



**2016, 13 April**

## **Doing Business in Brazil**

### **Corporate Income Taxes (IRPJ and CSLL)**

Resident companies are taxed on worldwide income. A foreign company is subject to Brazilian taxation only if it carries out certain sales activities in Brazil through agents or representatives that are domiciled in the country and that have the authority legally to bind the foreign seller before the domestic purchaser, or through a domestic branch of the foreign seller. A representative acting as an agent, with the final transaction being concluded by the non-resident company abroad, will not give rise to a legal presence in Brazil.

Corporate income tax, or IRPJ, is levied on the taxable profits of an entity at a rate of 15%. In addition to the IRPJ, a 10% surtax is imposed on taxable income exceeding BRL 240,000 on an annual basis.

The social contribution on profits, or CSLL, is levied on entities subject to the IRPJ in order to finance the Brazilian federal social security system. According to Law 13,169/2015, the CSLL rate was increased to 20% for financial institutions and remains at a 9% for other institutions.

Corporate income taxes are self-assessed and returns must be filed in the taxpayer's place of domicile. The authorities may assess taxes if no return is filed, or the taxpayer files an incorrect return. In situations when proper accounting records have not been kept by the taxpayer tax authorities may disregard the accounting records and conduct an arbitrary assessment.

Law 13,202/15, published on 9 December 2015, clarified that Brazil's tax treaties also cover the social contribution on net profits (CSLL). The "taxes covered" article in Brazil's tax treaties expressly includes only "Brazilian federal income tax," without specifying or making a reference to the IRPJ or the CSLL.

### **Taxable income defined**

Operating profits are defined as gross operating receipts, less the cost of goods sold or services rendered; commercial, administrative and operating expenses; and other charges, reserves and losses authorized by law. Dividends received from other Brazilian companies and income from premiums on the issuance of new shares is not included in taxable income.

Brazilian companies may elect to be taxed on actual or deemed income. The *Lucro Real* method is based on actual annual or quarterly taxable income, and the *Lucro*

*Presumido* method is based on estimated or deemed taxable income. The election is made annually and documented by the first tax form paid at the beginning of each calendar year.

Under the *Lucro Real* system, tax base is income before IRPJ and CSLL, adjusted by add-backs (nondeductible expenses) and deductions (nontaxable income, such as dividend income). IRPJ and CSLL must be paid by the last business day of the following month.

Lucro Real (Actual Income Regime)

Lucro Presumido

### **Inventories**

Companies that have an integrated costing system must value inventory for tax purposes at the lower of cost and market value, using either the average cost or the first in, first out (FIFO) method. In general, companies that do not have an integrated costing system must value products at 70% of the highest sale price used in the tax period (arbitrary method).

### **Losses**

Losses must be segregated as "operating" and "non-operating." Non-operating losses may only be set off against non-operating gains. Tax losses incurred in one fiscal year may be carried forward indefinitely but the amount offset is limited to 30 percent of taxable income for each year. The carryback of losses is not allowed

### **Group relief**

Brazil does not have a group relief system. There is no tax consolidation in Brazil and each entity must file separate tax returns.

### **Capital gains taxation**

Capital gains are treated the same as ordinary profits (subject to restrictions on the offset of capital losses against ordinary profits in certain cases). Capital gains derived by a nonresident on an investment registered with the central bank are subject to a 15 percent withholding tax. If the capital gain is derived by a tax haven resident, the rate is increased to 25 percent. According to domestic Law, the legal representative in Brazil of the non-resident buyer is liable for withholding and paying the tax to the Brazilian tax Authorities. In essence, this rule intends to tax any capital gain generated abroad, on transactions involving the transfer of ownership of a Brazilian investment, between companies/ individuals that are nonresident in Brazil.

Provisional Measure No. 692/2015 (PM 692) was converted into Law 13,259/2016 and published in Brazil's official gazette on 17 March 2016, almost six months after its enactment in September 2015. Law 13,259/2016 contains changes to the capital gains tax rules originally included in PM 692.

PM 692 revised the income tax rates applicable to capital gains derived from the sale of assets by individuals from a flat rate of 15% to progressive rates ranging from 15% to 30%. The changes in the PM also affected the rates applicable to capital gains derived from certain sales of "non-circulating" assets (a term used in IFRS nomenclature) by legal entities. Law 13,259/2016 further revises the progressive rates, to a range from 15% to 22.5%, as follows:

- 15% on gains that do not exceed BRL 5 million;
- 17.5% on gains over BRL 5 million and below BRL 10 million
- 20% on gains over BRL 10 million and below BRL 30 million; and
- 22.5% on gains over BRL 30 million

Law 13,259/2016 states that it is effective retroactively as from 1 January 2016, however, any law that increases taxes should enter into effect only in the year following the year of enactment. Therefore, in practice, the changes should apply as from 1 January 2017

Foreign investors on the financial market may be subject to different capital gain tax rates.

### **Deductions**

Expenses generally may be deducted if they are necessary for the activities of the company. Exchange gains and losses on obligations in foreign currencies may be taxed on an accrual or cash basis, according to the taxpayer's selection for the calendar year. Under the accrual basis, monthly exchange gains will be taxable and exchange losses will be deductible (whether or not realized). Under the cash basis, exchange gains or losses will be taxable or deductible only when realized.

### **Depreciation**

After the introduction of the new IFRS rules, Brazilian companies are subject, as from January 1, 2008, to Tangible/Fixed Asset's impairment tests, which should be carried out at least when there are evidences that such assets may be impaired (lack of profitability, obsolescence, and technologic changes). Moreover, the new accounting standards issued by the Brazilian Accounting Standards Committee (CPC) prescribe that entities should from now on recognize the value of the fixed asset in their financial statements according to the useful lives of such operating assets (beginning January 1, 2009).

Such statutes set forth that entities shall adopt the depreciation method that better reflects the pattern in which the asset's future economic benefits are expected to be consumed.

Nevertheless, from a tax perspective Normative Ruling 1,515/2014 determines that depreciation expenses should be calculated on a straight-line basis, according to the rates previously established by Normative Ruling 162/1998. Fixed assets are depreciated at rates specified for established asset classes, unless special provisions allow a higher rate.

Annual rates are 4 percent for buildings; 20 percent for vehicles, computer hardware, and software; and 10 percent for machinery, equipment and fixtures.

