

Business in Brazil



With the largest territory and economy in the Latin America, Brazil is member of the Mercosur, a group originally formed by Argentina, Brazil, Paraguay, Uruguay and Venezuela. Other countries are also collaborating members: Chile, Bolivia, Peru, Colombia and Ecuador.

Brazil is a Presidential Federated Republic composed of the Union, States, Federal District and municipalities, in which the exercise of power is attributed to distinct and independent branches that are subject to a system of balances and guarantee compliance with the laws of the Constitution.

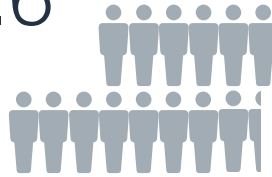
The Union is divided into three independent powers that are balanced among themselves: Legislative, which drafts laws; Executive, who acts to execute programs or provide public services; and Judiciary, who resolves conflicts between citizens, entities and the State.



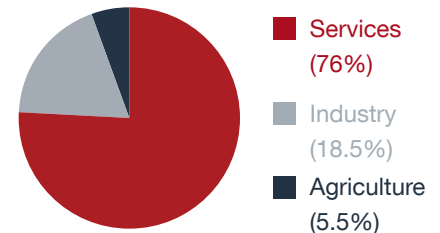
Population

 = 15 million

211.6
million



GDP Breakdown by Sector



Currency

Real (R\$)

Foreign Direct Investment

6.31 billion

GDP Growth

1%

Business Climate

Brazil's economy is very diversified with towering companies in the agricultural, commodities, industrial and service segments. The country's GDP is the top ninth in the world, and the population is the sixth largest. Brazil has one of the biggest middle classes in the world and tends to continue its expansion based on a solid democracy and regulatory institutions.

Regarding the taxation system, Brazilian tax rules allow independent taxing powers to the federal, state, and municipal governments to impose, regulate and collect taxes. Brazil imposes corporate and personal income tax on its residents, including Brazilian subsidiaries of foreign entities. Foreign direct investment has been growing very much according to data from the Central Bank of Brazil and stands out among the nations emerging markets.

International Trade

Brazil's foreign trade does not have a specific body, giving management to the areas of competence, such as Foreign Trade Policy, Fiscal Policy, Financial Policy and Bilateral Policies of international relations.

The most important body is Camex (Foreign Chamber of Commerce). Created in 1995, it was an attempt to respond to the rapid changes in growth of the Brazilian external sector, which was always treated in isolation by each ministry of the country, limiting the process. Currently, no measure on foreign trade can be edited without the science of Camex.

The participants of the chamber are the following ministries: MDIC, Civil House, Foreign Affairs, Farm, Agriculture, Planning and Agrarian Development. The main contributions and competences are:

- Defines the guidelines and procedures related to the implementation of the foreign trade policy aimed at the competitive exemption of Brazil in the international economy
- Establishes the guidelines for negotiating agreements and covenants, in the bilateral, regional or multilateral nature
- Directs customs policy and formulates basic guidelines of the tariff policy
- Sets the export and import tax rates
- Establishes antidumping and compensatory, provisional or definitive rights, and safeguards

Brazil is part of a series of trade agreements, in which tariff preferences (percentages of reduction on the import tax rate) are granted for exports and imports of various products, having the main Mercosur.

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Tax Regime

The constitutional system is based on three jurisdiction and tax collection levels. The Constitution set forth that Federal Government, States, Federal District and Municipalities have different and independent powers to impose and collect taxes. Corporate income tax: applies to companies that have been incorporated in Brazil: branch offices, agencies and representative offices in Brazil of companies domiciled abroad. Brazilian resident companies are taxed on worldwide income. Non-residents are taxed on Brazilian sourced income only. Foreign income, gains and profits of any kind are subject to corporate income tax. Tax consolidation and group reliefs are not allowed. The general tax rate is 34%.

Personal income tax: Applies to individuals who are tax resident in Brazil, being taxed on their worldwide income. Taxable income is made up of the total compensation.

Withholding Tax: Imposed for all types of income and capital gains derived by non-residents whenever the payer is a Brazilian resident (except for a limited list of transactions, such as dividends). General rate is 15%.

