

A hand holding a white pen is positioned over a document. The document features a bar chart with six blue bars of varying heights, a pie chart with segments labeled '52%' and '2%', and a calculator. The background is a soft-focus image of a person's hand and arm. The word 'DEMAREST' is written in orange capital letters in the top right corner.

DEMAREST

BRAZILIAN TAX REFORM

CONSTITUTIONAL AMENDMENT 132

SUMMARY

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WHAT IS THE TAX REFORM?

A reform of the taxation of consumption, changing taxes and based on these principles:



simplicity



tax fairness



transparency



balance and environmental defense

LEGISLATIVE PATHWAY

Brazilian House of Representatives



Bill approved on July 07, 2023, in two rounds

Federal Senate



Bill approved on November 08, 2023, in two rounds

DECEMBER 15, 2023



Final report approved by the Brazilian House of Representatives

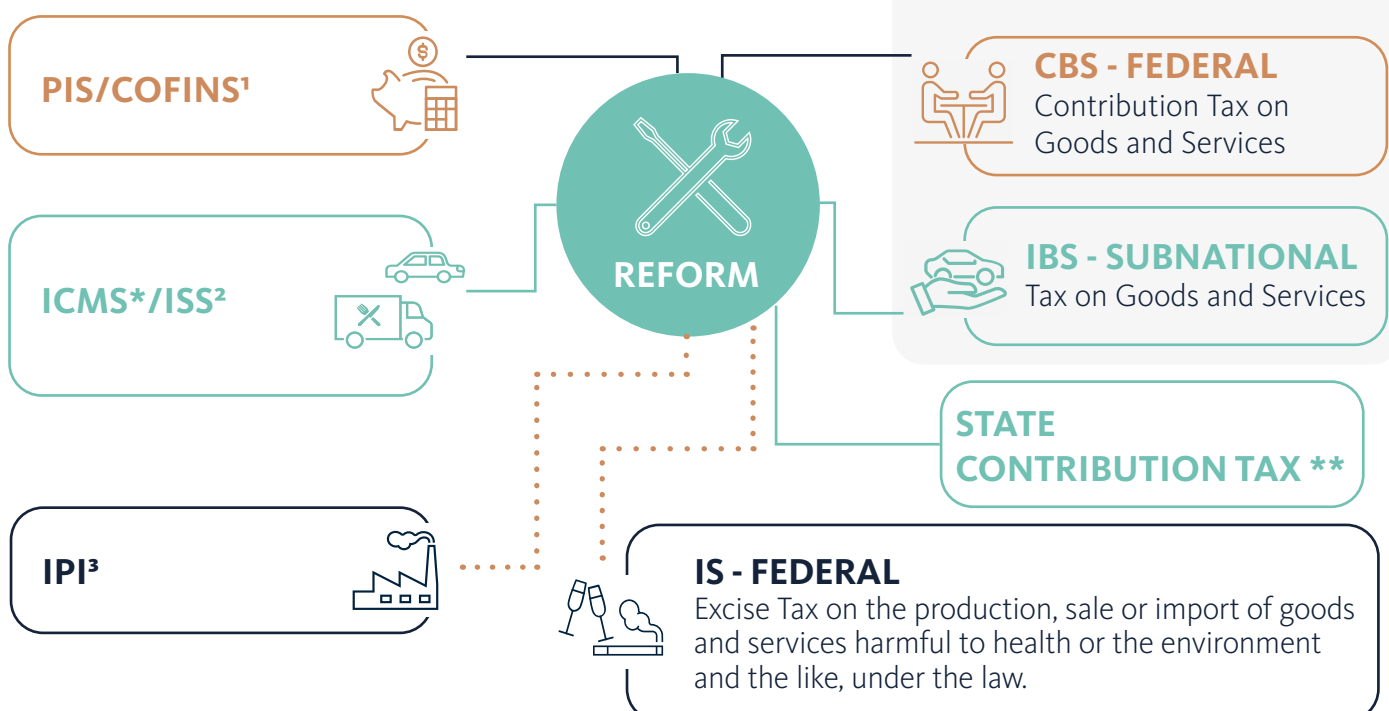
CURRENT STATUS



Promulgated on December 20, 2023. Awaiting the publication of supplementary laws in 2024.

MAIN CHANGES

GENERAL OVERVIEW



¹ Social Integration Program Tax, or PIS/Social Security Financing Tax, or COFINS

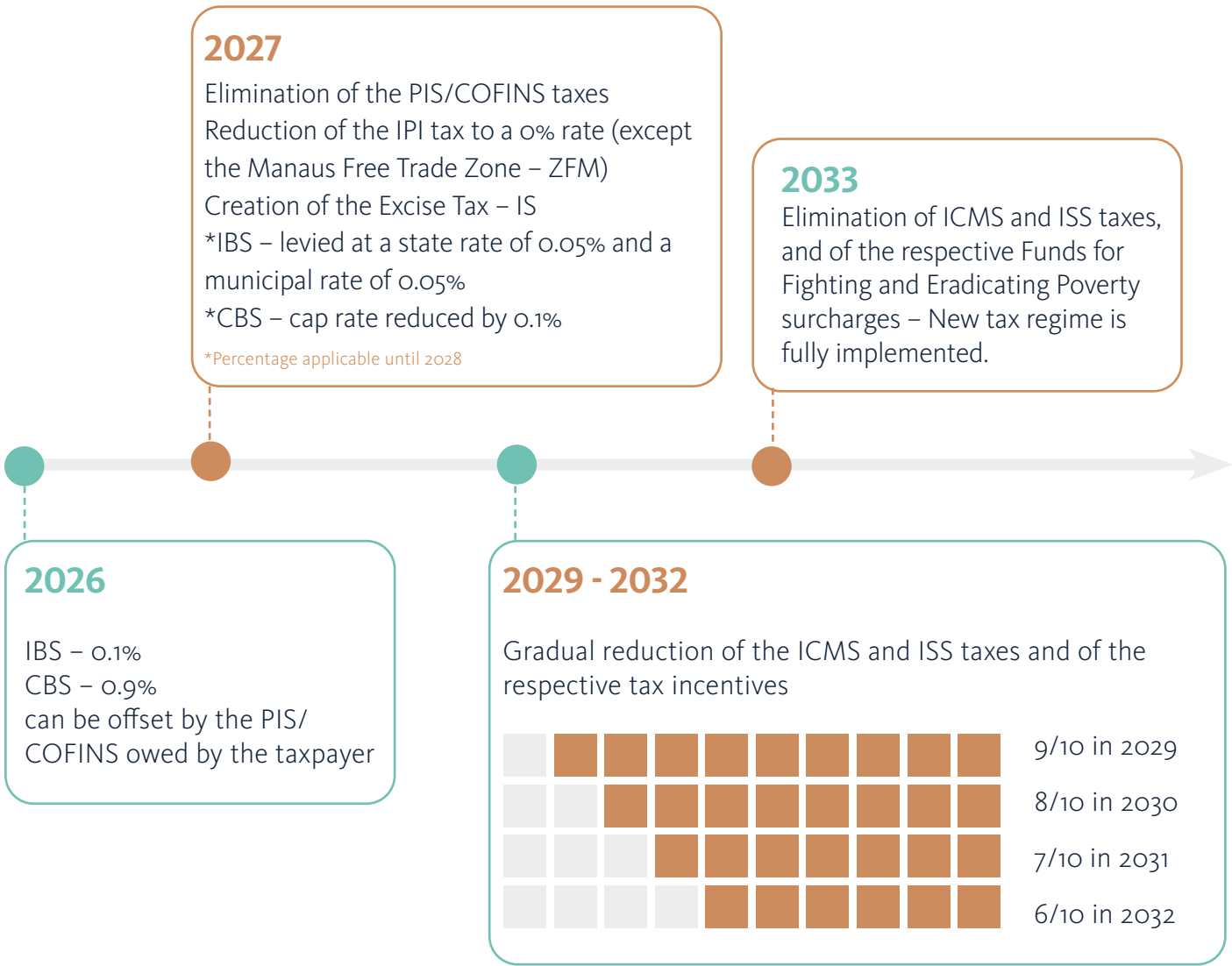
² Tax on the Circulation of Goods and Services, or ICMS*/Service Tax, or ISS

³ Tax on Industrialized Products or IPI

* The additional ICMS surcharges allocated to the State Funds to Fight Poverty will also be eliminated.