Taxpayers have the ability of using different rates considered more appropriate for its specific facts and circumstances, as long as they are able to provide adequate support documentation to justify such rates.

An entity operating two shifts a day may depreciate assets used in production at one-and-a-half times the ordinary rate. Companies that operate three shifts a day may use double the normal rate.

Another significant aspect concerns to the accelerated accounting depreciation, which can be carried out based on the work shifts of the production activity. The Income Tax law provides for accelerated depreciation based on the number of daily working hours incurred in the operations involving assets, including machinery and equipment, at the following rates:

- One 8-hour shift:
- Two 8-hour shifts: 1.5
- Three 8-hour shifts: 2.0

After the introduction of the new IFRS rules by Law 11638/07, Brazilian Companies are subjected, as from January 1, 2008, to Tangible/Fixed Asset's impairment tests, which should be carried out at least when there are evidences that such assets may be impaired (lack of profitability, obsolescence, and technologic changes). Moreover, the new accounting standards issued by the Brazilian Accounting Standards Committee (CPC) prescribe that entities should from now on recognize the value of the fixed asset in their financial statements according to the useful lives of such operating assets (beginning January 1, 2009).

Such statutes set forth that entities shall adopt the depreciation method that better reflects the pattern in which the asset's future economic benefits are expected to be consumed. However, Brazilian Tax Authorities issued Ruling (PN 1/11), in which determines that the IFRS effects should be neutralized under the RTT regime, and that the existing depreciation rates pre-IFRS should grandfathered. Note that RTT shall be automatically revoked starting January 01, 2015 as per PM No. 627/13.

### **Brazilian Transitory Tax Regime**

During the transition process from Brazilian GAAP to IFRS after the enactment of Law 11.638/07, and due to the significant changes in the accounting policies used by Brazilian organizations, Brazilian tax authorities introduced the so-called Transitional Tax Regime (RTT or Regime Tributário de Transição). The RTT was optional for calendar years 2008 and 2009 and was created to neutralize the accounting effects under IFRS guidelines from a tax standpoint. From 2010, the RTT became mandatory until the Brazilian authorities issued new regulations and guidance addressing the tax aspects of the new Law. From a practical standpoint, companies that elected RTT would calculate and pay corporate income tax (IRPJ and CSLL), and revenue taxes (PIS and COFINS) based on the accounting rules in effect at December 31, 2007, meaning that any adjustments related under IFRS rules would not affect the tax computation for purposes of IRPJ, CSLL, PIS and COFINS under the RTT regime.

In 2014, the Brazilian government introduced Law 12.973/2014, which repeals the RTT and modifies the existing tax legislation in a broad perspective. Law 12.973/2014 revoked the RTT as from 1 January 2015, but provided for an early adoption election, under which taxpayers are able to adopt the changes made by referred law starting on 1 January 2014.

### **Goodwill**

As from 2015, new rules introduced by Law 12,973/2014 determine that the allocation of the premium in an acquisition of shares should be broken down into two categories, in the following order: (1) identifiable assets acquired and liabilities assumed at fair value; and (2) future profitability (goodwill) or negative goodwill. Both amounts should be recognized in separate accounts and be supported by an independent appraisal registered with the Federal Revenue Service or the registry of deeds and documents.

The deduction for the premium would be taken based on the depreciation and/or amortization of the assets acquired and liabilities assumed at fair value and/or amortized within a minimum five-year period (for the portion allocated to goodwill). The tax amortization triggered by merger would be determined based on the existing accounting balance at the acquisition date.

### **Other tax adjustments**

<b>Accounting entries:</b>	<b>Tax treatment on Brazilian Corporate Income Tax Basis (IRPJ and CSLL):</b>
Present value adjustments on asset and liability accounts	Temporary non-deductible/non-taxable until the full realization/liquidation of the assets and liabilities under present value.

Fair market value adjustments on asset and liability accounts	Temporary non-deductible/non-taxable until the full realization/liquidation of the assets and liabilities under fair market value
Impairment adjustments	Temporary non-deductible, until the realization of the assets impaired.
Intangible amortization	As a general rule, the amortization of intangible assets are deductible, provided that the rights are directly connected to the company's production or commercialization of goods and services. Generally, R&D expenses may be temporary non-taxable, to be added back on the CIT basis upon amortization/disposal of the intangible.
Functional currency adjustments	For CIT purposes, taxpayers shall inform the taxable income in local currency (Brazilian currency) and not on a functional currency.
Finance Leases	Temporary non-deductible/non-taxable adjustments, until the end of the leasing transaction.
Stock Option plans	Temporary non-deductible. The compensation due for the services rendered by employees, defined under a Stock Options Plan, shall be added back on the CIT calculation basis on the period when the costs/expenses are incurred by the entity (accrual basis). This expenses are considered deductible (and therefore excluded on the CIT computation basis) by the time of payment of the employee in cash or other asset, or after the transfer of the definitive ownership of the stocks or stock options.
Borrowing costs	Borrowing costs (interest and other costs that an entity incurs in connection with the borrowing of funds) that are directly attributable to the acquisition, construction or production of a qualifying asset may be registered as part of the cost of that asset. On the recognition of such costs, the taxpayer shall exclude the related amount on the CIT calculation basis and add back the corresponding amortization of such costs upon realization/depreciation of the assets.
Government grants and assistance	Temporary non-taxable. Income derived from government investment subsidies and donations, granted as an incentive to the set up or expansion of economic enterprises and recognized

	<p>on the entity's P&amp;L shall not be computed on the corporate income tax calculation basis. The non-taxation of such revenues is available only if the entity recognizes the grants on profit reserves (net equity). Such reserves are available only to compensate accumulated losses or to increase paid in capital. Any diverse use of such reserves from the ones mentioned and the capitalization of this reserve shall trigger the addback of such amounts on the CIT calculation basis.</p>
Premium on the issuance of debentures	<p>Temporary non-taxable. Income derived from premiums on the issuance of debentures shall not be computed on the corporate income tax calculation basis, provided that the entity recognizes this premium on specific reserves (net</p> <p>The conversion to paid in capital of such reserves and the diverse use of such reserves from the ones permitted by Law shall trigger the addback of such amounts on the CIT calculation basis.</p>
Expenses derived from stock issuances	<p>The Brazilian legislation allows the exclusion on the CIT calculation basis of costs derived by primary distributions of stock or subscription bonuses, recognized on net equity. If for any reason, the transaction is reversed, the amounts previously excluded on the CIT computation shall be added back for IRPJ and CSLL taxation purposes.</p>
Fixed assets	<p>Costs and expenses associated with the realization of fixed assets by sale, depreciation, amortization, etc., are deductible for IRPJ and CSLL purposes. The depreciation rate for tax purposes, determined by Normative Ruling 162/98, is defined by the expected term of economic use of the asset. However, taxpayers may adopt a different depreciation/amortization rate, if supported by proper documentation (technical reports).</p>
Pre operational expenses	<p>Temporary non-deductible. The expenses incurred on the pre operational/pre industrial phase of an entity or incurred during the expansion of industrial activities shall not be computed on the corporate income tax calculation basis. Taxpayers shall exclude such amounts on the CIT computation at a fixed amount per month at a minimum term of 5 years, as of the beginning of operations.</p>
Long term contracts	<p>For construction contracts with execution term longer than one year, gains or losses for tax purposes derived from such</p>

