HLB BRASIL
ADVISORY AND ACCOUNTING

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Doing Business in Brazil

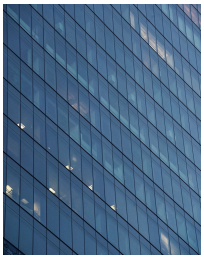
A guide for foreign investors and multinational groups

TOGETHER WE MAKE IT HAPPEN

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Foreword

Issue date
November 2026



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IN FOCUS

Brazil is in the middle of the deepest restructuring of its tax system since 1965. Between 2023 and 2026 the country enacted a constitutional amendment replacing five consumption taxes with a dual VAT, rewrote its transfer pricing rules along OECD lines, adopted the global minimum tax, reinstated taxation of dividends and issued national rules on inheritance and gift tax. Several of these regimes are in transition and coexist with the taxes they will replace. Any investment or restructuring decision taken in this period should be tested against both the current and the future systems.

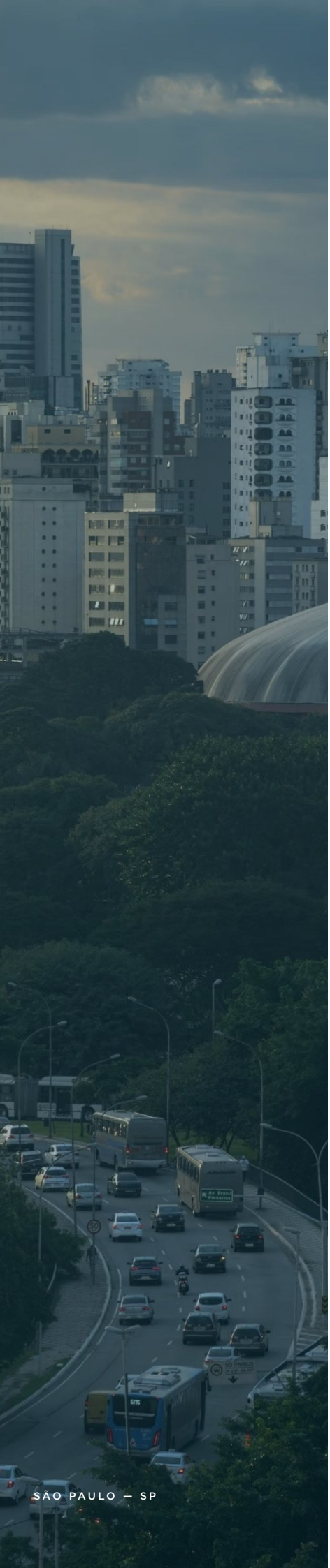
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About HLB

The network and the Global Office

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HLB Global Office



Founded in 1969, HLB is a global network of advisory and accounting firms. HLB has a presence through its member firms in more than 150 countries, with over 1,000 offices and in excess of 40,000 professionals worldwide. Our commitment to quality and excellence has been the driving force in helping clients grow across borders, offering audit and assurance, tax and a wide range of advisory services.

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02

General information

Location, population, currency, legal system, financial system, economy and international position

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Location and climate

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Location and climate

Brazil covers almost half of the South American continent with its 8.5 million km². It is as large as the continental United States. With the Atlantic Ocean to the east, Brazil has a 7,491 km coastline. The country borders all the South American countries except Ecuador and Chile. Since it is in the Southern Hemisphere, when it is summer in Europe, it is winter in Brazil.

Its climate and topography vary from north to south, as well as from the dry and hot regions of the semi-arid interior to the humid tropical forests of the Amazon, the most biodiverse region on the planet.

Snow is a rare climate event. Climate volatility, however, has become a material business variable rather than a background condition. The country has faced recurring extreme events — the catastrophic floods in Rio Grande do Sul in 2024, prolonged drought and record wildfires in the Amazon and the Pantanal, and repeated flooding and landslides in the Southeast during the summer months. These events affect agricultural output, logistics corridors, insurance pricing and the cost of capital for projects in the affected regions, and they are increasingly reflected in the environmental licensing and climate disclosure obligations of companies operating in Brazil.

Brazil hosted the 30th United Nations Climate Change Conference (COP30) in Belém, in the state of Pará, in November 2025, which raised the profile of the Amazon in the country's economic agenda and accelerated domestic regulation of the carbon market and of climate-related corporate disclosure.

Constitution and population

Brazil is a multicultural country with broad ethnic diversity. The 2022 Census, published by the Brazilian Institute of Geography and Statistics (IBGE), recorded a resident population of 203.1 million, and current estimates place the population at approximately 213 million in 2026 — around 2.6% of the world's population and the seventh largest population in the world. Most of its population is urban, at more than 87%, and the median age has risen to approximately 35 years, reflecting a rapid demographic transition:

fertility has fallen well below the replacement rate and the working-age share of the population is expected to peak within the next decade. This has direct consequences for the labour market, the pension system and consumer demand patterns. Women are a majority in numerical terms, but representation in the corporate world still needs improvement.

The most populated region is the Southeast, where the states and the cities of São Paulo and Rio de Janeiro are located. The Southeast was the first region to industrialise and remains the most developed industrially and economically, accounting for approximately half of Brazil's GDP. This region also offers the best infrastructure in which to establish a business.

The Northeast is the second most populous region; its demographic density is nonetheless low, due to migration to other parts of Brazil.

The Centre-West has become the fastest growing region in economic terms, driven by grain and protein production and by the associated logistics and agro-industrial investment. The North concentrates the Manaus Free Trade Zone and the bulk of the country's forest and mineral assets.

Currency and language

The Real (BRL / R$) is Brazil's official currency. It floats freely, but it is not an internationally convertible currency and foreign exchange transactions must be carried out through institutions authorised by the Central Bank. As at the beginning of September 2026 the exchange rate stood at approximately BRL 5.10 to USD 1.00. Over the preceding five years the currency has traded in a broad band of roughly BRL 4.80 to BRL 6.20 per US dollar, with volatility driven principally by the domestic fiscal outlook, the interest rate differential and commodity prices.

Brazil is the only Portuguese-speaking country in the Americas and the largest Portuguese-speaking country in the world. As a multicultural and ethnically diverse country formed by multiple migration flows, Brazil has a strong presence of Europeans, but also Chinese, Japanese, Latin Americans and Africans. It is worth noting

that São Paulo has the largest concentration of people of Japanese descent outside Japan.

English is widely spoken in the financial and professional services sectors in São Paulo and Rio de Janeiro, but Portuguese remains the sole official language and is mandatory for corporate documents, tax filings, employment contracts and any document to be filed with a public registry. Foreign-language documents must be translated by a sworn public translator to be admissible before Brazilian authorities and courts. Brazil is party to the Apostille Convention, which has substantially simplified the legalisation of foreign documents.

Legal system

As a Federative Republic, Brazil has a democratic system divided into three independent branches: (i) executive, (ii) legislative and (iii) judicial. The intent inherent in the Federal Constitution is to achieve equity and balance in all aspects of Brazilian society.

BRANCH	CHARACTERISTICS	KEY AGENTS
Executive	Headed by the President of the Republic, elected by direct vote for a four-year term, renewable once.	Ministries, whose heads are appointed by the President, and a number of independent agencies, many of them regulatory (ANEEL, ANP, ANATEL, ANVISA, ANS, ANTT, among others).
Legislative	Exercised by the National Congress, composed of the Chamber of Deputies and the Federal Senate.	Brazil has 81 Senators and 513 Federal Deputies, elected in the 26 states and the Federal District.
Judicial	Governed by constitutional law, with federal and state court systems operating in parallel.	Federal Regional Courts and state courts throughout the country, the Superior Court of Justice (STJ) for federal statutory matters and the Federal Supreme Court (STF) for constitutional matters. Decisions of the STF are final.

The Executive and Legislative branches are led by representatives elected by direct vote. Voting is mandatory for Brazilians between

18 and 70 years old, and optional for electors aged 16 and 17 and over 70.

Brazil holds general elections in October 2026, for the Presidency, the Chamber of Deputies, two thirds of the Senate and all state governments. Investors should expect the usual pre-electoral constraints on fiscal and regulatory policy, and should factor a period of legislative inactivity into the timetable of any project that depends on new legislation.

Brazil has a complex legal system and, among other examples, a unique complexity of tax regulations, which sets it apart from other countries, not just across the region but compared with the rest of the world.

Brazil follows the Civil Law tradition, which originated in Europe and was developed within the framework of Roman Law. Historically, Civil Law proceeds from abstractions, formulates general principles and distinguishes substantive rules from procedural rules. It holds case law as secondary and subordinate to statutory law.

That description requires qualification today. Successive procedural reforms have given binding effect to precedents of the higher courts — through binding précis (súmulas vinculantes), general repercussion in the Supreme Court and repetitive appeals in the Superior Court of Justice — so that the case law of the STF and the STJ now determines the outcome of the great majority of tax disputes. For a foreign investor assessing tax exposure in Brazil, the position of the higher courts on a given matter is frequently more relevant than the wording of the statute.

Financial system

The Brazilian financial system is the largest and most sophisticated in Latin America. The Brazilian banking system offers a substantial range of services for both private individuals and companies. Banking rules are strictly enforced and all banking business is closely monitored by the banks themselves and by the Central Bank of Brazil (Banco Central do Brasil — BACEN).

Brazilian banks offer current accounts, savings and investment accounts, credit and debit card services, personal loans and overdrafts and, in some cases, foreign exchange services. Local banks will also set up standing orders and accept payment of utility bills and local, state and federal taxes.

Given the economic importance of Brazil, several foreign banks have opened representative offices and branches in the country. The great majority of foreign banks' offices are in the city of São Paulo. Most of them offer no consumer banking services, but do offer investment options.

A digital financial system

The Brazilian payments system has changed fundamentally over recent years. Pix, the instant payment system launched by the Central Bank in November 2020, is now the dominant retail payment method in the country, operating twenty-four hours a day at effectively zero cost for individuals, and has displaced cash, cheques and a significant share of card transactions. For a company setting up in Brazil this has practical consequences: collection cycles are shorter, reconciliation is largely automated and the ability to accept Pix is a commercial requirement in most consumer-facing sectors.

- Open Finance, implemented in phases from 2021, allows customers to share banking and payment data with authorised institutions, and has supported a substantial expansion of credit fintechs and of embedded finance.
- Drex, the Central Bank's tokenised settlement infrastructure, remains in pilot phase, with a focus on collateralised transactions and the tokenisation of financial assets.
- Virtual asset service providers are regulated under Law 14.478/2022, with the Central Bank designated as the supervisory authority; the licensing framework was issued in 2025 and market participants are in the process of authorisation.

- Brazil's capital market is centred on B3, the sole stock, commodities and futures exchange, in São Paulo. Beyond listed equity, the market for private credit instruments — debentures, CRI, CRA, FIDC, FIAGRO and infrastructure debentures benefiting from tax incentives under Law 12.431/2011 — has become an important funding channel for foreign-controlled companies operating in Brazil.

Economy and international position

Brazil is the largest economy in Latin America and the Southern Hemisphere. Gross domestic product reached BRL 12.7 trillion in 2025, an increase of 2.3% over the previous year, placing Brazil among the ten to twelve largest economies in the world depending on the exchange rate used for conversion. Growth in 2025 was led by agriculture; the consensus forecast for 2026 is close to 2%, reflecting the lagged effect of a very restrictive monetary policy.

INDICATOR	POSITION (2025 / 2026)
GDP (2025)	BRL 12.7 trillion — growth of 2.3%
GDP growth (2026, consensus)	Approximately 1.9% to 2.3%
Policy rate (Selic)	14.00% per annum as at September 2026, following the start of an easing cycle in the first quarter of 2026
Inflation (IPCA)	Running slightly above the 4.5% upper bound of the target band; the central target is 3.0%
Exchange rate	Approximately BRL 5.10 per USD (September 2026)
Sovereign credit rating	BB (S&P), Ba1 (Moody's), BB (Fitch) — one notch below investment grade
Gross public debt	Above 80% of GDP and rising
Unemployment	At or near the lowest level recorded in the IBGE series

INDICATOR	POSITION (2025 / 2026)
Tax burden	In excess of 32% of GDP, well above the average for comparable emerging economies

Two features of the Brazilian economy deserve emphasis for a foreign investor. The first is the real interest rate, which remains among the highest in the world; local debt is expensive and capital structures for Brazilian subsidiaries are frequently designed around intercompany funding, with the corresponding thin capitalisation, transfer pricing and IOF consequences described later in this guide. The second is the tax burden, which is concentrated on consumption rather than income or wealth, and whose composition is precisely what the tax reform described in the following chapter is intended to change.

Brazil in the international system

Brazil participates in the principal multilateral institutions, including the United Nations — where it has been elected a non-permanent member of the Security Council more often than any other country — the Food and Agriculture Organization, UNESCO, the World Trade Organization (a member since 1995 and a member of the GATT since 1948), the World Bank, the International Monetary Fund and the International Bank for Reconstruction and Development. Regionally, Brazil is a member of Mercosur, ALADI and the Community of Portuguese Language Countries.

Three recent developments are material to investment planning:

- BRICS enlargement. The group expanded from five to eleven members with the accession of Egypt, Ethiopia, Iran and the United Arab Emirates in 2024 and Indonesia in 2025, together with a wider circle of partner countries. Brazil held the rotating presidency and hosted the summit in Rio de Janeiro in 2025. The New Development Bank, headquartered in Shanghai, has become a relevant source of long-term infrastructure funding for Brazilian projects.

- EU–Mercosur. After more than two decades of negotiation, the agreement between the European Union and Mercosur was politically concluded in December 2024 and formally signed in January 2026, with provisional application of the trade pillar from 2026. It provides for the progressive elimination of tariffs on around 90% of trade between the two blocs, phased over periods of up to fifteen years, and covers services, government procurement, intellectual property and sustainability commitments. The agreement remains subject to ratification procedures and to legal challenge within the European Union, so its full entry into force is not yet certain; the commercial effects, however, are already being priced into investment decisions in the capital goods, automotive, chemicals and agribusiness sectors.
- Trade tension with the United States. From mid-2025 the United States imposed substantial additional tariffs on a broad range of Brazilian exports, initially at 50% under an emergency declaration and subsequently supplemented by Section 301 measures in 2026. A number of important export lines — civil aircraft, energy products, orange juice, pulp and fertilisers among them — were carved out. Brazilian exports to the United States have fallen materially as a result, and Brazil has responded through a reciprocity statute, WTO proceedings and an accelerated diversification of trading partners. This is an unusually fluid situation and any investment thesis dependent on access to the United States market from a Brazilian production base should be stress-tested.

Brazil formally requested accession to the OECD in 2017 and the accession roadmap was adopted in 2022. Alignment with OECD standards has been the express justification for several of the reforms described in this guide, notably the new transfer pricing legislation and the adoption of the global minimum tax. The process is well advanced but not concluded.

