

Doing Business in Brazil

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Brazil.



Background

Brazil is a developing country with great commerce and investments opportunities, and is considered one of the largest economies in the world. It covers more than 8.5 million square km and has a population that reached 207 million in 2016.

Country overview

Brazil is a constitutional federal presidential republic, adopted in 1889. The Brazilian State is organized into three branches: the Executive, the Legislative and the Judiciary. The Head of the Executive Branch (who accumulates the functions of head of State and head of Government) is the President of the Republic.

Brazil has two official language Portuguese and the LIBRAS "Brazilian Sign Language". For the business community, English and Spanish are the most used foreign languages.

The Brazilian population is diversified, formed by five large groups: the natives of Brazil, the Portuguese colonists, the Africans, and immigrants from Asia and Middle East in the beginning of the 19th century.

The monetary unit is the Real (R\$) which is divided into hundred units called centavos. Trading in other currencies is not permitted.

Economic overview

Brazil is one of the BRICS nations - together with Russia, India, China and South Africa. Over the past few years, it has made progress in its efforts to raise millions out of poverty.

Brazil currently has a strong and solid economy. It is a major producer and exporter of various types of goods, mainly minerals, and agricultural and manufactured commodities. The areas of agriculture, industry and services are well developed and expanding. With a GDP in the range of USD 1.8 trillion (2016) its economy places at ninth largest in the world.

There has been discovered a major offshore oil reserve, which can put the country into the top league of oil-exporting nations. The development of these offshore fields is making it possible to end many years of dependence on foreign producers. Iron is another of Brazil's natural resources, highly prized by major manufacturing nations, including China.

The World Bank has admired the country for progress in reducing social and economic inequality, despite the extensive gap between rich and poor. However, social conditions are still severe in big cities like Rio de Janeiro and Sao Paulo, where a third of the population lives in favelas, or slums.

Brazil has a fast-growing agricultural industry, producing more than 110 million tons of grain and being one of the biggest exporters of beef and chicken in the world.

The diverse industrial sector accounts for more than 45% of GDP, with high technology in some sectors, enabling it to export to the various parts of the world.

Exports comprise both industrial products (60%) and basic products (29%). Brazil exports globally, with Asia (China), the USA, and the European Union as the main markets, followed by Latin America.

The South-eastern region contributes 58% to total production, with the state of Sao Paulo being accountable for a third of the country's GDP. Such regional economic concentration has been progressively reduced with increased investments in the Northern and Northeastern regions, and the growth of agribusiness in the Central-Western regions as stimulated by the expansion of agricultural frontiers within the economy of Brazil.

The Brazilian economy is mixed and broad based, including listed companies, foreign-owned companies, semi-state companies, state monopolies, joint ventures, family enterprises and small businesses operating in various formats. There are also financial markets and an active stock market.

The Sao Paulo Stock Exchange (BM&F Bovespa) has become one of the three largest in the world in Market cap. Several Brazilian companies have raised billions of dollars in recent IPOs, and have been included among the world's top fundraising operations.

The financial institutions in Brazil are considered the most sophisticated in the world while the largest Brazilian banks are included among the most solid globally.

The postal system is compared with the postal systems in Europe and private courier services are widely available both locally and internationally.

Telecommunications are controlled by private sector but supervised by the National Telecommunications Regulatory agency (ANATEL).

Long Term strategies and investments (including pre-salt oil exploration opportunities) are now top of the Government Agenda. Brazil is now a potential economic powerhouse.

Transport infrastructure

Despite the high cost and shortcomings of roads, road transportation has been leading the transport matrix in Brazil and, over the years, has played an important role in contributing to the nation's economic and social development. In 2014 there were 1.7 million kilometres of roads, of which only approximately 12% were paved.

There has been significant investment in the modernization of the railroad network with the Brazilian National Privatization Program. However, road transport still dominates for both long distance and intercity traffic.