contracts shall be determined based on one of following criteria:  
(i) the proportion of costs incurred per total estimated costs, or  
(ii) the actual development of the project (physical progress).

If the entity decides to use a different criteria than the ones mentioned above, it shall add back or exclude on the CIT calculation basis the difference between the two methods (the one adopted by the entity and one of the criteria set out by the tax legislation).

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## **Indirect taxes**

### **Value added tax**

### **Profit participation contribution (PIS) and social security financing contribution (COFINS)**

PIS and COFINS are federal taxes imposed monthly on gross revenue earned by legal entities. PIS is a mandatory employer contribution to an employee savings initiative and COFINS is a contribution to finance the social security system. The calculation method is generally non-cumulative, under which PIS and COFINS are levied on gross revenue at 1.65% and 7.6%, respectively, with deductions of input tax credits for expenses strictly connected to the company's business and prescribed by the regulating laws.

Other calculation methods and special schemes may apply to certain industries and type of revenue. If a company is paying corporate income tax based on a deemed taxable income regime, i.e. under the Lucro Presumido system, the rates are reduced to 0.65% and 3.0%, respectively, and the company is not entitled to input tax credits (cumulative taxation).

The export of goods and services are exempt provided funds effectively enter the country.

PIS and COFINS are due on importations of goods and services from abroad (i.e. PIS-Import and CO-FINS-Import).

Law 13.137/15, published in the official gazette on 22 June 2015, increased the standard PIS and CO-FINS rates levied on the import of goods, from a combined rate of 9.25% (1.65% PIS and 7.6% COFINS) to 11.75% (2.1% PIS and 9.65% COFINS). According to Law 13.137/15, taxpayers are allowed to recognize PIS and COFINS input credits based on the increased rates (under the non-cumulative regime). Others sectors that already were subject to increased PIS and COFINS rates for imports under special regimes (such as cosmetics, machinery, pharmaceuticals and tires) are now subject to combined rates as high as 20%, depending on the harmonized code for the products. The PIS and COFINS rates on imported services remain unchanged (i.e. combined rate of 9.25%).

## **Federal VAT (IPI)**

The IPI is a federal excise tax levied on manufacturer's sales and imports and sales carried out by importers. As a VAT-type tax, the amount paid on imports and other taxed inputs are usually recoverable as tax credits to be offset against company's IPI output debits. The tax rates range from 0% to 330% depending on the type of goods. Typically, the average rate for the IPI is 15%.

## **State VAT (ICMS)**

ICMS is a VAT levied by the Brazilian states on the circulation of goods and the provision of interstate and inter-municipal transportation and communications services. The tax applies even when a transaction and the provision of services commence in another country. A non-cumulative tax, ICMS is collected by most states at the rate of 17%, except for São Paulo and Minas Gerais, whose tax rates are 18%. There are also interstate rates of 12%, 7% and 4%, depending on the location of the recipient and nature of the transaction.

## **Service tax (ISS)**

The tax on services or ISS, a municipal tax, is imposed on the supply of services, other than services subject to ICMS. The list of relevant services is found in Complementary Law 116/2003. The taxable base of ISS is the price of the service rendered. ISS is generally levied by the municipality in which the company that provides the service is established, although in exceptional cases, ISS may be levied by the municipality where the services are performed. ISS rates vary between 2% and 5%, depending on the municipality and the type of service. The importation of services is also subject to ISS, whilst exportations may be exempt if the result of the supply is exclusively verified abroad. As a cumulative tax, ISS is not recoverable, i.e. no input tax credits are available.

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## **Other taxes**

### **Capital tax**

Brazil does not levy capital duty.

### **Real estate tax**

The real estate property tax (*Imposto Predial e Territorial Urbano - IPTU*) is an annual tax assessed on the ownership of urban real property. The tax, collected by the municipality where property is located, is calculated on a deemed "sales price" of the property. The tax

rate varies from city to city, but may be estimated in the range of 0.3% to 1.0%.

Rural property tax (*Imposto sobre a Propriedade Territorial Rural - ITR*) is an annual tax assessed on the ownership of rural property at rates ranging from 0.03% to 20%, depending on the region and the utilization of the property.

### **Transfer tax**

The real estate transfer tax (*Imposto sobre a transmissao de bens imoveis - ITBI*) is a Municipal tax due upon the transfer of title to real property. The tax rate is progressive, varying from City to City and calculated, roughly on the sales price. The buyer is responsible for payment of the tax.

### **Stamp duty**

Brazil does not impose any stamp duties.

### **Inheritance and gift tax**

The ITCMD (Taxation on Donations and Inheritance) is a State tax that levies on donation/Inheritance transactions at rates ranging from 2% to 8% depending the legislation of each State of Brazil.

### **Custom duties**

In addition to the State VAT (ICMS), the Federal Vat (IPI), and the PIS and COFINS-import taxes, the federal government also assesses custom duties (II) on the import of products into Brazil. The import duty is levied upon the nationalization of the goods. Rates vary according to the NCM code of each product, which is based on the Harmonized System codes (HS Codes). Typically the average rate for the II is 14%. The Import tax is not creditable for the importer, and may not be used offset other tax liabilities. There is no Import Duties on services. Imported goods are also subject to the **Additional Freight Charge for Renovation of the Merchant Navy ("AFRMM")** levied on all imports transported via maritime freight. The AFRMM is levied on the freight charged by Brazilian and foreign navigation companies operating in Brazilian ports. Such charge is calculated on freight price at a rate of 25%. An exemption may apply for the ocean carriage of goods that originated from or were destined for ports located in the north or northeastern regions of Brazil.

