Doing Business in Brazil

2012
We are very pleased to introduce Doing Business in Brazil 2012 at a very appropriate time for Brazil in the current international economic climate.

Brazil has been reaching levels of economic growth never before seen in economic history and sporting events such as the Football World Cup and the Olympics have also been generating opportunities for projects in infra-structure, civil construction, electricity, improvements in airports and ports, roads and highways, all of which is attracting new investments from foreign enterprises and higher investments to promote these projects.

As we can see, Brazil is attracting more and more international investment, businesses and partners. We hope that this booklet on the main aspects of how to do business in Brazil will be a valuable source of information for new investors from abroad to help them understand Brazil’s unique features in order to maintain a prosperous and long business in their respective investment segments.

ERNESTO RUBENS GELBCKE
CEO
Directa Auditores – PKF Brasil

Foreword

Our team of multi-disciplinary professionals is able to assist you with every matter related to this publication and to advise investors as to the best way to do business in Brazil.
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INTRODUCTION

Intended solely for use by PKF and its clients, this booklet has been prepared to provide basic information to those interested in doing business in Brazil.

It is simply worded and does not intend to be all-inclusive. Should you need any further information, please contact the PKF member firms in your country.

Directa is an important accounting firm providing comprehensive audit, tax and other business advisory services to support business enterprises operating in Brazil. Directa was founded in April 1976.

Due to the success in its development and the consistent performance over the years, Directa has built up a reputation for and tradition of high quality professional services, based on the technological features of its state-of-the-art products and services and also the talent and motivation of its professional staff.

It is true to the initial inspiration and motto of the company’s founders, which is: There is always room for Quality, Technology and Talent.

From the very beginning, the elements of this trilogy have guided the motivation and growth of the company over times.

PKF International Limited

Directa is a legally independent member firm of PKF International Limited (PKF), the 10th largest global accountancy network with around 300 member and correspondent firms in 125 counties and 440 locations providing accounting and business advisory services. Its member firms have $2.6 billion aggregate fee income (year end June 2011).

We have a local presence and international support which, added to the attributes already mentioned, makes all the difference.

Directa has been a member firm of the PKF International Limited network since July 2009.

PREFACE

DOING BUSINESS IN BRAZIL is designed to assist those interested in doing business, working or living in Brazil.

DOING BUSINESS IN BRAZIL describes the commercial, financial, legal and labour relations affecting those interested in investing in Brazil.

PKF International is represented in Brazil by Directa, one of the most esteemed auditing and consulting firms in the country. Directa has several offices in Brazil, offering a wide range of business advisory services, including auditing, taxation, management consulting and other services.

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CHAPTER 1
INTRODUCTION

GENERAL INFORMATION

Geography
With a total area of 8,511,966 square kilometers, Brazil is the largest South American country and the fifth largest in the world. Brazil borders all South American countries (Argentina, Uruguay, Paraguay, Bolivia, Peru, Colombia, Venezuela, Guyana, Suriname, French Guiana) except from Chile and Ecuador.

Most of the Brazilian territory – 92% – is in the tropical zone between the equator and the Tropic of Capricorn. The climate varies in accordance with the altitude and latitude, the seasons being the opposite of those in Europe and the USA, except in the Northern region.

The average temperature varies from 28ºC in the Northern region to 20ºC in the South. At certain places in the South, in winter, the temperatures fall below zero, with frost and even snow. In Rio de Janeiro, at high summer, the temperature often soars to 40ºC.

HISTORY AND GOVERNMENT

Historical events
The expedition under the command of Pedro Álvares Cabral was the biggest ever formed by the Portuguese Kingdom and consisted of a fleet of 13 ships. Its official purpose: discover new lands, concealed the real objective of establishing diplomatic and political relationships with Asian governments intending to strengthen spices trading.

Due to a change in course, on April 22, 1500, the fleet arrived at an unknown land within the colonial sphere of Portugal, under the Tordesillas Treaty. Originally named Santa Cruz or Vera Cruz, the land was later christened BRAZIL, after an abundant red-colored wood - the pau-brasil - highly valued by textile manufacturers for dye extraction. In the early settlement times, sugar cane growing and processing was economically feasible, so much so that it gave a boost to the new land’s conquest and occupation.

In the wake of the transfer of Dom João VI and his royal household to Brazil, in 1808, great changes occurred. Brazil became part of the United Kingdom of Portugal, and after Dom João VI’s return to Portugal, Brazilians refused to continue under Portuguese rule. On September 7, 1822, the independence was declared by the then Prince Regent, Dom Pedro I, who was later forced into abdication because of domestic political fight.

From 1831 - the abdication year - to 1840, Brazil experienced the so-called Regencies Government. However, Dom Pedro II ascended to the throne. The military relied on the prestige gained with the victories in the Paraguayan War (1865/1870) to intervene in the political life, mostly supporting liberals and republicans in their campaign that culminated in the Proclamation of the Republic, on November 15, 1889.

