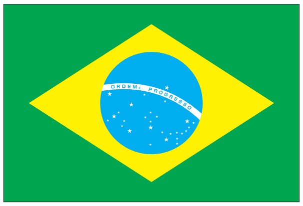
Brazil



Brazil offers super deductions that are enhanced for companies that increase the number of personnel who work exclusively on research projects.

Background

The general corporate tax rate is 34%. The incentives listed below are available for companies that operate under the *Lucro Real* tax regime (actual profit method). Under this system, the company must be generating a profit during the year in which the incentive is claimed.

Nature of incentives

Super deduction: The super deduction is equal to 160% of the total R&D expenditure.

Enhanced super deduction: If the entity increases the number of researchers dedicated exclusively to research projects by up to 5% in a given year, the super deduction increases to 170%, and if headcount increases more than 5% in a given year, the super deduction increases to 180% of the qualifying expenses. Employees who relocate internally to work exclusively on qualified research projects also may be taken into account in calculating the increase in the number of researchers.

Enhanced super deduction for patents: An extra 20% deduction is allowed for the qualifying costs incurred in developing a patent, but the super deduction is granted only if a patent is registered. Since the taxpayer's eligibility for claiming the super deduction is delayed until the patent is registered, few taxpayers take advantage of this provision.

Unused deductions may not be carried forward or back.

Depreciation/amortization: For corporate income tax purposes, 100% depreciation is allowed in the year of acquisition for new machinery, equipment and instruments dedicated to R&D, as well as 100% amortization for intangibles used in R&D.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries.

Activities undertaken to achieve technological innovation qualify for the R&D tax incentives. These activities include designing new products or processes, as well as the aggregation of new functionalities or characteristics to a product or process, resulting in incremental improvements in quality or productivity. Software development qualifies as an R&D activity provided it is undertaken to advance scientific or technical goals.

R&D expenditure includes wages, salaries, and certain payments to third parties (e.g., laboratory tests, etc.), directly attributable to the conduct of qualified R&D activities.

The Brazilian Internal Revenue Service (IRS) released a normative ruling addressing the following issues:

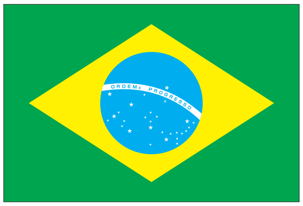
Professionals Partially Dedicated to R&D—Taxpayers need to adjust the employment contracts for the employees that are partially dedicated to research projects, in order to specifically indicate that the employees work as researchers in technological innovation projects. If this procedure is not adopted by the company, the expenses connected with the employees that are partially dedicated to R&D may not be included in the R&D tax incentive calculation.

R&D subcontracting—Tax incentives for subcontracting expenses are limited to:

- Contracts with service providers, provided the hiring company assumes the responsibility, enterprise risk management and control of project expenditure.
- Payments made to small businesses for the implementation of research projects, even if the subcontracted party participates in the profitability of the projects' final economic results.
- Companies are allowed to claim part of the qualified expenses amounts incurred for contracted technical services, such as laboratory trials and testing, provided the taxpayer does not participate in the execution of the services (even if partially).
- Expenses related to the support of administrative and indirect services are not eligible, even if they can be associated with a research project. Such expenses include security, cleaning, maintenance, library and documentation services, as well as coordination, administration and financial monitoring of research projects.

Contact:
Flavia Crosara
flaviacrosara@deloitte.com
551 93707 3124

Brazil (cont.)



IP and jurisdictional restrictions

Only expenditure incurred within Brazil is eligible for the incentives (except for the IPI reduction discussed below). The resulting IP does not have to be held within Brazil.

Other concerns

To qualify for the super deduction, a company must have a tax clearance certificate for the entire calendar year in which the incentive is taken.

Specific accounting controls are also required, i.e., the chart of accounts must present specific accounts indicating the R&D expenditure. Recent communications from Brazilian IRS require an analytical control of costs and expenses for each R&D project, using consistent and standardized criteria throughout the calendar year, and recording in a detailed and specific way all expenditure incurred.

In 2014, the MCTI (Ministry of Science, Technology, and Innovation) reviewed its electronic application form to provide more detailed guidance to claimants on the presentation of the information on the form, and implemented a more organized review process to inform claimants about their claim status. At the end of 2014, MCTI appointed the CAT (Technical Assistance Committee), a group consisting of technical specialists, to perform technical reviews of the claims as from 2013. The committee process reviews the alignment of the nature and costs of the activities claimed.

Brazil also provides the following additional research incentives:

- Equipment, machinery and tools used exclusively for R&D may be deducted at the time the expense is paid or incurred. However, if assets initially acquired for use in R&D activities are later sold or used for other activities, the expense paid or incurred should become deductible when the assets are sold or transferred to another area (non-R&D related).
- Equipment, machinery and tools acquired exclusively for R&D by IT companies and companies engaging in automation activities that benefit from a specific reduction in the IPI (see below) can take a super deduction on the cost of such equipment.
- Equipment, machinery, and tools that are used exclusively for R&D receive a 50% reduction of the IPI (federal excise tax) due. This incentive must be claimed at the time the research-related equipment, machinery, or tools are acquired.

Brazil

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions, accelerated depreciation and excise tax exemptions	1. Super deductions of 160%-200%. 2. Special depreciation/ amortization for R&D assets. 3. Certain deductions related to equipment, machinery, and tools exclusively acquired and dedicated to R&D activities. 4. IPI reduction (federal excise tax) on equipment, machinery and tools dedicated to R&D.	Companies must have a tax clearance certificate to qualify for the super deduction.	Unused deductions may not be carried forward or carried back.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	No	No	No