The air transport infrastructure is well developed and most airline companies are in private hands. Public transportation still represents significant problems in major centres. Limited subway systems are now functioning in Sao Paulo and Rio de Janeiro, but many companies provide bus services for their employees.

Choice of Legal Form



The most common corporate form used by local and foreign companies to set up a legal entity are the Corporation (*sociedade por ações*) and the private limited-liability company, usually called a “*limitada*”.

All foreign investments must be registered at the Central Bank of Brazil; there are no legal minimum capital requirements except for financial institutions and certain legal entities with specific business purposes.

The numbers of quota holders for a “*limitada*” may not be less than two. Corporations may have just one shareholder as long as the sole shareholder is a Brazilian legal entity. In the event the corporation has more than one shareholder, they may be Brazilian

or foreign. If foreign, a representative domiciled in Brazil must be appointed in order to receive notifications of their behalf. It is usually more complex to form and run a corporation than a “*limitada*”.

The following are the main corporate forms:

Corporations (publicly held or closely held)

Commonly known as an S.A., it most closely resembles a corporation in the US and other countries, and a public limited company (PLC) in the UK. It is the only corporate form that can have its stocks publicly trade.

Limited liability companies

A private limited-liability company (limitada) resembles a closely held company in US and a private limited-liability company in UK.

Mixed capital companies

The government as well as investors own this legal entity (sociedade de economia mista) from the private sector, with the government having the controlling interest; it takes the form of a corporation.

Branches of foreign companies

Due to extremely bureaucratic requirements associated with the creation and maintenance of a branch of a foreign company (they depend on Presidential Decree approvals), only a very limited number of multinationals operate in Brazil under this structure. However, once governmental authorization is granted, the Brazilian branch will be able to function as an extension of the parent company in the pursuit of its economic activities in Brazil.

Audit Requirements

Statutory audits are only required for publicly traded corporations, entities operating in the banking and financial sector, and insurance companies. A recent law added that the closed-capital corporations and limitadas considered to be large companies (sociedade de grande

porte), companies, or group of companies under common control, with total assets worth more than R\$240 million or annual gross revenue higher than R\$300 million, are now obligated to have a statutory audit.

Taxation



The 1988 Federal Constitution has conferred taxing authority to the Federal Government, the States and Municipalities. Tax law principles in the Federal Constitution decree:

- All taxes must be created by a law detailing all triggering events, the tax payer, the tax base and rate, and when and how it will be owed and payable (Strict lawfulness principle);
- Events predating the effectiveness of the law creating a tax or increasing its rate are not reached by such law (Ex post facto taxation principle);
- No tax may be levied in the same tax year in which the law creating or increasing it is published, except in a few cases usually related for implementation of economic policies (No same tax period taxation principle).

Corporation tax

Brazilian companies may choose to be taxed on:

- The Lucro Real – (Actual Profit) method, based on actual annual or quarterly taxable income, tax base is income before IRPJ and CSLL, adjusted by add-backs (non-deductible expenses) and deductions (non-taxable income) or
- The Lucro Presumido – (Presumed Profit) method, based on estimated or deemed taxable income.

At the beginning of each calendar year, the taxpayer makes their choice and the first tax payment, IRPJ, and CSLL must be paid by the last business day of the following month.

Income tax (IRPJ)

Corporate taxable income is taxable at 15% with a surtax of 10% on taxable income over R\$240 thousand per year.

Social contribution on net income (CSLL)

CSLL is levied on entities subject to the IRPJ to finance the Brazilian federal social security system. The CSLL rate is 15% for financial institutions and 9% for other institutions.

Small companies

In 2006, all the federal agencies (Federal, State, Federal District and Municipalities) created through a Complementary Law 123/2006 a simple method of taxation for micro and small companies called Simples Nacional.

Simples Nacional companies must:

- Fit the definition of micro or small business;
- Meet the requirements of legislation; and
- Formalize the option by the Simples Nacional.

