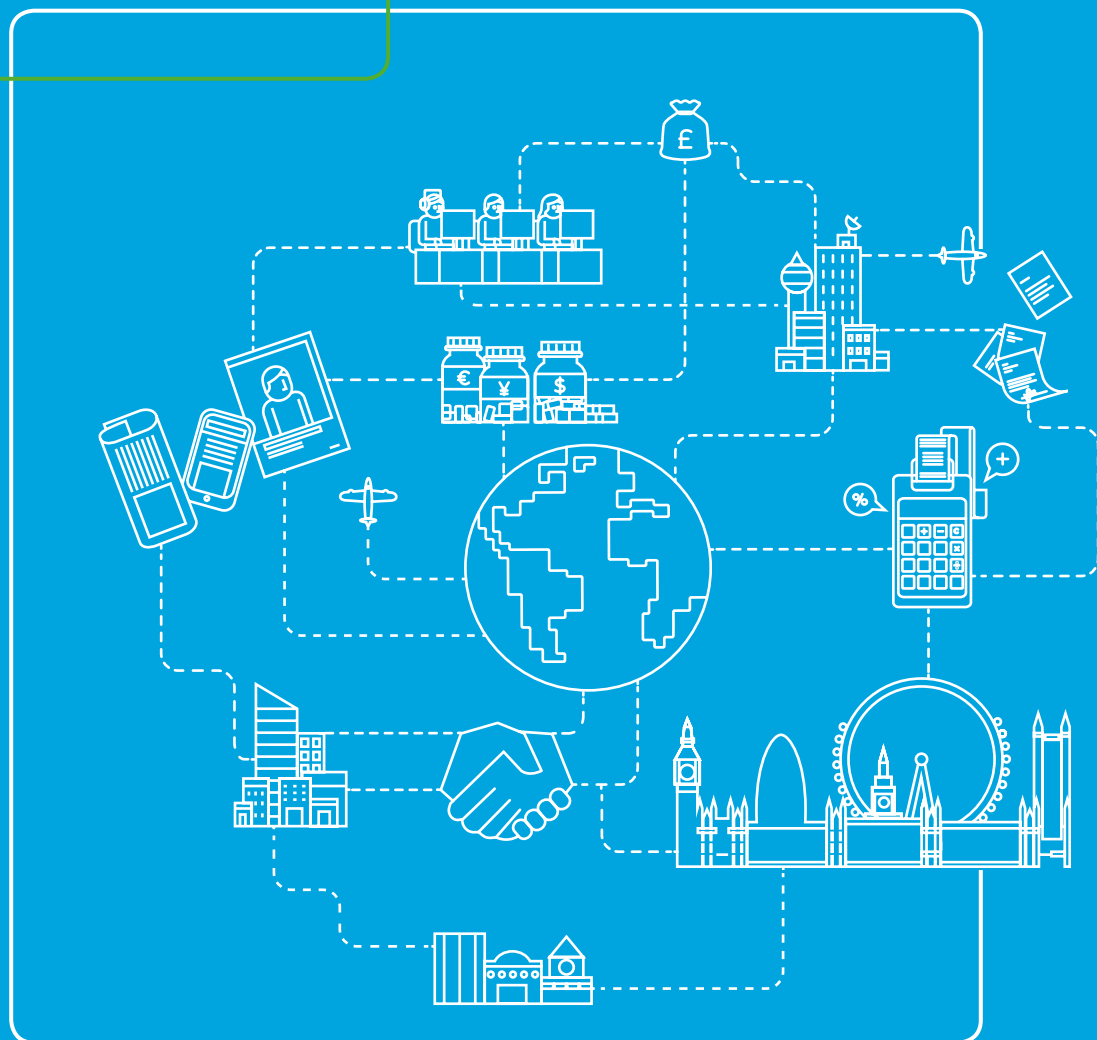


Global vision backed by
local knowledge.



A GUIDE TO DOING BUSINESS IN BRAZIL

2017





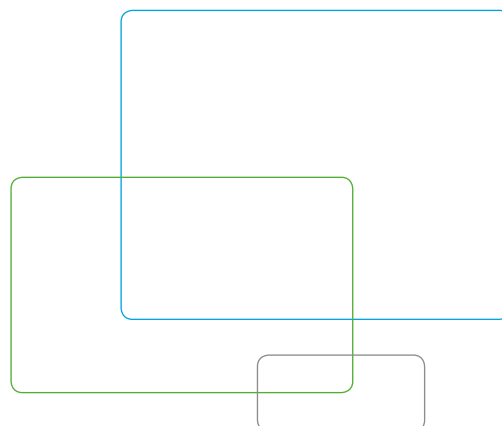
INTRODUCTION

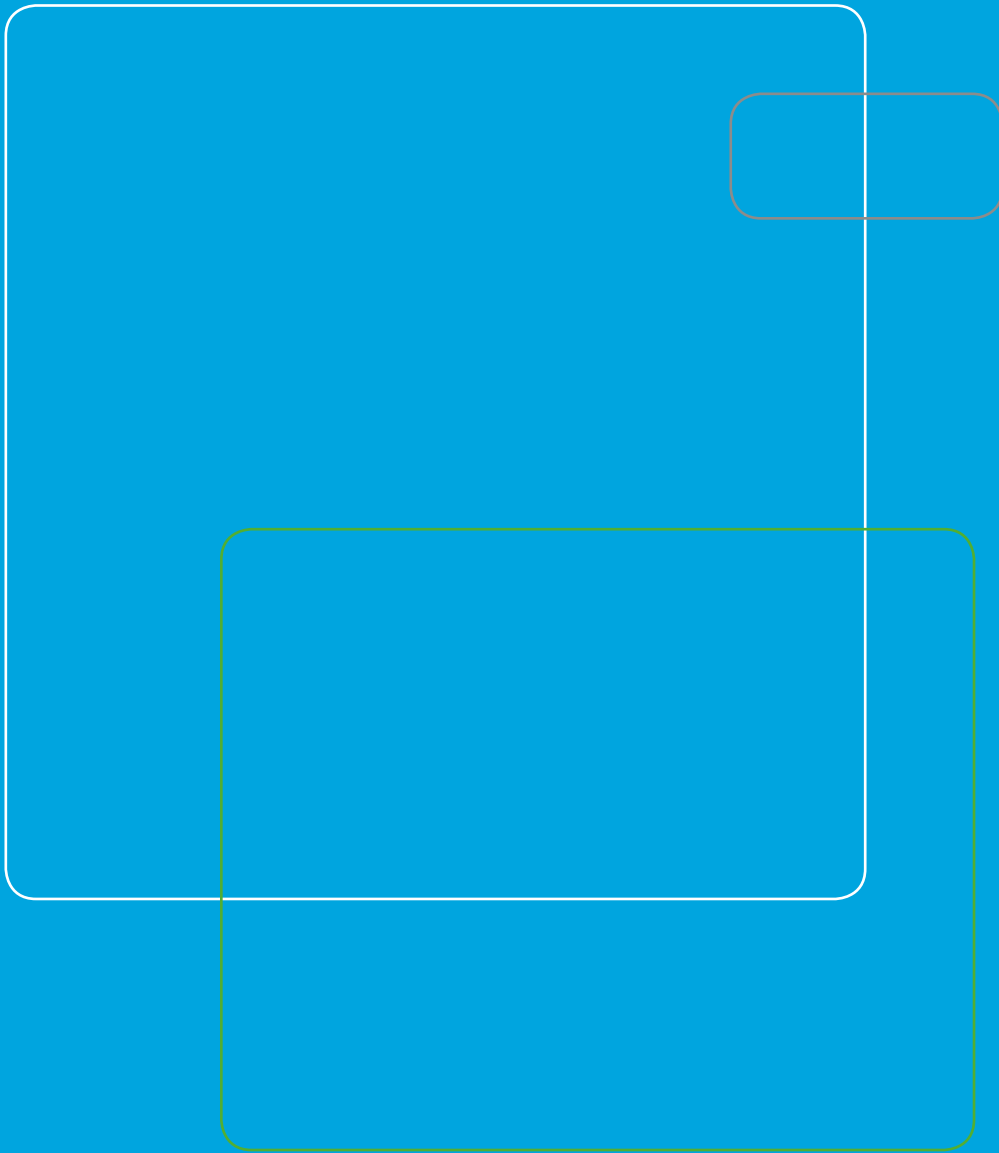
RSM is a powerful network of audit, tax and business consulting experts with offices all over the world. As an integrated team, we share skills, insight and resources, as well as a client-centric approach that's based on a deep understanding of your business. This is how we empower you to move forward with confidence and realize your full potential. This is '**The Power of Being Understood**'.

The International Accounting Bulletin World Survey 2016 has now been published and confirms that RSM remains ranked 6th globally, with a 5% growth in our fee income from 2015 (using the IAB S calculation), to US\$4,87bn for the year ending 31 December, 2016. Referred work increased 20% from 2015.

The strongest performing top line growth was in consulting which increased by 8.1%, followed by tax services at an increase of 7.5%. The total number of partners and staff has increased by 8% to more than 41,420 people working across 793 offices worldwide.

RSM Brasil, a member of RSM International, is honored to present the RSM Doing Business in Brazil 2017 edition. Our key mission is to provide clients with a seamless, multi-disciplinary service on a global basis. This is accomplished through focusing on the quality of its work, integrity of its people, living its brand values and having close, trusted client and team relationships.