** Levied on primary and semi-finished products.

TRANSITION SYSTEM



IBS AND CBS



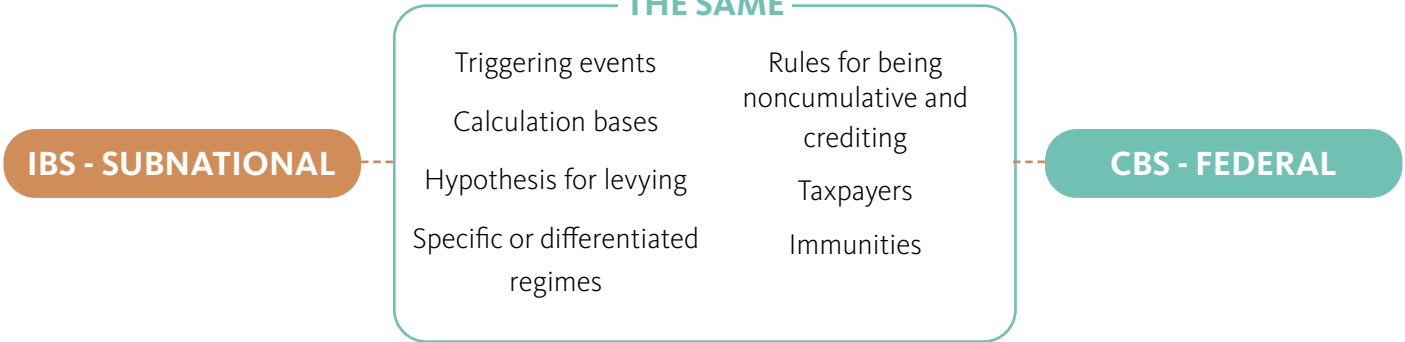
IBS AND CBS

DUAL VAT

Instituted by supplementary law

Rules that tax increases are not effective until the year following publication of the law and after 90 days have passed (exception – reference rate) are observed.

THE SAME



TRIGGERING EVENTS

Transactions with and import of tangible or intangible goods, including rights, or services.

MAIN CHARACTERISTICS



Broad base and single rate: With few exceptions, it is levied on transactions with and the import of tangible or intangible goods, including rights, or services.

Tax calculated on base amount: IBS and CBS taxes not included in the tax basis – the end of gross-up.

Broadly noncumulative: A right to the credit on the previous stage, with the exception of personal use and consumption, exemption and immunity under supplementary law terms.

Principle of place of destination: Tax levied at the place of destination – end of the tax war.

Cashback: Hypotheses for returning the IBS and CBS taxes to individuals, including the limits and the beneficiaries, seeking to reduce income inequality.

POSSIBLE STANDARD RATES IN THE NEW TAX MODEL



Estimate based on the text approved by the Brazilian House of Representatives (%).

| Scenario | Description | Realistic Scenario | | | Conservative Scenario | | |
|----------|---|--------------------|-------|-------|-----------------------|-------|-------|
| | | CBS | IBS | TOTAL | CBS | IBS | TOTAL |
| A | Baseline scenario | 6,95 | 13,78 | 20,73 | 7,38 | 14,64 | 22,02 |
| B | Scenario A + Rate reduced by 50% for agriculture and basic foodstuffs | 7,51 | 14,89 | 22,39 | 7,98 | 15,83 | 23,81 |
| C | Scenario B + Rate reduced by 50% for private education services | 7,61 | 15,10 | 22,71 | 8,09 | 16,05 | 24,14 |
| D | Scenario C + Rate reduced by 50% for private healthcare services | 7,82 | 15,51 | 23,33 | 8,30 | 16,47 | 24,77 |
| E | Scenario D + Rate reduced by 50% for other goods and services | 7,95 | 15,76 | 23,70 | 8,43 | 16,72 | 25,15 |
| F | Scenario E + Rate reduced to 40% of the basic rate | 8,19 | 16,24 | 24,43 | 8,69 | 17,23 | 25,92 |
| G | Scenario F + Rate of 0% for half of basic foodstuffs | 8,41 | 16,69 | 25,10 | 8,92 | 17,70 | 26,62 |
| H | Scenario G + Other favored treatments | 8,53 | 16,92 | 25,45 | 9,05 | 17,95 | 27,00 |



* Percentages estimated by the Treasury Ministry in the Technical Note “Aliquota-padrão da tributação do consumo de bens e serviços no âmbito da Reforma Tributária”. Available at: <https://www.gov.br/fazenda/pt-br/aceso-a-informacao/acoes-e-programas/reforma-tributaria/estudos/8-8-23-ntmf-sert-aliquota-padrao-da-tributacao-do-consumo-de-bens-e-servicos-no-ambito-da-reforma-tributaria-1.pdf>

DIFFERENTIATED REGIMES

HYPOTHESES FOR REDUCTION

Reductions of 100%



Horticultural products, fruit and eggs.



Higher education services from the University for All Program, or Prouni – only the CBS tax.



Urban renewal of historical areas and critical recovery and conversion urban areas – exemption or reduction of 100%.



National Staple Food Basket (with the defined criteria being met).



Passenger automobiles, when acquired by people with a disabilities or who are on the autism spectrum, or by professional drivers, for use in the rental category (taxi).



Services provided by a Scientific, Technological and Innovation Institution, or ICT, that is nonprofit.

Reductions of 60%



Agriculture, aquaculture, fishing, forestry and raw plant extraction.



Foodstuffs for human consumption.



Highway and metro collective public transportation services for passengers of an urban, semi-urban and metropolitan nature.



Agriculture and aquaculture inputs.



Education services.



Healthcare services.



Hygiene and cleaning products that are mostly consumed by low-income families.



Goods and services related to national security and sovereignty, information security and computer security.



Artistic, cultural, event, journalistic and audiovisual productions, sporting activities and institutional communication in Brazil.

Reductions of 30%



Services of an intellectual profession, of a scientific, literary or artistic nature, so long as they are subject to oversight by a professional counsel.

Subject to both reductions (100% and 60%)



Medicines.



Medical devices.



Accessibility devices for people with disabilities.



Basic menstrual healthcare products.

OTHER BENEFITS

ZERO RATE



National Staple Food Basket (with the defined criteria being met).

EXEMPTIONS



Collective public transportation services (highway and metro).



Urban renewal of historical areas and critical recovery and conversion urban areas.

PRESUMED CREDITS



Presumed credits from individuals and legal entities who are rural producers (annual revenue of up to BRL 3.6 million); individuals who are autonomous transportation providers; used chattel property for resale; waste and material intended for recycling, from a individual, cooperative or other form of grass-roots level organization.

EXEMPTION



Exemption for the acquisition of capital goods, through full and immediate tax credits, deferral or a reduction of 100% of the rates.

EXTENSION OF TAX INCENTIVES



Return of the extension of the tax incentives granted to automobile manufacturers in the form of a presumed credit on the CBS tax until 2032, to be reduced 20% a year from 2029.

The tax incentives will be valid for electrical, flex or biofuel vehicles, whose production begins in January 2028 and for which certain conditions are met.

The extension will cover only projects in manufacturing plants that already exist or new projects that take advantage of existing plants, in the Northern, Northeastern and Midwestern regions.

SPECIFIC REGIMES

Possibility of different rates and bases, with single-phase levying or levying on revenue/invoicing.



FUEL AND LUBRICANTS



COLLECTIVE PASSENGER TRANSPORTATION



FINANCIAL SERVICES

(CREDIT, EXCHANGE, INSURANCE AND REINSURANCE TRANSACTIONS, AMONG OTHERS)*



SPORTS ACTIVITIES

(SOCCER CORPORATIONS)



COOPERATIVES



REAL ESTATE TRANSACTIONS



HOTELS, AMUSEMENT AND THEME PARKS, RESTAURANTS AND REGIONAL AVIATION



TRANSACTIONS CONTRACTED BY DIRECT AND INDIRECT GOVERNMENT AGENCIES



HEALTHCARE PLANS



PREDICTION CONTESTS



INTERNATIONAL TREATY OR CONVENTION



TRAVEL AND TOURISM AGENCIES AND EVENT PRODUCTION

*Consortia, commercial leasing, factoring, securitization, private pension, capitalization, payment arrangements, transactions with instruments and securities, including trading and brokerage, and others that imply fundraising, passing on, brokering, management or administration of funds.

SPECIAL REGIMES



SPECIAL CUSTOMS REGIMES

Possibility of maintaining hypotheses for deferral and exemption.

Including **export processing zones**.



NATIONAL SIMPLE TAX SYSTEM

Continuation of the method.

Voluntary method with a possibility of crediting for acquirers and receivers.



BIOFUELS

Independent of the stage of consumption.

Taxation must be less than what is levied on fossil fuels.



CAPITAL GOODS

Full and immediate credit for the taxes.

Deferral.

Reduction of 100% of the rates.

REGIONAL REGIMES



MANAUS FREE-TRADE ZONE

Maintained until **2073**, with the extension of **free trade areas**.

Favored treatment:

- IBS and CBS laws must ensure the **competitive advantage** of the ZFM, being able to have tax advantages; and
- Continuation of the **IPI** tax on products that are also subject to manufacturing operations in the ZFM, under criteria to be established in the supplementary Law.