Social Contribution on Gross Revenues – PIS and COFINS: Calculated based on the non-cumulative regime, as a VAT (except for financial institutions and other few sectors). The rates applicable are 1.65% and 7.6%, respectively. Credits may be available to offset against the PIS and COFINS due.

Contribution for intervening in the economic domain (CIDE-Royalties): Due by Brazilian entities that hold license of use or acquirer of technology knowledge abroad (including agreements

related to exploitation of patents, brands use and technology supplying and technical assistance services). The rate is 10%.

Federal Value Added Tax – IPI (VAT/Excise tax): Excise tax imposed on the importation and sale of industrialized goods. Tax rates vary widely from 0% (essential foods) to over 330% (cigarettes). Most rates range between 0% to 30%, payable by importers of foreign products and/or local manufacturers. Resale's are not subject to IPI (except the first resale of an imported product). Exports are exempted from IPI.

Estate Value Added Tax – ICMS: Tax imposed on circulation (sales, transferences, etc.) of all kinds of products; importation of goods and transportation, and communication services. Exports are exempted from ICMS. Rates may vary depending on the State and the type of goods or services (average of 18%). The legislation is complex - each State has its own rules and rates. Tax substitution regimen are commonly applicable to this VAT.

Municipal Service Tax – ISS: Tax rates from 2% to 5% (depending on city and type of service provided) over the services gross revenues.

Cumulative Tax: there is no credit system. ISS may reach services provided by foreign parties to local customers and shall be withheld by the local service Contractor. Exports are generally exempt of ISS, as long as the service is effectively rendered abroad.

Municipal Property Taxes – IPTU: Applicable on the ownership, control or possession of urban land or buildings. The calculation formula of this tax varies in each municipality. In the city of São Paulo, the IPTU corresponds between 1% to 1.8% of the real state's market value assessed by the Municipality.

Establishing a Business

Summarizing the whole process in three steps, a company can be established in Brazil as follows:

- 1. Select the commercial entity:** In Brazil you can choose between profitable and non-profitable business models and among several types of company models as Limited (Limitada/Ltda), Corporation (S.A.), Single Owned Entity (EIRELI), Single Entrepreneur (MEI) or few others.
- 2. Register/File the articles of association:** The articles of association of the company must be filed at the State commercial trade board in one of the 27 Brazilian States (each one has its own commercial trade board). This register will trigger another required registration in the Brazilian IRS (RFB – Receita Federal Brasileira). After the Federal Tax Identification Number (CNPJ - Federal Tax ID Number) is released, which allows the company to open a bank account and receive foreign investments.
- 3. Final Registers and Permits:** Depending on the sector the company will operate and its type of business (services, industry, retail, etc.), it will be necessary to make registrations in the State Revenue Department (Secretarias de Fazenda – SEFAZ) or Municipal ones (Prefeituras Municipais) to obtain its State and/or Municipal Tax Identification Numbers. After that, few permits will be needed depending on the goods or services that the company will provide (i.e. food, health, education, financial). For example, it is normal to need 4 or 5 different permissions to operate such as permits from the municipal firefighter, the sanitary regulation department and the environment state department.

*An intermediate step between 1 and 2 above will be requested if a foreign company is one of the shareholders of the Brazilian company. If so, the registration of the foreign company in the Brazilian Central Bank and IRS is needed. It is a quick step (takes less than one week), but needs to be considered.

Employment Affairs

The minimum wage is BRL 998 per month or BRL 13,303 per year (which includes one and one-third special payments).

Maternity leave is four months, and the company has a tax benefit if it decides to extend to six months. Paternity leave is five days.