For purposes of opting and staying in the Simples Nacional, the revenue for each calendar year in the domestic market and export goods or services abroad is limited to R\$4,800,000.00 starting in January 2018.

The general rule for determining the tax rate is to use the total accumulated gross revenue within twelve months prior to the

assessment period (RBT12), and identifying in the Annexes of Complementary Law No. 123, 2006, the applicable rate according to the income range. The rate varies from 4% to 17.42%.

Dividend payments

Profits may be remitted abroad without limit, up to the level of registered foreign capital and available retained earnings, although a corporation is required to allocate 5% of its annual profit as legal reserve. Profits/dividends distributed to non-resident beneficiaries related to periods beginning on or after January 1, 1996, are not subject to WHT.

Personal income tax (Pay as you earn)

Foreigners holding temporary visas with no local employment agreement are treated as non-residents during the first 183 days (consecutive or not) of their stay and are liable to Brazilian income tax of 25% withheld at source on their Brazilian source income only, and do not have to file a tax return. From the 184th day of residence onward, or earlier if a temporary visa is converted into a permanent visa, they are considered resident for tax purposes.

Foreigners arriving in Brazil on permanent or temporary visas with a local employment agreement are considered residents and are taxed on worldwide income from the date of their arrival.

Individual taxpayers, including resident foreigners, are taxed on worldwide income at progressive rates, from 7.5% to 27.5%.

An individual who receives personal income in any month from a source other than an employer must prepare a compulsory monthly tax computation (carnê leão) and pay any tax due by the last working day of the following month.

Capital gains tax

The rules for calculating the Capital Gains of individuals are established by Law Decree 3000/1999, with changes of Provisional Measure (MP) No. 252.

The capital gain must be determined by the individual who, in relation to assets, rights or equity interests acquired in local currency, in the month of the calendar year that:

- a) Sale was made, in any way, of chattels, property or rights of any kind, such as house, apartment, land, rural property, room or shop, vehicle, aircraft, jewellery, art object, antiques, copyright, and patent of invention, share or capital share, shareholding, unless traded on stock exchanges in Brazil;
- b) Received parcel referred to the alienation term/provision made in prior years, of which the taxation has been deferred;
- c) Made, when compared to corporations, sale of goods, property or rights not covered by the equivalent.



Exemptions from capital gain tax apply when:

- a) The property or rights of any kind, such as house, apartment, land, room or shop, has been acquired prior to 1969;
- b) Indemnification of unimproved land (rural property) for expropriation for agrarian reform;
- c) Assets and rights of small value, whose unit selling price in the month in which it is held was less than BRL 20K (shares traded in the OTC market) and BRL 35K for other cases;
- d) A new residential property is purchased within six months from the conclusion of the sale contract.

Other specific cases must be analysed.

The tax rate for all types of Capital Gain is 15% (25%, if the beneficiary is in a low-tax jurisdiction, as defined by Brazilian legislation).

Land tax

Property tax (IPTU and ITBI)

Municipal Real Property Tax, IPTU (Imposto sobre a Propriedade Territorial Urbana), is levied on the ownership of real property. The amount to be paid will be calculated based on the value of the property. IPTU is levied annually based on the fair market value of property in urban areas, at rates generally ranging from 0.2% to 5%, according to location and use of the property.

Property Transfer Tax, ITBI (Imposto sobre Transmissão de Bens Imóveis), is levied on the transfer of title to real properties and related rights. It goes up to 8% according to municipal legislation.

Rural property tax (ITR)

Rural property tax, ITR (Imposto sobre a Propriedade Territorial Rural), is an annual federal property tax levied on the ownership or possession of real estate located outside urban perimeters. The tax basis varies according to the value, size and location of the real estate, and tax rates vary in accordance with land-use. The tax rate normally ranges from 0.03% to 20% per annum, depending on the stage of use. Small rural properties are exempt, if the owner or the owner's family cultivates the land.