Typically, Brazil has been a producer of commodities exported to various continents. It is the world's largest exporter of soybeans, beef, poultry, coffee, sugar and orange juice, a leading exporter of

iron ore, and since the development of the pre-salt fields a major exporter of crude oil. However, due to the cost of labour and taxes, Brazil has not been the most competitive player in international markets for manufactured goods, and manufacturing suffers from low productivity and high prices. Moreover, infrastructure still requires substantial investment: transport is largely dependent on highways which crisscross the country, even though the geography would support far greater use of river ports and railways. Given its size, air cargo could be more widely used, but costs remain high.

Brazil's tax burden exceeds 32% of GDP. The system is complex and contributes to social inequality, as most taxes fall on consumption rather than on income or wealth. The reform described in the next chapter addresses the consumption side of this problem directly, and Law 15.270/2025 addresses part of the income side. Please see the taxation chapters from page 28 onwards.

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03

Investment factors

Opportunities and challenges, priority sectors, restrictions, incentives, financing, foreign exchange, employment



Brazil consistently ranks among the leading destinations for foreign direct investment worldwide and is by a wide margin the largest recipient in Latin America. Inflows have been sustained through successive political cycles, which is itself a useful indicator: the institutional framework governing foreign capital has proved stable even when macroeconomic policy has not.

All five original BRICS countries are globally perceived as offering significant opportunities and potential for growth. Brazil is particularly well positioned among them due to its richness in natural resources, its workforce and its large domestic market. Brazil has built over recent decades a well-established — and improving — institutional ecosystem consisting of a free press, independence among the executive, legislative and judicial branches of government, and enhanced transparency and regulatory agencies.

Opportunities

- Extensive natural resources, including the largest reserves of fresh water in the world and a leading position in critical minerals.
- A large domestic consumer market and a substantial middle class.
- A strategic geographic location and a diversified economy well anchored in international trade, with significant foreign exchange reserves.
- Export sectors, particularly agribusiness and extractive industries, representing consistent investment opportunities.
- An electricity matrix that is approximately 85% renewable, which materially reduces the Scope 2 emissions of industrial operations located in Brazil and is becoming a decisive factor for energy-intensive and data-centre investment.
- A simplified and more predictable consumption tax system from 2027 onwards, with full creditability of input taxes and the elimination of the cumulative burden that has historically penalised long production chains.

Challenges

- Infrastructure deficits, particularly in transport and logistics.
- Administrative complexity and the cost of regulatory compliance.
- High levels of inequality and regional disparity.
- Restrictions on foreign investment in a limited number of sectors.
- A very high cost of capital, driven by real interest rates that remain among the highest in the world.
- A demanding fiscal outlook, with gross public debt above 80% of GDP, which creates a structural bias towards revenue-raising measures — as the 10% linear cut in federal tax incentives enacted in December 2025 illustrates.
- The transition period of the tax reform, during which the old and the new consumption taxes coexist and companies must operate two parallel compliance systems until 2033.

Strategic priority sectors

The Brazilian Government has been carrying out important actions to create a more innovative environment. The current industrial policy framework is the Nova Indústria Brasil programme, launched in 2024, which organises federal support around six missions covering sustainable agro-industrial chains, resilient urban infrastructure and mobility, health, digital transformation, bioeconomy and decarbonisation, and defence and sovereignty technologies.

Agribusiness

Modern, efficient and competitive, Brazil has become one of the world's largest producers and exporters of agricultural products. Productivity gains, efficient management, research, innovation and technological development have transformed agribusiness in the country. Growth results from a combination of the largest area of arable land in the world and increased global demand for food.

Brazil has attained leadership in agribusiness due to favourable conditions and long-term investment in research on tropical

agriculture. Much of the country receives over 1,200 mm of rain a year and abundant sunlight, allowing two crop cycles per year without irrigation in some regions.

The principal current opportunities lie less in primary production than in what surrounds it: logistics infrastructure for the northern export corridors, agricultural technology, biological inputs, traceability systems required by the European Union deforestation regulation, and the financing instruments that have developed around the sector — CRA, FIAGRO and the barter market. It is also worth noting that the tax reform will change the economics of the sector materially, since agricultural inputs benefit from a 60% rate reduction and the basic food basket from a zero rate, while producers below a revenue threshold may elect not to be taxpayers, with a presumed credit granted to their purchasers.

Automotive and mobility

The Brazilian automotive sector has developed since the 1950s with a large contribution of investment from foreign companies, gathering traditional players of European origin and companies from Japan, South Korea and China. Chinese manufacturers have made substantial direct investments in Brazilian production capacity since 2023, in several cases taking over plants previously operated by other groups.

The sector-specific incentive framework is now the MOVER programme (Green Mobility and Innovation), established by Law 14.902/2024, which replaced Rota 2030. MOVER grants financial credits against research, development and industrialisation expenditure, and links tax treatment to energy efficiency, recyclability and carbon intensity targets. Import duties on electric and hybrid vehicles, which had been reduced to zero, are being restored on a published schedule in order to encourage local assembly. There remain clear opportunities to address gaps in the Brazilian auto parts supply chain, where a significant share of components is still imported.

Renewable energy and the energy transition

Brazil has one of the cleanest electricity matrices among large economies. Installed wind capacity now exceeds 30 GW and centralised and distributed solar generation together exceed 55 GW, so that wind and solar have moved from a marginal position to the second and third largest sources in the matrix after hydroelectricity. Brazil retains the highest wind capacity factors in the world, which underpins the competitiveness of the sector.

- Green hydrogen is the principal new frontier. The legal framework was established by Law 14.948/2024, together with a tax incentive regime (REHIDRO) and a development programme; port complexes in Ceará, Rio Grande do Norte, Pernambuco and Rio Grande do Sul are competing for anchor projects.
- The regulated carbon market was created by Law 15.042/2024, establishing a cap-and-trade system for installations above defined emission thresholds, with implementation phased over several years. This creates both a compliance obligation and an asset class.
- Offshore wind generation was regulated by Law 15.097/2025, opening the concession of maritime areas.
- Biofuels remain a structural strength. The "Fuel of the Future" legislation, Law 14.993/2024, raises mandatory biodiesel and ethanol blends and creates programmes for sustainable aviation fuel and biomethane.

Life sciences

Brazil may be a suitable location for multinationals wishing to diversify their life sciences activities. Healthcare expenditure as a percentage of GDP is well above that of its Latin American counterparts, and demand for private healthcare services and technology continues to expand.

Developed laboratories, business incubators, high-technology production units and links with universities combine to create an attractive ecosystem for medical equipment investment in the South

and Southeast. State-owned laboratories, which can support foreign companies entering the Brazilian market, are found in other regions as well.

The Complexo Econômico-Industrial da Saúde programme and the associated public procurement mechanisms (PDP — productive development partnerships) are the principal instruments for attracting local manufacture of pharmaceuticals, vaccines and medical devices. Population ageing and the expansion of health plan coverage sustain long-term demand.

Oil and gas

Brazil is one of the largest suppliers of conventional oil among developing regions. Production has grown consistently on the back of the pre-salt fields, and Brazil is now among the largest crude oil exporters in the world. The regulatory framework has been progressively liberalised: the local content requirement is no longer set at the historic 70% level but is negotiated by field and round under revised ANP rules, the natural gas market was opened by Law 14.134/2021, and refining and distribution assets have been divested by Petrobras to private operators.

The medium-term policy question is the Equatorial Margin, where exploration licensing has advanced but remains contested on environmental grounds. Research and development obligations, calculated as a percentage of gross production revenue, continue to drive a substantial local supplier and technology ecosystem.

Infrastructure

In a continental country such as Brazil, infrastructure is a particularly relevant matter. Transportation, logistics, power generation, sanitation and housing are core issues for Brazil's development, as well as significant business opportunities in themselves.

Brazil operates one of the largest infrastructure concession programmes in the world, structured through the Programa de

Parcerias de Investimentos and, since 2023, the Novo PAC. The sanitation sector was transformed by the framework of Law 14.026/2020, which required competitive tendering of municipal services and set universal coverage targets for 2033; this has produced the largest wave of private investment the sector has ever seen. Railway concessions have been extended and new authorisations granted under the Ferrovias framework, and port and airport assets continue to be tendered. Debentures issued to finance infrastructure projects benefit from income tax exemption for individual investors and reduced rates for non-residents under Law 12.431/2011, and the "infrastructure debenture" created by Law 14.801/2024 offers an alternative structure with the benefit accruing to the issuer.

Technology, data centres and critical minerals

Two emerging areas warrant specific mention. The first is data infrastructure: the combination of a renewable electricity matrix, abundant water and a large domestic market has attracted announcements of very substantial data centre investment, supported by a specific federal incentive regime for the sector. The second is critical minerals: Brazil holds significant reserves of lithium, rare earths, niobium, graphite and nickel, and both the federal government and the states have created programmes to attract downstream processing rather than the export of unprocessed ore.

Prohibition and restriction of investments

There are some sectors and industries in which there is either prohibition or restriction of investment in areas considered strategic and sensitive.

CLASSIFICATION	SECTOR
Prohibition	Nuclear energy activities (a Union monopoly under the Federal Constitution); postal services; and, in practice, certain activities relating to the aerospace and defence sector subject to specific authorisation.

CLASSIFICATION	SECTOR
Restriction	Rural land and land in border zones (subject to area limits and prior authorisation); financial institutions (foreign participation requires a presidential decree recognising the national interest, which is granted as a matter of routine practice); newspapers, television, radio and other media (foreign participation limited to 30% of voting capital, with control reserved to Brazilians); mining and hydrocarbons (subject to authorisation and to specific rules in border zones); and healthcare services, where foreign capital is permitted in the cases listed in Law 13.097/2015.

Government measures to attract foreign direct investment

The Brazilian Government encourages and promotes foreign direct investment. The Brazilian Development Bank (BNDES), one of the largest development banks in the world, provides financing to foreign-controlled companies established in Brazil on the same terms as domestic companies. Most barriers to foreign investors have been removed, particularly in the capital markets.

Foreign capital is governed by Law 4.131/1962 and, since 2022, by the foreign exchange framework of Law 14.286/2021. The guiding principle has not changed: foreign capital registered with the Central Bank receives the same treatment as domestic capital, and there are no restrictions on the repatriation of registered capital or on the remittance of profits, subject to the withholding tax now applicable to dividends.

Tax incentives

There is a broad range of federal programmes aimed at encouraging economic development and promoting regional development. These programmes are mostly aimed at stimulating investment in the less developed areas of the Northeast and the Amazon region, through the regional development authorities SUDENE and SUDAM, which grant a 75% reduction of corporate income tax on the profits of qualifying projects.

Two developments have changed the economics of tax incentives in Brazil and must be considered before any incentive is factored into a business case.

The first is Law 14.789/2023, which abolished the previous regime under which state investment grants — principally presumed ICMS credits and other state incentives — could be excluded from the corporate income tax base. Since 2024, subsidies are in principle taxable, and the taxpayer's benefit is limited to a tax credit calculated at 25% of qualifying investment grant amounts, subject to prior accreditation with the Federal Revenue Service and to a restrictive definition of qualifying expenditure. This was a material increase in the effective tax burden of companies operating under state incentive regimes, and it remains heavily litigated.

The second is Complementary Law 224/2025, published in December 2025 and effective from 2026, which imposed a linear reduction of federal tax incentives and benefits. In broad terms: presumed and financial credits are limited to 90% of their original amount; reductions of tax due are themselves reduced to 90%; optional favourable regimes calculated as a percentage of gross revenue have that percentage increased by 10%; and, most significantly for mid-sized businesses, the deemed profit percentages of the Presumed Profit regime are increased by 10% on the portion of gross revenue exceeding BRL 5 million per year. The inclusion of the Presumed Profit regime within the concept of a "tax benefit" is being challenged, and preliminary injunctions have been granted; the matter is expected to reach the Federal Supreme Court.

Free trade zones and the Manaus Free Trade Zone

The most traditional free trade zone in Brazil was created in Manaus over fifty years ago. Other free trade areas operate in Tabatinga (Amazonas), Boa Vista (Roraima), Macapá and Santana (Amapá), Guajará-Mirim (Rondônia) and Brasiléia and Cruzeiro do Sul (Acre).

Goods entering the Manaus Free Trade Zone benefit from exemption or suspension of import duty and IPI, and from state incentives, subject to compliance with the basic production process (processo produtivo básico) requirements. Companies controlled overseas may benefit from these regimes on the same basis as

domestic companies if they establish qualifying facilities in the region.

The Constitution, as amended by Constitutional Amendment 132/2023, expressly preserves the differential competitiveness of the Manaus Free Trade Zone under the new tax system. The mechanism is different from the current one: IPI rates will be reduced to zero from 2027 for all products except those which are also produced in the Manaus Free Trade Zone, so that the IPI becomes, in effect, a residual instrument to protect that competitive advantage. In parallel, Complementary Law 214/2025 established presumed CBS and IBS credits for operations involving the Zone and the western Amazon free trade areas, and created the Sustainability and Economic Diversification Fund for the state of Amazonas. Any investment thesis based on the Manaus regime should now be modelled under both the current and the post-2033 systems.

Export processing zones and customs regimes

By simplifying customs procedures and applying special tax regimes, Brazil has established export processing zones in a number of states. Export incentives also comprise the Drawback regime, which suspends or exempts import duty, IPI, ICMS, PIS and COFINS on inputs used in the manufacture of goods for export.

Exports of manufactured products are exempt from IPI, ICMS, PIS and COFINS. That treatment is preserved and reinforced under the new system: exports are immune from IBS and CBS and, unlike the current regime, the exporter is entitled to full and prompt refund of the accumulated credits on its inputs. The elimination of accumulated and irrecoverable export credits is one of the most significant commercial benefits of the reform for export-oriented investors.

Sectoral and other incentive regimes

PROGRAMME	OVERVIEW OF THE BENEFIT	STATUS
PADIS — semiconductors and displays	Reduction to zero of import duty, PIS/COFINS, PIS/COFINS-Import, IPI and CIDE on qualifying acquisitions, together with corporate income tax relief.	In force; extended and amended by Law 14.302/2022.
Lei do Bem — technological innovation	Additional deduction of 60% to 80% of qualifying research and development expenditure, accelerated depreciation and amortisation, and reduction to zero of withholding tax on certain remittances.	In force under Law 11.196/2005; available only to Actual Profit taxpayers.
Lei de Informática	Financial credits for companies investing in research and development in the information technology sector, following the WTO panel decision that required the conversion of the previous IPI reduction.	In force under Law 8.248/1991 as amended by Law 13.969/2019.
MOVER	Financial credits for research, development and industrialisation in the automotive sector, linked to energy efficiency and decarbonisation targets.	In force under Law 14.902/2024, replacing Rota 2030.
REIDI — infrastructure	Suspension of PIS/COFINS and PIS/COFINS-Import on the acquisition of goods and services for infrastructure projects.	In force; to be reviewed in the light of the new system, since full creditability under IBS and CBS reduces the need for the regime.
RECAP, REPES, REPORTO and similar regimes	Suspension of PIS/COFINS and, in some cases, IPI and import duty on capital goods for exporters, information technology exporters and port operators.	In force, subject to the 10% linear reduction of Complementary Law 224/2025.
RET — real estate development	Unified rate covering IRPJ, CSLL, PIS and COFINS applied to monthly gross revenue from the sale of units in a segregated development (patrimônio de afetação), at 4% generally and at a reduced rate for social housing programmes.	In force; the real estate sector also has a specific regime under Complementary Law 214/2025.