Inclusion of authority of supplementary law(s) that institute the IBS and CBS taxes to govern the continuation of the competitive advantages and favorable tax treatment for the ZFM and ALC instituted to May 31, 2023.



NATIONAL FUND FOR REGIONAL DEVELOPMENT

Goal to **reduce** regional and social **inequality**, with the delivery of funds by the federal government to the states and Federal District.

Institution through a supplementary law and authority for states and municipalities to decide on its application.

Scope of application:

- Studies, projects and **infrastructure** work;
- Productive activities with a high potential to generate **employment and income**; and
- **Scientific and technological** and **innovation** development.

DEMAREST

IBS AND MANAGEMENT COMMITTEE



IBS AND MANAGEMENT COMMITTEE

DUTIES



Collect the tax, make the offsets and distribute the product of the tax collection.

Resolve issues originating within the scope of administrative tax litigation between the taxpayer and tax administration.

Coordinate the integrated activity between the entities in auditing, levying, collection and administrative or judicial representation of the tax (under supplementary law).

RESOLUTIONS



Votes of:

(i) absolute majority of the representatives of the states and Federal District and representatives who correspond to over 50% of the Brazilian population; and

(ii) an absolute majority of the representatives of the municipalities and Federal District.

EXCISE TAX

CHARACTERISTICS



Institution

Federal Government – Supplementary Law.



Rule of advanced promulgation

Application of the rule that a tax law must be published the calendar year prior and at least 90 days before it takes effect.



Triggering events

Production, extraction, sale or import of goods and services harmful to health or to the environment, under the law. It is not levied on export transactions or transactions with electrical power or telecommunications.



Impact on the CBS and IBS

It is part of the calculation bases of these taxes, as well as of the ICMS and ISS taxes while they exist.



Can be levied on **weapons and ammunition**, except when destined to the government.



Rates

Change of rates by ordinary law (no longer by decree). Can have specific rates (by unit or measurement) or percentages.

Levy on the extraction of goods harmful to health and the environment, **regardless of destination of the goods**, limited to 1% of the product's market value.

It will not be levied on goods and services with reduced rates. It will be levied in a **single-phase** manner and must be levied from **2027**.

STATE AND MUNICIPAL CONTRIBUTION TAXES

NEW TAX CONTRIBUTION



Effective until **December 31, 2043**.

Incident on **primary and semi-manufactured** products, produced in the respective territories.

Destined for investment in infrastructure and housing.

It will replace the contribution tax to state funds established as a condition for the application of a deferral, special method or other differentiated treatment of the ICMS tax provided for in state law on April 30, 2023.

BROADENING OF MUNICIPAL CONTRIBUTION TAX



Possibility of the municipalities and Federal District instituting a contribution tax for the expansion and improvement of public lighting services (previously only for cost).

TRANSITION



TAX INCENTIVES – ICMS TAX

Enjoyment guaranteed until 2032, under Supplementary Law 160/17.

Proportional reduction to the extent that the ICMS tax is reduced between 2029 and 2032.

Extensions of deadlines for enjoying ICMS tax benefits are prohibited.



Fund for Offset of ICMS Tax or Financial-tax incentives.

The purpose is to offset, by December 31, 2032, Legal entities that are beneficiaries of exemptions, incentives and tax benefits or financial-tax benefits granted for a set time and under conditions.

TRANSITION



CREDIT BALANCES

The ICMS tax credit balances existing at the end of 2032 can be used by taxpayers, under the terms of a supplementary law.

Credits must be allowed by legislation and ratified by the appropriate state.

Offset with IBS tax for the remaining period (assets) and 240 months for the others.

From 2033, the credit balances will be adjusted according to the IPCA-E inflation index or another index that replaces it.

Possibility of transferring the balance will be up to a supplementary law.

A supplementary law must govern the offsetting or restitution of PIS/COFINS and IPI tax credit balances, including the possibility of offsetting them against other federal taxes, the CBS tax or a cash refund.

CHANGES TO OTHER TAXES

IPVA, ITCMD AND IPTU

MOTOR VEHICLE OWNERSHIP TAX, OR IPVA

Extension of the tax to water vehicles and aircraft.

Possibility of differentiated rates due to the environmental impact of the vehicle.

Exceptions:



agricultural aircraft and aircraft of an operator who is certified to provide air services to third parties;



vessels of a Legal entity that is authorized to provide water transport services or of a individual or Legal entity that engages in industrial, artisanal, scientific or subsistence fishing;



platforms capable of moving on the water under their own power; and



tractors and agricultural machinery.

CHANGES TO OTHER TAXES

INHERITANCE AND GIFT TAX, OR ITCMD

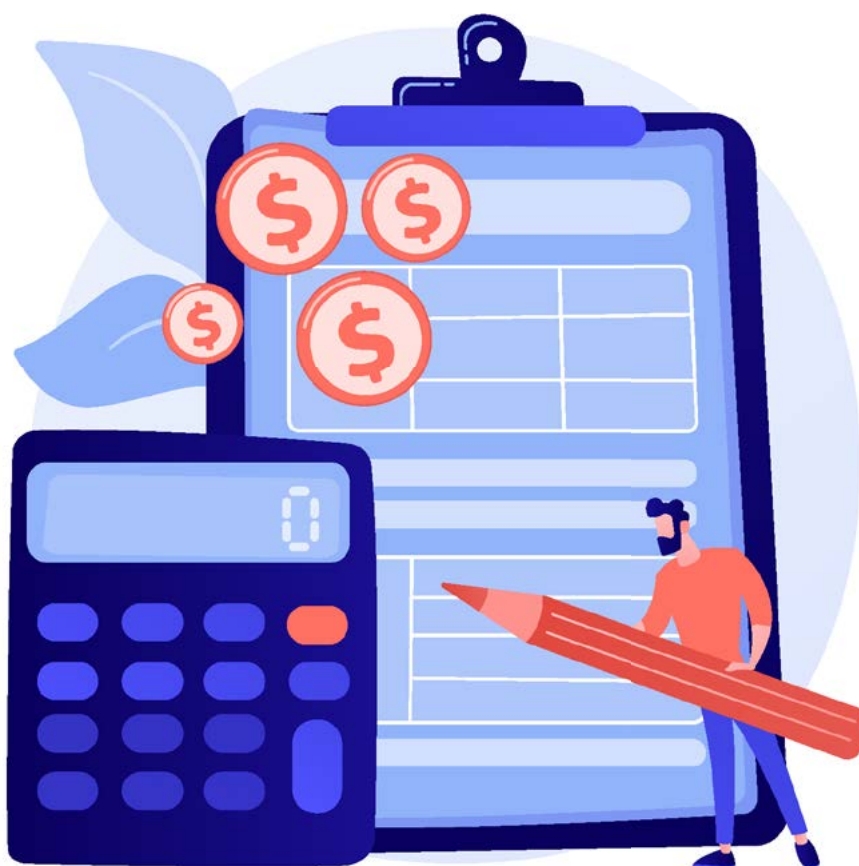
Progressive, according to the amount of the inheritance or gift, limited to probates opened after the publication of the constitutional amendment.

Immunity on gifts to nonprofit institutions with a purpose of public and social relevance, including charitable organizations and religious entities and scientific and technological institutes, in accordance with a supplementary law.



URBAN BUILDING AND PROPERTY TAX, OR IPTU

The calculation basis of the IPTU can be updated by the executive branch, based on general criteria provided for in municipal law, to facilitate municipal governments realizing the tax potential of real property that is increasing in value.



HOW IT AFFECTS AGRIBUSINESS

HOW IT AFFECTS AGRIBUSINESS

REPLACEMENT OF CURRENT TAXES



CBS AND IBS

will be charged and collected in 2026.



ICMS AND ISS

will be gradually reduced between 2026 and 2032, and finally eliminated in 2033.



PIS AND COFINS

will be eliminated in 2027.

CURRENT TAX INCENTIVES THAT WILL BE GRADUALLY PHASED OUT:



Presumed credits, suspensions and zero rates for PIS/COFINS.



Exemptions, deferrals, calculation base reductions and presumed ICMS credits.

EXISTING ICMS TAX INCENTIVES



Enjoyment guaranteed until 2032, under Supplementary Law 160/17.



Proportional reduction corresponding to the ICMS tax reduction by 10% per year between 2029 and 2032.



Extensions of deadlines for enjoying ICMS tax incentives are prohibited.



Fund for Offset of ICMS Tax or Financial-tax incentives: The purpose is to offset, by December 31, 2032, Legal entities that are beneficiaries of exemptions, incentives and tax benefits or financial-tax benefits granted for a set time and under certain conditions.



HOW IT AFFECTS AGRIBUSINESS

NEW TAX INCENTIVES

TAX RATES: CBS AND IBS

60% reduction



Agriculture and aquaculture inputs



Food intended for human consumption



Agricultural, fishing, forestry and in natura plant extractive products

100% reduction



Horticultural products, fruits and eggs

zero Tax rate



National Staple Food Basket

Others



Individual or legal entity rural producers whose annual revenue is lower than BRL 3.6 million and “integrated producers” can opt for contributing or not to IBS and CBS.