### **Contribution for intervening in economic domain (CIDE)**

The CIDE is assessed on outbound royalties and service payments when there is a transfer of technology or when the services provided are considered technical assistance. The rate of

the CIDE is 10%. The burden of the CIDE falls on the Brazilian company and is not creditable by the foreign beneficiary (exceptions apply, e.g. trademark). The CIDE on software payments was abolished in 2007. As a result, CIDE is not levied on payments relating to a license or right to trade or distribute software programs, as long as no transfer of source code is involved.

### **Tax on financial operations (IOF)**

The IOF applies to various types of transactions, including loans, insurance policies and short-term money market applications. In general, IOF is levied at the rate of 0.38% on foreign exchange (the acquisition or sale of foreign currency). Certain exceptions apply. Specific IOF rates also apply to portfolio investments under Resolution 4,373/14 when investments are made through the Brazilian financial and capital market. Decree 8.392/2015, published in the official gazette on 21 January 2015 and effective as from that date, increased the IOF levied on credit transactions (loans and factoring) carried out by individuals from 1.5% to 3% per year.

The IOF has been used by the Brazilian government as a tool to stimulate or inhibit the inflow/outflow of foreign currency into/out of Brazil and consequently, to manage the fluctuation of the Brazilian Reais against foreign currencies.

Therefore, loan transactions are subject to IOF at a rate of 6% if a minimum maturity period is not observed. Currently, the definition of "short-term" for purposes of inbound loans and off shore bond issues (overseas debt) comprises those that have a maturity period of less than 180 days.

The IOF is assessed at the time the foreign currency is converted into Brazilian Reais. This also applies to simultaneous foreign exchange transactions (in which there is no effective cash exchange).

The definition of short term for purposes of inbound loans and offshore bond issues must be determined based on the rule prevailing at the time the loan was obtained. The following chart sets out the various changes to the minimum period to maturity since March 2011:

<b>Decree</b>	<b>Minimum average period (days)</b>	<b>Period</b>	<b>IOF Rate</b>
7,456/11	360	29 Mar 2011 - 6 Apr 2011	6%
7,457/11	720	7 Apr 2011 - 29 Feb 2012	6%
7,683/12	1,08	1 Mar 2012 - 11 Mar 2012	6%
7,698/12	1,8	12 Mar 2012 - 13 Jun 2012	6%
7,751/12	720	14 June 2012 - 4 Dec 2012	6%
7,853/12	360	5 Dec 2012 - 3 June 2014	6%
8,263/14	180	As from 4 June 2014	6%

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## **Cross border taxation Double taxation relief**

### **Unilateral relief**

Brazil provides relief from double taxation of foreign-source income by a credit or tax reduction, depending on the income. A foreign tax credit may be claimed for foreign tax paid limited to the Corporate Income tax liability to the extent the foreign-source income is included on taxable income. Withholding taxes are creditable, as well as underlying income tax paid, regardless the existence of double tax treaty signed under certain conditions.

### **Tax treaties**

Brazil has signed a total of 32 treaties that are currently in force, most of which follow the OECD model treaty. Most of the treaties signed have exchange of information provisions. The treaties generally provide for relief from double taxation on all types of income, limit the taxation by one country of companies resident in the other, and protect companies resident in one country from discriminatory taxation in the other.

A distinct aspect of the Brazilian treaty policy which deviates from the OECD Model Convention is the inclusion of matching credit clauses in the treaties signed with developed countries, especially with regards to payment of dividends, royalties and interest. Brazilian treaties also tend to privilege source taxations as opposed to granting exclusive taxing rights to the state of residence of the beneficiary of the income.

In order to benefit from Brazil's tax treaties, a nonresident must demonstrate it is resident in the treaty partner country, generally by providing a certificate issued by a competent tax authority of the country of residence. The Brazilian tax authorities have also issued specific forms in order to request the application of reduced withholding treaty rates and recognize tax residency.

<b>Countries</b>	<b>Withholding Taxes Brazil's Interest</b>	<b>Income Rates under treaties -</b>	<b>Withholding Taxes Brazil's Royalties</b>	<b>Income Rates under treaties -</b>
Non-treaty rates <sup>(2)</sup>	15 / 25		15 / 25	

Argentina	15 / 25	15 / 25
Austria	15	10 / 15 / 25
Belgium	10 / 15	10 / 15 / 25
Canada	15	15 / 25
Chile	15	15
China	15	15 / 25
Czech Republic	10 / 15	15 / 25
Denmark	15	15 / 25
Ecuador	15	15 / 25
Finland	15	10 / 15 / 25
France	10 / 15	10 / 15 / 25
Hungary	10 / 15	15 / 25
India	15	15 / 25
Israel	15	10 / 15
Italy	15	15 / 25
Japan	12,5	12,5 / 15 / 25

Korea	10 / 15	15 / 25
Luxembourg	10 / 15	15 / 25
Mexico	0 / 15	10 / 15
Netherlands	10 / 15	15
Norway	15	15
Peru	15	15
Philippines	15	15
Portugal	15	15
Slovakia	10 / 15	10 / 25
South Africa	15	10 / 15
Spain	10 / 15	10 / 15
Sweden	15 / 25	15 / 25
Turkey	15	10 / 15
Trinidad and Tobago	15	15
Ukraine	15	15
Venezuela	15	15

**Permanent establishments Under tax treaties**

Although the PE concept is clearly found in the income tax treaties entered by Brazil, our domestic tax law also provides similar characterization with respect to business conducted by non-residents of countries with which there is no income tax treaty.

Whenever a resident of Brazil has power to conclude direct sales from a non-resident company of a non-tax treaty country to local customers, the income associated with such direct sales is subject to regular corporate income taxation in Brazil alike any other formed branch or legal entity incorporated in Brazil.

Under Brazilian tax legislation, a foreign company may become subject to Brazilian taxation if agents or representatives of foreign legal entities perform sales activities within Brazil and submit invoices directly to a Brazilian buyer. In such case, the taxable income will be determined in accordance with some specific rules.

The key element for the characterization of a PE relies on how independently the agent can perform the sales in Brazil, i.e., if the agent has powers to legally bind the customer to the sale.