PROGRAMME	OVERVIEW OF THE BENEFIT	STATUS
SUDENE and SUDAM	Reduction of 75% of corporate income tax on the profits of qualifying projects located in the Northeast and Amazon regions.	In force; benefit period generally ten years.
Regional Development Fund (FDR)	Not a tax incentive but a constitutional transfer mechanism created by EC 132/2023, which will channel federal resources to the states from 2029 to replace the ICMS-based incentive competition.	Created; funding schedule set out in the Constitution.

A structural point on incentives. The tax reform is designed precisely to end the practice of granting ICMS incentives to attract investment between states — the so-called fiscal war. State ICMS benefits granted under Complementary Law 160/2017 are guaranteed until 31 December 2032, and the Constitutional Amendment created a compensation fund of BRL 160 billion to be paid out between 2025 and 2032 to holders of qualifying onerous benefits, subject to registration. Any investor relying on a state incentive should verify that its benefit has been properly registered and quantify the compensation entitlement; after 2032 the benefit itself will cease to exist.

Sources of financing

The Brazilian Development Bank (BNDES) is a state-owned bank that has been a key instrument in Brazilian economic development. Its mandate is to foster sustainable, competitive development in the Brazilian economy and to support job creation, while contributing to a reduction in social and regional inequality. Its portfolio encompasses support for exports, technological innovation, sustainable socio-environmental development and the modernisation of public administration.

The Bank offers several financial support mechanisms to private companies of all sizes with headquarters and administration in Brazil, as well as to individual entrepreneurs, enabling investment in all economic sectors. Foreign companies with headquarters and administration established in Brazil are also eligible for financing.

MECHANISM	CHARACTERISTICS
Financing	Designed for investment projects, acquisitions of new machinery and equipment, exports of Brazilian machinery, equipment and services, and the acquisition of goods and production inputs. Financing is organised into products which define the applicable financial conditions and operating procedures. BNDES Project Finance is designed for the financial structuring of investment projects supported contractually by project cash flow, with assets and receivables serving as security.
Non-repayable funds	Investments of a social, cultural, environmental, scientific or technological nature.
Equity and quasi-equity	BNDES may invest through shares, simple and convertible debentures, subscription warrants, options and other instruments, as well as through receivables investment funds (FIDC), in listed companies and in companies expected to access the capital market in the short or medium term.

The reference rate for most BNDES lines is now the TLP, which is indexed to the yield on inflation-linked federal bonds and therefore tracks market rates rather than being administratively set. The practical consequence is that BNDES funding is no longer materially subsidised relative to the market in most sectors, and companies increasingly finance capital expenditure through the local debt capital market — debentures, CRI, CRA, FIDC and infrastructure debentures — or through intercompany loans from the foreign parent, which raises the transfer pricing, thin capitalisation and IOF considerations addressed in the taxation chapter.

In addition to BNDES, several international, national and regional commercial banks operate in Brazil, providing financing lines to companies and investors.

Foreign exchange framework

The framework governing foreign capital, historically based on Law 4.131/1962 and a body of Central Bank circulars, was replaced by Law 14.286/2021, in force since 31 December 2022, and regulated principally by BCB Resolution 277/2022. The new framework consolidated more than four hundred separate rules into a single statute and simplified the operation of foreign capital in Brazil considerably.

The essential features of the current regime are as follows.

- Foreign exchange transactions must be carried out through institutions authorised by the Central Bank. The parties are free to negotiate the rate. There is no longer a requirement to link each transaction to an underlying documented purpose in the way that previously applied, although the institution remains obliged to identify the nature of the transaction and to retain supporting documentation.
- Low-value transactions, currently up to USD 500,000, may be carried out by non-financial institutions authorised for that purpose, which has expanded the range of providers available for routine remittances.
- Accounts in Brazilian reais held by non-residents, and accounts in foreign currency held in Brazil in the limited cases permitted by law, are regulated by the same statute and have been made materially more accessible.
- Foreign direct investment must be registered electronically with the Central Bank. The registration is what supports the subsequent repatriation of capital and the remittance of profits, and it is made by the Brazilian company. Registration is declaratory and is made under the responsibility of the declaring party.
- Foreign loans and financings are registered in the same electronic system; registration is required for the remittance of principal and interest.

Periodic declarations. Two obligations should be planned for. Brazilian companies with foreign participation must file periodic economic and financial statements with the Central Bank, on an annual or quarterly basis depending on the size of their assets or net equity. Separately, Brazilian residents holding assets abroad must file the Declaration of Brazilian Capital Abroad (CBE): the annual declaration is due where the aggregate value of assets held abroad reaches USD 1 million at 31 December, and a quarterly

declaration is due where the aggregate reaches USD 100 million. Failure to file, or late or incorrect filing, attracts penalties.

Tax on inflows and outflows. Foreign exchange transactions are subject to IOF, and the rates were increased substantially by decree in 2025 after a period in which Brazil had been committed to a phased reduction to zero. The schedule of reduction, which had been adopted in the context of the OECD accession process, was revoked. The rates in force are summarised in the taxation chapter; the point to register here is that the IOF cost of a remittance is no longer a rounding error in the pricing of an intercompany transaction and must be modelled explicitly.

Dividends may be remitted abroad without restriction where the corresponding foreign investment is duly registered. They are, however, no longer exempt: since 1 January 2026, dividends paid or credited to a beneficiary resident or domiciled abroad are subject to 10% withholding tax under Law 15.270/2025, regardless of amount, subject to the grandfathering rule for profits whose distribution was approved by 31 December 2025 and to any relief available under an applicable double tax treaty. This is dealt with in detail in the taxation chapter.

Employment regulations

Employer and employee relations in Brazil are mainly regulated by the Consolidation of Labour Laws (CLT), enacted in 1943, and by subsequent legislation. Every individual who provides subordinate services for payment of a salary, with a specific frequency, is considered an employee and must be engaged in accordance with the CLT.

The engagement of an employee and enrolment in the employer's payroll must be recorded in the employment record. The physical work book has been replaced by the digital employment record (CTPS Digital), and registration is effected through the eSocial system, which consolidates labour, social security and tax reporting into a single digital filing.

An employment relationship is defined by personal service, regularity, subordination and remuneration.

Following the 2017 labour reform it is possible to engage workers under a range of arrangements, including intermittent contracts, part-time contracts and engagement of individuals through their own legal entity (commonly referred to as "PJ"). Employers should assess the advantages and risks of each form of engagement. The risk in the last case is not theoretical: reclassification of a service company arrangement as an employment relationship generates retroactive labour and social security liabilities, and it is one of the most frequent findings in labour due diligence. The Federal Supreme Court has, however, consistently upheld the validity of genuine service arrangements between companies, and has repeatedly quashed labour court decisions to the contrary. Teleworking and hybrid arrangements were regulated by Law 14.442/2022.

Compensation

The employee's remuneration necessarily comprises a monthly salary, accrued holiday pay with a one-third bonus, and an accrued thirteenth salary equal to one month's pay. For leadership positions a fourteenth salary is frequently offered.

All work of equal value must be remunerated at the same rate, irrespective of the employee's nationality, age, sex or marital status.

Pay transparency obligations were introduced by Law 14.611/2023: companies with one hundred or more employees must publish half-yearly salary transparency reports and, where an unjustified disparity is identified, implement an action plan. Non-compliance attracts an administrative fine calculated on payroll.

The monthly salary may be increased by overtime, night shift premiums and other additional payments. Commuting, meal provision or meal vouchers and other benefits may be required by the applicable collective bargaining agreement.

After a twelve-month qualifying period, employees are entitled to thirty days of paid annual holiday, to be taken within the following twelve months, compensated at one month's salary plus a one-third bonus. Holiday may be split into up to three periods, one of which must be at least fourteen days.

Employers are not permitted to make deductions from remuneration other than those resulting from advances, legal and collective bargaining provisions, and withholding of income tax and social security contributions. Remuneration may only be reduced in the extraordinary circumstances established by law.

Annual salary adjustments are negotiated by trade unions. Companies are subject to the union corresponding to their economic activity, and employees are subject to the collective bargaining agreement of the relevant union, which governs compensation, benefits, working hours, breaks and career structures.

Non-compulsory benefits

Voluntary fringe benefits normally constitute a significant additional employment cost: medical care, meals, transportation, health and dental insurance and life insurance.

Profit sharing under Law 10.101/2000 allows companies to distribute part of their annual net income to employees. Where the statutory requirements are met, the amounts are not subject to social security contributions and are taxed at the employee level under a separate progressive table.

Stock options may be granted to senior employees. The tax treatment of stock option plans was settled by the Superior Court of Justice in 2024 under the repetitive appeals system: a plan with genuinely commercial characteristics is not remuneration, so no income tax or social security contribution arises on exercise, and taxation occurs only on the subsequent disposal of the shares, as a capital gain. Plans that lack the commercial characteristics identified by the Court — in particular where the risk is borne by the

company rather than the beneficiary — remain exposed to reclassification as remuneration.

Payroll costs, taxes and contributions

An employee's earnings form the basis for the following principal charges.

CHARGE	RATE AND BASIS (2026)
Employer social security contribution (INSS)	20% of gross payroll for non-financial companies; 22.5% for financial institutions. There is no ceiling on the employer contribution.
Occupational accident insurance (RAT)	1% to 3% of payroll depending on the risk level of the activity, multiplied by the FAP factor (0.5 to 2.0), which reflects the company's own accident record.
Third-party contributions ("Sistema S")	Up to 5.8% of payroll, depending on the company's economic activity (SESI, SENAI, SESC, SENAC, SEBRAE, INCRA, salário-educação).
Employee social security contribution (INSS)	Progressive rates of 7.5%, 9%, 12% and 14% applied by band, up to a contribution ceiling of BRL 8,475.55 per month, giving a maximum employee contribution of approximately BRL 988. Withheld by the employer.
Withholding income tax (IRRF)	Progressive rates of 7.5% to 27.5%. From January 2026, monthly income up to BRL 5,000 is effectively exempt, with a tapering reduction up to BRL 7,350.
Severance fund (FGTS)	Monthly deposit of 8% of remuneration into a blocked account in the employee's name at Caixa Econômica Federal. On dismissal without cause, an additional penalty of 40% of the accumulated balance is payable to the employee.

As a working rule, the total cost of a CLT employee is between 1.7 and 2.0 times the contractual monthly salary, once the thirteenth salary, holiday and the one-third bonus, FGTS, employer social security and third-party contributions and the customary benefit package are taken into account. The multiple is higher for leadership positions, where the benefit package is more extensive.

Payroll tax relief. The reduced payroll contribution regime available to seventeen labour-intensive sectors, under which the 20% payroll contribution is replaced by a contribution on gross revenue, was extended and is being phased out gradually under Law 14.973/2024, with the standard payroll contribution being progressively restored through 2027. Companies in the qualifying sectors should model the transition, as the increase is material.

The minimum wage for 2026 is BRL 1,621.00 per month. It functions not only as a wage floor but as an index for a range of social security benefits and certain contractual obligations.

Dismissals

There is no requirement for prior approval to dismiss an employee under the CLT, save that collective dismissals must be preceded by negotiation with the relevant union. On dismissal, employers must observe a prior notice period of thirty days, plus three days per year of service up to a maximum of ninety days in total. Dismissal without cause triggers the 40% FGTS penalty in addition to accrued entitlements.

Termination by mutual agreement is permitted, with half of the notice period and a 20% FGTS penalty, and access to 80% of the FGTS balance. Termination agreements may be homologated by the labour courts, which provides finality and materially reduces the risk of subsequent claims — a point of practical importance in the context of an acquisition.

Expatriates in Brazil

Foreign nationals may work in Brazil under a residence authorisation and the corresponding visa. The framework is the Migration Law, Law 13.445/2017, and the normative resolutions of the National Immigration Council; the previous work permit regime has been superseded.

The principal categories relevant to business are as follows.

- Residence authorisation for work under an employment contract with a Brazilian company, generally granted for up to two years and convertible into an indefinite authorisation.
- Residence authorisation for technical assistance without an employment relationship, granted for shorter periods and renewable, used for the provision of specialised services under a technical assistance or supply contract.
- Residence authorisation for an administrator, manager, director or executive of a Brazilian company or group. This category requires either a foreign investment of at least BRL 600,000 in the Brazilian company, or an investment of at least BRL 150,000 together with a commitment to create ten jobs over the following two years.
- Residence authorisation for investment by an individual in a Brazilian company, subject to a minimum investment threshold, and residence authorisation for the acquisition of real estate above a threshold that varies by region.

Engaging expatriates without proper authorisation exposes Brazilian companies to fines and their executives to sanctions.

Foreign nationals must also obtain the national migration registry card (CRNM) from the Federal Police, a taxpayer registration number (CPF) and, where applicable, the digital employment record.

During the application process, foreign nationals may enter Brazil on a business visa to establish business contacts, close deals, participate in meetings, conferences and fairs, visit clients or make arrangements for relocation, but may not work for the Brazilian company or be included on its payroll until the residence authorisation has been granted.

International social security agreements allow the aggregation of contribution periods in the social security systems of the countries concerned and avoid double contribution in cases of temporary

assignment. Brazil has bilateral agreements in force with, among others, Germany, Austria, Belgium, Canada, Cape Verde, Chile, France, Greece, Israel, Italy, Japan, Luxembourg, Portugal, Quebec, South Korea, Spain, Switzerland and the United States. Multilateral agreements are in force with the Mercosur countries and under the Ibero-American Convention. The list changes periodically and should be verified for each assignment.



04

Types of business organisations

Corporate vehicles, formation, accounting and audit requirements

IN THIS CHAPTER

Corporate structures

Formation procedures and balance sheet date

Accounting and audit requirements

Foreign companies and individuals are in general treated in the same way as Brazilian investors as regards investments and eligibility for tax benefits or incentives.

A foreign investor may set up a new company in Brazil, acquire a local business through a private transaction (usually through a Brazilian acquisition vehicle), acquire shares directly on the Brazilian stock market, or invest through specific investment funds.

