

Brazil provides for different types of tax incentives at the federal, state and local levels, which target the development of specific regions of the country or specific activities.
CONSOLIDATION

Brazilian tax legislation does not provide for consolidation.

PARTICIPATION EXEMPTION

Brazilian legislation does not provide for participation exemption. As a general rule, dividends received from other domestic legal entities are exempt. Note, however, that the Brazilian Government is studying possible changes to the rules regarding the payment exemption.

CAPITAL GAIN

Capital gain recognized by a legal entity is taxed at the same rate as ordinary income for IRPJ and CSLL purposes. Non-operating losses are deductible. However, non-operating losses accrued in previous years can only be offset in future years with profits of the same nature.

For individuals and non-residents, as from January 1, 2017, capital gains earned as a result of the disposal of assets and rights of any nature are taxed at progressive rates varying from 15 percent up to 22.5 percent.

DISTRIBUTIONS

Distributions paid by a Brazilian legal entity to shareholders are treated as tax-free dividends, regardless of where the shareholder is domiciled. As mentioned above, the Brazilian Government is studying possible changes to the rules regarding the payment exemption.

LOSS UTILIZATION

Under the actual profits method, net operating losses generated in a given period/year can be used to offset up to 30 percent of the taxable income the accrued on the subsequent period/year.

TAX-FREE REORGANIZATIONS

The recognition of gains or losses in reorganizations can be structured at cost and deferred.

ANTI-DEFERRAL RULES

As a general rule, profits of controlled foreign companies are taxable in Brazil every December 31, regardless of when profits are made available. Optional specific consolidation rules for direct and indirect controlled foreign companies may apply, including relief for foreign losses subject to certain conditions and limitations.
FOREIGN TAX CREDITS

Subject to conditions and limitations, foreign tax credits are available for foreign income taxes paid.

SPECIAL RULES APPLICABLE TO REAL PROPERTY

Brazil provides for a special and optional tax regime for real estate developments.

TRANSFER PRICING

Brazilian transfer pricing rules apply to transactions between a Brazilian party and a foreign related entity or any entity domiciled in a tax haven jurisdiction or subject to privileged tax regime. In general, Brazilian transfer pricing rules follow arm's-length principles but deviate significantly from the OECD guidelines as it provides for only certain methods and fixed statutory margins. The legislation allows taxpayer to freely choose the method as there is no best method rule and no functional analysis required.

WITHHOLDING TAX

In general, payments made to non-residents are subject to WHT in Brazil. As a general rule, payments to non-residents for services rendered to Brazilian residents and payments to non-resident individuals as work compensation are subject to the general WHT at a 25 percent rate.

However, interest, royalties and other fees that are not paid in connection to the provision of services are taxed at a 15 percent rate.

The WHT shall also be levied at a 15 percent rate over the provision of technical services, administrative assistance and other similar services, which do not involve transfer of technology.

Note that payments made to entities located at low tax jurisdictions are subject to the WHT at a 25 percent rate. Tax treaties may reduce or eliminate WHT.

Other taxes may be imposed on the local source of payment depending on the nature of the transaction.

CAPITAL DUTY, STAMP DUTY AND TRANSFER TAX

Brazil does not impose capital duty or stamp duty. Transfer taxes may be imposed at the state (ITCMD) or local level (ITBI) as discussed above.

EMPLOYMENT TAXES

Employers must withhold income tax and social security tax. Employers also must pay their share of social security tax, unemployment tax and other payroll charges in respect of compensation paid to employees. These social and payroll taxes are deductible by an employer for Brazilian corporate income tax purposes.
OTHER TAX CONSIDERATIONS

Contribution for intervention in the economic domain (CIDE)

The contribution is due for payments made in connection with:

- License agreements
- Acquisition of technological know-how or
- Agreements involving cross-border transfer of technology

CIDE also applies to the cross-border provision of technical services, administrative assistance and other similar services that do not involve the transfer of technology.

CIDE is generally imposed at a 10 percent rate over the total amount paid, credited, delivered or remitted abroad to non-resident beneficiaries.

Welfare contributions on gross revenues (PIS/COFINS)

The Contribution to the Social Integration Program (PIS) and the Contribution to Finance Social Security (COFINS) are welfare contributions that are levied over a taxpayer's gross revenue. Currently, there are 2 methods of calculating PIS/COFINS, the cumulative and non-cumulative methods.

The cumulative method is applicable to cooperative organizations, immune or exempt entities companies, financial institutions, insurance companies and taxpayers that accrue the corporate income tax in accordance with the deemed profits method. Under such method, the PIS shall apply at a 0.65 percent rate, whereas the COFINS will apply at a 3 percent rate.