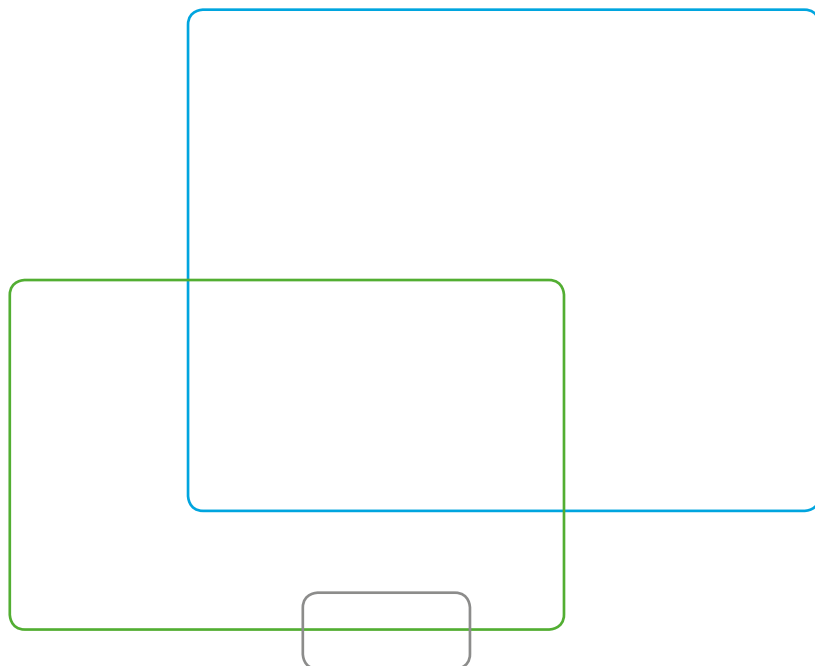
ABOUT THIS GUIDE

This guide is intended as a general guide and should not be acted upon without further advice. The aim of this publication is to provide strategic information on the most various aspects of doing business in Brazil, its taxation and opportunities.

As part of BRICS (Brazil, Russia, India, China and South Africa), even after the largest economic crisis in the country's history, Brazil remains as one of the Top 10 largest economy of the world and the 8th largest destination for foreign investment. Brazil has a diversified economy with a huge domestic market and abundant natural resources. Brazil has definitely an intrinsic importance for the global market.

Every effort with the support of some of our members have been made to ensure the contents are accurate and current. However, tax rates, legislation and economic conditions referred to in this publication are only accurate at time of writing. Information in this publication is in no way intended to replace or supersede independent or other professional advice.

We welcome you and hope that the information you are about to read will contribute to your commercial and investment decisions linked to Brazil.

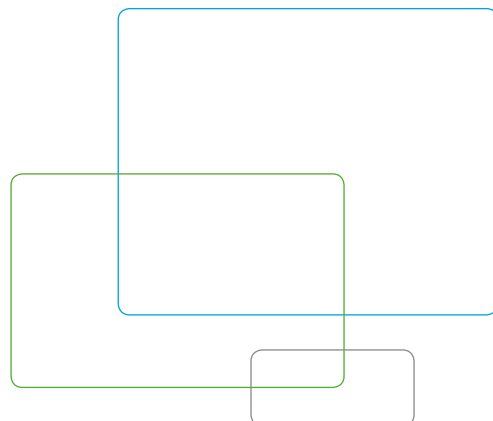




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BRAZIL AT A GLANCE

Brazil is the fifth largest country in the world both in terms of area (8,5 million km²) and population (206+ million in 2016) and occupies almost half of the entire South American continent.

Brazil has borders with Argentina, Bolivia, Colombia, French Guiana, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela. In fact, Chile and Ecuador are the only South American countries with which Brazil does not share its borders. As a country, it is split into five official regions; namely Central-West, Northeast, North, Southeast and Southern Brazil. These are then split into 26 states, a Federal District and 5,500+ cities.

São Paulo and Rio de Janeiro are two of the largest cities in the world, and are both prominent destinations in Brazil. They enjoy a rich culture and heritage as well as modern amenities and established infrastructures. Brasília, located in the Central-West region, is the capital.

The Real is the present-day currency of Brazil. It was introduced in 1994, as part of the "Plano Real", a substantial monetary reform package that aimed to put an end to three decades of rampant inflation. Its sign is R\$ and its ISO code is BRL.



LEGAL SYSTEM AND CONSTITUTION

Brazil is a civil law country and its legal system is based on codes and legislation enacted primarily by the federal legislature power, and also by the legislatures from the states and municipalities. Brazil is a federative republic formed by the indissoluble union of the states, municipalities, and the Federal District. The Legislative, Executive, and Judiciary branches compose the Brazilian three pillars of government.

The National Congress is composed of the Chamber of Deputies and the Federal Senate and it exercises its legislative power through the legislative process. The executive branch encompasses the President of the Republic and the Ministers of State. The judiciary consists of the Federal Supreme Court; National Council of Justice; Superior Court of Justice; Federal Justice; Labor Justice; Electoral Justice; Military Justice; and State Justice.

The Federal Supreme Court is the highest court in Brazil and is entrusted with the responsibility of safeguarding the Constitution enacted on 1988, as well as functioning as a court of review. The Federal Supreme Court also has original jurisdiction to try and decide direct actions of unconstitutionality or declaratory actions of constitutionality of a federal or state law or normative act.

BRAZILIAN POLITICAL AND ECONOMIC ENVIRONMENT

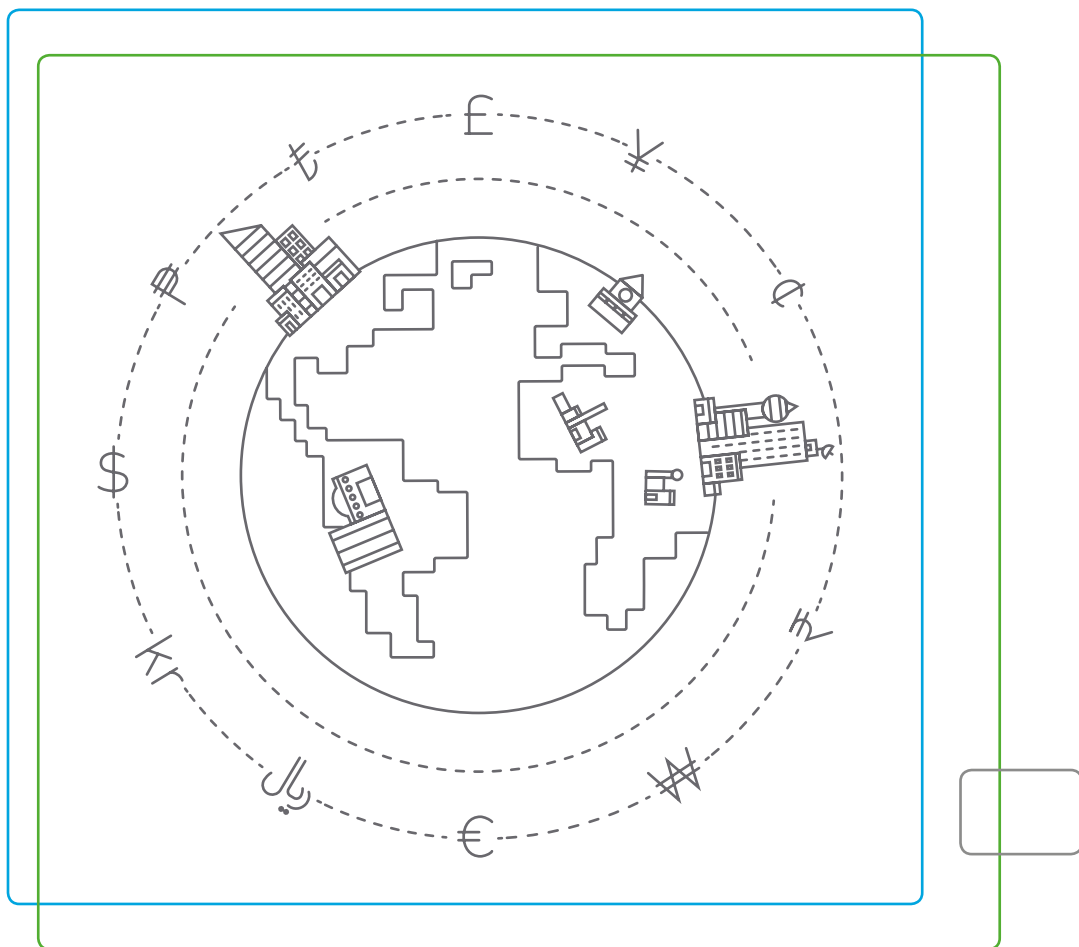
Brazil is one of the world's top 10 largest economy. Brazil has plentiful natural resources and a relatively diversified economy, been the world's largest producer of coffee, cellulose, sugar cane, orange and most recently the world's largest producers of soy. It is also a large industrial power. Brazil has benefited largely from its mineral ore wealth– the country is the world's second largest exporter of iron and one of the world's main producers of aluminum and coal. In the oil production, Brazil is aiming to become energy independent, with reserves that could make the country one of the top five oil producers in the world.

The country is home to the world's largest commercial livestock herd. With forests that cover half of the country and having the world's largest rainforest, Brazil is the world's fourth largest exporter of timber.

After a period of strong growth, Brazil has faced a drop in household consumption, industrial activity and investment. The country has been in recession since 2014. During 2015, the Brazilian economy plunged further into recession. Despite that, Brazil has a number of efficient multinationals, a highly effective food-processing industry, a large supply of foreign exchange reserves and a powerful Brazilian Development Bank

Moreover, the country is asserting itself in the aeronautics, pharmacy, textile, automobile, steel and chemical industry sectors. Many of the world's large automobile manufacturers have set up production plants in Brazil. Lately, the country has embarked on the production of high added-value services, especially in the fields of aeronautics and telecommunications.

BRAZILIAN CENTRAL BANK AND REGULATION OF FOREIGN INVESTMENT



In general terms, investments made by nonresidents in Brazil do not face a broad range of legal restrictions and are permitted in the vast majority of economic sectors.

However, foreign exchange is subject to strict control by the Brazilian Central Bank; therefore, any transaction between a nonresident and a resident in Brazil is subject to foreign exchange regulations. All such transactions must be carried out through the Brazilian Official Exchange Market.

The first rule applicable to foreign investments is Federal Law n°. 4.131/62, referred to as the "Foreign Capital Statute." The statute empowered "CMN" (the National Monetary Council),

"BACEN" (the Central Bank of Brazil) and "CVM" (the Brazilian equivalent of the US Securities & Exchange Commission) to enact regulations providing specific procedures for the registration of the different types of foreign investment in Brazil. Under the terms of the Foreign Capital Statute, for any exchange transaction to be performed in connection with a foreign investment (e.g., the remittance abroad of dividends, interest, repatriation of principal), such foreign investments must be registered with BACEN.

BACEN's further regulates foreign capital entering or existing Brazil and its registration procedures. The registration, which is done electronically, applies to foreign direct investment (foreign investment in equity) and foreign credit (financing and loans), among other things.