#### **Tax treatment of payments for technical services/assistance in the context of a double tax treaty**

The Brazilian tax authorities issued guidance on 20 June 2014 (Interpretative Act No. 5/2014 (ADI RFB 5/2014)) in which they revise their position on the withholding tax treatment of payments made abroad for technical services and technical assistance in cases where a tax treaty is applicable. The new guidance is aligned with an opinion released by the National Treasury Attorney's Office (PFGN) in February 2014, in which the PFGN re-examined the long-standing view of the tax authorities on this issue (for prior coverage, see the alert dated 27 February 2014).

Based on guidance issued in 2000 (Declaratory Act-ADN COSIT 1/2000), the tax authorities took the position that payments made for technical services rendered without an accompanying transfer of technology should be deemed to be "other income" rather than business profits under a tax treaty if the recipient entity does not carry on business in the other contracting state through a permanent establishment. Treatment as "other income" resulted in the taxation of the income at source, ignoring treaty benefits.

The new guidance clarifies that the tax treatment of payments made by a Brazilian person to a nonresident entity or individual for the provision of technical services or technical assistance, regardless of whether there is an accompanying transfer of technology must be determined in accordance with an applicable tax treaty, as follows:

1. Where a treaty provides that a payment for technical services and technical assistance

should be treated as royalties and treaty allocates taxing rights to Brazil, the payment should be subject to withholding tax under the royalties article regardless of whether there is an accompanying transfer of technology;

2. Where item 1. does not apply and the technical services or technical assistance are related to the technical skills of a person or group of persons, and the treaty allocates taxing rights to Brazil, the payment should be taxed in accordance with the independent personal services article: and

3. In all other cases, the payment should be subject to the treatment in the business profits article.

### **Anti-avoidance rules**

#### **Transfer pricing**

Brazil's transfer pricing regime includes provisions aimed at preventing Brazilian subsidiaries of multinational companies from sending profits abroad by over-charging intercompany exports or reducing taxable income in Brazil by undercharging intercompany exports. The rules apply to cross-border transactions between related parties and transactions with entities located in tax havens.

The Brazilian rules deviate substantially from the OECD Transfer Pricing Guidelines—they do not adopt the arm's length principle, but use fixed margins to calculate the transfer price.

The salient features of the Brazilian transfer pricing regime are as follows:

- Final Transfer Pricing calculations are due only on December 31. Additional income tax related TP adjustment should be paid by January 31.
- A summary of the TP information must be provided when filling the Income Tax Return.
- It is summarized disclosure of all intercompany transactions, method applied and any adjustments.
- Taxpayers are not required to prepare a formal Report.
- Calculations must be on a product-by-product basis.
- It is not possible to offset Transfer Pricing adjustments among different products and methods.
- The calculations must be prepared in local currency (R\$), and the exchange variation cannot be adjusted within the tax year.
- One method must be elected per product. The method chosen can be changed in the next tax year.
- There is a Transfer Pricing black list with more than 50 locations, which are considered tax havens.

- After the beginning of a tax audit, the taxpayer may not modify the methods chosen to justify its transactions with related parties.
- In case the application of the TP methods chosen by the taxpayer is disqualified by tax authorities during a tax audit, the taxpayer shall have 30 days to present a new TP study.
- Exclusive use of transactional methods—comparable uncontrolled price, resale price and cost plus—for determining the price of uncontrolled transactions in property, services and commercial rights;
- Statutory fixed margins must be applied through the prescribed methods, unless a different margin is established by data from official publications or research conducted by a technically qualified firm;
- Export safe harbor rules are available to avoid application of the prescribed transactional methods;
- Regulation of transactions between Brazilian taxpayers and certain uncontrolled agents, distributors or consortium partners, or transactions with a related party or a party resident in a tax haven or in a jurisdiction that allows secrecy regarding equity participations; and
- Specified interest rates for controlled cross-border loans.

#### Methods Applicable to Import Transactions

1. Comparable Independent Prices (PIC): PIC is defined as the weighted-average of uncontrolled prices of similar goods, services, or rights as calculated in the Brazilian market or in other countries, in purchase or sale transactions carried out under similar circumstances. The prices determined under the PIC method should be compared to the weighted-average intercompany price paid by the Brazilian taxpayer for the similar goods, services, or rights. The application of the PIC method is dependent on the taxpayer's ability to obtain and document similar third-party transactions' prices, which must represent at least 5 percent of the total import amount from related parties, in volume.

The PIC method should be applied based on transactions entered during the same fiscal year as that under analysis. When transactions entered during the same period are not available, the taxpayer can rely on transactions entered into in the prior year, as long as it adjusts the price of such transactions to account for foreign exchange rate fluctuations.

2. Resale Price less Profit (PRL): The PRL method takes into account certain statutory gross profit margins, which vary depending on depending on the taxpayer's sector or the activities for which the imported products, services, or rights are used. The statutory gross profit margins may vary between 20%, 30% or 40%. The parameter price, which has as its starting point a sale transaction entered into by the Brazilian taxpayer, must take into account the ratio of the products, services, or rights imported from related parties to the total costs of the products, services, or rights sold by the Brazilian taxpayer.

3. Production Cost plus Profit (CPL): CPL is defined as the weighted-average production costs

of equivalent or similar goods in the country of origin, increased by the taxes and duties imposed on exports by the country of origin and by a gross profit margin of 20 percent computed on the identified cost basis. To make the application of the CPL feasible, foreign related parties should obtain detailed information regarding the production costs of the items imported by the Brazilian taxpayer.

4. Commodity exchange import price (PCI): The PCI is only applicable to inbound transactions with commodities. Under this method, the basis for comparison is the average commodity exchange price for the relevant items, adjusted for upward or downward spreads.

The stock price that should be used corresponds to the average price on the date of the transaction. In cases in which no stock price exists for the relevant date, the analysis should be based on the average stock price for the most recent date before the transaction date.

Methods Applicable to Export Transactions.

1. Export Sale Price (PVEx): It is defined as the weighted average of the export sales price charged by the company to other customers or by other national exporters of identical or similar goods, services or rights during the same fiscal year on similar payment terms.

2. Cost Plus (CAP): It is defined as the weighted average cost of acquisition or production of exported goods, services or rights increased for taxes and duties imposed by Brazil on exports plus a profit margin of 15%, calculated based on the sum of the costs taxes and duties. .