Setting up a company in Brazil has been simplified over the years. It is not expensive and no minimum capital is required, except for banks and other financial institutions. Incorporation is now largely digital, through the integrated registration system operated by the commercial registries and the Federal Revenue Service, and a standard limited liability company can generally be registered within a matter of days once the required documentation and powers of attorney are in place. The practical bottleneck for a foreign investor is not the registration itself but the prior steps: obtaining a CNPJ for the foreign shareholder, appointing a resident attorney-in-fact and legalising and translating the corporate documents.

It is always advisable to engage experienced and qualified advisers to assist with the process.

Corporate structures

Brazilian legislation authorises the participation of foreign investors in business activities, provided they are represented before the tax authorities by an individual resident in Brazil under a power of attorney.

It is possible to establish a branch or agency of a foreign entity in Brazil, but the authorisation process is cumbersome and requires a decree of the federal executive. In practice this route is used only where it is strictly necessary, for example in certain regulated sectors.

The EIRELI — the individual limited liability enterprise — was abolished by Law 14.195/2021, and all existing EIRELI were

automatically converted into single-member limited liability companies. The relevant vehicles today are the following.

VEHICLE	PRINCIPAL CHARACTERISTICS
Sociedade Limitada (Ltda.)	The vehicle used by the great majority of foreign investors. Capital is divided into quotas; the liability of the quotaholders is limited to the paid-in capital, subject to the joint liability of all quotaholders for the payment of capital and to the exceptions in which the corporate veil may be pierced. No minimum capital is required. It may have a single quotaholder (sociedade limitada unipessoal) or several, resident or non-resident, individual or corporate. It may be managed by a non-quotaholder, but the manager must be resident in Brazil. Corporate governance is contractual and highly flexible.
Sociedade Anônima (S.A.)	A corporation governed by Law 6.404/1976, whose capital is divided into shares. It may be publicly held, and listed on B3, or closely held. It requires at least two shareholders, an executive board and, in the case of listed companies, a board of directors. It is subject to more extensive publication, bookkeeping and audit requirements, and correspondingly higher maintenance costs. It is generally chosen where the investor anticipates a capital markets transaction, the entry of financial investors, or the need for different classes of shares and more sophisticated governance.
Sociedade Limitada Unipessoal	A limited liability company with a single quotaholder. Since Law 13.874/2019 there is no minimum capital and no limit on the number of such companies a person may hold — the restrictions that applied to the former EIRELI no longer exist.
Branch of a foreign company	Permitted, but requires authorisation by decree of the federal executive, allocation of capital and publication requirements. Rarely used other than where a regulated activity requires it.

Two further changes are worth noting. Complementary Law 182/2021, the Legal Framework for Start-ups, created the "investment contract" as a means of injecting capital into an early-stage company without the investor becoming a quotaholder, and regulated the sandbox and public procurement of innovative solutions. Law 14.451/2022 reduced the quorum requirements for limited liability companies: amendments to the articles of association and corporate reorganisations now require the approval of holders of more than half of the capital, rather than three quarters, which materially changes the negotiating position of

minority quotaholders and should be considered when drafting shareholder arrangements.

There is basically one stock exchange in Brazil — B3, in São Paulo — which hosts the most liquid listed shares. There is also an over-the-counter platform for smaller public companies.

Some limited liability companies are treated in the same way as corporations for accounting and audit purposes and publish their financial statements as if they were S.A. This is the consequence of the "large company" definition described below, which applies irrespective of corporate form.

There are no special taxation criteria related to foreign ownership of a legal entity in Brazil.

Formation procedures and balance sheet date

The statutory financial year runs from 1 January to 31 December. Accountants ordinarily prepare additional reporting for management purposes to meet group requirements.

The cost of establishing a legal entity in Brazil varies according to the type of entity. An S.A. usually involves higher formation and maintenance costs. We strongly advise engaging an attorney and an accountant at the outset of the process. For a foreign investor, the items that most frequently delay a Brazilian incorporation are the enrolment of the foreign shareholder with the Federal Revenue Service, the apostille and sworn translation of the corporate documents of the foreign parent, and the appointment of resident representatives — a resident attorney-in-fact for the shareholder and a resident manager for the company. These should be started before the corporate documents are drafted.

Accounting and audit requirements

Highlights

- Corporations ("S.A.") are required to publish their annual financial statements.

- The annual financial statements of all listed companies and all "large companies" — entities with total assets exceeding BRL 240 million or annual gross revenue exceeding BRL 300 million, whether individually or as a group under common control — must be audited by an independent auditor registered with the Brazilian Securities Commission (CVM).
- Financial institutions and other entities under the jurisdiction of the Central Bank, as well as insurance companies, are required to publish annual and semi-annual audited financial statements.
- The quarterly financial information of listed corporations and financial institutions must be filed with the respective regulator and reviewed by an independent auditor.

Digital books and records

The Public Digital Bookkeeping System (SPED) unifies the receipt, validation, storage and authentication of the documents and books that make up a taxpayer's commercial and tax bookkeeping, through a single computerised flow of information using digital certification.

SPED comprises, among other modules, Digital Tax Bookkeeping (EFD), Digital Accounting Bookkeeping (ECD), the Tax Accounting Return (ECF) and the Electronic Invoice (NF-e). Payroll and labour obligations are reported through eSocial and EFD-Reinf, and federal tax liabilities are declared through DCTFWeb, which is now generated automatically from those systems.

The Accounting SPED (ECD) replaces hardcopy accounting books with digital files: the general journal, the general ledger, auxiliary books, trial balances and balance sheets are generated as a set of digital documents and filed with the tax authorities and other agencies within statutory deadlines.

The reform adds a further layer. From 2026, electronic invoices must carry specific fields for IBS, CBS and the Selective Tax, and the new system is designed around the invoice as the single source of truth for the calculation and settlement of the taxes, including

through split payment. The practical implication is that invoicing and ERP systems must be adapted well before the taxes themselves become material. Companies that treat 2026 as a year of observation rather than of system implementation will find themselves exposed in 2027.

Accounting standards

The Accounting Pronouncements Committee (CPC) was created to study and issue accounting and auditing principles, standards and technical guidance, and to adopt in whole or in part the pronouncements of the International Accounting Standards Board.

The Accounting Practices adopted in Brazil (BR GAAP) are structured in Brazilian corporate law. Following successive amendments, BR GAAP is substantially equivalent to IFRS. The CPC issues Brazilian accounting standards, which must then be endorsed by the applicable regulators, such as the CVM, the Central Bank or the private insurance regulator (SUSEP).

Two points of practical relevance for a foreign group. First, listed companies and financial institutions present consolidated financial statements in full IFRS, and the differences that remain between BR GAAP and IFRS at the level of the individual company financial statements are limited but not immaterial — the equity method applied to investments in subsidiaries in the separate financial statements being the principal one. Second, the Central Bank has been converging the accounting framework applicable to financial institutions (COSIF) towards IFRS, with CMN Resolution 4.966/2021 introducing the expected credit loss model and the classification and measurement requirements of IFRS 9 from 2025.

Sustainability reporting

Under CVM Resolution 193/2023, listed companies, investment funds and securitisation companies must prepare and disclose sustainability-related financial information in accordance with the IFRS Sustainability Disclosure Standards issued by the ISSB (IFRS S1 and IFRS S2), on a voluntary basis for financial years beginning in

2024 and 2025 and on a mandatory basis for financial years beginning on or after 1 January 2026. Brazil is therefore among the first jurisdictions to make ISSB reporting mandatory. Non-listed companies are not directly subject to the requirement, but subsidiaries of listed foreign groups and suppliers to listed Brazilian companies are being drawn into the reporting perimeter in practice.

Audited financial statements

The annual financial statements of the following entities must be audited by independent auditors registered with the CVM, the Central Bank or other government agencies, as applicable: listed corporations; "large companies" as defined above; financial institutions and other entities under the jurisdiction of the Central Bank; investment funds; stock exchanges; insurance companies; and private pension funds.

Financial institutions and insurance companies must also have their semi-annual financial statements audited, and the quarterly financial reports of listed entities must be reviewed by independent auditors.

Where a closely held corporation does not have independent auditors, the company's audit committee (Conselho Fiscal) may appoint them at the corporation's expense if this is considered necessary for the proper discharge of its responsibilities.

Even where not required by regulation or by the articles of association, banks and other lenders frequently require audited financial statements from borrowers. The tax authorities do not require audited financial statements. Internal auditors cannot act as statutory auditors.

Auditing standards

Financial statements and the accounting principles reflected in them are representations of management. The independent auditors express an opinion on whether the financial statements comply with the applicable accounting framework, examining them in accordance with Brazilian auditing standards.

Brazilian auditing standards are converged with the International Standards on Auditing issued by the IAASB, and the original numbering was maintained to facilitate subsequent updates. The structure of Brazilian standards is classified as professional, including the code of ethics, and technical.

Audit firms auditing entities subject to CVM regulation are subject to mandatory partner rotation and, for firms without an internal quality review programme meeting the CVM requirements, to firm rotation after five consecutive years. Groups planning an initial public offering or the entry of a financial investor should factor these rotation requirements into the choice of auditor.

The text above is not a comprehensive source for assessing and understanding audit requirements and practices. We strongly advise seeking specific advice when assessing these matters.

05

The Brazilian tax reform

EC 132/2023, CBS, IBS and the Selective Tax, transition 2026–2033, income tax reform

IN THIS CHAPTER

- The constitutional framework
- The rates
- The Selective Tax
- Specific regimes
- Collection mechanics: split payment and the invoice
- The transition calendar
- Governance and the compensation funds
- What this means for a foreign investor



Brazil is replacing five consumption taxes with a dual value added tax. The change was approved by Constitutional Amendment 132, of 20 December 2023, and regulated by Complementary Law 214, of 16 January 2025, by Complementary Law 227, of January 2026, and, as regards the reduction of federal tax benefits, by Complementary Law 224, of December 2025. The new system entered its test phase on 1 January 2026 and will be fully in force in 2033.

IN FOCUS

For a foreign investor, three propositions summarise what has changed. First, the consumption tax burden will be substantially more transparent and, for most business-to-business supply chains, materially lower in real terms, because tax on inputs will be fully creditable and will no longer form part of its own base. Second, the location of an operation within Brazil will cease to be driven by state tax incentives, because taxation moves to the destination and the incentives disappear. Third, the transition is long, and during it companies must operate the old and the new systems in parallel — which means that the compliance cost rises before it falls.

The constitutional framework

Constitutional Amendment 132/2023 replaced five taxes with three new ones and set the principles that the regulating legislation had to observe.

TAX REPLACED	LEVEL OF GOVERNMENT	REPLACED BY
PIS and COFINS (social contributions on revenue)	Federal	CBS — Contribution on Goods and Services
IPI (excise on manufactured goods)	Federal	Rates reduced to zero from 2027, except for products also manufactured in the Manaus Free Trade Zone; the regulatory function passes to the Selective Tax

TAX REPLACED	LEVEL OF GOVERNMENT	REPLACED BY
ICMS (state VAT on goods, transport and communications)	State	IBS — Tax on Goods and Services
ISS (municipal services tax)	Municipal	IBS — Tax on Goods and Services

In addition, the Amendment created the Selective Tax (Imposto Seletivo, or IS), a federal excise on the production, extraction, sale or import of goods and services harmful to health or to the environment. It is regulatory in purpose rather than revenue-raising, it does not generate credits, and it forms part of the base of the IBS and the CBS.

The design principles

- Destination principle. The tax accrues to the state and municipality where the good or service is consumed, not where it is produced. This is the single most consequential change for the geography of investment in Brazil, since it removes the rationale for the interstate competition through ICMS incentives.
- Broad base. IBS and CBS apply to supplies of goods — tangible and intangible — and services, including leasing, licensing and assignment of rights, on a residual definition: anything that is not a supply of goods is a supply of services. Concepts that generated decades of litigation, such as the boundary between ICMS and ISS in mixed transactions, cease to be relevant.
- Full non-cumulativity. Credit is granted on all acquisitions of goods and services used in the taxpayer's activity, save for a short list of items presumed to be for personal use. This replaces the restrictive "physical credit" logic of ICMS and the contested "essentiality" test of PIS and COFINS.
- Tax outside its own base. IBS, CBS and the Selective Tax are calculated on a price that does not include them, and IBS and CBS do not include each other. The current practice of "gross-

up", under which ICMS, PIS and COFINS form part of their own base, is abolished. This is why the headline nominal rate of the new system appears high relative to current nominal rates while the effective burden is comparable.

- Uniform rates by jurisdiction. Each state and each municipality sets a single rate applicable to all transactions, subject to the reduced-rate regimes provided for in the Constitution. A supplier applies the rate of the destination.
- Refund of accumulated credits. Credits that cannot be offset must be refunded in cash within statutory time limits. The structural accumulation of ICMS and PIS/COFINS credits by exporters and by capital-intensive businesses, one of the most damaging features of the current system, is intended to disappear.
- Neutrality for investment. Acquisitions of fixed assets generate full and immediate credit, replacing the forty-eight month appropriation of ICMS credits on fixed assets (CIAP) and the depreciation-linked credits of PIS and COFINS.

The rates

Rates are set in two components. The Federal Senate fixes reference rates for the CBS, for the state share of the IBS and for the municipal share of the IBS, based on a calculation that must reproduce the revenue of the taxes being replaced. Each state and municipality may then set its own rate by ordinary law; if it does not, the reference rate applies.

The Constitution imposes a ceiling: the sum of the reference rates may not exceed 26.5%, and it provides for a review mechanism should the ceiling be exceeded. While the reform was being debated the Ministry of Finance estimated the combined nominal rate at around that level, split approximately as 8.8% for the CBS and 17.7% for the IBS.

The first of those figures is no longer an estimate. On 28 October 2026 the plenary of the Federal Court of Accounts (Tribunal de Contas da União) approved a reference rate of 11.3% — 11.3468%

precisely — for the CBS in 2027, calculated from Federal Revenue Service data on the premise that the new contribution must raise what the taxes it replaces raise today. The figure sits materially above the range of 8.53% to 9.05% projected by the Ministry of Finance during the passage of the reform, and above the 9.21% projected after Congress widened the list of exceptions.

The arithmetic behind that gap is not controversial. The more operations that fall outside the full charge, the higher the rate has to be on everything that remains. The zero rate on the national basic food basket, the 60% reductions for health, education and public transport, the 30% reduction for the regulated professions and the cashback mechanism all push the reference rate upward; the taxation of imports and the contribution of Simples Nacional taxpayers pull in the other direction.

The proposal has been sent to the Federal Senate, which has until 15 December 2026 to confirm or alter it by resolution. If the Senate does not act, the rate calculated by the Court of Accounts applies. Reducing it without losing revenue would require Congress to cut back the exceptions and favoured regimes of Complementary Law 214/2025, which is a demanding exercise in the closing weeks of an electoral year. The Court of Accounts will recalculate the reference rate annually until 2035, so that it tracks observed revenue rather than remaining fixed.