The registration of foreign investments should be made in the currency in which the funds actually entered Brazil. Once the foreign investor or the company receiving the investment has been granted access to the Central Bank Information System (SISBACEN), registration consists of three steps: (i) the furnishing of basic data relating to both the Brazilian invested company and the nonresident investor; (ii) a permanent number (the "RDE-IED number") being assigned, which pairs the Brazilian invested company with the nonresident investor; and (iii) the furnishing of the basic terms and conditions of the equity investment.

Steps (i) and (ii) should be performed prior to the actual inflow of funds into Brazil, since the RDE-IED number has to be indicated in each and every foreign exchange contract executed by and between the paired foreign investor/Brazilian company. Step number (iii) can be performed up to 30 days after the actual inflow of funds.

The participation by nonresident investors in the share capital of the receiving company, paid or acquired in accordance with the legislation, shall, in effect, be registered as a foreign direct investment, including any eventual capitalization of profits.

Furthermore, registration on SISBACEN is also mandatory for any corporate reorganizations involving the Brazilian company receiving the investment, such as spin-offs, share splits, consolidations and mergers. Those representatives must make available updated documentation necessary for supporting all information reported in the RDE-IED.

This obligation expires five years from the date in which the foreign person or entity no longer owns corporate interest in the Brazilian receiving company. Finally, BACEN may, at its discretion, suspend or cancel the equity investment registration and/or impose fines if any of the following acts is performed: (i) furnishing incorrect, incomplete or untimely information to BACEN or (ii) failing to provide required information according to the applicable rules.

FOREIGN DEBT TRANSACTIONS

The registration of financial operations before BACEN (RDE-ROF) is required in connection with foreign loans, foreign financing and foreign financial leases. The registration is the responsibility of the borrower or leaseholder. Funds entering Brazil pursuant to a foreign loan, whether contracted directly or through the issuing of securities in the international market (regardless of their maturity), are subject to registration.

Once the resources have entered the country, changes to the maturity date, financial conditions and debtor are generally permitted, but are also subject to registration. Registration of the debt transactions should be made in the currency agreed between the nonresident lender and the resident borrower and be carried out by the resident borrower or its representative. Such registration involves three steps:

- Furnishing of basic data concerning (i) borrower, lender(s) and guarantor(s), if any; (ii) the financial conditions of the debt transaction and of the terms relating to the payment of principal, interest and any other fees due under such transaction, and (iii) the document(s) in which the transaction conditions are set forth or the terms of the credit and the guarantee, if any, contemplating such conditions;
- Obtaining the RDE-ROF number, which should be automatic for debt transactions— unless such transactions are not compatible with the usual market practices and conditions, or do not fit the patterns contained in SISBACEN for debt transactions, in which case BACEN will indicate to the Brazilian borrower the necessary alterations for registration to be granted; and
- Inclusion of a payment scheme of all amounts due to the nonresident lender under the debt transaction.

Last, but not least, very recently, the Brazilian Central Bank Circulars n°. 3,814 and 3,822, respectively, were published, stating some changes in the rules about RDE-IED (Electronic Declaratory Registration of Foreign Direct Investment) and create obligations to be accomplished as early as 2017. The changes addressed in these circulars were motivated by the need to improve and simplify the RDE-FDI module.

These new Circulars brought, among other changes, the obligation to provide periodic information that was not mandatory before. Therefore, all companies receiving foreign direct investment will be required to keep updated in the RDE-IED, the company net worth, the total paid-in capital and the capital paid in by each foreign investor, on an annual basis, at least.

BUSINESS ORGANIZATIONS AVAILABLE

One of the first decisions that a Foreign Investor needs to take is to decide what type of structure best suits its business plan. Incorporating a foreign company's branch in Brazil is a bureaucratic process, since the establishment of a branch and all amendments to the bylaws require prior approval from the federal government.

Therewith, branches are considered part of the foreign entity in Brazil and the controller company may have unlimited responsibility for its debts in the event that the branch cannot afford such obligations.

It is important to emphasize that branches are subject to Brazilian laws and courts with respect to acts and transactions occurred in Brazil and, for this reason, the majority of investors adopt the subsidiary model, since their shareholders are not responsible for the subsidiary's acts and debts, except for specific provisions set forth by specific rules.

TYPES OF BUSINESS ENTITIES

Once that is established, the investor will need to decide which format is more appropriate for the business. There are several types of corporate entities contemplated by Brazilian law and the most used are the limited liability company (sociedade limitada or "limitada") and the joint-stock corporation (sociedade anônima or "S.A.").

The liability of quotaholders or shareholders both in limited liability companies and joint-stock corporations is generally restricted to the amount that they paid for their quotas or shares. There is no minimum corporate capital requirements. Corporate capital may be distributed among partners freely.

For a Limited Liability Company, it is required at least two quotaholders who, with a few exceptions, can be either individuals or legal entities. Foreign quotaholders must be formally represented by a Brazilian resident who is empowered to receive service of process. It is required to grant a power of attorney to a Brazilian resident to represent it in the Country, with powers also to receive summons. This power of attorney has to be legalized at Brazilian Consulate. Non-resident quota holder must obtain a tax identification number from the Brazilian Internal Revenue Services (called CNPJ for entities or CPF for individuals).

A "Limitada" has only one class of partner, the limited liability quotaholder. All quotaholders are held jointly and severally liable for the entirety of the company capital until it is fully paid. Once the capital is fully paid, liability is limited to the amount of each quotaholder's ownership.

The Articles of Association of a limited company must define (i) the corporate and commercial name, indicating the main activity and accompanied by the expressions "Limitada" or "Ltda." (ii) the company purpose; (iii) the address of its headquarters; (iv) any limits on the duration of its existence; and (v) the capital amount how it is divided among the shareholders.

Its capital shall be divided into quotas and its quotaholders' liability limited to the value of their quotas. It is worth to mention that such limit shall be extended to the total value of the company's quotas until the company capital is fully paid-in.


Any change of the AoA terms will require an amendment to the Articles of Association, which must be signed by all of the quotaholders or, at least, the quotaholders who represent three-fourths of the capital.

Limited liability companies may distribute accrued profits to their partners. If the partners are individuals or legal entities residing or domiciled abroad, dividends remitted at the commercial exchange rate. Similar to a common-law partnership, distributions do not have to be made pro rata to the percentage of the equity holdings. Further, there are no restrictions on the distribution and remittance of profits abroad.

The limitada does not need to publish amendments to its Articles of Association, or other corporate documents, except in some events such as capital reduction, merger, spin-off or consolidation. However, Articles of Association and some other corporate documents are public documents and must be registered with the competent state Board of Trade, so anyone can access it.



São Paulo Museum of Art
SÃO PAULO



The Liability Limited Company may be managed by one or more individual quotaholders, or by a third person appointed by the quotaholders. Foreigners are allowed to be appointed for management positions, provided that they have a valid Brazilian permanent visa. Notwithstanding, the quotaholders may retain control over certain decisions by reserving certain rights and imposing restrictions on the management actions in the Articles of Association.

A joint-stock corporation, or S.A., is governed by the Corporation Law and is essentially a commercial corporation. It also could be defined as a business corporation having as its purpose the earning of profits to be distributed to the shareholders. The corporate capital of the S.A. is divided into shares that represent fractions of the corporate capital.

Depending on the rights conferred to their holders, the shares may be common or preferred, and may be split into different classes and series. Shares need not have a par value and can be book-entry shares or be represented by certificates. Usually, common shares give the holder the rights of common shareholders; preferred shares have special rights of a financial nature and usually do not confer voting rights.

Unlike *limitada*, where the ownership of quotas is stated in the Articles of Association, in an S.A. the corporation keeps a record of its shareholders in its particular corporate books.

Corporations may issue nonvoting preferred shares up to 50 percent of the company's total corporate capital. Nonvoting preferred shares must be issued with the following rights, on a cumulative or noncumulative basis: (i) priority in the distribution of fixed or minimum dividends or (ii) priority in capital repayment (with or without a premium).

The bylaws (*estatuto social*) of a joint-stock corporation must state the corporation's subscribed capital, and may also establish an authorized capital. The authorized capital consists of a limit (in Brazilian currency or number of shares) on which the subscribed capital may be increased by resolution of the board of directors without an amendment to these same bylaws, as opposed to the usual capital increase process which requires an approval by the shareholders' general meeting.

A Corporation may be formed by public or private subscription. Also, all shares must be subscribed by at least two shareholders, and a minimum of 10 percent of the capital must be paid upon its incorporation.

The incorporation of a company by public subscription requires: (i) preliminary registration of the share issue with the CVM (Brazilian Securities Commission); (ii) intermediation by a financial institution; (iii) approval of the incorporation by a general meeting; and (iv) appraisal of any assets transferred to the company as payment for shares.

Incorporation by private subscription is much simpler and may take place at a general meeting of the subscribers, or by a public deed of incorporation published simultaneously with subscription for the shares.

A publicly held company must be registered with the CVM, along with its securities, which may be traded on the stock exchange or on the over-the-counter market. The securities of a closely held company are not available to the general public. Other securities that may be issued by an S.A. are subscription warrants and bonds (debentures).

Shareholders may choose to divide the corporate management in two levels: the board of directors and the executive officers, who may also be organized as an executive board. An S.A. is not required to have a board of directors except in the case of publicly held and authorized capital companies and financial institutions, where the establishment of the board of directors is mandatory.

If created, the board of directors has the powers vested in it by the Corporation Law and the bylaws, which includes overseeing the executive officers. Unlike the executive officers, the members of the board of directors (conselheiros) may reside abroad; however, such board members must appoint an attorney-in-fact residing in Brazil who is authorized to receive service of process of lawsuits filed in connection with corporate litigation, during the term of office and for at least three years after the expiration of the board members' term of office.

Corporations may pay dividends to shareholders out of profits. If the shareholder is an individual or legal entity resident or domiciled abroad, the remittance of dividends abroad at the commercial exchange rate.

If allowed by the Articles of Association, or with the consent of all partners, dividends do not need to be distributed in proportion to the partners' equity holdings. The law requires the distribution and the payment of mandatory dividends. The dividends shall be distributed in proportion to each shareholder's ownership interest. However, preferred shares can be awarded certain benefits.

The partners are also free to decide the allocation of profits. Before any other allocation, including the distribution of the dividends, at least 5% of the profits shall be applied for the formation of the statutory legal reserve (which must not exceed 20% of the corporate capital).