Value added tax

Value-added tax on sales and services (ICMS)

ICMS is a state tax and is levied on sales or any other ordinary physical or economic circulation of goods. Because it is a state tax the rates vary from 7% to 25%, depending on the acquirer location.

Manufacturer tax (IPI)

IPI tax is levied on manufacturer's sales and imports, and sales carried out by importers. Depending on the industry, it is considered a VAT-type tax and the amount paid on inputs is recovered and offset against the output debits. The basis is sales

price when a product leaves the industrial establishment, or upon import, and the rates range from 0% to 330% depending on the product classification. Typically, the average rate for the IPI is 15%.

Sales taxes

Contribution to the social integration program (PIS/PASEP)

This is based on gross revenues, and rates vary from 0.65% to 1.65% according to the company tax methodology, (see corporation tax).

Social security financing contribution (COFINS)

This is based on gross revenues, and rates vary from 3% to 7.6% according to the company tax methodology, (see corporation tax).

Service tax (ISS)

Municipal service tax, ISS (Imposto sobre Serviços de Qualquer Natureza), is a non-cumulative tax levied on the rendering of certain services - those included in a federal list of taxable services. Rates vary from 2% to 5%. Imported services are also subject to ISS taxation regardless of whether the service is performed abroad. Exported services are tax-exempt, provided certain conditions are met.

Local taxes

Import tax (II)

The import duty is levied upon the nationalization of the goods. Rates vary according to the NCM code of each product, which is based on the Harmonized System codes (HS Codes), usually from 0% to 35%. Imported goods are also subject to the Additional Freight Charge for Renovation of the Merchant Navy ("AFRMM") levied on all imports transported via maritime freight.

Export tax (IE)

Currently most products are taxed at a zero rate.

Inheritance and gift transfer tax (ITCMD)

Based on the value of assets or rights transferred by donation or legal inheritance and rates vary from 2% to 6% according to state law.

Tax on vehicles (IPVA)

IPVA is a state tax levied on the ownership of motorized vehicles in general (cars, trucks, boats, airplanes etc.). The tax amount is based on vehicle type and value and varies according to state law.

Tax treaties

In general, Brazil's double-tax treaties cover only corporate and individual income tax and remittance taxes, and do not affect the payment of capital gains tax (i.e. the treaties generally do not provide relief as they generally state that capital gains may be taxable in both countries). Each individual double-tax treaty should be consulted to determine the method of eliminating double taxation, tax credit or exemption.

Countries with tax treaties as of 2016: South Africa; Argentina; Austria; Belgium; Canada; Chile; China; Korea; Denmark; Equator; Spain; Philippines; Finland; France; Hungary; India; Israel; Italy; Japan; Luxemburg; Mexico; Norway; Netherlands; Peru; Portugal; Slovakia; Czech Republic; Sweden; Trinidad and Tobago (2014); Turkey (2013); Ukraine; Venezuela (2014).

Base Erosion and Profit Shifting (BEPS)

Even though Brazil has adopted the BEPs Project, the only legal act enacted regarding one of the BEPS' action was Provisional Measure No. 685/2015. This has created the obligation to file a return with information about operations that result in suppression, decrease, or deferment of taxes. However, Law No. 13,202/2015, which is the conversion into Law of Provisional Measure No. 685/2015, does not provide such ancillary obligations.

International Tax Compliance and FATCA

On August 25, 2015, the treaty entered into by Brazil and the USA to improve international tax compliance and to implement the Foreign Account Tax Compliance Act ("FATCA"), was enacted (having been signed on September 23, 2014). The sole purpose of the agreement is to identify and combat the tax evasion, especially of US citizens and companies. To achieve this, it became mandatory for financial institutions to submit an annual return.

According to double taxation treaties signed by Brazil, the maximum rates applied for Dividends vary from 10% to 15%, Interest vary from 10% to 15% and Royalties vary from 10% to 25%.