3. Retail/Wholesale Price in the Destination Country, Less Profits(PVV and PVA): Those are defined as the weighted average price of identical or similar goods, services or rights in the country of destination on similar payment terms, reduced by the sales taxes imposed by that country and by a profit margin of either 15%, calculated according to the wholesale price in the country of destination(PVA) or 30%, calculated according to the retail price in the country of destination (PVV). .

4. PECEX: The PECEX is only applicable to outbound transactions with commodities. Under this method, the basis for comparison is the average commodity exchange price for the relevant items, adjusted for upward or downward spreads.

### **Intercompany loans**

Transfer pricing rules specifically addressing interest paid on related party financial transactions were published in December 2012 (Law 12,766/2012). The rules provide that interest derived from a cross-border loan is subject to certain limits regardless of whether the loan agreement is registered with the Brazilian central bank. The limits vary depending

on the type of currency adopted, type of interest (fixed or variable), etc., and take into account market rates and a spread to be determined by the Minister of Finance.

<b>Currency</b>	<b>Market</b>	<b>Type</b>	<b>Rate limit</b>
US\$	Foreign	Fixed rate, predetermined	Market rate of sovereign bonds of Brazil issued in US\$ in foreign markets
Real	Foreign	Fixed rate, predetermined	Market rate of sovereign bonds of Brazil issued in Reals is in foreign markets
Any (a)	Any (a)	Any (a)	(b) If there is no specific Libor for the currency adopted, the six-month Libor in US\$ should be used
Real	Foreign	Variable	May be determined by the Ministry of Finance
<p>(a) The Libor limit considers the adoption of any currency, market and type resulting in different combinations other than those specified for other rate limits.</p> <p>(b) If there is no specific Libor for the currency adopted, the six-month Libor in US\$ should be used.</p>			

Currently, the spread varies depending on the nature of the financial transaction under analysis (i.e. inbound or outbound). For inbound financial transactions, where the Brazilian taxpayer is paying interest to a foreign related party, the annual spread is limited to maximum rate of 3.5%. For outbound financial transactions, where the Brazilian taxpayer is receiving interest from a foreign related party, the annual spread is limited to a minimum rate of 2.5%.

### **Thin capitalization**

Brazil's first thin capitalization rules entered into effect on January 1, 2010 for IRPJ purposes and on March 16, 2010 for CSLL purposes. Under these rules, interest paid to related parties that are not located in a tax haven jurisdiction or that do not benefit from a preferential tax regime may be deducted on an accruals basis for corporate income tax purposes only (1) if the expenses are necessary for the company's activities, and (2) both of the following thresholds are met: (a) the related party debt-to-equity ratio does not exceed 2:1 calculated based on the proportion of related party debt to direct equity investment made by related parties; and (b) the overall debt-to-equity ratio does not exceed 2:1 based on the proportion of total debt to total direct equity investment made by related parties.

Interest paid to an entity or individual located in a tax haven or that benefits from a preferential tax regime (regardless of whether the parties are related) may be deducted only if the expenses are necessary for the company's activities and both of the following thresholds are met: (1) the amount of the Brazilian entity's indebtedness to the tax haven resident does not exceed 30 percent of the net equity of the Brazilian entity; and (2) the

Brazilian entity's total indebtedness to all entities located in a tax haven jurisdiction or benefiting from a preferential tax regime does not exceed 30 percent of the net equity of the Brazilian entity.

Any excess interest will be treated as a nondeductible expense for IRPJ and CSLL purposes. There is no re-characterization of interest in excess, meaning that interest is taxable and continues to be subject to withholding income tax.

In addition to the thin cap limitations, transfer pricing rules also applies and limit interest deduction.

### **Controlled Foreign Corporation taxation**

Profits earned by controlled foreign corporations (CFCs) and certain foreign affiliates (non-controlled subsidiaries) of Brazilian entities are included in the IRPJ and CSLL tax bases of the Brazilian controlling or parent company. Profits earned by CFCs of Brazilian companies are considered available to the controlling or parent company in Brazil (and subject to taxation) at the end of each fiscal year. The CFC rules apply to companies that have significant investments in foreign jurisdictions, through either a subsidiary or a permanent establishment (PE). The definition of CFC includes significant influence over corporate decision-making, a minimum 20 percent voting stock interest in the foreign company or being a member of the "same economic group" as the foreign company.

Law 12.973/2014 introduced new CFC rules in Brazil, which are mandatory as from 2015.

The changes introduced include some flexibility over the determination of taxable income. Additionally, taxes paid abroad may be offset against income tax payable by the Brazilian HoldCo under the credit system. Brazil's tax authorities have issued anticipated guidance (Normative Ruling 1,520/2015, from 8 December 2014, which not only provides further regulation on the tax treatment of the CFC rules introduced by Law 12,973/2014, but also released new procedures to electronically report information regarding the taxpayer's CFC entities under the ECF (Corporate tax income electronic reporting) environment. The Ruling brings clarifications in relation to the key points brought by Law 12,973/14 and requires the disclosure of its CFC attributes in certain schedules: (i) Active and Passive income, (ii) results abroad, (iii) consolidation Schedule, (iv) losses carryforward, (v) corporate structure and (vi) foreign tax schedule.

As a general rule, profits of foreign subsidiaries must be added back to the taxable basis of HoldCo in the year in which the profits are registered. With the enactment of the new Law. Brazilian taxpayers will have the option to make an irrevocable election (on a calendar year basis) to consolidate the profits and losses arising from active and passive income of CFCs UNTIL 2022. This election shall only be available if certain requirements established by Law

12.973/14 are met as well as the disclosure requirements brought by Normative Ruling 1,520/2014. The taxation of the profits of non-controlled entities should generally take place at the time the profits are distributed to the Brazilian entity if the requirements in Law 12,973/14 are met. Otherwise, the profits of such entities will be taxed when computed on 31 December of each year.

### **General anti-avoidance rule**

Supplementary Law 104 of January 10, 2001 introduced, among other changes in the Brazilian tax law, a paragraph to Article 116 of the Brazilian National Tax Code. Based on this paragraph, Brazilian tax authorities are allowed to disregard the formal aspects of a transaction and analyze only its economic substance for taxation purposes (substance over form).

Supplementary Law 104 still lacks further regulation and, therefore, could not be enforceable in theory. However, Brazilian Tax Authorities have already been using Article 116 as a way to assess taxpayers using the substance over form concept. This issue has been discussed at Brazilian administrative tax court, on a case-by-case basis.

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### **Administration**

#### **Tax year**

The tax year in Brazil is the calendar year.