Accordingly to the Law 6.404, that regulate this type of entity, the financial statements should be approved at a partners' meeting held within the first 4 months of the fiscal year. The financial statements should be approved at an annual general meeting held within the first 4 months of the fiscal year.

Any Amendments to the Articles of Association have to be approved in writing by partners representing 3/4 of the corporate capital and are enforceable against third parties when registered at the competent Board of Trade. A meeting is not necessary in order to amend the Articles of Association if all the partners consent. Amendments to the bylaws have to be approved by a majority of the shareholders at an extraordinary general meeting.

In the same way, the corporate capital can only be increased when it has been fully paid-up by the subscribers.

Recently, the Civil Code was amended by Law no. 12,441 and created the Individual Limited Liability Company (EIRELI). This type of business entity allows an individual (not an entity) to incorporate a company and have his or her liability limited to the amount of ownership interest.

The corporate name of the Eireli must include the expression "EIRELI". The rules of the Civil Code that are applicable to limitada are also applicable to Eireli; however, two significant restrictions were included in the Civil Code: (i) the corporate capital of the Eireli must be of at least 100 minimum wages and totally paid in at the incorporation date; and (ii) the sole quotaholder can only be a member of one Eireli.

Considering that, the Eireli may not be considered as an attractive option for investment in comparison to a limitada or an S.A.

SETTING UP AND RUNNING BUSINESS ORGANIZATIONS

Before any action, the shareholders must therefore appoint an attorney in fact with powers to receive summons referring to legal actions filed against it, to Participate in meetings, assemblies and other deliberation sessions, to sign, acquires, disposes, cedes or transfers shares or quotas; and to carry out all other rights concerning the conditions of a partner, quota or a shareholder of the Brazilian company in question.

All of these parties, foreign shareholders, and legal representatives need to be registered within the Brazilian Central Bank's database (Cadastro de Empresas – CADEMP). This will allow the company to register the Electronic Registration of Foreign Currency (Registro Declaratório Eletrônico – RDE), Registration of Financial Transactions (Registro de Operações Financeiras – ROF), Foreign Direct Investment – FDI (Investimento Externo Direto – IED) and other investments.

Once the bylaws have been prepared according to the powers of attorney, they should be translated into Portuguese and registered with the tax authorities in order to obtain a tax identification code (CNPJ) for the foreign shareholders. The bylaws of the company then need to be registered with the Board of Trade and with the tax authorities, so a CNPJ is granted to the Brazilian Company. The CNPJ number together with the name and address registered in the bylaws serve as identification of the subsidiary for statutory purposes.

At the time of registration, an accountant must be appointed. Please note that this professional must be registered with the Regional Council for Accountancy (Conselho Regional de Contabilidade – CRC).

The registration of foreign exchange is done through the Eletronic Registration (Registro Declaratório Eletrônico – RDE), which is part of the Central Bank Information System (Sistema de Informações do Banco Central do Brasil – SISBACEN). Registration is mandatory for inflows and outflows of foreign capital, and it is relevant at this point because of the inflow of capital, according to what has been established in the bylaws.

It is also important to have in mind that bylaws must be amended when there is a change to any of the items above. Later amendments must be registered with the Board of Trade, tax authorities (Receita Federal – RF), and other authorities according to the specific amendment.

Besides the Brazilian Central Bank, the companies also have to require registration with other public entities as exposed below:

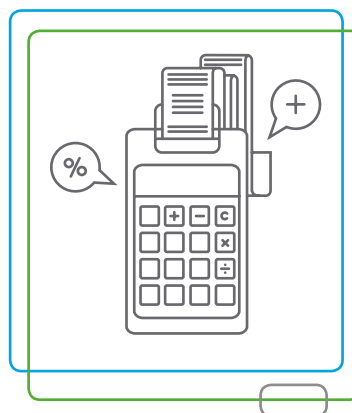
- To hire employees, registration with the labor authorities is required: National Social Security System (Instituto Nacional do Seguro Social – INSS) and Guarantee Fund for Length of Service (Fundo de Garantia do Tempo de Serviço – FGTS).
- If the company deals with services or starts operations as a cost-plus entity, it must first be registered with the municipality in which it is located, as it will be subject to ISS and to an Inspection Fee (Taxa de Fiscalização – TFE);
- If the company trades goods, is a manufacturer or delivers certain services, it must first be registered with the state in which it is located, as it will be subject to the State Value-Added Tax;
- All companies need to be registered with a Trade Union, and this registration depends on the type of activity the company will perform in Brazil. All of the company's registered employees will be subject to the rules of the Consolidation of Labor Laws (Consolidação das Leis do Trabalho – CLT) of that specific Union; and
- In order to support users to feel safe about the online operation and transactions, two tools were created to assure the privacy of information and guarantee the authenticity of files sent by e-mail: the e-CNPJ and e-CPF (Cadastro de Pessoa Física – e-CPF). These are digital certificates approved by the Federal Revenue (Secretaria da Receita Federal) and serve to protect personal and corporate information. Moreover, the Legal Acting Director needs the digital certificate in order to forward and receive information from the tax authorities, while the company's digital obligations are filed through its digital certification.

According to the nature of the business, other registrations/authorizations might be required. Therewith It is strongly recommended to consult our firm previously, so we can analyze and understand the company activities e needs.

TAX SYSTEM

The Brazilian Tax Legislation is founded on three main pillars:

- The Principle of legality, which establishes that the Government cannot charge the taxpayer unless the obligation is upheld by law;
- ***Vacatio Legis***, which is the period between the promulgation of the law and the time it takes effect that the tax authorities must wait; and
- The Principle of Anteriority which is the principle that granted security to the taxpayers that the Government will not and cannot collect a new and increased tax obligation before a certain amount of time.



The Brazilian tax doctrine classify taxes by:

1. Their Legislative Powers:

- Federal;
- State; and
- Municipal

2. Their capacity to legislate:

- Privately – when only one federative entity can legislate over one particular tax;
- Common – when two or all federative entities can legislate over one particular tax; and
- Residuals – are the taxes and contributions that the Federal Government may create.

3. Their purpose:

- Fiscal – the tax within this category is the one whose collection aims only in load the government treasury, such as corporate taxes;
- Extra-fiscal – this type of taxes has the objective to intervene in a social or economic situation, such as import/export duties; and
- Parafiscal – when the tax law designates an Active Agent different then the government itself, such as the contributions created to fund the INSS (Federal autarchy)

4. Their repercussion among the economic-financial burden:

- Indirect Tax (VAT) – taxes that because of their juridical configuration allow the transportation of their economic-financial burden to a different agent then those established by law;
- Direct Tax – taxes imposed upon a person, property or income as distinct from a tax imposed upon a transaction, which is described as an indirect tax.

CORPORATE TAXATION

Brazilian corporate taxpayers are subject to two main taxes on net income: (i) the Corporate Income Tax (IRPJ), and (ii) the Social Contribution Tax on Net Profits (CSLL).

IRPJ is due at a rate of 15% calculated on the net taxable income, plus an additional 10% on profits exceeding R\$240,000 per year. CSLL is also calculated on the adjusted net profits, at a rate of 9%. The tax basis for both IRPJ and CSLL are very similar. Therefore, Brazilian corporate "income taxes" have a combined nominal rate of approximately 34%.

Brazil has no tax consolidation rules; therefore, each legal entity is subject to its own corporate income taxes.

Brazilian corporate entities may choose to collect corporate taxes based on 4 different regimes: (i) Simplified Tax Regime ("Simples"); (ii) the Deemed Profit method ("lucro presumido") (iii) the Actual Profit method ("lucro real") or (iv) the Arbitrated Profit method ("lucro arbitrado"). Due to its high burden compared to the others, the Arbitrated Profit method is more commonly used in extreme situations (i.e. when the corporate accounting is useless), thus we will not address further comments about this method.

The choice is made annually, and it is generally driven by the company's profitability and its future investment plans. In general, the taxation regime based on a percentage of gross revenues is limited to companies with annual gross revenues that do not exceed R\$78 million.

In the case of a IRPJ Net Operating Losses (NOLs) and a CSLL negative bases (CSLL NOLs), the company may use them as credit to the limit of 30% of the periods' Taxable Income / CSLL positive calculation basis, despite the fact the NOLs have no statute of limitations.

SIMPLIFIED TAX REGIME

Small enterprises with annual gross income up to R\$ 4,8 million are eligible to be taxed under a simplified regime that comprises: i.) corporate income taxes; ii.) Federal Excise Tax (IPI); iii.) Social Contribution on Gross Income (PIS and COFINS); iv.) State VAT on Sales and Services (ICMS); v.) Tax on services (ISS); and vi.) Social Security Contribution (INSS).

The rates vary as from 4% up to 22.90% according with the economic activity and the gross annual revenue.

DEEMED PROFIT METHOD – LUCRO PRESUMIDO

The Deemed Profit method is available only for companies with gross income up to R\$ 78 million, during the previous fiscal year, or regardless of the income in the year the company starts its operations.

The tax law determines a profit margin between 1.6% (sale of fuel) and 32% (rendering of services, among others) of the gross revenues, depending on the entity's type of activity. This calculation applies regardless of the company's actual profits.

IRPJ is levied on the deemed profits based on a quarterly trial balance at 15%, plus 10% on the annual proportionate taxable income above R\$ 240.000.

The deemed tax basis for CSLL in case of provision of services, among other activities, is 32% of the gross income, or 12% for all other cases. The same 9% tax rate applies on the deemed taxable income. If the Company has capital gains or financial income, the total amount is fully taxable (no deemed margin to be considered).

The Deemed Profit method has basically three advantages: (i) less bureaucracy; (ii) there is no need to substantiate the deductibility of expenses; (iii) transfer pricing rules on importations do not apply;

ACTUAL PROFIT METHOD – LUCRO REAL

Under this method, IRPJ and CSLL are calculated based on actual taxable income, which is the net income prior to adjustments established by law. The company may choose to calculate the Actual Profit on a yearly or quarterly basis. While the first regime demands monthly prepayments, the latter requires quarterly payments.

The Actual Profit method is mandatory if the taxpayer falls into one of the following cases:

- Has annual revenues in the previous year exceeding R\$78 million;
- Has profits, income, or capital gains derived from foreign activities;
- Uses tax reduction or exemption;
- Explores factoring activities; or
- Operates as a financial institution.