Transfer pricing rules

Statutory rules

The Brazilian legislation about the transfer pricing is relatively new (since 1997) and the law has been changed several times. As Brazil is not a member country of OCDE, the methodologies to be applied are determined by local legislation.

According to the local regulations, the following will be considered a related party to the legal entity domiciled in Brazil: its mother company when domiciled abroad; its branch or subsidiary, domiciled abroad; a legal entity domiciled abroad who is characterized as its subsidiary or affiliate; and some others.

Accepted transfer pricing methods and priority

Law prescribes methods to ensure that the prices used to determine the actual, presumed or arbitrated profit and the tax basis of social contribution on net income, are, as much as possible, market prices.

Rules regarding importation of goods and services:

- Method of Comparative Independent Price (PIC) - equivalent of CUP method - Analysis of the TP based on the weighted arithmetic mean (parameter price) of the prices of goods or services identical or similar, calculated in the Brazilian market or in other countries, in transactions between unrelated parties;
- Method Resale Price Less Profit (PRL) - equivalent of RPM method - The parameter price is the difference between the value found from fixed margin provided by law and the margin of participation of imported item in the net selling price of the item. The tax payer shall apply the margins of 20%, 30% or 40% according to the economic sector – the general Margin is 20%;
- Method of Production Cost More Profit (CPL) - equivalent of CP method - This Method requires the company to obtain a fixed profit margin of 20% of the weighted average cost in the production of good or services;

Rules regarding exportation of goods and services:

- Method Sales Price in Exports (PVEx) - equivalent of CUP method - defined as the weighted average of the exported sales price charged by the company to other customers on similar payment terms;
- Price Method Less Profit (PVA and PVV) - equivalent to RPM - defined as the weighted average price and a margin of 15% on wholesale price in the country of destination and 30% margin on retail sale price to the country of destination;
- Cost Method of Acquisition or Production More Taxes and Income (CAP) - equivalent of CP method - defined as the weighted average cost of acquisition or production increased for taxes and duties (imposed by Brazil) plus a profit margin of 15%;

Other transfer pricing aspects

In case of an inspection, the company must provide all the supporting documents used to calculate the transfer price. If the required documents cannot be presented, or are insufficient or unsuitable to justify the price, the Fiscal Auditors of the IRS in charge of audit may determine the transfer price amount themselves, applying one of the methods referred to in SRF No. 243/2002.

Allowances



Depreciation

Depreciation expenses must be according to the rates approved by the tax authorities. All rates of depreciation are applied on the straight-line basis. Rates for machinery and installations, air conditioning, lifts and equipment are based on them working an 8 hour shift per day. For double shifts, the rates can be increased by 50% and for triple shifts by 100%.

Rates can be increased or decreased if the taxpayer can prove that the asset concerned has a longer or shorter life. Leasing improvements are normally depreciated over the period of the lease.

Type of Assets	Rate per Annum %
Buildings- Industrial, office and Warehouses	4
Building improvements	4
Machinery and installations	10
Tools and Moulds	20
Computer hardware	20
Office installations	10
Office furniture and fittings	10
Automobiles and lorries	20/25
Aircraft, including engines	10

Investment allowance

There has been an increase in incentives by the government for foreign investments and exporting in the past 15 years, especially for the North and Northeast regions.

The incentives vary between Federal, State or Municipal taxes and are specific to the company's activity.

- Incentives for developing certain regions in Brazil:
 - 75% reduction of income tax (for approved projects);
 - 12.5% reduction where modernising or expanding an existing project.
- Incentives for innovation
 - Companies may deduct up to 80% of the innovation expenses from income tax.
- The Manaus Free Trade Zone (MFTZ) is a free trade area that offers tax incentives to attract businesses to the Amazon region. E.g.:
 - Suspension of importing taxes (II, IPI, PIS-Import, COFINS-Import);
 - Special rates for PIS and COFINS
 - Credit Incentive on ICMS
 - Exemption on IPTU and others.