Presumed IBS and CBS credit will be granted to taxpayers acquiring goods and services from individual or legal entity rural producers whose annual revenues are lower than BRL 3,600,000.00 and opt out of IBS and CBS payment.



Optional regime for producers’ cooperatives – a supplementary law will provide for the cases:

in which IBS and CBS will not be levied on transactions carried out:

- between the cooperative and its members;
- between members and the cooperative; and
- between cooperatives that are associated to achieve their social purposes.
- regarding the system for using the credit from the previous stages.



Favorable tax regime for biofuels.

EXCISE TAX

TAXABLE EVENTS

Production, extraction, sale or import of goods and services harmful to health or the environment, under the terms of the supplementary law to be published.



Not levied on exports.



Impact on the CBS and IBS

It will be part of the calculation bases of these taxes, as well as of the ICMS and ISS taxes while they exist.



Tax Rates

To be set by the Executive Branch.



It can be levied on agricultural products and inputs that are not subject to reduced rates.

NEW TAX CONTRIBUTION



Effective until December 31, 2043.



Levied on primary and semi-manufactured products, produced in the respective territories.



Allocated for investment in infrastructure and housing.



It will replace the contribution tax to state funds established as a condition for the application of a deferral, special method or other differentiated treatment of the ICMS tax provided for in state law on April 30, 2023.



OTHER IMPACTS ON THE SECTOR

Motor Vehicle Property Tax ("IPVA")

Taxes will be levied on watercraft and aircraft, except for agricultural aircraft, aircraft owned by operators certified to provide air services to third parties, tractors, and agricultural machinery, among others.

HOW IT AFFECTS THE AUTOMOTIVE SECTOR



HOW IT AFFECTS THE AUTOMOTIVE SECTOR



Tax incentives will be continued until 2032 for companies that manufacture bi-fuel, electric and hybrid vehicles in the Central-West, North and Northeast regions of Brazil.



A supplementary law will provide for a 100% reduction in IBS and CBS rates for passenger automobiles, when acquired by people with disabilities or who are on the autism spectrum, or by professional drivers, for use in the rental category (taxi).



IPVA: Motor Vehicle Property Tax rates may differ according to the category, value, use and environmental impact of the vehicle.



The IPVA will be levied on hybrid and electric vehicles, which are exempt from taxes in certain states.



The IPVA will also be levied on water vehicles and aircraft, save for specific exceptions.



The excise tax may be levied on operations with vehicles that harm the environment on a higher level.



HOW IT AFFECTS FOREIGN TRADE



HOW IT AFFECTS FOREIGN TRADE

REPLACEMENT OF CURRENT TAXES

CURRENT TAXATION ON THE IMPORT OF GOODS

II (Import duty)

IPI (tax on industrialized goods)

PIS-Import

COFINS-Import

ICMS (value-added tax)

NEW TAXATION REGIME

II

CBS (formerly IPI, PIS-Import and COFINS-Import)

IBS (formerly ICMS and tax on services - ISS)

Eventually “excise tax” – acting as a substitute for IPI (excise tax)



CBS and IBS will be collected with a phase out percentage in 2026.



PIS and COFINS will be eliminated in 2027.



ICMS and ISS will be gradually reduced between 2029 and 2032 and finally eliminated in 2033.

FOREIGN TRADE-RELATED TAXES THAT WILL NOT CHANGE WITH THE TAX REFORM

TAXES



Import Duty (II)

Export Duty (IE)

Exchange Tax on Financial Operations (IOF)

FEES



SISCOMEX fee (Integrated Foreign Trade System)

Merchant marine fee

CONTRIBUTION FOR INTERVENTION IN THE ECONOMIC DOMAIN (CIDE)



CIDE-Fuel

CIDE-Shipments

AFRMM (additional charge over the freight for renewal of the merchant marine)

HOW IT AFFECTS FOREIGN TRADE

CONTINUATION OF IMMUNITY IN EXPORTS



IBS and CBS will not be levied on exports, and exporters are ensured the continuation of credits relating to operations where they acquired goods (tangible or intangible) or services.



The potential levy of the state contribution on primary or semi-manufactured exported products has not been provided for.



The “excise tax” will not be levied on exports either.



SPECIAL CUSTOMS REGIMES AND EXPORT PROCESSING ZONES

The supplementary law will provide for the events of deferral and exemption that apply to special customs regimes and export processing zones. In this regard, regimes that commonly apply to foreign trade operations such as drawback, customs warehousing, temporary admission, temporary export, and others, must be maintained.

EXCISE TAX

TAXABLE EVENTS



Production, extraction, sale or **import** of goods and services that harm health or the environment.

IMPACT ON THE CBS AND IBS



The excise tax will be part of the calculation bases of these taxes, as well as of the ICMS and ISS taxes while they exist.

PRODUCT OR SERVICE



Levied on the product or service only once.

EXPORTS



Not levied on **exports**, except on the extraction of goods harmful to health and the environment, regardless of destination of the goods, limited to 1% of the product's market value.

RATES



Rates set through ordinary law.

A hand is shown interacting with a futuristic digital interface. The interface is overlaid on a smartphone screen, which displays a bar chart and other data. The background is dark with bokeh lights in shades of blue, orange, and red. The overall theme is digital technology and its impact on the economy.

HOW IT AFFECTS THE DIGITAL ECONOMY

HOW IT AFFECTS THE DIGITAL ECONOMY

CURRENT LANDSCAPE

Certain transactions are challenging to frame, given that the legislation and case law are not always on par with the innovations. However, several tax issues within the sector will be resolved after the transition regime:



Whether ISS can be levied on the import of services.



Whether ICMS or ISS will be levied on transactions involving digital/intangible goods.



Whether ISS or ICMS will be levied on operations involving the provision of content.



Difficulty in establishing the competent payment entity (which entity must collect the payment).



Difficulty framing certain operations into cumulative and non-cumulative regimes regarding the payment of PIS/Cofins taxes (such as licensing of “imported” software and related services).



Complex contracts with different purposes are difficult to frame (supply of hardware with cloud software, equipment and telecom leasing, etc.).

POINTS OF ATTENTION TO THE DIGITAL ECONOMY



In theory, uncertainty regarding the application of ICMS or ISS taxes in the sector will be resolved, since IBS and CBS will be levied on any transactions involving tangible or intangible goods, including services.



Digital economy transactions that are subject to taxation (such as leasing and rental) will potentially increase and, consequently, so will tax collection recording from legal entity contractors or purchasers.

HOW IT AFFECTS THE DIGITAL ECONOMY

POINTS OF ATTENTION TO THE DIGITAL ECONOMY



Transactions that were not previously taxed by ICMS or ISS (such as leasing and rental) will be subject to IBS and CBS, potentially providing credit to legal entity contractors or purchasers.



IBS and CBS will be levied at the place of destination or place of consumption, under the terms of the supplementary law, which could hinder identification of the place of destination in transactions involving the digital economy.



It is possible that technology platforms (such as marketplaces) and means of payment could be held liable, given that tax liability can fall on any individual involved in the implementation, execution or payment of the transaction, including non-residents.



Digital economy companies tend to have fewer tax credits, given that a large part of their expenses are linked to the workforce. This may lead to an increase in tax burden and, consequently, in tax rates and the tendency for independent-contractor-only hiring policies ("*Pejotização*").



A supplementary law will provide for a 60% reduction in IBS and CBS rates for goods and services relating to national security and sovereignty, information security and cyber security.





HOW IT AFFECTS THE ENERGY SECTOR

HOW IT AFFECTS THE ENERGY SECTOR

CURRENT LANDSCAPE

As a rule, the ICMS is levied on energy trading. However, several tax issues within this sector will be resolved after the transition regime:



Current tax regulations complicate the framing of several potential energy transactions (e.g. energy assignment, self-production via consortium).



There is inconsistency in the states' designation of the competent party in the collection of ICMS-ST, due to the variety of agents in the sector (consumers and generation, distribution, transmission, and trading agents).



Recognition of the essential nature of electricity.



The reform repeals Supplementary Law No. 194/2022, which provides for the essential nature of electricity for ICMS purposes.



The reform expressly provides that only import tax, export tax and the IBS will be levied on electricity-related transactions.



The IBS levied on electricity supply will be refunded to low-income consumers (cashback).



HOW IT AFFECTS THE ENERGY SECTOR

NEW TAX CONTRIBUTION



Effective until **December 31, 2043**.



Allocated for investment in infrastructure and housing works.



It will replace the contribution tax to state funds established as a condition for the application of a deferral, special regime or other special treatment involving the ICMS tax, provided for in state law on April 30, 2023 – replacement of numerous current contribution taxes of dubious constitutionality.