Through the Actual Profit method, the company should calculate its taxable income by applying certain add-backs (non-deductible expenses – permanent or temporary) and deductions (non-taxable revenues) to its net income.

Generally, operational expenses are deductible if they are necessary and usual to the company's activity. In contrast, non-deductible expenses are specifically listed by tax law and relate, for instance, to donations in general, gifts, provisions (temporary differences), and other non-compulsory payments.

Under the Actual Profit method, accumulated net operating losses may be carried forward indefinitely, but no carry back or inflation adjustments are permitted. Tax losses that are carried forward may be used to offset up to 30% of a company's taxable income in any taxable period.

Restrictions on the offsetting of carried forward tax losses may be imposed if there is a change of ownership control of the entity and of the business activity between the period when the losses were generated and the period when the losses are effectively used.

Pão de Açúcar
RIO DE JANEIRO



As a rule, expenses are deductible for IRPJ and CSLL purposes as long as they meet general requirements established under the tax law. Accordingly, a deductible expense must be:

- **Actually incurred:** Expenses incurred by the company should be considered to be actually incurred if it can be demonstrated that the respective events (purchase of goods or services, for instance) were truly received/purchased and that the "expense" directly benefited the entity. Thus, in general terms, expenses incurred in benefit of a parent company would not be deductible.
- **Ordinary and necessary:** An expense is considered "necessary" if it is incurred with respect to any transaction ordinarily conducted by the company in the performance of its principal or secondary activities, provided that these activities are related to the company's income generating capacity. An expense is considered to be "ordinary" when it relates to an activity that is normally or usually conducted by a company with respect to the type of its corporate objectives.
- **Usual to the company's business (i.e., effectively connected with the company's activities):** There is no precise definition of what is "effectively connected" with a Brazilian company's activities. In the absence of formal guidance, common sense should be applied in order to determine whether or not the expenses incurred by the entity are related to its business activities.
- **Supported by proper documentation:** expenses are deductible for tax purposes only if they are clearly and expressly evidenced by pertinent supportable documentation (e.g. contracts, registrations, invoices, receipts).

TAXES ON GROSS REVENUE (PIS / COFINS)

The Contributions to the Social Integration Program (PIS) and to Financing of the Social Security (COFINS) are social contributions levied monthly on gross revenues earned by a Brazilian legal entity under one of two different regimes of calculation: non-cumulative and cumulative. Basically, companies under the Actual Profit method are under the non-cumulative regime (some exceptions applies), while companies under the Deemed Profit method are subject to the cumulative regime.

NON-CUMULATIVE REGIME

Under the non-cumulative regime, PIS and COFINS are generally charged at a combined rate of 9.25% (1.65% PIS and 7.6% COFINS) on total revenues earned by a legal entity, including financial revenues.

Certain business costs and expenses result in tax credits to offset PIS and COFINS liabilities. The identification of PIS and COFINS credits generally requires a thorough analysis of the costs and expenses incurred by a company in its daily activities, and some examples are listed below:

- Depreciation of machinery, equipment and other fixed assets acquired for direct use in the manufacturing of a product or rendering of a service;

- Goods and services used as inputs on the sale of products or rendering of services, including fuel and lubricants consumed;
- Energy (electric, thermal) consumed in the company's establishments; and
- Rental/leasing of buildings, equipment, and vehicles used in the company's business.

PIS and COFINS tax credits are calculated monthly by applying the respective rates (1.65% and 7.6%) to the costs/expenses listed above.

Alternatively to such methodology, at the discretion of the taxpayer, tax credits in connection with the acquisition of fixed assets used in the production of products and services may be accumulated faster than applying PIS and COFINS rates on their depreciation, such as on 48 or 12 monthly fractions of the asset's cost.

CUMULATIVE REGIME

Brazilian taxpayers subject to the cumulative regime must calculate PIS and COFINS in a monthly basis at a combined rate of 3.65% (0.65% PIS and 3% COFINS) on the gross revenue. The offset of input PIS and COFINS tax credits is not allowed under this regime.

It applies to some specific industries (not including services companies in general) and also to companies that compute taxable profits under the Deemed Profit method.

FEDERAL EXCISE TAX (IPI)

This federal tax is levied on finished goods – both national and foreign – and is paid by manufacturers at the time of sale, either to another manufacturer or to the retailer or final customer.

The concept of manufactural product is those resulted of any operation that modifies the nature, the layout or the purpose of the product, even if the process is only partial or intermediary.

The IPI's triggering events are: (i) the custom clearance of the foreign products; or (ii) when the products leaves the industrial establishment or any establishment equivalent to an industrial establishment.

It's important to mention that the Brazilian law lists a few products that are not taxed with IPI, such as books and goods that are going to be exported.

IPI tax rates are established accordingly to the necessity and nature of the goods. The rates can vary as from 0% up to 365% (average rate is 14%).

The IPI must be paid monthly and follows the non-cumulative principle (any amount charged in each taxable transaction can be deducted from current transactions).

When it comes to import operations, the company must use as the IPI calculation basis the value of the goods considering the cost, insurance and freight (CIF) and the Customs Duties (II).

IMPORTATION DUTY (II)

The import duties (II) is a federal tax levied on importation of goods and collected at the customs clearance process.

Its trigger event is defined by the National Tax Code as the moment of entrance of any foreign goods in national territory. Therefore, it is not relevant if the goods were the object of a purchase contract nor the date of the contract, if there was one. What is relevant is the moment the products entrance in Brazil and the date registered at the Importation Declaration (DI).

The taxpayer is the importer or whom the law see as an equivalent of the importer and the winning bidder of the goods neglected or confiscated.

The tax rate is based on the Mercosur Common External Tariff tables ("NCM") which is a classification of the imported goods and it is a not recoverable tax. Therefore, it must be classified as a cost, since it does not originate any tax credits.

FINANCIAL TRANSACTION TAX (IOF)

Is a Tax on Financial Operations imposed on credit transactions, foreign –exchange transactions, insurance operations and financial investments. The tax rates are defined by the government through decrees and may become effective immediately after its publication.

Some examples of IOF taxation:

- **Foreign Exchange Transactions:** The inflow or outflow of foreign capital imply on an exchange transaction rate of 0.38%. If, however, it involves a funds related to investments made by non-Brazilians residents in the Brazilian markets. the IOF rate is zero.

Also, the companies shall pay attention in the fact that the Brazilian Government may increase prospectively this IOF rate but it must respect the upper limit of 25%.

- **Insurance operations:** IOF tax rates may vary from 0% to 7.38% and this IOF is collected on any transaction involving insurance. Disposal and Redemption of fixed-income investments that have less than 30 days are subject to this IOF at a rate of 1%.

Also the tax authorities may increase this IOF up to the limit of 1.5% per day, but to derivative transactions the limit is 25%.

- **Loans transactions** are taxed by the IOF with a rate of 0.0041% per day, up to 1.5%. Currently, loans of more than 6-months term is exempted of IOF. If the part who is borrowing is an individual the rate decreases to 0.82% per day. An additional 0.38% rate are sometimes applicable in addition to the above-mentioned rates.

And, once again, the Government must not increase this IOF Credit over the limit of 1.5% per day.

CONTRIBUTION FOR INTERVENTION IN THE ECONOMIC DOMAIN (CIDE)

The Contribution for Intervention in the Economic Domain (CIDE) is a federal obligation imposed by the Brazilian Constitution which has as its main purpose to intervene on a social or economic situation.

In 2000, the Law 10.168 regulated the CIDE Royalties which established that companies who signed contracts whose objects were the provision of technical services and administrative assistance by residents or domiciled abroad, as well as who pay, credit and delivered royalties abroad must be taxed in 10%.

It's important to mention that the contribution over the license of use or the commercialization right of computer programs, except the transactions involving transfer of technology, are exempt.

The extra fiscal purpose of CIDE Royalties relies on the intent of the government to finance researches, science's programs and technological innovation; and the CIDE Fuel's is directed to the finance of environmental projects, transport infrastructure programs and the payments of subsidies to fuels transportations.

The Brazilian tax legislation has also the CIDE Fuel whose trigger event is the importation and commercialization, in national territory, of oil, natural gas and other fuels.

TAX ON CIRCULATION OF GOODS, TRANSPORTATION AND COMMUNICATION SERVICES (ICMS)

The State Value-Added Tax – ICMS is a tax collected monthly by state authorities and it is imposed on: (i) the sales of goods; (ii) inter-municipal and interstate transportation services; (iii) communication services and (iv) transactions carried out in the digital market (goods and services) or any other sales carried out without the presence of the consumer.

Since it's a state tax and the Brazilian Federation is composed of several states, the company must observe the operation performed, the nature of goods negotiated, the ICMS legislation of each federative entity to plan its operations in the country.

Generally, on local acquisitions, the rates range from 0% to 25%, but for instance, the standard rate of ICMS is 17%, but in São Paulo is 18%, and in Rio de Janeiro is currently 20%. On the other hand, on interstate acquisitions, the ICMS will depend on which state the final customer is located.

Another point of attention regarding this tax is the ICMS-ST, which is due when a participant on the supply chain is obligated to make the payment on behalf of the whole chain. For example, the Tabaco industry pays the regular ICMS and the ICMS-ST, and consequently the wholesale and retail companies are no longer obligated to pay ICMS since the industry has already paid.

The Constitutional Amendment 87 and the ICMS Covenant 93, created the difference between internal and interstates rate – the DIFAL. Since then the Brazilian Government determined that on interstate transactions if one state is a non-ICMS taxpayer, the ICMS shall be shared by supplier's state and consumer's state.

Just as IPI, ICMS is also a non-cumulative tax, therefore, the company must observe the amount of ICMS debts on each payment period, which is resulted by the circulation of merchandise of goods and services, and the ICMS credits originated by the acquisition of goods. From this analysis, the taxpayer can compensate the residual credits on future calculations.

It's important to mention that the Brazilian legislation establishes that goods for consumption or assets must receive a special treatment and especially involving a purchase of assets the law allows an amortization in 48 months against debts due in each period.

Before establishing the sales price, the company must calculate the ICMS including the value of the tax itself, using the gross-up method, and also having in mind that the IPI must be added into the calculation basis in case of final consumer.

