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International Tax

Brazil Tax Alert

4 February 2015

New tax package introduced

The Brazilian government recently introduced a series of measures that aim to increase tax revenue to address fiscal debt through the enactment of several legal acts. Thus far, the package includes the enactment of a Provisional Measure (PM) (No. 668/15) and three Decrees (No. 8,392/2015, 8,393/2015, 8,395/2015) that affect the PIS/COFINS rates, the tax on financial transactions (IOF) and the tax on manufactured products (IPI).

The new measures are part of a broader package of economic and tax reforms that are expected to significantly increase tax collection and address macroeconomic challenges faced by president Dilma in her second term, which started on 1 January 2015.

PIS/COFINS

PM 668/15, published in the official gazette on 30 January 2015, increases the standard PIS (employee profit participation program) and COFINS (contribution for the financing of social security) 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 PM 668/15, taxpayers are allowed to recognize PIS and COFINS input credits based on the increased rates. Other 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.

PM 668/15 provides that the changes to the PIS/COFINS import rates will become effective on 1 May 2015. A PM remains in effect for two months and expires automatically if it is not extended for an additional two-month period, or if the House and Senate do not vote on the PM within four months.

Decree 8,395/2015, published in the official gazette on 29 January 2015, increases the PIS and COFINS rates levied on the import and domestic sale of petrol, diesel, liquefied petroleum gas, petroleum derivatives, natural gas, jet fuel and biodiesel (with effect from 1 February 2015), and reintroduces the CIDE (Contribution for Intervention on the Economic Domain) tax imposed per cubic meter of petrol and diesel imported or sold (with effect from 1 May 2015).

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Tax on financial transactions (IOF)

Decree 8,392/2015, published in the official gazette on 21 January 2015 and effective as from that date, increases the IOF levied on credit transactions (loans and factoring) carried out by individuals from 1.5% to 3% per year.

Tax on manufactured products (IPI)

Decree 8,393/2015, published in the official gazette on 29 January 2015 and effective as from 1 May 2015, amends the IPI tax rules for the cosmetic industry to standardize the tax treatment that applies during the production and distribution phases.

Under the new rules, the IPI will be levied on the value added by wholesalers when they are part of the same economic group as the manufacturer or importer (currently, IPI is levied only on the manufacturer or importer). As it is a noncumulative tax, the IPI levied on the manufacturing industry will generate input credits for wholesalers.