The non-cumulative method is applicable to most legal entities. The main purpose of this legislation is to avoid the cascading effect of the welfare contributions by granting tax credits that can be offset with PIS/COFINS payable amounts. Currently, PIS and COFINS apply at a combined rate of 9.25 percent, with PIS at 1.65 percent and COFINS at 7.6 percent.

The taxpayer is entitled to calculate tax credits over the following expenses:

- Acquisition of goods for resale
- Inputs (ie, goods and/or services) that are deemed as necessary and essential for the maintenance of the taxpayer's activities
- Acquisition of electric energy
- Payment of leases related to buildings, machinery and equipment
- Lease expenses derived from leasing transactions (arrendamento mercantil)
- Acquisition or manufacture of machinery and equipment to be leased to third parties, or used in the
manufacture of products intended for sale, and/or for incorporation as a fixed asset

- Buildings and betterments in third-party real estate property to be used in the company's operations
- Storage and freight costs, incurred in sale transactions, supported by the seller
- Meal coupons, transportation and uniforms provided to employees by a company that engages in cleaning, conservation and maintenance services and
- Intangible assets, acquired for the utilization in the manufacture of goods destined for sale or in the rendering of services.

Furthermore, PIS and COFINS shall not apply to:

- Revenues resulting from export transactions, whose payment represents an inflow of foreign capital into Brazil and
- Revenues derived from domestic sales by trading companies (empresas comerciais exportadoras) with specific export purposes

Originally, under the non-cumulative system, a taxpayer’s financial revenues were taxed by PIS/COFINS at a 0 percent tax rate (except those derived from interest on equity perceived by holding companies and hedge transactions). However, the tax rate applicable to these specific revenues is now 4.65 percent, with PIS at 0.65 percent and COFINS at 4 percent.

The concept of "gross revenues" for the calculation of the PIS and COFINS under the cumulative system has been changed under legislation. Accordingly, "gross revenues" for such purposes is defined as:

- The results of the sale of goods and provision of services
- The result of operations on behalf of third parties and
- Revenues derived from taxpayer's main activity that are not comprised as retail of goods and provision of services

**PIS and COFINS over import transactions (PIS/COFINS-import)**

PIS and COFINS are also charged on import transactions of goods and services. As a general rule, in respect of the importation of goods, PIS shall apply at a 2.1 percent rate and COIFNS at a 9.65 percent rate. Whereas, in respect of the importation of services, PIS shall apply at a 1.65 percent rate, and COFINS at a 7.6 percent rate.

Please note that the importation of certain goods, such as pharmaceuticals, are taxed at specific tax rates. In addition, with respect to certain import transactions, a COFINS 1 percent surcharge may apply.

The tax basis shall be the customs value of the imported goods or the amount charged for the service by the foreign contractor.

Taxpayers that are subject to the PIS/COFINS under the non-cumulative system are allowed to accrue tax credits
from the PIS and COFINS paid on their imports and offset them against the PIS and COFINS accrued over their respective gross revenue.

Federal excise tax (IPI)

IPI is a Federal value-added tax, which applies to manufactured products, either to their importation or manufacture in Brazil. IPI rates may vary depending on the type of product and whether it is regarded as essential.

Import duty (II)

II is due upon customs clearance of imported products on an ad valorem basis. The rate varies, depending on the tariff classification of the product imported.

As mentioned above, import transactions are also subject to the PIS/COFINS-import and to the IPI. Import transactions are also taxed by the State VAT (ICMS). These taxes, along with II, are calculated as follows:

- The II and the PIS/COFINS-import are imposed over the good's customs value (ie, CIF value)
- The IPI is levied on the CIF value plus II and
- The ICMS is levied on the CIF value plus II, IPI and ICMS itself

Export tax (IE)

IE applies to the export of certain listed goods and the tax is calculated on an ad valorem basis. The tax rate varies depending on the type of product exported.

Financial transaction tax (IOF)

The IOF applies to several types of transactions such as credit, exchange and insurance, loans, as well as on transactions involving gold, financial asset or exchange instruments. IOF rates and basis vary depending on the nature of the transaction.

State VAT on sales and services (ICMS)

Similar to the IPI, the ICMS is another value-added tax on sales, communication and transportation services, payable upon the importation of a product into Brazil, the sale of a good in the Brazilian market, or upon the provision of certain communication and intrastate and interstate transportation services.

ICMS rates and tax benefits vary from State to State and depend on the type of transaction (eg, import, intrastate or interstate sale of goods, communication or transportation services, etc.).