INDICATOR	POSITION
Reference rate proposed for the CBS in 2027	11.3% (11.3468%), approved by the Federal Court of Accounts on 28 October 2026
Most directly comparable current rate	9.25% — PIS and COFINS under the non-cumulative regime
Ministry of Finance projections	8.53% to 9.05% during the passage of the reform; 9.21% after the exceptions were widened
Reducer on supplies to public bodies	44.2%, so that the new contribution does not increase the cost of public services

INDICATOR	POSITION
Revenue ceiling	4.99% of GDP — the average burden of the extinguished taxes between 2012 and 2021
Budgeted CBS revenue for 2027	BRL 636.8 billion, around 4.7% of GDP
Deadline for the Senate to confirm or alter	15 December 2026
Combined CBS and IBS ceiling from 2033	26.5%

No reference rate has yet been set for the IBS, which remains at a nominal 0.1% through 2027 and 2028 and begins to be collected in earnest in 2029. Until it is, the combined burden of the new system cannot be stated with precision. It is worth noting that a CBS at 11.3% sits two and a half points above the 8.8% assumed in the original split, which leaves correspondingly less room for the IBS if the combined ceiling of 26.5% is to hold from 2033. Models that assume the ceiling will be reached exactly, or that carry the old split forward, should be revisited.

Reduced rates and exemptions

TREATMENT	PRINCIPAL CATEGORIES
Zero rate	National basic food basket; certain medicines and medical devices listed in the annexes to Complementary Law 214/2025; public transport, in the cases provided; certain services relating to higher education under the PROUNI programme; urban and rural real estate under the popular housing programme, within limits.
60% rate reduction	Education services; health services and medical devices; medicines and personal hygiene products; agricultural, aquaculture, fishing, forestry and food inputs; food intended for human consumption; sanitation; national artistic, cultural, journalistic and audiovisual production; sport; communication for public interest purposes; and goods and services relating to national security and sovereignty.

TREATMENT	PRINCIPAL CATEGORIES
30% rate reduction	Services rendered by regulated liberal professions — lawyers, accountants, engineers, architects, doctors, dentists, veterinarians and others listed in the statute — where rendered by a company whose activity is the exercise of the regulated profession.
Cashback	Refund of tax to low-income households, mandatory for electricity, water, sewage, piped gas and bottled cooking gas, and applicable at a general level to families registered in the federal social register.
Simples Nacional	Small businesses remain in the Simples Nacional regime and may elect to remain within it for IBS and CBS purposes or to pay those taxes under the general regime while remaining in Simples for the other taxes. The election determines whether their customers are entitled to a full credit.

The 30% reduction for regulated professions deserves particular attention. Professional services companies currently taxed under the Presumed Profit regime, paying ISS at 2% to 5% and PIS and COFINS at 3.65% cumulatively, will move to an effective rate in the region of 18.5% after the 30% reduction. Where their clients are businesses entitled to full credit, the increase is largely neutral across the chain. Where their clients are final consumers, or entities without the right to credit — financial institutions under a specific regime, health operators, the public sector — the increase is a real cost that must be absorbed in price or margin. This is one of the most significant pricing questions raised by the reform and should be modelled by every professional services group operating in Brazil.

The Selective Tax

The Selective Tax (Imposto Seletivo) is the third of the taxes created by Constitutional Amendment 132/2023. It is a federal excise on the production, extraction, sale or import of goods and services harmful to health or to the environment. Its purpose is regulatory rather than revenue-raising: it is levied once in the chain, it generates no credit for the purchaser, and it forms part of the calculation base of the IBS and the CBS. Complementary Law 214/2025 established its framework and left the rates to ordinary legislation.

Those rates were fixed by Provisional Measure 1.399, published on 4 November 2026, which sets out the rates and the transitional rules applicable in 2027. The Measure takes effect on 2 February 2027, and the Executive is required to submit to Congress, by 31 May 2027, a bill fixing the rates applicable from 2028. A provisional measure has immediate force but must be converted into law by Congress within the constitutional period and may be amended in the process, so the figures below are the starting position rather than settled law.

CATEGORY	RATE FOR 2027
Passenger vehicles	6.3% as a base rate, adjusted for environmental and technological characteristics. Zero for vehicles meeting the sustainability criteria and for certain acquisitions, including by persons with disabilities and by taxi drivers.
Cargo vehicles	3.9% for the categories listed. Trucks are outside the charge, subject to the statutory conditions.
Aircraft and vessels	6.8% for certain aircraft; 7.8% or 12% for motorised recreational and sporting vessels, according to classification. Zero for items meeting the sustainability criteria.
Alcoholic beverages	From 4.2% for beer to 24% for certain spirits, with intermediate rates for wine and other categories. The specific amounts per unit are set at zero for 2027. Small producers benefit from reductions of 10% to 40% according to the annual volume of alcohol supplied.
Sugar-sweetened beverages	2.6% (NCM 2202.10.00).

CATEGORY	RATE FOR 2027
Tobacco products	66.7% for cigarettes and certain cigarillos, plus a specific amount of BRL 3.50 per pack of twenty. Other tobacco products at 37.5%, with no specific amount in 2027.
Extracted minerals	Zero until 31 December 2027.
Prize competitions and betting	0.5% on the revenue of the activity, under article 244 of Complementary Law 214/2025.

The structure of the charge is built largely on the TIPI, the IPI tariff table, with conversion factors that reconcile the different calculation bases of the two taxes, and the Executive is authorised to reduce those factors within the limits of the Measure. The practical consequence is that the tariff classification of a product — its NCM code and its position in the TIPI — now determines not only its customs and IPI treatment but also whether, and at what rate, it bears the Selective Tax.

Imports

Where the base is the customs value plus import duty, adjustment factors apply: 1.17 for vehicles, aircraft and vessels, and 1.45 for alcoholic and sweetened beverages. The Executive may reduce these factors under the criteria set out in the Measure. The Selective Tax is deferred on certain imports, and the suspension applicable to goods destined for duty-free shops carries a zero rate. Importers in the affected categories should build the adjustment factor into landed cost rather than assume parity with the charge borne by domestic production.

Assisted assessment

The Measure allows the Federal Revenue Service to compute the Selective Tax itself, from electronic invoices and other data already in its possession, and to make that computation available to the taxpayer. Confirmation of the computation by the taxpayer, or its adjustment, constitutes an admission of the debt and formalises the

tax credit; failure to respond within the legal period may have the same effect. Settlement may be made by payment, through split payment or by offset, and the Measure provides for abatement in respect of cancelled transactions.

This reverses the customary order of events: the authority proposes the figure and the taxpayer validates it. It presupposes that the taxpayer's own records and tax determination are accurate and reconciled before the computation arrives, because silence is itself a decision with consequences.

The IPI during the transition and Constitutional Amendment Bill 22/2026

The constitutional calendar reduces IPI rates to zero from 1 January 2027, except for products also manufactured in the Manaus Free Trade Zone. Provisional Measure 1.399/2026 brings the Selective Tax into effect on 2 February 2027. Read together, the two dates leave a window of about a month in which the goods intended to bear the Selective Tax would bear neither it nor the IPI.

Constitutional Amendment Bill 22/2026, filed by the Executive in the Chamber of Deputies on 5 November 2026, is intended to close that window. It adds an exception to the reduction of IPI to zero for goods that the Selective Tax legislation classifies as harmful to health or the environment, so that the IPI continues to apply to them until the rates of the new tax take effect. It preserves the existing exception for the Manaus Free Trade Zone, and it sets neither new IPI rates nor a date of its own, the date being that of the Provisional Measure.

The Bill is at an early stage of its passage. As a constitutional amendment it requires approval in two rounds in each House of Congress, and it must complete that passage before the end of 2026 to serve its purpose. Until it does, the position for January 2027 is genuinely open, and businesses in the affected sectors should prepare for both outcomes rather than assume either.

Preparing for the Selective Tax

The sectors most directly affected are automotive, beverages, tobacco and mining, and, across all of them, importers. For a business in any of those sectors the preparation falls into a small number of areas:

- Identifying which products fall within the charge, by reference to NCM code and TIPI position rather than to commercial description.
- Reviewing and, where necessary, correcting the tariff classification of the portfolio, since a classification error now carries a consequence it did not carry before.
- Quantifying the effect on landed cost, margin and price, including the import adjustment factors and the interaction with the IBS and the CBS, whose base includes the Selective Tax.
- Adapting invoicing and ERP systems to the new fields and to the rate logic, which differs from that of the IPI even where it borrows its classification.
- Establishing the controls needed to respond to an assisted assessment within the statutory period, including reconciliation between the company's fiscal records and the data the authorities will use.

Specific regimes

Complementary Law 214/2025 establishes specific regimes for sectors whose economics do not fit the standard value added model. In broad terms:

- Financial services. Taxation on the net margin of financial intermediation and on fees, at a rate specific to the sector, with restrictions on the credit available to customers. Insurance and reinsurance follow their own rules.
- Real estate. A reduced rate applies to supplies of immovable property and to leases, with a "social reducer" fixed in currency

terms for residential sales and leases, and a specific mechanism for developers and for pre-existing lease contracts.

- Fuels and lubricants. Single-stage taxation at specific rates per unit of measure, with credit granted to the acquiring business.
- Hotels, amusement parks, restaurants and tourism. Reduced effective taxation with restricted credit, reflecting the predominantly final-consumer nature of the sector.
- Cooperatives, government procurement, non-profit entities, air transport, sanitation and concessions, betting and prize competitions, and the acquisition of goods by public bodies each have specific provisions.
- Non-resident suppliers of digital services and digital platforms. Platforms that intermediate supplies to consumers in Brazil are liable for the tax, including where the underlying supplier is a non-resident or an unregistered person. Non-resident suppliers of digital goods and services to Brazilian consumers must register and account for IBS and CBS. This is a substantive change: it brings within the Brazilian consumption tax net a category of supply that has been the subject of protracted dispute under the ICMS and ISS.

Collection mechanics: split payment and the invoice

The new system is built around the electronic invoice and around a settlement mechanism with no precedent at this scale. Under split payment, the financial settlement of a transaction is divided at the moment of payment: the tax component is transferred directly to the tax authorities and only the net amount reaches the supplier. The credit of the purchaser is conditional on the tax having been effectively paid, which removes the risk of credits being denied because of the supplier's default — the "good faith" litigation that has consumed the ICMS system for decades — but which also transfers a significant working capital effect to suppliers.

The technical specifications for split payment were published in 2026 and the mechanism will be implemented in phases. Companies should assess the cash flow consequences carefully: for a business

whose margin is thin relative to its turnover, the difference between receiving the gross amount and receiving the net amount is not a matter of accounting but of treasury.

The transition calendar

YEAR	WHAT HAPPENS
2026	Test year. CBS at 0.9% and IBS at 0.1% are levied on transactions. Amounts are creditable against PIS and COFINS liabilities, and taxpayers that comply with the ancillary obligations are relieved of the obligation to pay. There is no effective increase in the tax burden. Simples Nacional taxpayers are outside the test phase. Invoices must carry the new fields.
2027	CBS enters into force at the reference rate confirmed by the Senate. PIS and COFINS are extinguished, and the IOF on insurance is absorbed into the CBS. IPI rates are reduced to zero, except for products also manufactured in the Manaus Free Trade Zone and, if Constitutional Amendment Bill 22/2026 is approved, for goods subject to the Selective Tax until its rates take effect. The Selective Tax begins to be levied on 2 February 2027 under Provisional Measure 1.399/2026. The IBS remains at a nominal 0.05% state and 0.05% municipal.
2028	Continuation of the previous year's arrangements. IBS remains at nominal rates.
2029 to 2032	Progressive substitution of ICMS and ISS by the IBS. The ICMS and ISS rates are reduced by one tenth each year — to 90%, 80%, 70% and 60% of their original level — while the IBS rate is correspondingly increased. State incentives are reduced in the same proportion.
2033	ICMS and ISS are extinguished. The new system operates in full.

Two consequences of this calendar are frequently underestimated. The first is that from 2027 to 2032 a Brazilian company will be operating four consumption taxes simultaneously — CBS, IBS, ICMS and ISS — each with its own base, rate, credit rules and ancillary obligations. The second is that the reduction of state incentives from 2029 is automatic and proportional: a company whose business case depends on an ICMS benefit will see that benefit reduced by ten percentage points a year from 2029 regardless of

the term granted in its state agreement, with compensation payable from the federal fund described below rather than by the state.

Governance and the compensation funds

Complementary Law 227/2026 established the Management Committee of the IBS (Comitê Gestor do IBS, or CGIBS), the interfederative body responsible for administering, collecting, auditing and distributing the IBS among the states, the Federal District and the municipalities. It also created a unified administrative litigation system for the IBS, with a Superior Chamber charged with harmonising case law, and a National Tax Compliance Programme. The significance of this for a taxpayer is considerable: instead of twenty-seven state tax administrations and more than five thousand municipal ones, each with its own interpretation, there is a single administration and a single body of administrative precedent.

Two funds accompany the transition. The Regional Development Fund will channel federal resources to the states from 2029, with contributions rising over time, to replace the investment attraction function previously performed by ICMS incentives. The Fund to Compensate Benefits will pay holders of onerous ICMS benefits, granted and registered under Complementary Law 160/2017, an aggregate of BRL 160 billion between 2025 and 2032. Registration is a condition of the entitlement, and the deadlines are strict.

What this means for a foreign investor

- Location decisions. Choosing a state on the basis of an ICMS incentive has a defined shelf life. Any greenfield project with a payback beyond 2032 should be modelled under the destination-based system, in which the tax outcome is largely independent of the state of establishment.
- Pricing and contracts. Long-term contracts that run across the transition should include a tax change clause. Contracts priced on a gross basis will produce different margins under a system in which the tax is calculated outside the price.

- Supply chains. The reform rewards long chains, because the cumulative burden disappears, and penalises vertical integration undertaken solely to avoid cascading tax. Structures built to manage ICMS — distribution centres in incentive states, interposed trading companies, transfers between establishments — should be re-examined.
- Working capital. The combination of full and immediate credit on fixed assets and the refund of accumulated credits improves the position of capital-intensive and export businesses. Split payment works in the opposite direction for the supplier.
- Systems and data. The compliance burden peaks between 2027 and 2032. ERP configuration, master data, tax determination engines and invoice layouts must be capable of running both systems concurrently.
- Sector-specific analysis is unavoidable. The general description above is a poor guide to the outcome for any individual business; the combination of rate, reduced-rate category, specific regime, credit position and customer profile produces very different results even within a single sector.



06

The income tax reform

Taxation of dividends; Interest on net equity (JCP); Minimum personal income tax (IRPFM); Personal income tax relief; What remains pending

IN THIS CHAPTER

Taxation of dividends

Interest on net equity (JCP)

Minimum personal income tax (IRPFM)

Personal income tax relief

What remains pending

The second stage of the reform addresses income tax. The first instalment was enacted as Law 15.270, of November 2025, in force from 1 January 2026. It ended the exemption of dividends that had applied since 1996 and, in exchange, raised the personal income tax exemption threshold. The two measures were designed to be revenue-neutral.