#### **Filing and payment**

Every business entity in Brazil (including corporations, partnerships, branches and agencies of companies domiciled abroad) must file an annual income tax return for the previous calendar year. With the replacement of the DIPJ (Income Tax Return) by the ECF the deadline for submission with regards to FY15 shall be the last business day of June 2016. Corporate taxes (IRPJ and CSLL) are usually due on annual adjusted profit, with monthly prepayments; excess tax paid is available to offset against future taxes. Refunds of corporate income tax are usually not practical.

Other tax returns, at the federal, state and municipal levels are also due.

Late payments of federal, state and municipal taxes are subject to penalties and interest. Federal taxes paid in arrears must be updated based on the monthly SELIC. In case of a self-assessment, the penalty is limited to 20% and increases to 75% in case of a tax assessment. Such penalty is reduced by 50% (i.e. a 37.5% penalty) in case the assessment is settled

within 30 days.

Upon receiving an assessment notification, a taxpayer has 30 days to file an appeal to the local tax authority branch. In case of an unfavorable decision, a second appeal may be made to the Taxpayers' Council (Conselho Administrativo de Recursos Fiscais - CARF), a federal administrative tax court. In case of state and municipal taxes. State and Municipal Councils are available. As a last resort, taxpayers may enter into judicial proceedings to contest the assessment.

### **Consolidated returns**

Brazil does not tax groups of companies based on a consolidated tax return, nor does it allow relief for losses between companies in a group.

### **Statute of limitations**

The tax authorities may audit open periods up to five years after the close of a tax year (31 December of each year), with the five-year statute of limitations considered to be counted from the tax return is filed. Taxes are paid on a monthly basis (prepayments) and the same five-year period applies for self-assessment payments.

### **Tax authorities**

The Brazilian Revenue Service, called Receita Federal do Brasil, or RFB is the official body subordinated to the Ministry of Finance, responsible for federal tax administration including import duties, and social security contributions. The structure of the RFB consists of Central and Decentralized units. The first one is in charge of supervising and regulating activities, while the latter, consisting of ten (10) regional offices, enforce the directives and guidelines established by the central unit.

### **Rulings**

A taxpayer may file a written request for an advance private letter ruling on the tax consequences of a pro-posed transaction with the Tax Authorities. The request shall concern a proposed transaction related to any taxes administrated by the Brazilian IRS. Once the ruling is deemed as effective, it shall be binding on the taxpayer that is required to follow the tax consequences with no right of appeal. Rulings do not produce any effects if the enforcement conditions are not satisfied or the facts are not accurately described. Rulings are deemed to be revoked when the relevant legislation changes.

### **Statutory requirements**

In the past years, Brazilian Revenue Service (RFB) has developed an expertise in its electronic fiscal assessment skills, which has become a worldwide reference among foreign tax authorities. Today, there are innumerable tax obligations and mandatory filings that are submitted to Brazilian Authorities at a Federal, State and Municipal levels. Most of the federal returns may be downloaded from the RFB's website, and submitted online using a digital certificate granted to each taxpayer.

Brazilian corporate taxpayers operating in Brazil are required to comply with the Public Digital Bookkeeping System (Sistema Público de Escrituração Digital, SPED), which is replacing paper bookkeeping. The SPED is a new complex and sophisticated data requirement in which taxpayers should file on an annual or monthly basis (and not just in case of audit) all account and tax information available based on standard uniform electronic layout.

The SPED can be divided into the following main projects:

- Electronic invoicing (Nota Fiscal Eletrônica – NF-e): The electronic invoicing aims to implement a national digital model filing that replaces the current paper documentation, simplifying tax compliance among of taxpayers and allowing real-time tracking and monitoring of business transactions by the Brazilian Tax Authorities. The NF-e is a document in a digital format issued and stored on an electronic format to document, for tax purposes, the circulation of goods or a service before the triggering event of the tax. The implementation of the NF-e has a phased in approach based upon the business activity the corporate taxpayer is engaged.

- Digital Fiscal Bookkeeping (Escrituração Fiscal Digital – EFD): The EFD is a set of digital monthly tax filings that will record transactions occurred related to the input and output of goods and services rendered and acquired, including all detailed description of each transaction. All current tax paper bookkeeping shall be replaced by a single digital file, which includes all current tax books that are available regarding the IPI Federal Excise tax, as well as the ICMS State VAT tax computations. The EFD shall include the following books: Input and output registry, Inventory Registry IPI Computation Registry, ICMS Computation registry and the Control of ICMS input credits on Permanent Assets (CIAP). In general, all ICMS and/or IPI taxpayers must submit the EFD to the Brazilian tax Authorities.

- PIS/COFINS Digital Fiscal Bookkeeping (Escrituração Fiscal Digital - EFD Contribuições) - The EFD - Contribuições must be utilized by taxpayers on the bookkeeping of PIS/COFINS taxes and shall be based on the documents and operations supporting the income earned, as well as costs, expenses which may generate input credits, under the non-cumulative regime.

- Digital Accounting Bookkeeping (Escrituração Contábil Digital – ECD): The ECD includes the replacement of all accounting books into single digital file that shall include: general ledger,

balance sheets and supporting documentation for the accounting entries. The implementation of ECD is mandatory for all entities that have elected the actual income regime (Lucro Real), and optional for the remaining corporate taxpayers. The ECD is submitted annually until the last business day of May of the following calendar year in which the ECD refers to.

- E-Social - The E-social comes to replace and unify all information concerning social security and labor, which must be submitted by employers regarding its employees. Not yet implemented.

- Accounting and Tax Return (Escrituração Contábil Fiscal - ECF) - As from 2015, the ECF comes to replace Income Tax Return (DIPJ), and also to integrate the information from the income tax (IRPJ) and Social Contribution on Net Profit (CSLL) calculation in the Public Digital Bookkeeping System (SPED) environment. The deadline for submission with regards to FY15 shall be the last business day of June 2016. The penalties for non-submission or submission in delay is 0.25% per month or fraction (limited to 10%), of net profit before IRPJ and CSLL of the assessment period. This penalty is limited by: (i) R\$100K for legal entities with total gross income equals to or less than R\$3.6million on the previous calendar year; or (ii) R\$5million in other cases. In addition, to any missing or incorrect amount informed on ECF, the taxpayer shall be subject to penalties of 3% on the amount mistakenly informed or omitted. This last penalty shall not apply if the taxpayer amends the ECF file before any tax notice from tax authorities; and shall be reduced to 50%, if amended after a tax notice.