- Income tax deduction:
 - Investments in the Workers Nourishment Program (PAT) may have 4% deducted from income tax;
 - Investments in cultural and artistic projects have an incentive of 4% on income tax;
 - Investments in sporting projects approved by the Ministry of Sports may deduct 1% of income tax.

Tax credit

Brazil will allow a foreign tax credit up to the limit established by the Brazilian Tax Authorities (tax rate of 27.5%) to tax treaty countries. For non-tax treaty countries, a foreign tax credit will only be allowed under reciprocal tax treatment.



Employment



Brazil has extensive Social Security Laws and Labour regulations that govern employer/employee relations. They are applicable to all employees in regular registered jobs except for public employees and civil servants who have separate regulations. The labour laws make no distinction between skilled and unskilled workers or between blue-collar and white-collar workers. All registered employees, including foreigners, are required to hold a labour booklet (carteira de trabalho) which must contain the employment terms.

Employees' rights

An employment relationship comes with a series of rights defined by Brazilian legislation. In addition to such rights, collective labour conventions ensure certain categories of employees other wide-ranging rights.

Employees' main rights are the following:

Social security

Every employee in the Social Security System is supported by monthly contributions from the employer, employee and the State.

Based on the monthly salary earned by the employee, the employer must pay:

- 20% to the INSS;
- 3.30% to several public and private institutions;
- 2.50% as education salary; and
- 2% as a compulsory insurance for labour accidents (SAT) paid to the Social Security (on average).

Depending on the type of activity, the contributions may be subject to specific charges and destinations.

Unemployment compensation fund (FGTS)

According to the Federal Constitution, it is compulsory for all employers to deposit monthly the equivalent of 8% of each employee's compensation in a blocked saving account in the name of the employee. A dismissed employee is entitled to withdraw the total FGTS deposits made by the employer in their saving account, as well as interest, and a 40% fine (charged to the employer) added to the total amount deposited by said employer, plus 10% additional government penalty. Collective agreements may provide for further indemnity. There are some exceptions, e.g. when the employee is dismissed with Good Cause.

Prior notice

An employment contract for an undetermined period may be terminated at any time without good cause, upon a minimum of 30 days prior notice. There are additional costs depending on the length of time the employee has been in the company.

Deductions

The employer is responsible for withholding the following taxes and contributions:

- Between 8% and 11% of the employee's monthly salary to the INSS;
- Personal income tax ranging from 15% to 27.5%, depending on the employee's monthly salary; and
- One-thirtieth of each employee's monthly salary to the employee's union, to be paid once a year (this may vary according to the union agreement).

Expatriate personnel

Resident individuals are subject to tax on all income from abroad but can take credit for the foreign tax paid thereon, provided reciprocal treatment is accorded to Brazilian source income in the country from which the income is received.

Two types of Visa allow foreigners to work in Brazil:

Temporary visas

Provided there is an employment contract with a Brazilian company; the holder is entitled to work in Brazil for two years, renewable for as long as the contract regarding the holder's permanence in the country is valid. Foreigners are deemed employees of the Brazilian company and are entitled to all labour rights, and are subject to Social Security System.

If an employee does not have a contract, a visa can be issued for foreign individuals involved in specific projects leading to know-how or technology transfer to Brazil, and the remuneration must come from foreign sources.

Permanent visas

These visas may be granted to those hired to work in Brazil for an indefinite period and are generally issued to senior executives of foreign companies being transferred to Brazil, or individuals with specialist skills not readily available in Brazil.

The Brazilian Authorities require minimum foreign investment of USD200 TH per expatriate worker duly registered by Central Bank. The investment can be reduced to USD50 TH if the company generates at least 10 direct jobs within 2 years of the foreigner's appointment. In this case, the individuals are usually not entitled to labour rights but are subject to Social Security System.