Levied on primary and semi-finished products, produced in the respective territories.



Potential impact on the non-renewable energy chain, especially coal, oil, and derivatives, which classify as primary products.



The tax reform establishes that only import, export and IBS taxes can be levied on electricity, but does not provide for contribution taxes.

EXCISE TAX



Taxable Events: Production, extraction, sale or import of goods and services harmful to health or the environment, under the terms of the law.



It will not be levied on electricity-related transactions.



It will not be levied on export transactions.



Tax Rates: To be set by the Executive Branch.



Impact on the CBS and IBS: It will be part of the calculation bases of these taxes, as well as of the ICMS and ISS taxes while they exist.



It will not be levied on goods and services with reduced rates.



It will be levied on extraction of products harmful to the environment, regardless of the place of destination, limited to 1% of the product's market value.

HOW IT AFFECTS THE ENERGY SECTOR

POINTS OF ATTENTION FOR THE ENERGY SECTOR



Potential cost increase: Transactions that were not previously taxed by ICMS or ISS (such as leasing and rental) will be subject to IBS and CBS, potentially providing credit to legal entity contractors or purchasers.



The IBS and CBS will be charged at the place of destination or place of consumption, under the terms of the supplementary law: Uncertainty regarding the entity that will collect the IBS and CBS, and whether the tax substitution regime will be maintained.



There will be no rate reduction for the electricity sector.



Free Energy Market (“ACL”) - Uncertainty regarding the IBS and CBS levy on:



Energy assignment;



Self-production; and



Distributed generation.



The tax reform **does not provide** for special tax treatment for renewable energy.



The special regime **will no longer apply to transactions involving distributed microgeneration and minigeneration of electricity**, following the provision introduced by the Brazilian Senate.



Tax relief for acquisitions of capital goods through immediate tax credit, deferral or 100% reduction on tax rates – which can serve as an alternative to Special Incentive Regime for Infrastructure Development (REIDI) – is pending regulation via supplementary law.

HOW IT AFFECTS THE REAL ESTATE SECTOR

HOW IT AFFECTS THE REAL ESTATE SECTOR

REPLACEMENT OF CURRENT TAXES

IBS and CBS tax regimes for “real estate operations”



The reform provides for specific IBS and CBS tax regimes for “real estate operations”, including construction, development, land subdivision, disposal, rental, leasing, management and intermediation of real estate.

Mixed transactions



The amendment’s wording does not clarify whether these special regimes will be fully applicable to companies that carry out mixed transactions involving real estate and other activities, or only in relation to revenues associated with real estate activities.

Credit rules



A supplementary law may provide for changes in tax rates, crediting rules and calculation bases, with the possibility of not recording credit, concerning purchasers of goods and services.

Tax calculation



A supplementary law must also determine the cases in which the tax will be calculated based on revenue or turnover at a uniform rate across the national territory.

The renting, buying and selling of real estate



The renting, buying and selling of real estate will be subject to IBS and CBS, and taxpayers may be entitled to credit on their purchases.

ICMS and ISS



The reform will affect operations that are not currently taxed by ICMS and ISS.

HOW IT AFFECTS THE REAL ESTATE SECTOR

CURRENT TAX INCENTIVES TO THE REAL ESTATE SECTOR

The reform can affect the Special Real Estate Tax Regime (“RET”), which enables the unified payment of IRPJ, PIS/Cofins and CSLL, since there was no reservation about this regime in the amendment.

OTHER IMPACTS ON THE SECTOR

Progressive ITCMD taxation



The ITCMD is expected to be taxed progressively, based on the value of the share, legacy or donation, in a similar way to the progressive IPTU taxation established by Constitutional Amendment 29/2000, which was limited to succession opened as of the publication of the new constitutional amendment.

The ITCMD will not be levied on transfers and donations to non-profit institutions that provide public and social services, including welfare and charitable organizations linked to religious entities and scientific and technological institutes. It will also not be levied on the transfers and donations that these institutions make in order to achieve their social purposes, subject to the conditions established by a supplementary law.

Update of the IPTU by the Executive Branch



The calculation base for IPTU can be updated by the Executive Branch, based on general criteria provided for by municipal law, so that municipal governments can benefit more easily from the tax collection potential of high-value buildings.











DEMAREST

HOW IT AFFECTS LIFE SCIENCES

HOW IT AFFECTS LIFE SCIENCES

CURRENT LANDSCAPE

-  Complex issues surrounding the approval and renewal of tax benefits, including periodic reviews;
-  Certain sectors have accumulated ICMS and PIS/Cofins credits;
-  Complex ICMS tax substitution and single-phase PIS/Cofins regimes;
-  High tax burden for certain sectors;
-  Challenges regarding compliance with ancillary obligations; and
-  Challenges in framing certain services for ISS purposes.

⊗ Current tax incentives that will be gradually phased out

Exemptions, deferrals and reductions in ICMS calculation bases for transactions involving medicines, agricultural inputs, menstrual hygiene products, among others;





Reduced ICMS calculation basis for transactions with staple food baskets, agricultural inputs, medicines and cosmetics, among others; and

Zero rates, suspensions and presumed PIS/Cofins credits.

NEW TAX INCENTIVES




60% reduction:

-  Agriculture and aquaculture inputs, Agricultural, fishing, forestry and *in natura* plant extractive products;
-  Foods for human consumption;
-  Healthcare service; and
-  Personal hygiene products.



100% reduction:

-  Horticultural products, fruits and eggs; and
-  Services provided by a non-profit Science, Technology and Innovation Institution.

HOW IT AFFECTS LIFE SCIENCES



Items potentially subject to both reductions -100% and 60%



Accessibility devices for people with disabilities;



Medicines;



Medical devices; and



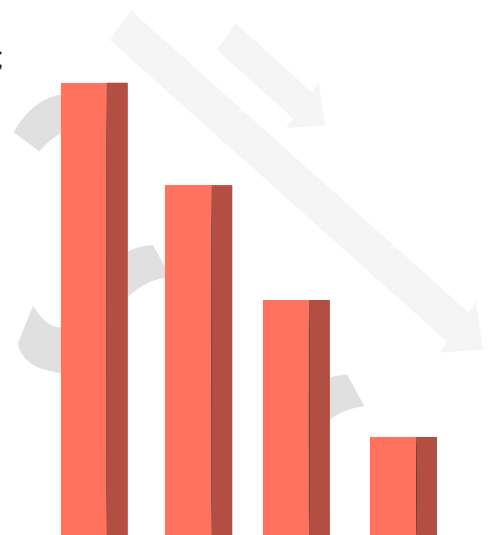
Basic menstrual healthcare products.



Other Benefits



Zero rate: National Staple Food Basket.



Healthcare plans



Different rates and bases may apply;



Different crediting recording rules;



No credit to purchasers; and



Tax calculated based on revenue or turnover at a uniform rate across the national territory, and no credits to purchasers.

EXCISE TAX

Taxable Events



Production, extraction, sale or import of goods and services harmful to health or the environment, under the terms of the law.

Tax Rates



To be set by the Executive Branch, and can be specific, by unit of measurement, or *ad valorem*.

Bens e serviços



Incidence on the extraction of goods harmful to health and the environment, regardless of the destination of the goods, limited to 1% of the product's market value.

HOW IT AFFECTS LIFE SCIENCES

Impact on the CBS and IBS



It will be part of the calculation bases of these taxes, as well as of the ICMS and ISS taxes while they exist.

Exports



Not levied on exports.

Beverages and Cigarettes



It will potentially be levied on transactions involving alcoholic beverages and cigarettes, as well as sugary foods and inputs not subject to the reduced rates.

Goods harmful to health and the environment



Incidence on the extraction of goods harmful to health and the environment, regardless of the destination of the goods, limited to 1% of the product's market value.

POINTS OF ATTENTION FOR LIFE SCIENCES



Potential cost increase: Transactions that were not previously taxed by ICMS or ISS (such as leasing and rental) will be subject to IBS and CBS and must provide credit to legal entity contractors or purchasers.



Uncertainty regarding the scope of the excise tax.



Potential increase in tax burden, especially within the health sector.



A new state contribution on agribusiness is possible.








HOW IT AFFECTS THE OIL AND GAS SECTOR


HOW IT AFFECTS THE OIL AND GAS SECTOR

REPLACEMENT OF CURRENT TAXES


-  CBS and IBS will be charged and collected in 2026.
-  PIS and COFINS will be eliminated in 2027.
-  ICMS will be gradually phased out between 2029 and 2032, and finally eliminated in 2033.