Taxation of dividends

- Dividends paid, credited, employed or delivered by a Brazilian company to a person resident or domiciled abroad — whether an individual or a company — are subject to withholding tax at 10%, regardless of amount. Exemption is preserved only for foreign governments on a reciprocity basis, sovereign wealth funds and foreign pension entities, in the terms of the regulations.
- Dividends paid by the same Brazilian company to the same individual resident in Brazil are subject to withholding tax at 10% on the total amount, where the aggregate paid in a single month exceeds BRL 50,000. No deductions from the base are permitted, and where more than one payment is made in a month the withholding is recalculated on the aggregate.
- Dividends paid to a Brazilian resident company are not subject to the withholding tax, so that distributions within a Brazilian group remain untaxed.
- The capitalisation of profits constitutes an "employment" of the amount and therefore a taxable event. This changes the calculus of corporate reorganisations materially, since the conversion of retained earnings into share capital is no longer tax-free.
- Grandfathering. Profits and dividends whose distribution was approved by 31 December 2025 are not subject to the withholding tax, provided that they are payable under civil or corporate law and that payment, credit, employment or delivery occurs on the terms originally set out in the approving resolution.

The grandfathering rule is the point of greatest practical exposure. It requires a valid corporate resolution approving the distribution by 31 December 2025 and payment on the terms of that resolution.

Companies with large retained earnings balances that adopted this route should verify that the resolution meets the requirements of corporate law as to the existence of distributable profits, the approval of accounts and the fixing of payment terms, and should be aware that the Federal Revenue Service has signalled that it will scrutinise resolutions adopted late in 2025 and that litigation on the scope of the rule is already under way.

Treaty relief. Brazil's double tax treaties generally cap the rate applicable to dividends, in several cases at 10% or 15%. Since dividends had been exempt domestically since 1996, the treaty provisions on dividends had been dormant for nearly thirty years. They are now operative again, and the interaction between the 10% domestic rate, the treaty caps, the beneficial ownership requirements and the anti-abuse provisions introduced by the Multilateral Instrument will require analysis for each holding structure.

Interest on net equity (JCP)

Complementary Law 224/2025 increased the withholding tax on interest on net equity paid or credited to shareholders from 15% to 17.5%. JCP remains deductible for the paying company within the statutory limits, so the instrument continues to offer a lower combined burden than dividends in many structures, but the arbitrage has narrowed. The calculation base of JCP had already been restricted by Law 14.789/2023, which limited the equity accounts that may be taken into account.

Minimum personal income tax (IRPFM)

- Individuals resident in Brazil whose total annual income — taxable, exempt and subject to exclusive withholding, including dividends — exceeds BRL 600,000 are subject to a minimum tax computed in the annual return.
- The rate rises linearly from zero at BRL 600,000 to 10% at BRL 1.2 million, and is 10% above that threshold.
- Income tax already paid — the ordinary annual liability, the 10% withholding on dividends, withholding on investment funds and

definitive withholding such as that on JCP — is deducted from the minimum tax computed.

- A reducer applies where the sum of the effective rate of IRPJ and CSLL borne by the distributing company and the effective rate of the IRPFM exceeds the nominal ceiling, so as to limit the aggregate burden on distributed profits.

Personal income tax relief

In counterpart, monthly income up to BRL 5,000 is effectively exempt from income tax from January 2026, achieved through an additional reduction rather than through a change to the progressive table. Between BRL 5,000 and BRL 7,350 a tapering reduction applies, calculated as BRL 978.62 less 0.133145 multiplied by gross monthly income, reaching zero at BRL 7,350. Above BRL 7,350 the ordinary progressive table applies in full.

What remains pending

The reform of corporate income tax proper — the reduction of the IRPJ and CSLL rates that was originally proposed as the counterpart to the taxation of dividends — has not been enacted. The combined statutory rate remains 34%. Bills amending Law 15.270/2025 were under consideration in the Senate at the date of this edition, and further legislation should be expected. Investors structuring Brazilian operations should therefore assume that the current position — a 34% corporate rate plus a 10% withholding on distributions, giving a combined economic burden of approximately 40.6% on distributed profits — is the position for planning purposes, while monitoring the legislative process.

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Federal taxes
State taxes
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Taxation of individuals

07

Taxation

Federal, state and municipal taxes; transfer pricing; treaties; CFC; individual taxation



This chapter describes the tax system as it stands in 2026. Where a tax is being replaced under the reform described in the preceding chapter, that is indicated. Readers should keep in mind that PIS, COFINS, IPI, ICMS and ISS all have a defined end date and that any medium-term projection should be run under both systems.

Fiscal year and general structure

The Brazilian fiscal year ends on 31 December. This is the period by reference to which the majority of tax returns are required.

There is no tax consolidation in Brazil. Each legal entity files separate tax returns, and losses of one group company cannot be offset against profits of another.

The Federal Constitution of 1988 is the supreme legal statute from which the principles and the tax jurisdictions applicable to the Union, the states and the municipalities derive. The principle of legality allows those entities to levy taxes on the occurrence of defined events, in compliance with the constitutional principles and with the National Tax Code of 1966, which also enables tax treaties to be signed and incorporated into domestic law.

Brazil separates administrative and judicial powers to address tax cases, producing an extensive body of controversy shaped by court rulings.

The administrative route runs through the tax authority of the relevant level of government and, at federal level, through the Administrative Council of Tax Appeals (CARF). Law 14.689/2023 restored the casting vote in favour of the tax authorities in cases of a tie, but coupled it with the cancellation of penalties and interest where the taxpayer loses on that basis and with a facility to settle the principal on favourable terms. The same period saw a substantial expansion of tax settlement mechanisms under Law 13.988/2020 and Law 14.375/2022, which permit discounts on penalties, interest and legal charges and the use of tax losses in settlement. For a group carrying legacy Brazilian tax exposure, the settlement route is now a genuine commercial alternative to litigation and should be assessed as such.

Types of levy

According to the Federal Constitution and the National Tax Code, the main categories are: taxes, which are not linked to a specific state action; social contributions, whose proceeds are earmarked and which are levied on payroll, revenue and profit; fees, charged in consideration of a specific public service or the exercise of police power; improvement contributions, charged where public works have increased the value of a taxpayer's property; and compulsory loans.

Direct taxes periodically affect the income and property of an individual or company: IRPJ, CSLL, IRRF, ITBI, ITCMD, IPTU, ITR and IPVA, among others. Indirect taxes are embedded in the final price of a product or service: ICMS, IPI, ISS, PIS and COFINS, and in due course IBS, CBS and the Selective Tax.

Federal taxes

Corporate income tax (IRPJ) and social contribution on profit (CSLL)

Companies may be taxed under two principal regimes: the Actual Profit regime (Lucro Real), based on actual annual or quarterly taxable income, and the Presumed Profit regime (Lucro Presumido), based on deemed taxable income. The election is annual, made upon the first tax payment of the calendar year, and cannot be changed during the year.

Rates. IRPJ is levied at 15%, plus a surtax of 10% on taxable income exceeding BRL 20,000 per month (BRL 240,000 per year, or BRL 60,000 per quarter). CSLL is levied at 9% for most taxpayers, giving a combined statutory rate of 34%. Financial institutions are subject to a higher CSLL rate — currently 15% for most financial institutions and 20% for banks — giving combined rates of 40% and 45% respectively.

PRESUMED PROFIT (LUCRO PRESUMIDO)

The Presumed Profit regime is available to companies whose gross revenue in the previous calendar year was lower than BRL 78

million. IRPJ and CSLL are levied quarterly on a deemed margin applied to gross revenue, which varies according to the activity, plus other income and capital gains in full.

The principal deemed margins are 32% for services; for the sale of products and goods, 8% for IRPJ and 12% for CSLL. Costs and expenses actually incurred are irrelevant to the computation. Companies under this regime may adopt the cash basis for the determination of quarterly gross revenue.

Complementary Law 224/2025 increased the deemed margins. From 2026, the deemed profit percentages are increased by 10% — so that, for example, the 32% margin applicable to services becomes 35.2% — but only in respect of the portion of total gross revenue exceeding BRL 5 million in the calendar year, monitored cumulatively during the year. The measure was enacted on the basis that the Presumed Profit regime constitutes a tax benefit, a characterisation that is being challenged; preliminary injunctions have been granted to individual taxpayers and the matter is expected to be decided by the Federal Supreme Court.

ACTUAL PROFIT (LUCRO REAL)

The Actual Profit regime is based on pre-tax accounting income adjusted by non-deductible items, non-taxable income and, where applicable, tax losses carried forward from prior years.

Certain activities are required to adopt the Actual Profit regime: financial and similar institutions, including banking, insurance and factoring; companies with income, profits or capital gains from foreign sources; and companies benefiting from income tax incentives. Companies with gross revenue exceeding BRL 78 million in the previous calendar year are also required to adopt it.

Under this method companies must maintain robust and accurate accounting and tax books and records, and corresponding supporting documentation. Failure to do so may lead to the disallowance of expenses.

Taxpayers may elect an annual or a quarterly computation period. Under the annual basis, monthly instalments are payable on an estimated basis, with an annual adjustment; under the quarterly basis, payment is due at the end of each quarter.

Tax losses may be carried forward indefinitely, but the amount offset in any year is limited to 30% of taxable income. Non-operating losses may only be offset against non-operating gains. There is no carry-back. The 30% limitation has been challenged repeatedly and upheld by the Federal Supreme Court, including in 2023 in the context of a company being wound up, where the Court confirmed that the limitation applies even where the taxpayer will never be able to use the remaining balance.

CSLL Surtax — the global minimum tax (Pillar Two)

Law 15.079/2024 introduced a surtax on the CSLL designed to secure an effective minimum rate of 15% in Brazil, in adaptation of the GloBE Rules developed by the OECD/G20 Inclusive Framework. The key features are as follows.

- It applies to Brazilian constituent entities of multinational groups whose ultimate parent entity reported consolidated annual revenue of EUR 750 million or more in at least two of the four fiscal years preceding the year in question.
- It operates as a Qualified Domestic Minimum Top-up Tax (QDMTT), so that the top-up is collected in Brazil rather than by the jurisdiction of the parent under an income inclusion rule or by other jurisdictions under an undertaxed profits rule.
- It applies from 1 January 2025, with the first payments due in 2026.
- In August 2025 the OECD recognised the Brazilian surtax as a qualified domestic minimum top-up tax and as a QDMTT safe harbour, which is significant because it means other jurisdictions must respect the Brazilian charge and cannot impose a further top-up on Brazilian profits.

- Transitional simplified calculation rules are available, based on a de minimis test, an effective tax rate test — 16% for 2025 and 17% for 2026 — and a routine profits test. The "once out, always out" principle applies: a group that fails to qualify in one year cannot use the simplified rules in later years.

The practical point for a foreign group is counter-intuitive. Brazil's statutory rate of 34% is well above the 15% minimum, so intuition suggests there can be no top-up. In practice, a Brazilian entity can nonetheless fall below the 15% effective rate under GloBE computations where it benefits from SUDENE or SUDAM relief, from presumed credits, from interest on net equity deductions, or where it is taxed under the Presumed Profit regime with a low deemed margin relative to accounting profit. Groups should test their Brazilian entities rather than assume the outcome.

Goodwill

Investing in Brazil through a Brazilian acquisition vehicle, or through an existing Brazilian company, may allow the tax amortisation of goodwill paid on the acquisition, which is not available where the acquisition is made directly by a foreign company.

Under Law 12.973/2014, the purchase price in excess of the equity value of the acquired company must be allocated between (i) the fair value of specific assets acquired and liabilities assumed, and (ii) goodwill based on expected future profitability, or a bargain purchase gain.

The allocation must be recorded in separate accounts and supported by an independent valuation report based on a purchase price allocation, which must be filed with the Federal Revenue Service or registered with a registry of deeds and documents within thirteen months of the acquisition.

Following a merger of the acquisition vehicle into the acquired company, or of the acquired company into an existing Brazilian operating company, the goodwill allocated to expected future profitability may be amortised for tax purposes over a minimum

period of five years, at 1/60 per month, computed on the book balance existing at the acquisition date.

Two cautions. First, the benefit is available only in acquisitions between unrelated parties; goodwill generated in transactions between entities under common control is expressly non-deductible. Second, the tax authorities and CARF scrutinise these structures closely, particularly where the acquisition vehicle has no substance, where the merger is effected shortly after the acquisition, or where the transaction has been structured principally to generate the amortisation. The valuation report and the commercial rationale for the structure should be prepared to a standard capable of surviving an audit some years later.

PIS and COFINS

PIS and COFINS are federal social contributions levied on monthly gross revenue, under a cumulative or a non-cumulative regime. **Both will be extinguished on 31 December 2026 and replaced by the CBS.**

Under the non-cumulative regime the rates are 1.65% for PIS and 7.6% for COFINS, with credits available on defined inputs and expenses at the same rates. This regime applies to companies taxed under the Actual Profit regime, except for financial and similar institutions, telecommunications, call centres, telemarketing, certain software-related services and other specified activities.

Under the cumulative regime the rates are 0.65% and 3.0% respectively, with no credits. Companies taxed under the Presumed Profit regime, and certain activities regardless of income tax regime, are subject to the cumulative regime.

PIS and COFINS do not apply to export revenues that generate an inflow of foreign currency, nor to domestic sales to trading companies for the specific purpose of export.

Two developments are material. The Superior Court of Justice defined the concept of "input" for non-cumulative credit purposes by reference to essentiality and relevance to the taxpayer's activity,

which broadened the credit base considerably. Separately, the Federal Supreme Court held that ICMS must be excluded from the PIS and COFINS base, and Law 14.592/2023 subsequently excluded ICMS from the base of the credits as well. Recovery claims arising from these decisions remain a significant balance sheet item for many Brazilian companies and should be identified in any acquisition due diligence.

PIS and COFINS on imports

PIS-Import and COFINS-Import are triggered on the payment, credit, delivery, use or remittance of amounts to non-residents in consideration of imports of goods and services.

The rates on imports of goods are 2.1% for PIS and 9.65% for COFINS; on services, 1.65% and 7.6% respectively. In relation to goods, the tax is due on registration of the import declaration; in relation to services, on payment or remittance abroad.

The calculation basis for services is the gross amount of the import, including ISS and the contributions themselves. The additional COFINS-Import of one percentage point on certain goods, which had applied for several years, ceased to apply from 2024.

Taxpayers under the non-cumulative regime are entitled to credits on imports.