The ICMS non-cumulative system permits a taxpayer to offset the ICMS paid in acquired goods and services against the ICMS due on subsequent taxable transactions (eg, sale of goods and services subject to ICMS tax). The difference is the amount due to the state government.

Note that State ICMS legislation may attribute the responsibility to pay the ICMS to a legal entity that, although it did not perform the relevant taxable transaction per se, had an indirect relation to it. An example is the responsibility for paying the ICMS attributed to electricity generator or distributors on 1 or more operations,
from production or importation until the end consumer.

Specific rules apply to operations with hydrocarbons, such as oil, lubricants and natural gas.

**Estate and gift tax (ITCMD)**

ITCMD is a state tax that is levied on the transmission of movable or immovable assets as a result of donation or in the event of the death of the owner. As a general rule, ITCMD is subject to rates varying from 4 percent to 8 percent, depending on the state, over the fair value of the movable asset, real estate or transmitted rights.

**Tax on services (ISS)**

ISS is a municipal tax that applies to the price charged for the provision of certain listed services. Rates vary from 2 percent to 5 percent, depending on the type of service and the particular municipality in which the party rendering the services is located.

The ISS shall also apply to the importation of services. In such circumstances, each municipality may set forth in the relevant municipal legislation that the contracting parties located in Brazil are liable for collecting the relevant tax.

The ISS shall not apply to the exportation of services, except over those developed in Brazil and whose results also occur in Brazil, even if the contracting party is a foreign resident.

**Real estate property tax (IPTU)**

IPTU is a municipal tax levied annually, at progressive rates according to the appraised value and use of the real estate, and over the ownership, possession and use of urban realty.

**Real estate transfer tax (ITBI)**

ITBI is a municipal tax on the transfer of real estate. The rates may vary according to the actual value of the transaction or the appraised value of the property, whichever is higher.

**Individual income taxation (IRPF)**

Brazilian tax legislation distinguishes individual residents from non-residents. As mentioned above, a Brazilian national is automatically a resident while legally domiciled in Brazil or, if not domiciled in Brazil, upon their election to be treated as a resident for tax purposes.

In general, resident individuals are subject to tax on their worldwide income, regardless of nationality (universal taxation), while non-residents are generally subject to tax in Brazil only on Brazilian source income (limited taxation).

A foreign individual will be considered to be a tax resident in Brazil when:

- Admitted to the country under a permanent visa or
- Admitted to the country under a temporary visa, and
Under an employment relationship for purposes of Brazilian law, on the day such relationship is established or

Upon completing 184 days, consecutive or not, of physical presence in Brazil within a 12-month period

The duration of the time period for this visa begins on the day the foreigner enters Brazil, independent of the calendar year. The days counted are only those days spent within the country, interrupted upon the moment they leave Brazil and recommenced if they return.

Tax residents are subject to income tax on worldwide income on a cash basis for each year, even if the income is generated abroad. An individual income tax return should be filed by the last business day of April to report income received in the previous year, with no extensions.

Brazil has a different set of rules for ordinary income, capital gains, income received from abroad and from individuals and income from financial products.

Ordinary income is subject to progressive rates ranging from 7.5 percent up to 27.5 percent.

Compensation received from a Brazilian company for services provided under an employment relationship or as an individual contractor is subject to WHT at monthly progressive rates also ranging from 7.5 percent up to 27.5 percent, depending on the amount of income perceived.

In the annual income tax return, the taxpayer must report all ordinary income received from all Brazilian payment sources on a consolidated basis. Consolidated ordinary income will be subject to income tax at the progressive rates mentioned above. Because each payment source calculates WHT separately, without taking into account the taxpayer’s overall income and bracket, the taxpayer might be required to make an additional tax payment upon filing of the annual income tax return.

Capital gains resulting from the disposition of assets and other rights, including investments in the capital markets (ie, disposition of stocks, commodities and other rights) are subject to income tax at capital gains, at rates varying from 15 percent up to 22.5 percent.

Income received from paying sources located abroad and from individuals in Brazil are subject to a mandatory monthly tax payment (Carnê Leão), which is due at the same progressive tax rates applicable to ordinary income mentioned above. The tax must be collected until the last business day of the following month.

Financial income from Brazilian sources is subject to a final withholding tax system performed by the financial institution. Tax rates shall vary according to the type of investment and also on the term under which it was made.

Brazil provides double taxation relief through a foreign tax credit system applicable to income tax paid to countries with which Brazil has entered into a tax treaty or on a reciprocity basis when the source country also grants a foreign tax credit for taxes paid in Brazil on Brazilian source income. The Brazilian tax authorities have agreed on a reciprocity basis with the United States, Germany, United Arab Emirates and United Kingdom.
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