CURRENT SPECIAL REGIMES/TAX INCENTIVES THAT WILL BE GRADUALLY PHASED OUT


PIS and COFINS

-  Presumed credits, suspensions and zero rates for PIS/COFINS






ICMS and ISS

-  Deferrals, calculation base reductions and presumed ICMS credits

IBS and CBS






-  Potential continuation of the single-phase levying regime

EXISTING ICMS TAX INCENTIVES









-  Enjoyment guaranteed until 2032, under Supplementary Law 160/17.
-  Proportional reduction corresponding to the ICMS tax reduction by 10% per year between 2029 and 2032.
-  Extensions of deadlines for enjoying ICMS tax incentives are prohibited.
-  Fund for Offset of ICMS Tax or Financial-tax incentives: The purpose is to offset, by December 31, 2032, Legal entities that are beneficiaries of exemptions, incentives and tax benefits or financial-tax benefits granted for a set time and under certain conditions.
-  Differentiated treatment, given that fuels and natural gas are deemed essential, under the terms of Supplementary Law No. 194/2022.

HOW IT AFFECTS THE OIL AND GAS SECTOR

TAX TREATMENT UNDER EC 132/2023

-  The reform expressly provides that **only** import tax, export tax, IBS and excise tax will be levied on petroleum, fuel and mineral derivatives transactions.
-  A specific single-phase IBS regime for fuels and lubricants, with:
 - Possibility of a specific standard rate per product and per measurement unit; and
 - No credit on the acquisition of products intended for distribution, sale and resale.
-  IBS taxpayers can receive credit for taxes paid in the previous stage, which is currently prohibited in the case of ICMS by Agreements 199/2022 and 15/2023, in transactions with diesel, biodiesel, LPG, NGL, anhydrous ethanol and gasoline.
-  Favorable tax regime for low-carbon biofuels and hydrogen, regardless of the stage of consumption, ensuring lower taxation than that levied on fossil fuels.
-  The current taxation system will be simplified, based on Agreements 110/2007 and 206/2021, including regarding the deferral of ICMS on transactions involving anhydrous ethyl alcohol and biodiesel for gasoline and diesel oil blends.
-  Cashback of IBS levied on the supply of liquefied petroleum gas (LPG) to low-income consumers.
-  Tax relief of capital goods in the form of full and immediate tax credit, deferral or 100% reduction in tax rates – pending regulation by a supplementary law.

EXCISE TAX

-  **Taxable Events:** Production, sale or import of goods and services harmful to health or the environment, under the terms of the law.
-  **Express provision regarding the possibility of levying taxes on transactions** with oil and fuel derivatives.
-  **Not levied** on exports.
-  **Impact on the CBS and IBS:** It will be part of the calculation bases of these taxes, as well as of the ICMS and ISS taxes while they exist.
-  **It will not be levied** on goods and services with reduced rates.
-  **Tax Rates:** To be set by the Executive Branch, and can be specific, by unit of measurement or *ad valorem*.
-  **Uncertainty regarding the scope of excise tax:**
 - Whether only fuels that could harm the environment will be taxed, or all of them.
 - What are the potential impacts on biofuels?
-  Incidence on the extraction of goods harmful to health and the environment, regardless of destination of the goods, limited to 1% of the product's market value.

HOW IT AFFECTS THE OIL AND GAS SECTOR

NEW TAX CONTRIBUTION



Effective until **December 31, 2043**.



It will replace the contribution tax to state funds established as a condition for the application of a deferral, special method or other differentiated treatment of the ICMS tax provided for in state law on April 30, 2023 – replacing several current contributions of dubious constitutionality.



It will be levied on primary and semi-finished products produced in the respective territories – potential impact on the fuel chain, especially on the cost of purchasing sugar cane, oil by-products and bio-inputs.



Collection allocated for investment in infrastructure and housing works.



Although EC 132/2023 provides that only import, export, excise tax and IBS can be levied on transactions with oil derivatives, fuels and minerals, the levying of contributions on these transactions was not addressed.

OTHER IMPACTS ON THE SECTOR

IPVA: Extension of taxation to watercraft and aircraft, with the exception of self-propelled platforms, among others.



OTHER ISSUES

Tax Substitution:

Whether the tax substitution can be imposed on products outside the single-phase regime.

Potential elimination of REPETRO, which imposes exemption from federal taxes on goods intended for the exploration, development and production of oil and natural gas, in force until the end of 2040 – how to address this issue considering the end of IPI and PIS/Cofins.

Potential impacts on equating a single-phase IBS tax with the rates of destination states and municipalities.

In other words, there is uncertainty as to where the final consumption will take place and whether the reform will create greater complexity for the sector.



A hand is shown using a black calculator and a white keyboard. The calculator's LCD screen displays the number '912345'. The calculator has various function keys including M+, M-, MRC, GT, ON/AC, OFF, %, MU, and a large teal '+' key. The hand is also pressing a key on the keyboard, which has 'shift' and 'co' visible. In the foreground, there is a black pen and two coins, one of which is a US quarter. The background is a light blue surface.

HOW IT AFFECTS THE FINANCIAL SECTOR

HOW IT AFFECTS THE FINANCIAL SECTOR

| | Current Regime | New Regime |
|--|--------------------|---|
| Fees and commissions | ISS and PIS/Cofins | IBS and CBS – Full tax rate |
| Spread, considering financial and insurance services | ISS and PIS/COFINS | IBS and CBS – Subject to a specific tax regime, to be provided for in a supplementary law |



The IBS and CBS will be levied on fees and commissions that are currently taxed by the ISS and PIS/COFINS (such as spreads).



Currently, PIS and COFINS are levied on financial institutions under the cumulative system and do not generate credits;



The non-cumulative joint rate of 4.65% is higher than the 3.65% rate for other companies under the cumulative regime, and certain revenues and expenses can be excluded and deducted from the tax calculation base; and



There are numerous debates regarding the calculation of financial institutions’ operating revenue. These discussions address topics such as the levy of PIS and COFINS on gross operating revenue from regular activities.



HOW IT AFFECTS THE FINANCIAL SECTOR

POINTS OF ATTENTION FOR THE FINANCIAL SECTOR



The constitutional amendment defines financial services as:



Transactions involving credit, foreign exchange, insurance, reinsurance, consortium, leasing, invoicing, securitization, private pension plans, capitalization, payment arrangements, securities transactions, including trading and brokerage, and transactions that involve the raising, remittance, intermediation, management or administration of funds.



This definition also encompasses services provided by entities that manage organized markets and market infrastructures, centralized safe-deposit companies, and institutions authorized to operate by the Central Bank of Brazil (“BC”).



Difficulty to identify value added to the spread, such as loans, security purchases and sales, or traded securities, life insurance, annual fees, etc., which are taxed on a margin basis.



Potential special regime:



changes in rates, crediting rules and calculation basis, with the possibility of not recording credit, regarding acquirors of goods and services.



tax calculated based on revenue or turnover at a uniform rate across the national territory, considering the non-cumulative regime is not applied regarding the acquirors of goods and services.



The special regime does not apply to services remunerated through fees and commissions, which will be subject to the IBS and CBS full rates. The amendment does not provide for the use of credits in these cases.



The rates and the calculation basis must not increase the cost of credit transactions in relation to the taxation of revenue from these services.



Double calculation (“regular regime” and “special regime”) can increase complexity.



HOW IT AFFECTS TELECOMMUNICATIONS

HOW IT AFFECTS TELECOMMUNICATIONS

CURRENT LANDSCAPE

As a rule, the ICMS is levied on telecommunication services. However, several tax issues within the sector will be resolved after the transition regime:

- Uncertainty regarding the:



ICMS levy on ancillary services;



ICMS or ISS levy on value-added services (VAS);



ICMS levy on the leasing of equipment and on tax credit matters in the case of leasing or gratuitous loans of assets;



ICMS or ISS levy on content provision;



The levy of ICMS, ISS, or both, on mixed and complex contracts; and



Calculation of PIS/COFINS in the non-cumulative regime on VAS and ancillary services.

- In the case of unmetered services provided in different Brazilian states and whose pricing is linked to a pre-established term, the ICMS will be collected equally in each state where the service provider and customer are located.
- Disputes regarding credits on current assets.

New taxes will not be levied on telecommunications services



The tax reform provides for the exclusive levy of ICMS, Import Tax, Export Tax and IBS. As a result, no other tax can be levied on telecommunications services.

IBS and free TV and radio broadcasting services



IBS will not be levied on free TV and radio broadcasting services.

HOW IT AFFECTS TELECOMMUNICATIONS

Benefited operations

- ✕ A supplementary law will determine which transactions will benefit from a 60% tax reduction for services involving arts, culture, events, national journalism and audiovisual works, sports and institutional communication.

Excise tax

- ✕ The excise tax will not be levied on telecommunications services.

POINTS OF ATTENTION FOR THE TELECOMMUNICATIONS SECTOR



IBS and CBS will be levied on transactions with tangible or intangible goods, including services, which covers all telecommunications transactions.