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## **Customs and Excise Duties**

### **Imports and Exports**

All Brazilian goods importers and exporters are required to have a special trading license, the so-called RADAR, which grants a password to access the Brazilian Integrated Foreign Trade System (*Sistema Integrado de Comércio Exterior*). The SISCOMEX is an electronic integrated trade documentation system designed by the Brazilian Government to control and monitor the Brazilian Foreign Trade. The SISCOMEX is supervised by the Chamber of Foreign Trade-SECEX (Secretaria do Comercio Exterior), the Federal Revenue Service (Receita Federal do Brasil, or RFB), and Brazilian Central Bank (Banco Central do Brasil or BACEN). There are basically three types of RADAR licenses: (i) Express, (ii) Limited, and (iii) Unlimited. Certain procedures to obtain such licenses apply.

Main Special Custom Regimes

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## **Individual Taxation**

## **Taxes on individuals**

Individuals in Brazil are subject to a number of taxes, including personal income tax, social security tax, donation and inheritance tax. There is no local or state income tax for individuals.

## **Residence**

The following individuals are considered residents for tax purposes: (1) an individual who resides permanently in the country; (2) naturalized foreigners; (3) foreigners who hold a permanent visa or a temporary visa with a local employment contract, from the date of arrival; and (4) foreigners who hold a temporary visa but no local employment contract, after completing 183 days (whether or not consecutive) of physical residence in Brazil in any 12-month period.

## **Taxable Income and rates**

Residents are taxed on worldwide income, with a foreign tax credit for taxes paid in the country of origin (subject to an applicable tax treaty or bilateral reciprocity). Nonresidents are taxed on Brazilian-source income. The source of income is determined by the location of the payer, regardless of where the work is performed.

## **Taxable income**

Residents are taxed on their gross income, which includes domestic and foreign-source income, with a foreign credit for taxes paid abroad. Gross income is normally taxable whether received in cash or in-kind. Taxable income includes wages, salaries, bonuses, fringe benefits, consulting fees and commissions, premiums, directors' fees, and interest and dividends from foreign sources. It also includes most allowances connected with employment, including housing allowances and allowances for home leave provided by an employer. Schooling allowances are considered indirect salary and taxed accordingly. No distinction is made between personal expenses paid directly by the company or those reimbursed to the individual. Actual moving expenses, however, are generally not taxable.

The formal profit sharing bonuses paid by a Brazilian employer to its employees are exempt only for INSS (social security tax) and severance pay fund purposes. For withholding income tax purposes, the profit sharing bonuses are taxed at progressive rates ranging from 0 percent to 27.5 percent. Dividends received from local sources are tax exempt.

## **Deductions and reliefs**

Taxpayers may deduct certain expenses when calculating monthly income tax liability and

other expenses when they file their annual federal income tax return. Deductions permitted in calculating monthly income tax liability include the following:

- Social security taxes paid by the employee to federal, state or municipal entities;
- Contributions to private Brazilian pension plans, up to 12 percent of gross income, provided contributions are also made to the official social security;
- Alimony or child support payments under a court order (special limits apply for alimony paid to beneficiaries resident abroad); and
- A standard annual deduction of BRL 2,275.08 (from for calendar 2015 and subsequent periods) per dependent.

The following deductions may be taken when the annual return is filed:

- Payments by the taxpayer or a dependent for educational expenses, up to an annual limit of BRL 3,561,50 (from for calendar 2015 and subsequent periods );
- Payments made and not reimbursed during the year for medical or dental expenses, health insurance plans, or psychotherapy or physiotherapy; and
- Documented contributions to approved Brazilian cultural, artistic and audiovisual activities and donations to Brazilian Child and Youth Counsels (certain limitations apply).

Instead of itemizing deductions, the taxpayer may elect the standard annual deduction of 20 percent of taxable income up to a maximum of BRL 16.754,34 (from for calendar 2015 and subsequent periods).

### **Rates**

The personal tax rates are as follows (valid as from 2016, in relation to calendar year 2015):

- 0% on annual income up to BRL 22.499,13 (no applicable tax rebate);
- 7.5% for income between BRL 22.499,13 and BRL 33.477,72 (rebate of BRL 1.687,43);
- 15% for income between BRL 33.477,72 and BRL 44.476,74; (rebate of BRL 4.198,26);
- 22.5% for income between BRL 44.476,74; and BRL 55.373,55; (rebate of BRL 7.534,02);
- 27.5% for income exceeding BRL 55.373,55 (rebate of BRL 10.302,70).

### **Other taxes**

#### **Inheritance and gift tax**

The ITCMD (Taxation on Donations and Inheritance) is a State tax that levies on donation/inheritance transactions at rates ranging from 2 percent to 8 percent depending the legislation of each State of Brazil.

#### **Net wealth tax**

There is no net wealth tax in Brazil.

### **Real property tax**

ITR (rural property tax), IPTU (urban property tax) and IPVA (vehicles tax) are due also by individuals.

### **Social security contributions**

Social Security contributions are mandatory for individuals and business according to specific rules.

### **Compliance**

Resident taxpayers are subject to tax on worldwide income on a cash basis for each tax year (January 1 to December 31), whether or not their income is remitted to Brazil. An individual income tax return should be filed by the last workday of April and no extensions of time are allowed.

As general rule, each spouse files his or her own tax return however, a joint tax return is also permitted, in which one individual includes all household income.

### **Brazilian Central Bank Assets Return**

The individual considered tax resident for Brazilian purposes, who holds assets abroad, which the total market value is US\$100.000,00 (one hundred thousand US dollars) or higher as at December 31 of each year, is entitled to submit the Brazilian Central Bank Assets Return. Note that no tax is imposed in this return. Furthermore, in case of failure to provide the information requested by the Brazilian Central Bank triggers a penalty up to R\$250,000.

### **Exit Tax Return and Tax Clearance Certificate**

When a Brazilian tax resident leaves permanently the country, the filing of an Exit Statement Return as well as a Tax Clearance Certificate are required by the tax authorities. This procedure aims to cancel the residency status for Brazilian tax purposes. In case such procedure is not followed, the taxpayer remains considered as tax resident in Brazil for the 12 following months, and, as a consequence, subject to the Brazilian taxation on a worldwide basis, even if he is not physically present in the country.

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