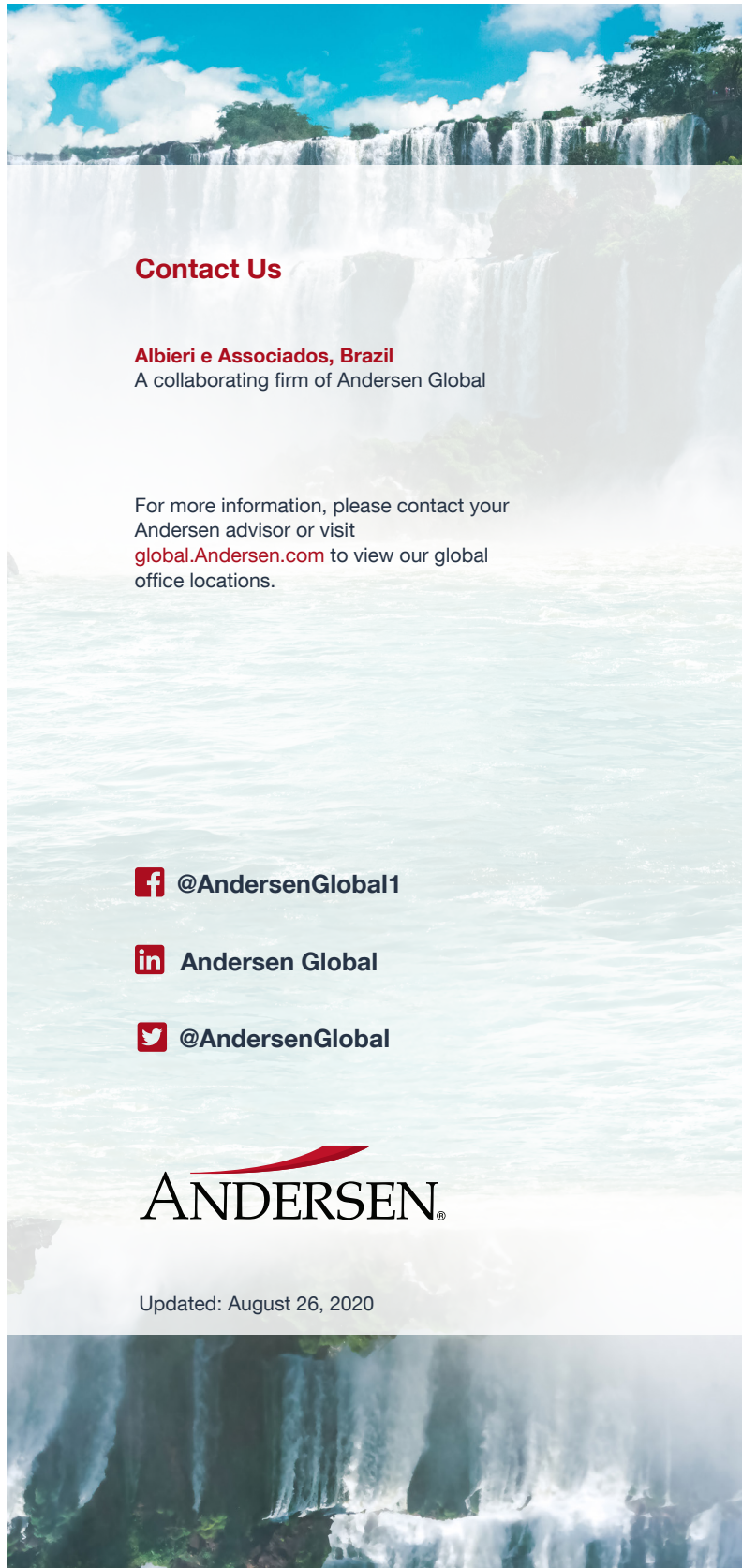
Unemployment Benefits are applied if the employee has been working in the last six months. The amount is calculated by the average of the last three compensations with a cap of BRL 1,750.

In case of dismissal, employees may bring a claim and this litigation goes to a judicial decision that, often, is conducted to an agreement between the company and the employee regarding the amounts required. In only few cases will the judicial decision be to reinstate the employee.

Social security: In 2019, the general employer contribution is around 27% for general contingencies, while the employee contribution is 11%. There are several treaties to permit secondment of employees.

Labor Rights: Charges in connection with the employees compensation are, mainly, the following:

- meal break
- minimum resting period between working days: 11 hours
- weekly rest period: 24 hour rest between two work weeks, considering a maximum workweek load of 44 hours average
- night work premium: additional payment of 20% over the daytime salary. Reduced night shift hours.



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