In theory, the creation of IBS and CBS would resolve uncertainty regarding the levy of ICMS or ISS on ancillary services, SVAs, content provision, etc.



Transactions that were not previously taxed by ICMS or ISS (such as leasing and rental) will be subject to IBS and CBS, potentially providing credit to legal entity contractors or purchasers.



Tax burden may increase for transactions that can now be taxed by the ISS (value-added services, content provision).



IBS and CBS will be levied at the place of destination or place of consumption, under the terms of the supplementary law, which could hinder identification of the place of destination in transactions involving telecommunications.



Potential resolution of controversy involving the collection of taxes in metered or unmetered services.



Telecommunications services may generate IBS and CBS credits to taxpayers.



The amendment does not establish differentiated rates for telecommunication services, as these are deemed essential services.



The amendment does not provide for sectoral contributions.



DEMAREST

HOW IT AFFECTS THE TERTIARY SECTOR

HOW IT AFFECTS THE TERTIARY SECTOR

- IBS and CBS tax immunity applied to:



Assets, income and services of non-profit educational and social welfare institutions; and



Any religious entities and temples, including their respective welfare organizations.

- Entities do not need to donate to social welfare organizations to have IBS and CBS immunity.
- IBS and CBS rates will be reduced in goods and services transactions, under the terms of a supplementary law¹:



100% reduction:



Services provided by a non-profit Science, Technology and Innovation Institution.



Passenger vehicles purchased by people with disabilities or with autism spectrum disorder; and



Higher education services from the University for All Program (“prouni”).



60% reduction:



Education services;



Healthcare services;



Hygiene and cleaning products that are mostly consumed by low-income families; and



Artistic, cultural and audiovisual productions, including sporting activities.



100% and 60% reduction:



Medical devices;



Accessibility devices for people with disabilities;



Medicines; and



Basic menstrual healthcare products.

¹ The reform provides for this reduction for all entities, whether they belong to the tertiary sector or not.

HOW IT AFFECTS THE TERTIARY SECTOR

POTENTIAL IMPACTS



Tax burden increase due to the elimination of PIS and COFINS, given that exemptions and differentiated regimes will no longer be effective for tertiary sector entities.

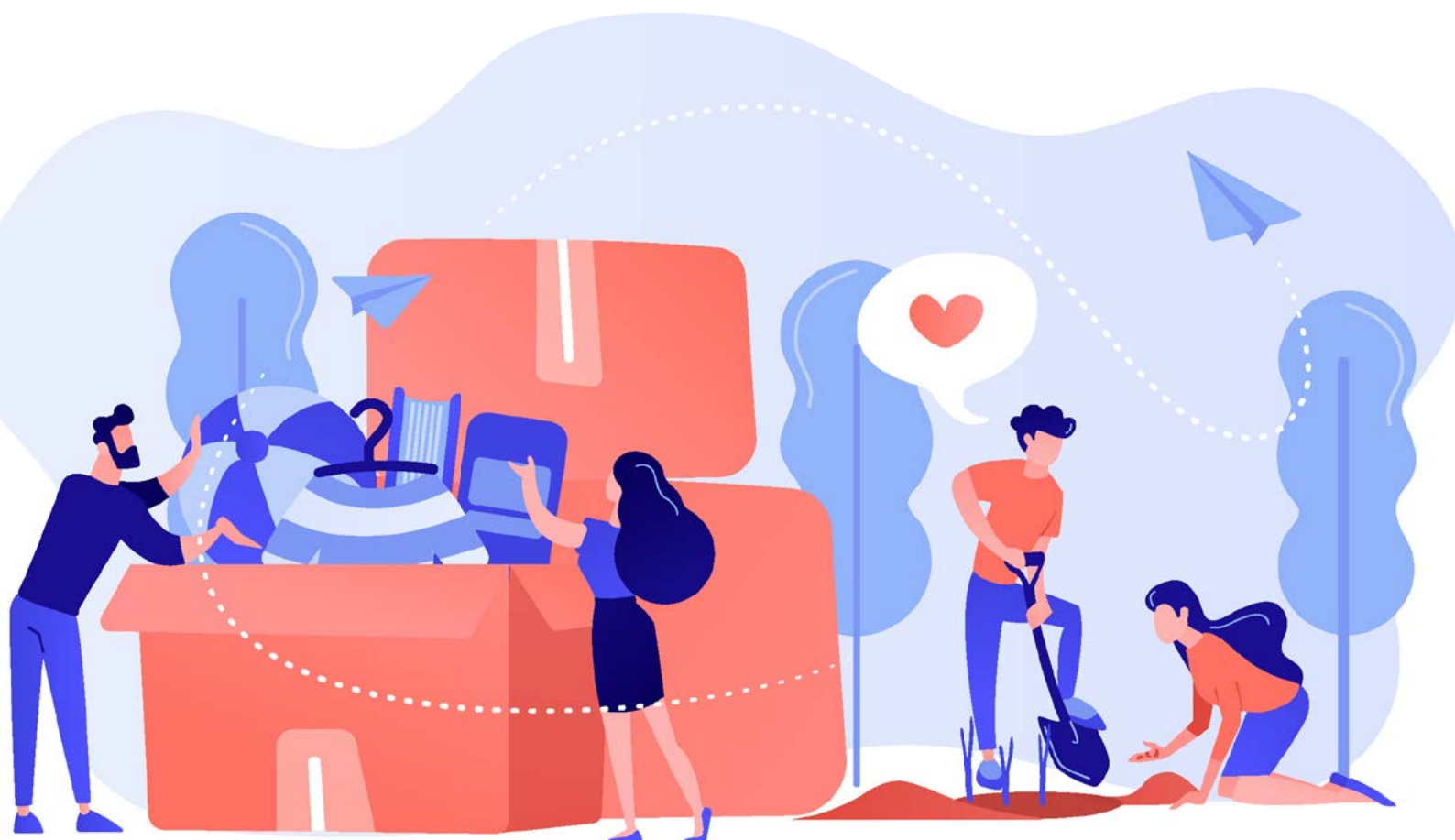


State and municipal tax incentives to entities will also be eliminated following the transition regime.

ITCMD CHANGES



ITCMD will not be levied on gifts to nonprofit institutions with a purpose of public and social relevance – pending regulation by a supplementary law.



HOW IT AFFECTS TRANSPORTATION

HOW IT AFFECTS TRANSPORTATION



Current tax incentives that will be gradually phased out

Presumed credits, suspensions, zero rates and exemptions for PIS/COFINS.

Exemptions, deferrals, calculation base reductions and presumed ICMS credits.

20% ICMS credit on the provision of transportation services by individual self-employed providers, except for air transportation.



Amendment of the collection system

Levy at the place of destination rather than the origin.

No more differentiation between intercity (ISS levy) and interstate (ICMS levy) transportation services.



Fuel-related impact

Fuel is the main input used in transportation services. Currently, in transactions and provisions not covered by the one-phase levying regime, fuel purchased to be used as an input can receive ICMS credit, under the effective legislation.

The reform provides for a specific one-phase levying system for the IBS and CBS taxes, with a potential standard rate by product and unit of measurement, similarly to the ICMS.

Biofuels will have a favorable tax regime, regardless of the stage of consumption, ensuring lower taxation than that levied on fossil fuels.

EXISTING ICMS TAX INCENTIVES



Enjoyment guaranteed until 2032, under Supplementary Law 160/17.



Proportional reduction corresponding to the ICMS tax reduction by **10%** per year **between 2029 and 2032**.



Extensions of deadlines for enjoying ICMS tax incentives are **prohibited**.



Fund for Offset of ICMS Tax or Financial-tax incentives:

The purpose is to offset, by December 31, 2032, Legal entities that are beneficiaries of exemptions, incentives and tax benefits or financial-tax benefits granted for a set time and under certain conditions.

HOW IT AFFECTS TRANSPORTATION

BENEFITED OPERATIONS



Urban, semi-urban or metropolitan public transportation services may benefit from a 60% reduction or even exemption in IBS and CBS tax rates.



Favorable tax regime for biofuels and low-carbon hydrogen.



Specific regime with amended tax rates and credit recording rules, under the terms of a supplementary law, for:



Public intercity and interstate passenger transportation (road and railway, urban, semi-urban, metropolitan); and



Regional aviation.



No credit recorded in fuel and lubricant purchases intended for distribution, sale and resale.



Credit will be granted in fuels and lubricants purchases by taxpayers.

EXCISE TAX

Taxable events



Production, extraction, sale or import of goods and services harmful to health or the environment, under the terms of the law – Potential levy on high-polluting vehicles.

Impact on the CBS and IBS



It will be part of the calculation bases of these taxes, as well as of the ICMS and ISS taxes while they exist.

Oil, fuel and mineral



Levy on oil, fuel and mineral by-products in Brazil.

Export



It will not be levied on export transactions.

Goods and Services



It will not be levied on goods and services with reduced rates.