Finally, in the matter of import operations, the ICMS calculation basis must consider the cost, insurance and freight (CIF), most of the customs duties and ICMS itself using the gross-up method.

TAX ON SERVICES (ISS)

ISS is a municipal tax levied on services listed in the Complementary Law 116/03 and those not subject to ICMS taxation. Since it is a city tax, each of the 5,564 municipalities within the Federation can establish a rate that may vary from 2% to 5% for each kind of services.

The ISS must be paid monthly by the service provider and the calculation bases is the price of the service.

Differently from the IPI and ICMS, the ISS is a cumulative tax and, therefore, the company cannot recover any ISS paid and should be classified as cost.

In the matter of import services, the ISS trigger event happens when the service is performed in Brazil or when the result of service is verified in Brazil. Theoretically, the ISS is imposed to the foreign provider as a withholding tax, but the burden is commonly transferred to the Brazilian company (importer).

In parallel, the services exported by Brazilian companies are exempted of ISS.

TRANSFER PRICING RULES

As already mentioned, IR and CSL are assessed on the net profits duly adjusted by additions, exclusions and offsetting under tax laws. Transfer pricing rules is considered as one adjustment.

Transfer pricing rules were adopted in Brazil in the beginning of 1997 and are still in development. The existing legislation and jurisprudence are still limited, and for that reason several issues remain unclear.

One peculiar feature of the Brazilian legislation is that, instead of embracing the "arm's length" principle in full, it opted for a formulary approach, defining acceptable fixed margins of profitability for each situation. As a result of such concept, Brazilian transfer pricing rules only provide transactional methods and do not allow functional analysis.

The methods provided for testing transfer pricing are few and the flexibility of factors involved in the calculation is restricted. The most debatable restriction is the fact that profit margins involved in some methods are pre-established by the statutes and practically inflexible. Theoretically, changes in such statutory margins can only be effected upon specific authorization of the Ministry of Finance after a complex ruling procedure and analysis of comparative sector data.

One good feature of Brazilian transfer pricing rules is the lack of preference among the available methods. There is no need for justification of the method elected, so that the one that gives the best result can be used for each product/service. The method chosen, however, must be consistent for each product within each tax period.

IMPORT METHODS

Brazilian law currently provides four possible methods for import transactions. If the actual import price exceeds the parameter price calculated by the method chosen by the importer, the exceeding amount will be considered a non-deductible cost for purposes of the corporate income taxes (IRPJ and CSLL).

COMPARABLE INDEPENDENT PRICE METHOD ("PIC")

Under PIC, the parameter price corresponds to the average price of identical or similar goods and services traded between unrelated parties, whether in Brazil or abroad, and with similar payment conditions. If necessary, the parameter price may be adjusted according to the payment term, negotiated quantity and other elements provided by law.

PIC method is usually difficult to apply in Brazil for lack of available data on cross border transactions performed with non-related parties. Although a detailed data base regarding foreign trade transactions has been made publicly available by customs authorities in the last years, it is not possible to retrieve data exclusively related to transactions with unrelated parties.

COMMODITY EXCHANGE IMPORT PRICE ("PCI")

This method aims exclusively at the trade of commodities by testing the import prices with their list price in commodity exchange markets or in publications of institutions.

This method is mandatory for the companies that trade the goods expressly indicated in attachment I of the Normative Instruction 1,312.

PRODUCTION COST PLUS PROFIT METHOD ("CPL")

This method calculates the parameter price based on the average production cost of identical or similar goods or services in the country they were originated, plus the taxes and fees charged in such country and a 20% profit margin.

Brazilian companies commonly do not make use of this method because it relies on the disclosure of production costs and profit margin of the foreign company.

RESALE PRICE LESS PROFIT METHOD ("PRL")

This method calculates the parameter price based on the profit margin earned by the Brazilian party according to the steps below:

1. net sales price: weighted average of sale prices in Brazil, less: unconditional discounts, taxes included in the sales price (e.g. ICMS, IPI, ISS, PIS and COFINS), brokerage fees and commissions;
2. share of the imported goods in the total cost of the goods sold: ratio between the weighted average cost of the imported goods and the total weighted average cost of the goods sold, calculated according to the taxpayer's cost spreadsheet. According to the law, the cost of the imported good corresponds to the FOB price of the imported goods, less the taxes levied on the import (II, IPI, PIS, COFINS and ICMS);
3. share of the imported goods in the sales price of the goods sold: percentage resulting from item (ii), multiplied by the net sales price resulting from item (i);
4. profit margin: As of January 1st, 2013, new gross profit margin is required depending on the sector/activity, calculated based on the percentage of the value imported over the final resale price. The gross profit margin varies from 20% to 40% depending on the sector or activity. Profit margin multiplied by the share of the imported goods in the sales price of the goods traded, calculated according to item (iii).
5. parameter price: difference between the share of the imported goods in the sales price of the goods sold, calculated according to item (iii), and the profit margin calculated as per item (iv).

Considering this is the only transfer pricing method that do not rely on information to be provided by the related company, is more frequently used by the Brazilian taxpayers to test transfer pricing on inbound transactions.

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EXPORT METHODS

First of all, it is important to mention that Brazilian law provides certain "safe harbor" clauses which are broad comparison ranges that, once identified, will result in avoidance of full application of transfer pricing rules. Two safe harbor clauses apply to export transactions: the relevance of export rule and the price range rule.

The first one seeks to identify the relevance of export revenues in comparison with total revenues. When the revenue derived from exports do not exceed 5% of the total revenues, no transfer pricing justification will be needed.

The second rule seeks to identify variation in the prices of exports in comparison with prices charged on domestic market. Transfer pricing rules will apply if the average price of the goods exported during the period of calculation of the income tax corresponds to less than 90% of the average price charged in the sale of the same goods in the Brazilian market during the same period and under similar payment conditions.

EXPORT SALES PRICE METHOD ("PVEX")

PVEx method is defined as the weighted average export price charged by the company to unrelated customers. Alternatively, export prices may be tested with export prices of identical or similar goods and services practiced by other Brazilian companies. Comparable transactions must take place in the same year and be contracted with similar payment terms.

Given the difficulty of reconciling prices and similarity, PVEx method is unlikely to provide a reliable parameter price and are often challenged by the Tax Authorities.

RESALE PRICE METHODS ("PVA" OR "PVV")

These two methods are defined as the weighted average resale price of identical or similar goods in the country of destination under similar payment terms, less sales taxes and a profit margin of 15% for wholesale in the country of destination (PVA Method); or 30% for retail (PVV Method). These methods are hard to practice being necessary documentary proof of the year in review, all with sworn translation, notarized and consularized.

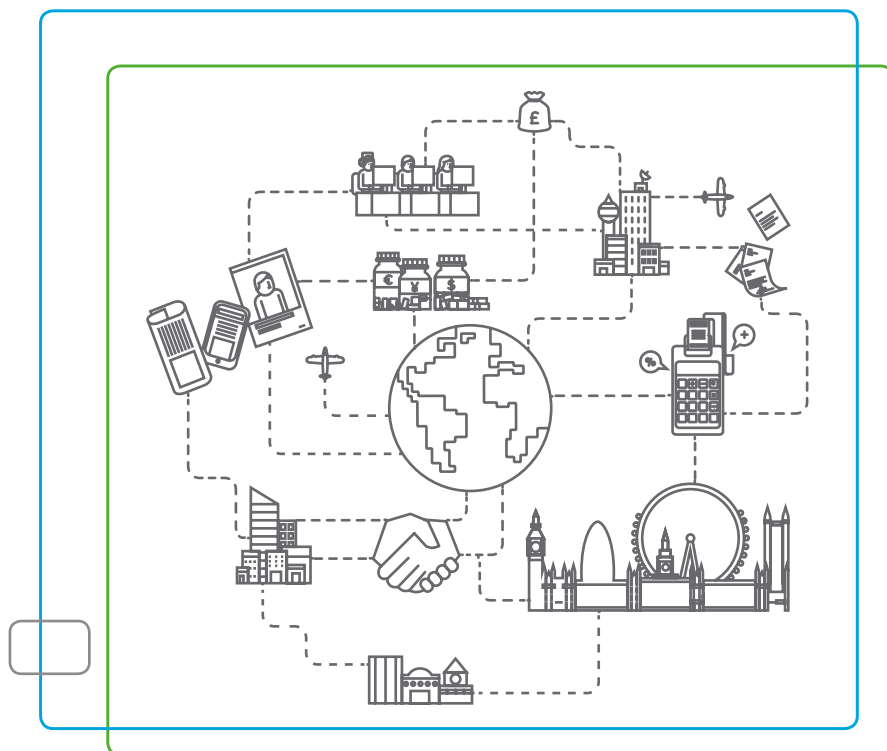
COMMODITY EXCHANGE EXPORT PRICE METHOD ("PECEX")

This method aims exclusively at the trade of commodities by testing the export prices using their list price in commodity exchange markets or in publications of authorized institutions. This method is mandatory for the companies that export the goods expressly indicated in attachment I of the Normative Instruction 1,312

COST PLUS TAXES AND PROFIT METHOD ("CAP")

This method is defined as the weighted average cost of acquisition or production of exported goods and services, added by taxes and duties imposed in Brazil and a profit margin of 15% of the sum of such costs, taxes and duties.

CAP is also the most commonly used method by Brazilian taxpayers to test export transactions with related parties. In turn, PVA, PVV and Pecex are not applicable for exported services



BRAZILIAN GLOBAL TRADE ENVIRONMENT BACKGROUND

In order to import into or export from Brazil, a company is required to obtain a permit from the Internal Revenue Services called "RADAR" ("Register and Supervision of Foreign Trade"). The RADAR allows the company to conduct import/export activities and to have access to the SISCOMEX (for imports) and the NOVOEX (for exports) government trade systems. All import/export transactions are recorded and declared to the tax authorities via SISCOMEX and NOVOEX.

Accessing the Siscomex, the importer and the exporter are able to apply for the import license and for the export record with the Foreign Trade Secretariat (Secex) and other related agencies, as well as, to start the customs clearance process.

As previously mentioned, the Imports into Brazil are subject to five different federal taxes (I) Import Duty; (II) IPI; (III) PIS-Import; (IV) Cofins-Import; (V) Merchant Marine Fee; and one State tax; ICMS. In relation to exports, as general rule, those operations are not taxed in Brazil, except for the external remittance of some controlled products.