Import duty (II)

Import duty is levied on customs clearance of imported products on an ad valorem basis, at rates that vary according to the tariff classification. Imports are also subject to PIS and COFINS-Import, IPI and ICMS. Rates follow the Mercosur Common External Tariff, which was subject to a general reduction of 10% agreed within the bloc, with the customary list of exceptions. The EU-Mercosur agreement, once in application, will progressively eliminate duties on a substantial proportion of imports of European origin, which is directly relevant to groups importing capital goods and components from Europe.

Withholding income tax on payments abroad

Payments made to non-residents are generally subject to withholding income tax at the time of payment, credit, delivery or remittance.

NATURE OF THE PAYMENT	RATE
Services in general, and compensation paid to non-resident individuals	25%
Technical services, technical assistance and administrative assistance, whether or not involving transfer of technology	15%, plus CIDE at 10% payable by the Brazilian party
Royalties and licensing	15%, plus CIDE at 10% where applicable
Interest on loans	15%
Capital gains realised by non-residents	15% to 22.5%, progressive
Dividends	10% from 1 January 2026 (previously exempt)
Interest on net equity (JCP)	17.5% from 2026 (previously 15%)
Payments to beneficiaries in low-tax jurisdictions or benefiting from privileged tax regimes	25% in general

The rates above are the domestic rates. Where a double tax treaty applies, it may reduce or eliminate the Brazilian charge, and the interaction of the treaty with the domestic rules — particularly for technical services, where Brazil has historically taken a position at odds with that of several treaty partners — should be analysed transaction by transaction. Brazil signed the Multilateral Instrument, which introduces a principal purpose test into its treaty network, and it entered into force for Brazil in 2025.

Contribution for intervention in the economic domain (CIDE)

CIDE is a federal contribution levied at 10% on amounts paid, credited, delivered or remitted to non-resident beneficiaries in consideration of: the supply of technology; technical assistance, including technical assistance services and specialised technical services; trademark licensing and assignment; patent licensing and assignment; and agreements for the provision of technical services, administrative assistance and similar services that do not involve transfer of technology.

CIDE is not levied on remittances of software licence and distribution fees where there is no transfer of source code.

CIDE-Royalties is not affected by the consumption tax reform and continues in force. It is borne by the Brazilian payer, is not creditable, and is deductible for corporate income tax purposes. In modelling the cost of an intercompany technology or trademark licence into Brazil, the aggregate of withholding tax at 15%, CIDE at 10%, PIS/COFINS-Import at 9.25% and IOF on the exchange transaction should be considered together with the deductibility limits applicable to royalties.

CIDE on fuels

CIDE on fuels is a fixed amount in reais per unit of measure, levied on the import and sale of certain fuels. The taxpayer is the producer, blender or importer. It may be offset against PIS and COFINS due on the sale of fuels, within statutory limits.

Tax on financial transactions (IOF)

IOF rates were increased substantially by Decree 12.466/2025 and Decree 12.499/2025 in mid-2025, in a sequence of measures that were partially reversed by Congress and then restored by the Federal Supreme Court. Critically, the decrees revoked the schedule under which IOF on foreign exchange transactions was to be reduced progressively to zero by the end of the decade — a commitment made in the context of the OECD accession process.

IOF is therefore a materially higher and more permanent cost than in previous years.

TRANSACTION	INDICATIVE RATE
Foreign exchange — general outbound remittances	3.5%
Foreign exchange — remittances for the acquisition of equity interests abroad	1.1%
Foreign exchange — inbound funds not otherwise specified	0.38%
Foreign exchange — inbound foreign loans and financings	3.5% where the minimum average term is under 364 days; the previous exemption for longer-term loans was revoked
Foreign exchange — return of capital invested by a foreign investor in Brazilian equity	0%
Foreign exchange — international credit and debit card transactions and purchase of foreign currency in cash	3.5%
Credit transactions — corporate borrower	0.95% fixed plus 0.0082% per day, capped by reference to a 365-day term
Credit transactions — individual borrower	0.38% fixed plus 0.0082% per day
Insurance	0.38% on life cover; 2.38% on health cover; 7.38% on other insurance. The IOF on insurance is absorbed into the CBS from 1 January 2027.
Private pension contributions (VGBL)	Exempt up to BRL 600,000 per year from 2026; 5% on the excess
Securities	0% to 1.5% depending on the transaction; regressive table on redemptions within thirty days
Gold as a financial asset	1%

Excise tax (IPI)

IPI is a federal value added tax levied on domestic and imported manufactured products, charged as products leave an industrial establishment or its equivalent, and on customs clearance. It is levied at each stage of production, and tax paid at earlier stages may be offset against tax due on subsequent transactions, so that the net effect is a tax on value added. Rates are set in the IPI Tariff Table (TIPI) and vary according to the essentiality of the product.

IPI rates will be reduced to zero from 2027, except in respect of products that are also manufactured in the Manaus Free Trade Zone, where the tax is retained specifically in order to preserve the competitive differential of that zone. From 2027 the regulatory function of IPI in respect of goods harmful to health or the environment passes to the Selective Tax. Constitutional Amendment Bill 22/2026, filed in November 2026, would add a further exception, keeping the IPI in force on goods subject to the Selective Tax until the rates of that tax take effect on 2 February 2027. The chapter on the tax reform sets out the position.

Rural land ownership tax (ITR)

ITR is a federal tax on the ownership of property located outside the urban perimeter. The rate ranges from 0.03% to 20% per year depending on the size of the property and the degree of use, so that under-used large properties bear a substantially higher rate. Small rural properties are exempt where the owner or the owner's family cultivates the land. Constitutional Amendment 132/2023 permits municipalities to enter into agreements to administer and collect ITR and to retain the full proceeds, which has increased enforcement in practice.

State taxes

State value added tax (ICMS)

ICMS is a value added tax on the circulation of merchandise, on interstate and inter-municipal transport services and on

communications services. **It will be progressively replaced by the IBS between 2029 and 2032 and extinguished on 31 December 2032.**

The calculation basis is generally the value of the transaction. As a non-cumulative tax, ICMS credits arise on inputs — raw materials, goods acquired for resale, fixed assets and other items provided for by law — and may be offset against monthly liabilities, with excess credits carried forward.

ICMS is levied on imports of goods on customs clearance, on the CIF value plus customs charges including import duty, IPI, PIS and COFINS, and ICMS itself.

The states set the rates applicable within their territory. Internal rates currently range from approximately 17% to 23%, and several states also levy a supplementary charge for state poverty eradication funds. Interstate transactions are taxed at 7% or 12% depending on origin and destination, and at 4% for goods with imported content above 40%. Where the recipient in another state is a final consumer, the difference between the internal rate of the destination state and the interstate rate — the DIFAL — is payable to the destination state, a regime regulated by Complementary Law 190/2022 following the Supreme Court decision that had struck down its previous basis.

Two further changes should be noted. First, following the Supreme Court decision in ADC 49, Complementary Law 204/2023 confirmed that ICMS is not levied on transfers of goods between establishments of the same taxpayer, while preserving the transfer of the corresponding credit to the receiving establishment; taxpayers may elect to treat such transfers as taxable in order to preserve the operation of incentive regimes. Second, tax substitution (substituição tributária), under which a single taxpayer in the chain accounts for the tax due on subsequent transactions on a presumed basis, remains in force and remains a significant source of complexity and of restitution claims where the presumed base exceeds the actual sale price.

Tax on inheritances and gifts (ITCMD)

ITCMD is a state tax on transfers by gift or on death. Until recently, each state legislated with almost complete freedom, subject only to a maximum rate of 8% fixed by the Federal Senate, and there was no national framework. Two changes have altered the position fundamentally.

- Constitutional Amendment 132/2023 made progressive rates mandatory, moved the competence in respect of movable assets on death to the state of the deceased's domicile, and authorised the taxation of gifts and inheritances with a foreign element — filling the gap identified by the Federal Supreme Court, which had held that such transfers could not be taxed in the absence of a complementary law.
- Complementary Law 227/2026 enacted the national rules. It establishes: mandatory progressivity by reference to the value of the share, legacy or gift; competence rules covering assets located abroad, donors domiciled abroad and deceased persons domiciled abroad; a market value calculation basis, with express authority for the tax administration to challenge declared values; a specific valuation rule for quotas and shares not traded on an exchange, which must reflect a technically appropriate methodology and may not be lower than net equity adjusted to market value; the aggregation of successive gifts made within a period of years; and rules on trusts, under which the tax is not triggered by the mere constitution of the trust or the transfer to the trustee, but on distribution to beneficiaries.

The consequences for family holding structures are direct. States that apply a flat rate — São Paulo has applied 4% — must legislate to introduce progressivity, and the direction of travel is towards the 8% ceiling. The new valuation rule for non-listed quotas removes the practice of transferring quotas of a family holding company at book value, which has been the foundation of a great deal of Brazilian succession planning. And assets held abroad, which were effectively outside the tax for want of a complementary law, come within it

once the states legislate. Changes are subject to the annual and ninety-day anticipation rules, so the timing differs by state.

Municipal taxes

Service tax (ISS)

ISS is a municipal cumulative tax levied on services listed in the annex to Complementary Law 116/2003. The basis is the price charged for the service, and rates vary from 2% to 5% depending on the service and the municipality. Local incentives producing an effective rate below the 2% minimum are prohibited. ISS is also levied on the import of services, and exports of services are exempt, except where the service is performed in Brazil and its result also occurs in Brazil. **ISS will be progressively replaced by the IBS between 2029 and 2032 and extinguished on 31 December 2032.**

The determination of the municipality entitled to the tax — as a rule the municipality where the provider is established, with a long list of exceptions — has been a persistent source of double taxation and litigation. Complementary Law 175/2020 moved a group of services, principally card processing, leasing and health plan administration, to taxation at the place of the customer. The elimination of this boundary is one of the clearest simplification gains of the reform.

Property tax (IPTU)

IPTU is a municipal tax charged annually on urban property, at progressive rates applied according to the market value, location and use of the property. Rates vary from approximately 0.2% to 5% depending on the municipality. The taxpayer is the owner, the holder of the useful domain or the possessor.

Property transfer tax (ITBI)

ITBI is a municipal tax on the transfer of immovable property, payable by the acquirer, at rates of up to 6%; in the municipality of São Paulo the rate is 3%. Transfers of property to a company by way of capital contribution are immune from ITBI, except where the

company's preponderant activity is real estate. The Federal Supreme Court held in 2020, in a decision of general repercussion, that the immunity does not extend to the portion of the property's value that exceeds the capital subscribed — a point of direct relevance to the incorporation of real estate holding companies. The Court has also held that the calculation basis is the transaction value declared by the taxpayer, which the municipality may challenge only through a formal assessment procedure, and not a value unilaterally fixed by the municipality.

Complementary Law 227/2026 also introduced national rules affecting ITBI, including as to the moment of the taxable event, which should be reviewed against the practice of the relevant municipality.

Other tax aspects

Profit distribution

Companies in Brazil controlled by foreign investors are subject to the same taxation as Brazilian-owned companies, including as regards the distribution of profits. Dividends received from other Brazilian companies are not taxable for income tax purposes. Since 1 January 2026, under Law 15.270/2025, dividends paid to a beneficiary resident or domiciled abroad are subject to withholding tax at 10% regardless of amount, and dividends paid by the same company to the same resident individual in excess of BRL 50,000 in a month are subject to withholding at 10%. Distributions to Brazilian resident companies remain outside the withholding charge. The grandfathering rule for profits whose distribution was approved by 31 December 2025, the treatment of the capitalisation of profits as a taxable event, and the minimum personal income tax are described in the chapter on the income tax reform.

Interest on net equity (JCP) remains available as an alternative to dividends. A Brazilian company may deduct, within limits, interest calculated on defined equity accounts by reference to the long-term interest rate; the payment is subject to withholding tax at 17.5%

from 2026. Because the payment is deductible at 34% and taxed at 17.5%, JCP continues to produce a lower combined burden than a dividend in most structures, but Law 14.789/2023 restricted the equity accounts that may be included in the base and the tax authorities scrutinise retrospective or capitalisation-driven computations closely.

Capital gains

Capital gains are treated as ordinary profits for Brazilian companies, subject to restrictions on the offset of capital losses. Gains realised by a non-resident on an investment registered with the Central Bank are subject to withholding tax at progressive rates:

GAIN	RATE
Up to BRL 5 million	15%
From BRL 5 million to BRL 10 million	17.5%
From BRL 10 million to BRL 30 million	20%
Above BRL 30 million	22.5%

Gains realised by a resident of a low-tax jurisdiction are taxed at 25%. The legal representative in Brazil of the non-resident purchaser is liable for withholding and paying the tax. The rule is intended to capture gains realised abroad on transactions involving the transfer of Brazilian assets. Foreign investors operating in the financial and capital markets under CMN Resolution 4.373 are subject to a different, generally more favourable, regime, including exemption on gains realised on the stock exchange in certain circumstances.

In an M&A context, the indirect transfer of a Brazilian asset through the sale of a foreign holding company remains outside the express scope of the Brazilian charge, but the tax authorities have challenged such structures where the foreign holding lacks

substance. The point should be assessed at the structuring stage rather than at closing.

Transfer pricing

The former transfer pricing system — fixed statutory margins, prescribed methods with no functional analysis, safe harbours for exports and a deliberate departure from the OECD approach — was abolished. Law 14.596/2023, converting Provisional Measure 1.152/2022, replaced it with a system based on the arm's length principle and aligned with the OECD Transfer Pricing Guidelines. The new rules were optional for 2023 and mandatory from 1 January 2024, and are regulated principally by RFB Normative Instruction 2.161/2023.

The arm's length principle

The terms and conditions of a controlled transaction must be established in accordance with those that would be agreed between unrelated parties in comparable transactions. Where they are not, the taxpayer must make an adjustment increasing the IRPJ and CSLL base. The analysis follows the OECD sequence: delineation of the transaction on the basis of the contractual terms and the conduct of the parties, functional analysis addressing functions performed, assets used and risks assumed, comparability analysis, and selection of the most appropriate method.

Related parties and scope

The definition of related parties is broader than under the previous rules and is based on control and influence, including in fact and not only in law. It covers, among others, the controlling entity and entities under common control, entities with a direct or indirect participation of at least 20%, entities under the same management, entities in an exclusive commercial relationship, and consortium and joint venture partners. Transactions with parties in low-tax jurisdictions or benefiting from privileged tax regimes remain within scope regardless of any relationship.

Scope now extends to all controlled transactions, including intangibles, intra-group services, cost contribution arrangements, business restructurings, financial transactions and guarantees — categories that the previous system either did not address at all or addressed through inadequate proxies.