Tax rates



To be set by the Executive Branch, and can be specific, by unit of measurement, or *ad valorem*.

OTHER IMPACTS ON THE SECTOR



Uncertainty regarding the definition of “place of destination” regarding which state and city will collect the IBS.



IPVA (Tax on vehicles): Rates may differ according to the category, value, use and environmental impact of the vehicle.

IPVA Exceptions:



Agricultural aircraft owned by certified operator to provide services to third parties;



Vessels owned by a legal entity that holds authorization to provide water transportation services, or by an individual or legal entity engaged in industrial, artisanal, scientific or subsistence fishing;



Self-propelling water platforms; and



Tractors and agricultural machinery.



Supplementary law will provide for presumed credit for individuals that provide self-employed transportation services.



The excise tax may be levied on operations with vehicles that harm the environment on a higher level.



HOW IT AFFECTS HOTEL SERVICES, AMUSEMENT AND THEME PARKS, RESTAURANTS AND REGIONAL AVIATION

HOW IT AFFECTS HOTEL SERVICES, AMUSEMENT AND THEME PARKS, RESTAURANTS AND REGIONAL AVIATION

AMENDMENT OF THE TAXATION REGIME



Currently, theme parks and hotel services are subject to cumulative PIS/Cofins, at a combined rate of 3.65%, and are not entitled to credits for these contributions.



Services provided by these sectors will be subject to a specific tax regime. A supplementary law may provide for changes in tax rates, crediting rules and calculation basis, with the possibility of not recording credit, concerning purchasers of goods and services.



The reform will gradually reduce exemptions, deferrals, reductions in the calculation base and presumed ICMS credits, such as credits for food supplied by bars and restaurants and interstate air transportation of passengers.



Tax rates will be fixed on a standard basis, that is, there will be no difference in rates between sectors of the economy. Therefore, while there may be differences in IBS between states and municipalities, the rates will be identical for all sectors in each location.

BENEFITS AND REGIMES THAT WILL BE CONTINUED



Simplified taxation system (*Simples Nacional*): Micro and small companies.



Purchasers of goods and services supplied by micro or small companies will be entitled to IBS and CBS credits.



100% reduction in CBS rates for services supported by the Emergency Program for the Resumption of the Events Sector (“PERSE”) until February 28, 2027.



PERSE grants a 100% reduction in PIS, Cofins, CSLL and IRPJ rates, for companies in the events sector, such as hotels, restaurants and amusement and theme parks.



Perse will also grant a 100% reduction in PIS and Cofins rates for regular air passenger transportation companies, effective until December 31, 2026 (Law No. 14,592/23).

HOW IT AFFECTS HOTEL SERVICES, AMUSEMENT AND THEME PARKS, RESTAURANTS AND REGIONAL AVIATION

NEW BENEFITS FOR PURCHASES BY SERVICE PROVIDERS



60% reduction in tax rates (CBS and IBS)



Food intended for human consumption.



100% reduction in tax rates (CBS and IBS)



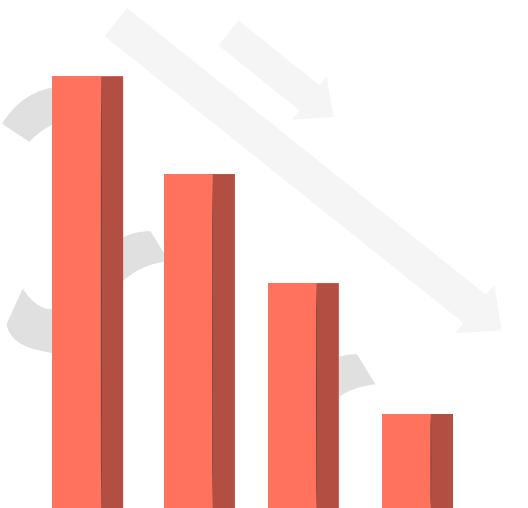
Horticultural products, fruits and eggs.



Zero tax rate (CBS and IBS)



National Staple Food Basket.



EXCISE TAX

Taxable Events



Production, extraction, sale or import of goods and services harmful to health or the environment, under the terms of the law – **it will potentially be levied on alcoholic beverages and cigarettes, as well as sugary foods and beverages.**

Tax rates



To be set by the Executive Branch.

Goods and Services



It will not be levied on goods and services with reduced rates.

Impact on the CBS and IBS



It will be part of the calculation bases of these taxes, as well as of the ICMS and ISS taxes while they exist.



IPVA: Extension of taxation to watercraft and aircraft, with the exception of:



Agricultural aircraft owned by certified operator to provide services to third parties;



Vessels owned by a legal entity that holds authorization to provide water transport services, or by an individual or legal entity engaged in industrial, artisanal, scientific or subsistence fishing;



Self-propelled platforms, including those whose main purpose is developing economic activities in territorial waters and in the Exclusive Economic Zone, and vessels with that same main purpose; and



Tractors and agricultural machinery: Specific rates according to the type, value, use and environmental impact of the vehicle.



IPTU: The calculation base for IPTU can be updated by the Executive Branch, based on general criteria provided for by a municipal law, so that municipal governments can benefit more easily from the tax collection potential of high-value buildings.



Municipal tax contribution: Municipalities and the Federal District can implement a tax aimed at the expansion and improvement of public lighting services. Under the current regime, this contribution is exclusively allocated for funding these services.



HOW IT AFFECTS RETAIL



HOW IT AFFECTS RETAIL

Several tax issues that directly affect the retail sector will be mitigated or resolved after the transition regime:



Challenges involving:



Full recognition of the noncumulative regime, which reduces the possibility of credits, especially for retail;



Reimbursement of ICMS-ST in operations that were not executed, or were executed based on a lower than presumed calculation basis;



Recognition of accumulated ICMS credit and its use.



Tax gross-up; and



The fulfillment of several ancillary obligations.



Divergence in the enforcement of:



Tax incentives; and



Tax substitution rules.



ICMS levy on transactions that do not involve ownership transfer;



Tax war issues; and



The legislation cannot keep up with the quick development of the retail sector (omnichannel, platforms etc.) and its several sales methods.

Benefited operations



Cashback: Provides for IBS and CBS refunds (including its limits and beneficiaries) to individuals, seeking to reduce inequality.



Zero rate: National staple food basket (in line with established criteria).

HOW IT AFFECTS RETAIL

POINTS OF ATTENTION FOR THE RETAIL SECTOR



IBS and CBS will be levied on transactions with tangible or intangible goods, including services, which covers all retail transactions.



There will be a single consolidated legislation across the national territory.



In theory, the CBS and IBS will be broadly noncumulative (except for personal use and consumer goods), consequently increasing the possibility of credits for retail (which is currently low).



If a supplementary law restricts the non-cumulative regime, current problems might not be resolved.



Principle of place of destination: The place of destination can be difficult to determine in triangular and multichannel transactions, among others.



IBS and CBS will be levied on the transaction value, which increases simplicity and transparency.



The ICMS-ST cost may be included in the IBS and CBS calculation bases during the transition period.



Tax rates must not vary between products, save for constitutional exceptions.



Sectors that benefit from reduced rates might face legal uncertainty: Framing by MERCOSUR Common Nomenclature, service codes, description and the like can result in disputes.



Tax burden might increase.



The possibility of applying tax substitution rules can lead to new challenges.



There is uncertainty regarding the levy of the excise tax on goods that harm the environment.



Levying the excise tax on resale products can potentially increase tax burden.



Difficulty to use existing credit balances (especially ICMS).



There is uncertainty regarding the simplification of ancillary obligations.



HOW IT AFFECTS THE MANAUS FREE TRADE ZONE

HOW IT AFFECTS THE MANAUS FREE TRADE ZONE

Constitutional Amendment 132/2023 provides for the continuation of the Manaus Free Trade Zone.

IPI WILL BE MAINTAINED TO ENSURE A COMPETITIVE ADVANTAGE

The IPI rate will be reduced to zero in 2027, but the tax will still be levied on products produced in the Manaus Free Trade Zone:



Potential legal uncertainty regarding which products could be taxed and whether an “official list” of products will be established.

CBS AND IBS



The laws that established the CBS and the IBS will provide for the mechanisms needed to maintain the competitive advantage of the Manaus Free Trade Zone, with or without compensating measures.

SUSTAINABLE DEVELOPMENT FUND FOR WESTERN AMAZON AND AMAPÁ

A supplementary law will establish a Sustainable Development Fund for the Western Amazon and the State of Amapá, which will be funded by the Federal Government.

The fund will be managed by the Federal Government, with the effective participation of these states in the development of policies, seeking to foster the development and diversification of their economic activities.



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DEMAREST

A hand holding a pen points at a calculator on a desk. The image is overlaid with a semi-transparent orange graphic featuring a line graph and a bar chart. The background is a soft-focus photograph of a workspace.

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