The main customs and global trade issues in Brazil are:

- 1. Tariff Classification:** the accurate tariff classification of imported goods is a basic element of the Brazilian Customs control doctrine. For the purpose of determining the classification of any product imported/exported in Brazil, it is necessary to consider the appropriate tariff heading of the subject merchandise under the Mercosur Harmonized Tariff Schedule ("NCM");
- 2. Customs Valuation:** Brazil follows the WTO Agreement on Customs Valuation and, thus, when using the transaction value method of appraisal, some costs, if excluded from the cost base, shall be added to the price for valuation purposes, such as royalties and patent rights, among others. Currently, there are six different methods for determining the customs value of imported products into Brazil.
- 3. Authorized Economic Operator (AEO) Program:** the Brazilian AEO certifies international trade stakeholders which present low operational risks, concerning both cargo physical security and tax and customs compliance. Those certified as AEOs are able to benefit from several operational preferences, including being able to use the AEO seal, which states the company's reliability before clients and authorities.
- 4. Main Special Customs Regimes:**
 - **Recof-Sped:** special customs regime that allows the qualified company to import or acquire goods in the local market to be subject to the manufacturing of exported products, with suspension of the payment of the taxes on the acquisition, which is converted to tax exemption after the proof of export. In case of selling the final product in the local market (instead of exporting), the suspended taxes must be collect, but without fines or interests.
 - **Drawback:** similar to Recof-Sped, the Drawback regime also allows importing or acquiring goods in the local market to be subject to the manufacturing of exported products, with suspension of the payment of the taxes on the acquisition, which is converted to tax exemption after the proof of export. On the other hand, in case of selling the final product in the local market (instead of exporting), the suspended taxes must be collect with fine and interests.
- 5. Ex-Tarifário:** Ex-tarifário is a temporary reduction of the Import Duty tax rate to a percentage of 0% or 2%, depending on the case, for capital or telecommunication goods where there is no similar item produced in Brazil.
- 6. Recordkeeping:** Records are required to be kept by companies in Brazil that are conducting international business. Brazil Customs has a recordkeeping requirement of retention of five years from the date of import. Brazil also has an export file retention period requirement of five years from the date of export.

BRAZILIAN LABOR LAW & SOCIAL SECURITY BACKGROUND

Brazil has a complex labor and social security environment, with limited flexibility. Brazilian legislation, as well as Brazilian Labor Courts, tends to be protective towards the employee.

The main statutory labor rights applied in Brazil are:

- **Minimum wage:** monthly salaries may not be lower than the minimum wage established by applicable law. Presently the “minimum wage” is equivalent to R\$ 937 (approximately US\$ 288). Some specific activities have minimum wage amounts agreed with the respective Unions, but may not be lower than the national minimum wage.
- **Working period:** normal working hours should not exceed 8 hours per day and 44 hours per week. The 44-hour workweek applies to any employee, with such exceptions as bank clerks, telephone operators and so forth, who are subject to different workweeks pursuant to specific regulations. Time worked in excess of the above should be considered as overtime.
- **Working break:** If the normal working hours does not exceed 6 hours per day, but exceeds 4 per day, the employees have the right to a 15 minute-break for rest. Otherwise, if the standard working hour exceeds 6 hours per day, they are entitled to a minimum of 1 hour for lunch and rest. The length of time between 2 working periods should be of at least 11 hs.
- **Vacation period:** After a 12-month period, employees are entitled to 30 days of remunerated annual rest as vacation, which must be taken within the subsequent 12 months. Additionally, the employees compensation are increased by 1/3 of his/her salary as determined in the Brazilian Constitution. In the event the legal period to take a vacation has already expired, then the employer must pay the employee in double.
- **13th Salary / Christmas Bonus:** At the end of each year, employers must pay employees an annual bonus equivalent to 1 month's salary as 13th salary (Christmas bonus).
- **Overtime:** should be of at least 50% of the regular hour. A higher overtime rate can be applied, whether as a result of the applicable collective bargaining agreement, employment contract or, further, as a result of the company's practices. For work performed on Sundays and public holidays, the additional rate is of 100%.
- **On call Premium:** employees who render their services under on call basis should receive an equivalent to 1/3 of his/her compensation for the period and 100% in case of real duty
- **Night Shift Premium:** as a general rule, work performed as from 10:00 p.m. to 5:00 a.m. should be increased of at least 20%. According to our legislation, the nightshift hour is of 52' 30", instead of the regular 60'. In this sense, the employer can follow the hour established by the legislation or can grant an additional of at least 14,29%, in order to compensate the nightshift hour reduction.



- **Hazardous Allowance:** the employees who render services under dangerous condition (i.e. electrical and inflammable) are entitled to an additional payment equivalent to 30% of their base salary.
- **Unhealthy Premium:** the employees who render services under unhealthy condition (i.e. noise environment, chemical products, among others) are entitled to an additional payment that could varies as from 10% up to 40% of the minimum wage (or any other index), as established by CLT and the labor union agreement.
- **Weekly Paid Rest:** Employees are entitled to at least on weekly paid rest. If the employees receives additional payments with recurrence, such as overtime, night shift premium, bonuses, among other, this incomes should reflected in the weekly paid rest.
- **Maternity Leave:** female employees are entitled to 90 days of absence for maternity leave. This period can be extended to 120 days, if requested by a doctor. According to a recent legislation, the employer can grant 2 additional months to the employee and deduct the cost from the corporate tax.
- **Paternity Leave:** male employees ate entitled to 5 days of leave after the child birth. According to a recent legislation, the employer can grant 15 additional days to the employee and deduct the cost from the corporate tax.
- **Sickness:** the first 15 days of sickness should be paid by the employer; all additional days will be paid by government pension. In case of work accidents, the first the employee shall have tenure of at least one year after his/her return.
- **Temporary Tenure:** Granted on extraordinary circumstances, such as employees who suffered work accidents, female pregnant employees and member of the Internal Commission for Accident Preventions (CIPA), provided that these employees have not committed any serious faults.
- **National Man Power:** according to Brazilian Labor Legislation, companies shall keep a proportion of 2/3 of its jobs reserved to Brazilian employees. In addition, the company cannot pay an inferior salary to a Brazilian working in a similar situation when compared to an expatriated employee
- **Prior Notice:** formal communication of at least 30 days, increased by 3 days per completed year of service (limited to 90 days), prior the termination.
- **Isonomic Salary Conditions:** in case of identical positions, it is assumed that there is an equivalence in the service provided. employees who perform the same work, at the same location, for a period no longer than 2 years, cannot receive different salary treatment. A Career Plan can be used to manage issues related with job descriptions and remuneration, in order to reduce the risk of labor claims from employees.

Typical benefits provided in country include the following:

- **Medical Coverage:** the benefit shall be extended to all employees and executives.
- **Meal Allowance:** the benefit must be granted to all employees and shall not be considered as part of the beneficiary's compensation, if the company were registered in the Workers Meals Program (PAT)

- **Transportation Voucher:** the Company should cost the employees' expenses with commute. The beneficiary should cost his/her expenses with the amount equivalent to 6% of his base salary and the Company should pay the exceed amount.
- **Life insurance:** must be extended to all employees.
- **Profit Sharing:** In 2000, specific law settled the parameters for employees' profit sharing or the participation in the company's results. The criteria for profit sharing payments are flexible, i.e., each company and its employees mediated by a worker's union appointed representative may covenant rules in this regard, as long as the rights and accessory regulations there under are clear and objective. This benefit has to be extended to all employees, can be granted twice a year (never under the 3 months period) and must follow specific rules and goals to be achieved, mainly regarding productivity, quality or profitability indexes or goals and outcome programs. In regards to taxation, the payment of profit sharing in accordance with the legislation is subject only to withholding income tax (IRRF) according to specific progressive tax rate.
- **Bonus:** as a general rule, according to the Brazilian labor legislation, bonus is a discretionary benefit and do not need to follow rules in relation to the beneficiaries, value (fixed or variable) and periodicity. However, depending on the manner and the frequency of the payments, this benefit might be considered as part of the employees' compensation, hence subjected to payroll taxes and labor charges. The specific bonuses' format might trigger the following implications: (i) fixed payments should be basis for payroll taxation (INSS, FGTS and IRRF), 13th salary, vacation, overtime, night shift premium and prior notice; (ii) variable amount paid recurrently should also be basis for all the payroll and labor charges, as well as weekly paid rest; and (iii) variable amount paid about once or twice a year should be basis only for 13th salary, as well as payroll taxation.

The payroll taxation applied herein are:

- **Social Security Contribution:** As a general rule, the social Security charges (INSS) are:
 - i.) Employer contribution – 20%; of the total payroll (monthly remuneration paid to all workers, including autonomous); ii.) RAT – (insurance against labor accidents) – vary as from 0,5% to 6% of the total remuneration paid to employees, depending on the “level of risk” presented by the type of activity of the company; iii.) Education allowance – 2.5% of the total remuneration paid to employees; iv.) Contribution for governmental entities – vary as from 0% to 5,2% levied on the total payroll amount.
- Employees' contribution for social security is based a progressive table (rates of 8%, 9% and 11%). The ceiling for employees contribution is of R\$ 570.88 (approximately USD 167.91), equivalent to 11% of R\$ 5,189.82 (approximately USD 1,526.42)
- **FGTS:** Employers must deposit monthly, on the employees' behalf, into a blocked bank account, an amount equivalent to 8% of the remuneration of each employee, without any discount on the employee's salary. In case of employee's dismissal, the company shall pay an indemnification equivalent to 50% of the employee's FGTS balance.
- **WHT:** For the individuals who have a local labor contract in Brazil, the company is responsible for the calculation and payment of the related income tax (withholding), which is due on a monthly basis and based on a progressive tax table (rates vary from 0% to 27.5%).