Methods

METHOD	OECD EQUIVALENT
PIC — Preço Independente Comparável	Comparable Uncontrolled Price (CUP)
PRV — Preço de Revenda menos Lucro	Resale Price Method (RPM)
MCL — Custo mais Lucro	Cost Plus Method
MLT — Margem Líquida da Transação	Transactional Net Margin Method (TNMM)
MDL — Divisão do Lucro	Transactional Profit Split Method
Other methods	Permitted where none of the above is appropriate and the alternative produces a result consistent with the arm's length principle

Documentation and penalties

- Taxpayers must prepare a Local File and, where the group's consolidated revenue exceeds the applicable threshold, a Master File, filed with the Federal Revenue Service within three months of the deadline for the ECF.
- Country-by-Country reporting continues to apply, in compliance with Action 13 of the BEPS project, and is filed as part of the ECF.
- Simplified documentation is available where the value of the controlled transactions is below the thresholds set by the Normative Instruction.

- Penalties apply for failure to file, late filing and inaccurate filing, calculated as a percentage of the transaction value or of gross revenue, subject to floors and ceilings.

Specific matters

Three points deserve particular attention from foreign groups with Brazilian subsidiaries.

- Intangibles. The new rules adopt the DEMPE analysis — development, enhancement, maintenance, protection and exploitation — so that entitlement to the return from an intangible follows the performance of those functions and the control of the associated risks, rather than legal ownership. Hard-to-value intangibles are subject to a specific regime.
- Intra-group services. A service charge is deductible only if the service was actually rendered, provides economic or commercial value to the recipient and would have been acquired from a third party or performed in-house. Shareholder activities and duplicated services are non-deductible. A simplified approach with a fixed mark-up is available for low value-adding services.
- Financial transactions. Intercompany loans, cash pooling, guarantees and captive insurance are now within the transfer pricing rules, and the previous mechanical interest deductibility limits based on sovereign bond rates plus a fixed spread were revoked. Pricing must reflect the credit rating of the borrower, the terms of the instrument and the options realistically available. The thin capitalisation rules described below continue to apply in parallel.

Royalties. Law 14.596/2023 also revoked the historic deductibility limits on royalties and technical assistance fees, which had capped deductions at 1% to 5% of net sales revenue by reference to a Ministry of Finance ordinance dating from 1958. Royalties are now deductible on transfer pricing principles, subject to a specific non-deductibility rule where the payment is made to an entity in a low-tax jurisdiction or under a privileged regime and produces a hybrid mismatch. This is one of the most commercially significant changes

in the new legislation and should prompt a review of every intercompany licence into Brazil that was structured around the old caps.

Advance pricing arrangements were introduced by the new legislation, with a consultation procedure before the Federal Revenue Service, and the corresponding adjustment and mutual agreement procedures under Brazil's treaties become materially more usable than under the previous system.

Thin capitalisation

Brazil's thin capitalisation rules apply to transactions with related parties and to transactions with parties in low-tax jurisdictions or benefiting from privileged tax regimes.

Interest paid or credited by a Brazilian source to a related party resident abroad is deductible on an accruals basis where the expense is necessary to the company's activities and both of the following thresholds are met: the related party debt-to-equity ratio does not exceed 2:1, calculated by reference to the direct equity investment made by related parties; and the overall debt-to-equity ratio does not exceed 2:1 on the same basis. All forms of financing must be taken into account, irrespective of registration with the Central Bank.

Where the beneficiary is subject to a privileged tax regime or is located in a low-tax jurisdiction, irrespective of any relationship, interest is deductible only where the expense is necessary and both of the following are met: indebtedness to the beneficiary does not exceed 30% of the net equity of the Brazilian entity; and total indebtedness to all such entities does not exceed 30% of net equity.

Interest in excess of these limits is non-deductible. The thin capitalisation rules were not repealed by the new transfer pricing legislation and operate cumulatively with it: an intercompany loan must satisfy both the arm's length test as to its terms and the debt-to-equity ratios as to its quantum.

Double tax treaties

Brazil is party to treaties for the avoidance of double taxation with, among others, Argentina, Austria, Belgium, Canada, Chile, China, Colombia, the Czech Republic, Denmark, Ecuador, Finland, France, Hungary, India, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, Norway, Paraguay, Peru, the Philippines, Poland, Portugal, Russia, Singapore, Slovakia, South Africa, South Korea, Spain, Sweden, Switzerland, Trinidad and Tobago, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, Uruguay and Venezuela.

The network has expanded in recent years, with treaties concluded or brought into force with, among others, Switzerland, Singapore, the United Arab Emirates, Uruguay, Colombia, Poland and the United Kingdom. There is no treaty with the United States, and relief in that relationship depends on reciprocity of treatment for foreign tax credit purposes, which the Federal Revenue Service has recognised.

Brazil signed the Multilateral Instrument, which introduces a principal purpose test and other minimum standards into the covered treaties. Structures relying on treaty benefits — in particular holding structures in jurisdictions with favourable dividend or capital gains provisions — should be tested against that standard, now that the taxation of dividends has made the treaty position relevant again.

Controlled foreign corporations

Brazilian CFC rules apply to companies with investments in foreign subsidiaries or affiliates. Profits earned by controlled foreign corporations and by certain non-controlled affiliates must be included in the corporate income tax base of the Brazilian controlling or parent company at the end of each fiscal year, on an accrual basis, irrespective of distribution. Taxes paid abroad may be credited against the Brazilian liability.

The taxation of the profits of non-controlled entities generally occurs on distribution, where the statutory requirements are met. The option to consolidate the profits and losses of foreign

subsidiaries, which had been available on an annual irrevocable election, expired at the end of 2022 and has not been renewed. Brazilian groups with foreign operations therefore compute the charge entity by entity, which prevents the offset of losses in one jurisdiction against profits in another.

The Brazilian CFC regime is unusually broad by international standards, applying regardless of whether the foreign income is passive or active and regardless of the level of taxation in the foreign jurisdiction, subject to limited deductions. It has been the subject of extensive litigation, including a Supreme Court decision that limited its application in relation to affiliates in treaty jurisdictions, and it remains a principal consideration in deciding whether a Brazilian group should hold foreign operations directly or through an intermediate holding company.

Taxation of individuals

The taxation of individuals in Brazil depends on their status as a tax resident. Brazilian citizens domiciled in the country are tax residents. Foreign nationals become taxable in Brazil from the moment they acquire tax residence, which depends on the type of authorisation granted and on physical presence.

A foreign individual entering Brazil is considered resident for tax purposes: on arrival, where holding a permanent residence authorisation, or where entering under a temporary authorisation to work under an employment contract; on completing 184 days of presence, consecutive or not, within a twelve-month period; or on the date of obtaining permanent residence or employment, if earlier.

There are no special tax regimes for foreign nationals. Once resident, an individual is taxed on worldwide income at progressive rates.

The monthly progressive table applicable from 2026 is as follows, as modified by Law 15.270/2025. Note that the additional reduction that produces exemption up to BRL 5,000 per month operates outside the table, as a reducer, rather than by amending the bands.

MONTHLY BASIS (BRL)	RATE	DEDUCTION (BRL)
Up to 2,428.80	Exempt	—
From 2,428.81 to 2,826.65	7.5%	182.16
From 2,826.66 to 3,751.05	15%	394.16
From 3,751.06 to 4,664.68	22.5%	675.49
Above 4,664.68	27.5%	908.73
Additional relief	Full exemption up to BRL 5,000 of monthly income; tapering reduction between BRL 5,000 and BRL 7,350, calculated as BRL 978.62 less 0.133145 multiplied by gross monthly income	—

A simplified deduction is available as an alternative to itemised deductions. The standard monthly simplified deduction is BRL 607.20.

A foreign individual who ceases to be a Brazilian tax resident but receives income from Brazilian sources for work performed here is taxed at a flat 25% withholding.

Income from financial investments is taxable at rates between 15% and 22.5% depending on the term and type of investment. Individuals are also subject to income tax on capital gains at the progressive rates of 15% to 22.5% described above, with exemption where the disposal proceeds in a month are below BRL 20,000 for shares traded on an exchange and BRL 35,000 for other assets.

Assets and investments held abroad

A new regime applies from 2024. Law 14.754/2023 fundamentally changed the taxation of Brazilian resident individuals holding assets

abroad, ending the deferral that had allowed income accumulated in an offshore company to remain untaxed until distribution.

- Income from financial investments abroad — including interest, dividends from foreign portfolio holdings, gains on disposal and foreign exchange gains on invested funds — is taxed at a flat 15% in the annual return, without the previous monthly regime and without the exemption thresholds.
- Profits of controlled entities abroad — companies, funds and other vehicles in which the individual holds control, or which are located in a low-tax jurisdiction or have predominantly passive income — are taxed annually at 15% on 31 December, whether or not distributed. This is the automatic transparency that ends the deferral available under the previous regime.
- An election is available to treat a controlled entity as transparent, so that its assets are taxed directly in the hands of the individual under the rules applicable to each asset. The election is irrevocable and must be made in the terms of the regulations.
- Trusts are addressed expressly for the first time in Brazilian tax law. Assets held in trust are treated as remaining under the ownership of the settlor until distribution to the beneficiary or the death of the settlor, at which point they pass to the beneficiary. Income and gains are taxed in the hands of whoever is treated as the owner at the time.
- A transitional option was available to update the value of assets held abroad on payment of tax at a reduced rate, and a further regularisation programme was created by Law 14.973/2024.

For a foreign executive relocating to Brazil, or for a Brazilian family with international assets, this regime is the single most important change in personal taxation in a generation and should be addressed before residence is acquired rather than afterwards.

Reporting obligations

A resident taxpayer must file an annual income tax return where, among other criteria, taxable income exceeded the annual

threshold, exempt or exclusively withheld income exceeded the applicable threshold, a capital gain was realised, or assets and rights were held at 31 December above the applicable threshold.

Separately, residents holding assets abroad must file the Declaration of Brazilian Capital Abroad with the Central Bank where the aggregate value reaches USD 1 million at 31 December, or quarterly where it reaches USD 100 million. The thresholds for the income tax return are periodically adjusted and should be confirmed for each year.

Social security

Employment income earned by an individual resident in Brazil is subject to social security contributions at rates of 7.5% to 14%, subject to the contribution ceiling. The ceiling for 2026 is BRL 8,475.55 of contribution salary, giving a maximum monthly employee contribution of approximately BRL 988.

Double tax relief

Relief from double taxation is available where a tax treaty exists between Brazil and the country from which foreign-sourced income is generated, or where reciprocal treatment applies. The United States, Germany and the United Kingdom are recognised by the Federal Revenue Service as affording reciprocity of treatment for foreign tax credit purposes even in the absence, or following the termination, of a treaty.

Departure from Brazil

An individual leaving Brazil permanently must file the Communication of Definitive Departure and the Declaration of Definitive Departure in respect of the period during which residence was maintained. Failure to file results in the individual continuing to be treated as a Brazilian tax resident until the completion of twelve consecutive months of absence, with the consequence that worldwide income remains taxable in Brazil during that period.

This is a frequent and expensive oversight among expatriates leaving Brazil, and it interacts poorly with the offshore rules described above. The departure filings should be planned as part of the assignment, not treated as an afterthought.



08

Outlook and pending reforms

Pending reforms and the 2026 electoral cycle

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The 2026 electoral cycle

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Brazil has delivered, in three years, a set of structural reforms that had been discussed without result for three decades. The consumption tax reform was approved and regulated; transfer pricing was aligned with the OECD standard; the global minimum tax was adopted; dividends were brought back into charge; and national rules on inheritance and gift tax were enacted. The agenda is not, however, complete.

What remains under discussion

- Corporate income tax. The reduction of the IRPJ and CSLL rates, originally proposed as the counterpart to the taxation of dividends, has not been enacted. The combined statutory rate remains 34%, among the highest in the G20. A second income tax bill should be expected, although the fiscal position makes a material rate reduction difficult in the short term.
- Administrative reform. Proposals to reorganise the federal civil service and public expenditure remain under consideration in Congress and are politically contested.
- Fiscal framework. The sustainability of the current spending rule, the trajectory of gross public debt and the composition of the primary result are the central macroeconomic questions and the principal determinant of the sovereign rating and of the cost of capital in Brazil.
- Payroll taxation. The gradual restoration of the standard payroll contribution for the seventeen sectors that benefited from the reduced regime concludes in 2027, and the wider question of the burden on labour remains open.
- Refinement of the consumption tax reform. Complementary Law 227/2026 made more than a hundred amendments to Complementary Law 214/2025 within a year of its enactment. Further adjustments should be expected throughout the transition, particularly as the reference rates are calibrated and as the specific regimes are tested in practice.
- The CBS reference rate. The Federal Senate has until 15 December 2026 to confirm or alter the rate of 11.3% calculated by

the Federal Court of Accounts for 2027. If it does not act, that rate applies. It will be recalculated annually until 2035.

- The Selective Tax. Provisional Measure 1.399/2026, which fixes the rates for 2027, must be converted into law by Congress and may be amended in the process, and the Executive is required to submit by 31 May 2027 the bill fixing the rates applicable from 2028. Constitutional Amendment Bill 22/2026, which would keep the IPI in force on the affected goods until the Selective Tax takes effect, is at an early stage of its passage.

The 2026 electoral cycle

General elections are held in October 2026 for the Presidency, the Chamber of Deputies, two thirds of the Senate and all state governments. The consumption tax reform is constitutionally entrenched and its calendar is unlikely to be reversed, but the calibration of rates, the treatment of specific sectors and the second stage of the income tax reform are all matters on which the composition of the next Congress will be decisive. Investors should expect limited legislative output in the second half of 2026 and a defined window for tax legislation in 2027.

Planning points for the transition

Whatever the political outcome, four things are already fixed and can be planned for now.

- PIS and COFINS end on 31 December 2026. Contracts, pricing models and systems must be ready for the CBS in 2027.
- State ICMS incentives are reduced automatically from 2029 and disappear at the end of 2032. Business cases built on them require a second scenario, and entitlements to compensation from the federal fund should be registered and quantified.
- Dividends remitted abroad bear 10% withholding tax. Holding structures, treaty positions and the mix between dividends, interest on net equity and intercompany charges should be reviewed.

- The transfer pricing documentation obligation is annual and the penalties are material. Groups that have not yet prepared a Local File under the new rules are already exposed.
- The Selective Tax takes effect on 2 February 2027. Businesses in the automotive, beverage, tobacco and mining sectors, and importers of those goods, should complete the review of their tariff classifications and the modelling of the effect on price well before that date.

HLB Brasil is committed to keeping its website updated with the most relevant changes that may affect your business. If you prefer to speak with our professionals directly, we will be glad to assist with your specific enquiries.

We wish you success in doing business in Brazil and remain at your disposal, directly or through our social media channels.

09

HLB in Brazil

How to contact us

IN THIS CHAPTER

How to contact us



HLB Brasil Advisory and Accounting is an independent member of HLB International, present in São Paulo and serving Brazilian and foreign groups across the country. Our practice covers tax consulting and tax structuring, transaction advisory and M&A, audit and assurance, accounting and business process outsourcing, and advisory on the implementation of the tax reform.

How to contact us

Our teams work together across offices, so a single point of contact gives you access to the full range of our tax, audit, advisory and accounting services anywhere in Brazil.

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