Foreigners not in possession of one of these visas may not work in Brazil. Note that holders of business visas will only be able to enter Brazil to attend meetings, workshops and visits to clients, up to 90/180 days. These visa holders are not allowed to be registered as employees of a Brazilian entity.

Benefits

Fringe benefits

Employers usually provide voluntary fringe benefits such as medical care, meals and transport. Many companies have private pension schemes, for which there is specific legislation. Group life insurance



is also very common in business activities, and some employers are obliged to provide some of these benefits according to the labour collective agreements.

Payroll rules and taxes

Workday

The maximum workday is eight hours and the maximum workweek is 44 hours, with one-hour break for rest. A special workday system is authorized for some professional categories. The minimum compensation for overtime is 50% higher than the hourly rate. Night work, (10pm to 5am), should be compensated at at least 20% above the usual rate.

Compensation

The compensation paid may not be less than the minimum wage established by the Government or the Collective labour convention for each professional category and may be paid monthly, weekly or even per task, depending on the conditions established for the employment.

Weekly remunerated rest period

All employees have a right to a minimum of one day remunerated rest, which should preferably fall on Sundays.

Vacations

Every employee, upon completing one year's service, is entitled to 30 days' vacation time.

One-third vacation bonus

Employees are entitled to receive a one-third bonus in addition to the normal compensation during annual vacation

13th Salary

In December of each year, the employer will pay the employee an extra compensation of one-month's salary.

Withholding Taxes



Brazilian resident companies are taxed on worldwide income. Both foreign branches' and subsidiaries' profits are taxed as earned. Double taxation is avoided by means of foreign tax credits.

Brazil has also signed various treaties for the avoidance of double taxation. Fees and other related expenses paid in Brazil for services rendered abroad are subject to withholding taxes of 15% or lower according to the treaty rate.

Withholding income tax (IRF)

This is based on overseas remittances and varies from 15% to 25% depending on type of income.

Contribution for the intervention in the economic domain (CIDE)

The CIDE is a levy on payment of royalties and services when there is a transfer of technology, or when the services provided are considered to be technical assistance. The rate is 10%.

Tax on financial transactions (IOF)

The IOF applies to various types of transactions, including loans, insurance policies and short-term money market applications. In general, IOF is levied at a rate of 0.38% on foreign exchange (the acquisition or sale of foreign currency). Therefore, loan transactions are subject to IOF at a rate of 6%, if a minimum maturity period is not observed. Certain exceptions and specific IOF rates also apply.

Dividends and profits

No restrictions are imposed to distribute dividends to the shareholders, although corporations are required to allocate 5% of their annual income as legal reserve. Dividends paid out are not subject to withholding tax.

Interests

No restrictions are applied to the payment of interest if the loan contract is under market conditions and formally registered at the Central Bank. Interest expenses are, under Brazilian tax rules, to be income tax deductible.

Royalties and fees

Those which involve know-how are subject to registration with approval from the Brazilian Industrial Property Agency, and to 15% withholding tax and 10% CIDE (Contribution of Economic Domain). Expenses have limited income tax deduction.

General remittances

General payments for foreign services are subject to 25% withholding tax, 1.65% PIS, 7.6% COFINS, and ISS according to the city in which the company is located.

Foreign airlines and shipping companies are exempt from Brazilian income tax on their operations within Brazil provided equivalent exemption is available to similar Brazilian companies in the countries concerned.

Miscellaneous



The Federal Government created several regulatory Agencies in charge of specific economic sectors, the most important of which are the following:

- ANATEL- National Telecommunications Agency
- ANEEL- National Electric Power Agency
- ANP-National Oil Agency
- ANNT- National Land Transportation Agency
- ANTAQ- National Water Transportation Agency
- ANVISA- National Health Agency
- ANAC- National Air transport Agency

The primary function of these Agencies is to monitor and regulate activities in the public interest, which gradually moved from public to private entities. Such Agencies are responsible for regulating the structure of the markets under their scope of authority.



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