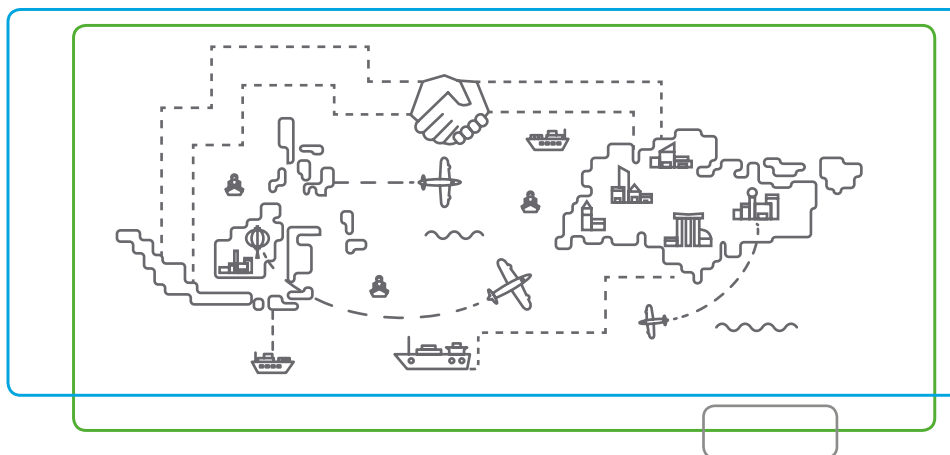
MIGRATORY ASPECTS

As a result of the globalization process, the number of foreign individuals on assignments overseas to work at subsidiaries of the major multinational companies has grown significantly. Whether you send employees overseas regularly or occasionally for special projects, the international assignment requires careful consideration.

Therefore, companies must carefully plan and structure the process of transferring individuals from their home country to Brazil, since an inappropriate structure can significantly impact the total costs of the project and overwhelm the assignee with unexpected tax burden.

The Brazilian Immigration Authorities determine that a foreign individual may only enter the country and be engaged in gainful employment or professional activities under certain types of entrance visas depending on the type of activity, and physical presence in the country. The most common types of visas that allow their holders to perform professional activities in the country are:

1. **Permanent (Administrators/Directors' Visa):** the Permanent visa allows foreign executives to work in Brazil and formally represent a Brazilian company for all contractual purposes.
2. **Temporary V with a local labor contract (Regular Work Visa):** may be obtained upon execution of an employment agreement by and between the Brazilian entity and the candidate, therefore, subject to local labor laws and social security;
3. **Temporary V without a local labor contract (Marine Visa):** applied for foreign professionals willing to work onboard foreign vessels that operate in Brazilian territorial waters. It allows the holder to maintain the existing employment relationship with the home Company during the performance of professional activities in Brazilian waters.
4. **Temporary V without a local labor contract (Technical Visa):** issued in connection with technical assistance agreements that allows the professional to render professional activities in Brazil without a local employment relationship. It allows the bearer to maintain the home employment relationship during permanence in Brazil.



São Francisco Church
in Pampulha Lagoon
BELO HORIZONTE



FOREIGN INDIVIDUALS TAXATION

The Tax Residence in Brazil is determined based on the type of entrance Visa held or the number of days present in the country. All resident taxpayers in Brazil must report to the Tax Authorities all income received, whether in Brazil, or abroad (worldwide basis). The individual taxation in Brazil follows the progressive system and the progressive table has an exemption limit and starts the taxation on 7.5% up to 27.5%. In case of late payments, the due tax must be paid carrying out fine and interests, and the local company may face difficulties to obtain further visas, among others penalties.

The taxes due on income derived from work in Brazil must be calculated based on the rates of the progressive table. The withholding of taxes must be made by the payer (Company in Brazil).

Income received from non-Brazilian sources should be taxable, on a monthly basis, though the payment of the "Carnê-Leão", and collected via a tax payment voucher – DARF under the code 0190. It is the taxpayer's obligation to pay the "Carnê-Leão", which shall be calculated based on the rates in the progressive tax table. The "Carnê-Leão" is due until the last business day of the month following the receipt of the income. If the taxpayer has paid taxes in a country with which Brazil has a ratified Treaty to Avoid Double Taxation or reciprocal tax treatment, a tax credit might be available to offset the taxes due in Brazil

Sale of assets are subject to capital gain tax at some progressive rates starting from 15% to 22.5% flat rate, regardless of whether the underlying assets are used in a trade or business. There are certain exemptions applicable to this taxation and must be analyzed on each individual's situation. Assets purchased before the tax residence's period are exempt from Brazilian capital gains taxation. Capital gains on one transaction each month are exempt from tax provided the sales price does not reach R\$ 20,000 in case of shares listed on the Brazilian stock exchange market and R\$ 35,000 in other cases. Same day sale operations at Brazilian Stock Market are taxed on a flat tax rate of 20% on the capital gain.

Every resident taxpayer must abide by the following Income Tax Annual filing obligations:

- **Annual Income Tax Return ("Declaração de Ajuste Anual"):** must be filed by the last business day of April of the following year. Note that as part of the tax return, resident taxpayers have the obligation to disclose details of worldwide assets and liabilities on specific fields of the tax return – no extensions of time to file are allowed and late filing will result in the payment of late filing penalties and interest calculated on the income tax due; and
- **Central Bank Assets Return ("Declaração de Capitais Brasileiros no exterior – CBE"):** The individual who holds assets abroad, which the total market value is US\$ 100,000.00 (one hundred thousand American Dollars isolated or combined) or higher as at December 31 of each year, is entitled to submit the the Assets Return. Note that no tax is imposed in this return. However the failure to provide the information requested by the Brazilian Central Bank triggers a penalty up to R\$250,000.00. This declaration must be filed, generally, until the beginning of April of the subsequent year.

Whenever a Brazilian tax resident permanently leaves the country, the individual should comply with the following ancillary obligations:

- File a Departure Communication before the last business day of February of the calendar-year following the one in which the individual acquired the status of non-resident;
- File an Exit Income Tax Return, no later than the last business day of the month of April of the following year;
- Request a Tax Clearance Certificate in order to sever the tax residence status in Brazil.
- If the exit procedures are not executed, the individual will remain as a tax resident in Brazil for the 12 months subsequent to departure and, consequently, will be subject to taxation in Brazil on a worldwide income basis.

TAX TREATIES AND RECIPROCAL TAX TREATMENT

Currently Brazil has ratified tax treaties with the following countries:

Argentina	Denmark	Italy	Peru	Trinidad & Tobago
Austria	Ecuador	Japan	Portugal	Turkey
Belgium	Finland	Luxembourg	Slovakia	Venezuela
Canada	France	Mexico	South Africa	Ukraine
Chile	Hungary	Netherlands	South Korea	
China	India	Norway	Spain	
Czech Republic	Israel	Philippines	Sweden	

Such agreements have the objective of avoiding/mitigating double taxation events by way of regulating the right to taxation of income for the participating countries.

In relation to non-Tax Treaty countries, Brazil will grant reciprocal tax treatment to those countries that have internal tax regulations that allow foreign tax credit for income tax paid in Brazil.

The Brazilian Tax Authorities have officially recognized the United Kingdom, the United States of America and Germany as countries in which reciprocal tax treatment will be allowed. For the latter countries, foreign tax credits may eventually reduce the tax liability due in Brazil provided the following circumstances prevail: (i) same tax nature, (ii) same calculation basis, and (iii) absence of a tax refund in future.



SOCIAL SECURITY INTERNATIONAL AGREEMENT

Brazil has signed social security bilateral agreement with the following countries:

Belgium	Chile	Greece	Korea	Quebec
Canada	France	Italy	Luxembourg	Spain
Cape Town	Germany	Japan	Portugal	

In addition, Brazil has signed a 2 (two) multilateral agreements: i.) Iberoamerican (applied to Argentina, Bolivia, Brazil, Chile, El Salvador, Ecuador, Paraguai, Portugal, Spain and Uruguai); and ii.) Mercosul (applied to Argentina, Brazil, Paraguai and Uruguai).

As a general rule, Totalization Agreements enable the expatriate employee (with maintenance of a work contract in the home country) transferred by his/her local employer to Brazil to benefit from a special regime known as "Temporary Transfer".

The referred special regime shall be treated as temporary since the permanence in a foreign territory is limited, varying from country to country.

During such period, the employee is exempt from payment to the official social security entity of Brazil and remains tied to the home country security system. For such, the company must opt for the maintenance of the employee in its home country payroll and the social charges must be fully maintained.

GOVERNMENT INCENTIVES

- Tax Incentives in the Northeast States and the States of Amazonas and Espírito Santo;
- Industrial and Agricultural Technology Programs;
- REPES and RECAP – Tax Incentives on Exports;
- REPETRO – Tax Incentives for the Oil and Gas Sector;
- DRAWBACK regime;
- REIDI – Special Regime for Investments in the Infrastructure Sector;
- REPORTO – Special Regime for Investments in the Port Facilities;
- PADIS and PATVD – Programs for the Development of the Semiconductors and Digital Transmission Industries;
- Manaus Free Trade Zone (MFTZ);
- Others special Free Trade Zones.

GENERAL INFORMATION

LANGUAGE

Portuguese. Most business people speak English.

TIME RELATIVE TO GMT

Eastern Brazil is three hours before on GMT from March to September, and four hours before from October to February due to Summer Daylight Saving Time. In the western central Brazil is one hour before and western Brazil two hours slower.

BUSINESS HOURS

Normal office hours are 8:30 a.m. to 5:30 p.m., Monday to Friday. Banking hours are 10 a.m. to 4.30 p.m., Monday to Friday.

PUBLIC HOLIDAYS

The national holidays are:

- New Year's Eve: 1 January
- Carnival – Mardi Gras: 40 days before Easter
- Good Friday: Friday before Easter
- Tiradentes: 10 April
- Labor Day: 1 May
- Corpus Christi: 11 June
- Independence Day: 7 September
- St. Aparecida: 2 October (Patron Saint of Brazil)
- All Souls' Day: 2 November
- Republic Proclamation: 15 November
- Christmas: 25 December

OUR OFFICES

Rio de Janeiro

Rio Branco Avenue, 123 – 21st to 23rd Floor

Zip Code: 20.040-005

Centro – Rio de Janeiro – RJ – Brazil

São Paulo

Pedroso de Moraes Avenue, 131

Pinheiros – São Paulo – SP – Brazil

Zip Code: 05.419-000

Curitiba

Heitor Stockler de França Street, 396 – 14th Floor – Neo Business Tower

Centro Cívico – Curitiba – PR – Brazil

Zip Code: 80.030-030

Belo Horizonte

do Contorno Avenue, 6594 – 7th Floor

Savassi – Belo Horizonte – MG – Brazil

Zip Code: 30.110-044

Contact us: contato@rsmbrasil.com.br



RSM