



Brazilian Tax Reform on Consumption

July 2023

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Main changes

Extinguished taxes

PIS/COFINS

IPI

ICMS

ISS



DUAL VAT

Goods and Services
Contribution (CBS)

Federal

Goods and Services Tax
(IBS)

State and Municipal

+

Excise Tax (IS)

Federal

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- **Replacement of the five consumption taxes** by a **DUAL VAT instituted by the Supplementary Law** levied on tangible and intangible goods, including rights, and services and a **excise tax (IS)** on certain goods.
- A Goods and Services Contribution (**CBS**), under the jurisdiction of the Federal Union and a Goods and Services Tax (**IBS**), under the jurisdiction of States and Municipalities, will replace PIS/COFINS, IPI, ISS and ICMS.
- CBS and IBS are based on broad incidence, non-cumulative, no gross-up (CBS and IBS are not part of their own taxable bases), principle of destination and exemption of exports.
- CBS and IBS have the same triggering events, taxable bases, non incidence scenarios, taxable persons, immunities and specific or differentiated tax regimes

IBS and CBS Special Tax Rates

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! Taking into consideration the essentiality of each sector

❑ Standard tax rate

- A base rate will be established to all federative entities by means of Federal Senate Resolution
- Each federative entity may adopt the base rate or set its own rate by enacting a law.
 - The rate set by the entity must be equal for all operations, with constitutional exceptions

❑ 60% tax rate reduction

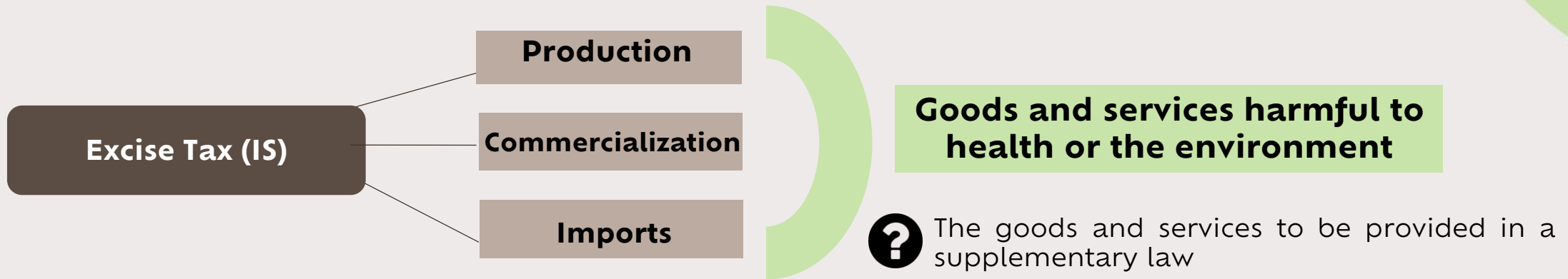
- education services
- health services
- medical and accessibility devices for people with disabilities (100%)
- medicines and basic menstrual health products (100%)
- public transport services (exemption)
- “in natura” agricultural, fishing, forestry and plant extractive goods
- agricultural inputs, food intended for human consumption and personal hygiene products
- national artistic, cultural, journalistic and audiovisual productions
- services related to national security and sovereignty, information security and cyber security.

❑ 100% tax rate reduction

- medical and accessibility devices for people with disabilities
- medicines and basic products for menstrual health
- staple foods program and vegetables, fruits and eggs
- urban rehabilitation activities in historic and critical areas for urban recovery and rehabilitation (exemption)
- Religious and charitable organizations (non-incidence)

Excise Tax (IS) – Federal Tax

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- **The purpose is to discourage the consumption of goods and services considered harmful to health or the environment, however it will not be levied on exports.**
 - It will be defined on an ordinary law, however the tax rates can be defined by the Executive Branch as an exception to the principle of legality and the tax can be levied after 90 days of its creation.
 - It can have same triggering event and taxable bases of other taxes, such as IBS/CBS and it will be part of the IBS, CBS, ISS and ICMS taxable bases.
 - It can be used as an instrument to maintain the competitive advantage of the Manaus Free Trade Zone; and
- It may be levied on electricity, telecommunications services, oil derivatives, fuels and minerals.



Favored and Specific Tax Regimes

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- **“Simples Nacional”** - a tax regime for micro and small-sized companies will not be extinguished. Simples Nacional purchases will generate the right to credit in an amount equal to the regime’s tax burden.
- **Manaus Free Trade Zone** - Shall remain in affect until 2073, also applicable to Free Trade Areas established up to 05.31.23.
- **Special Customs Regimes** - Possibility of tax deferral scenarios on customs regimes and Export Processing Zones.
- **Fuels and Lubricants** - Standard tax rates throughout the national territory, single phase collection with potential granting of credits in the acquisition of these products, as long as they are not intended for distribution, commercialization or resale.
- **Financial services, real estate transactions, healthcare plans and lottery** - Eligible to different collection regimes. Supplementary Laws shall provide specific rules regarding tax rates, credits and taxable bases.
- **Other specific regimes** – Such as for cooperative societies, hospitality, amusement and theme parks, restaurants etc.

Transition to the New Model

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- The Substitute Text establishes a transition model, as follows:

2026 Creation of a 0.9% CBS tax rate and a 0.1% IBS tax rate, off-settable with PIS/COFINS. If there are no PIS/COFINS debts, it is possible to offset other federal taxes or reimburse it in 60 days

2027 CBS is fully levied, PIS/COFINS (including on imports) are extinguished and IPI tax rates are reduced to zero percent (except for ZFM)

**2029
to
2032** Proportional increase of IBS tax rate and proportional reduction to ICMS and ISS tax rates (90% - 2029; 80%- 2030; 70% - 2031 and 60% - 2032)

As of 2033

Current system will be completely revoked and the new system will enter into full effect.

Wealth Taxation

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IPVA

(Property of Motor
Vehicles Tax)

- Levied on property of land, **water and air motor vehicles** (isonomy – equality under law).
- **Progressiveness** due to environmental impact and other factors.
- Shall not be levied on agricultural tractors, machines and airplanes, among others

ITCMD

(Donations and “causa
mortis” transfer tax)

- **Progressivity** due to the value of the transfer or donation, limited to successions opened after the enactment of the Constitutional Amendment.
- Not levied on donations to certain entities with public and social purposes.

IPTU

(Real Estate Tax)

- IPTU taxable base may be updated by the Executive Branch, based on general criteria provided for in municipal law, **in order to facilitate municipal administrations to reach the potential collection of highly valued properties.**

Next Steps

Milestones

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06/06

Work Group presented the report on the Tax Reform

06/22

Presentation of PEC 45/2019's Substitute Text by Rapporteur Aguinaldo Ribeiro.

07/07

Approval of the base text for the Tax Reform in two rounds of voting by the lower house.

Voting by the Federal Senate

It will have to be approved in two rounds of voting in the Senate, with at least 3/5 of the votes (49 senators). If the text undergoes changes, it must go back to the lower house until both houses approve the same text

Enactment by the National Congress

Approved in both Houses without changes, it will be enacted in the form of a constitutional amendment in a session of the National Congress.



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