With virtually all the European industry involved in the World War I effort, Brazil had a chance to start its industrialization, which gained strength from 1940 onwards, concurrently with the urbanization process.

During the Juscelino Kubitschek Administration (1950/1955), in addition to the considerable growth in the industrial and road construction segments, the construction of Brasilia, the new Capital City, was initiated. (Brazil’s former Capital City was Rio de Janeiro).

Elected after Juscelino Kubitschek, Jânio Quadros governed for only seven months. With his resignation, in August, 1961, the Vice-President João Goulart took over to be ousted by the military, in the March 1964 coup-d’état.

Brazil was under military rule until March 1985, when power was assigned to a civil president, indirectly elected.

In November 1989, in the first direct election after the return to a democratic regime, Fernando Collor de Mello was elected. In 1990, on charges of corruption, he resigned under an impeachment process and was replaced by the Vice-President Itamar Franco, who governed until December 31, 1994.

In the October 1994 election, Fernando Henrique Cardoso was elected President and took office on January 1, 1995, being re-elected in October 1998, for a further four-year term beginning on January 1, 1999.

On April 22, 2000, Brazil celebrated its 500th discovery anniversary.

In October 2002, the PT (Workers’ Party) candidate, Luiz Inácio Lula da Silva, running for the fourth time for Presidency, was elected with nearly 53 million votes and took office on January 1, 2003.
On 31 October, 2010, Dilma Rousseff, was elected President. She was appointed by former President Lula and she is the first female elected President in Brazil. Dilma was inaugurated as President on January 1st, 2011.

Government
Brazil’s political and administrative organization comprises the Federal Government, the states, the municipalities and the Federal District, all autonomous.

The Federal Government’s Legislative, Executive and Judiciary powers are independent and act harmoniously.

The Legislative Power is exercised by the Brazilian Congress, composed of the House of Representatives and the Senate. Each legislative term lasts four years for representatives and eight years for senators.

The House of Representatives is formed by the people’s representatives elected through a proportionate vote system, and the Senate, by representatives of the states, elected by majority vote.

The responsibility for safeguarding the Constitution lies with the Supreme Court of Brazil.

Foreign Affairs
Brazil’s major trading partners are the USA, Argentina, the Netherlands, Chile, China and Germany.

Also worth mentioning is the high increase in exports to Iran, the Arab Emirates, Russia, Portugal and Hong Kong.

In order to eliminate mutual commercial barriers, Brazil, Argentina, Uruguay and Paraguay entered into an agreement which created a common market - MERCOSUL (Common Southern Market).

Brazil is a member of some of the most important international organizations, namely:
- Asociación Latinoamericana de Integración (ALADI) (Latin American Integration Association)
- UN (United Nations) and its specialized agencies, namely: Food and Agriculture Organization of the United Nations (FAO), International Labour Organization (ILO), World Health Organization (WHO), World Trade Organization (WTO) and United Nations Educational, Scientific and Cultural Organization (UNESCO)
- AEO (American States Organization)
- GATT (General Agreement on Tariffs and Trade)
- Banco Internacional para a Reconstrução e o Desenvolvimento (BIRD – World Bank)
- IBID (Interamerican Development Bank)
- IMF (International Monetary Fund).

Population and Language
Brazil’s population is estimated at 184 million.

The major Brazilian cities, in terms of population, are São Paulo, Rio de Janeiro, Belo Horizonte, Salvador, Fortaleza, Recife, Curitiba, Porto Alegre and Brasilia.

According to IBGE’s report 25% of the Brazilian PIB is concentrated in five principal cities: São Paulo (12%), Rio (5.4%), Brasilia (4.1%), Curitiba (1.4%) and Belo Horizonte (1.4%)

The official language of Brazil is Portuguese and the predominant religion is Roman Catholicism.

Economy and Currency
For decades until July 1994 Brazil experienced high inflation. Then, through Plano Real, an economic stabilization program which eliminated price controls, inflation was curbed and the commercial rates fell.

Additionally, the Plano Real eased controls on commercial and financial activities, eliminated indexation of prices and salaries and the maintenance, to a certain extent, fixed exchange rates.

Since 1995 Brazil has had low inflation rates.

Late in 2002, inflation rates rose a little, basically due to the uncertainty surrounding international economic conditions and the presidential election campaign, but began to fall early in 2003.

The Brazilian legal currency is the Real (R$).

In December, 2011 Brazil has overtaken the UK to become the world’s sixth-largest economy, according to a team of economists. The banking crash of 2008 and the subsequent recession has relegated the UK to seventh place in 2011, behind South America’s largest economy, which has boomed on the back of exports to China and the far east.

Weather, Weights and Measures
Given the width of its territory, Brazil has four time zones, all west of Greenwich. Therefore, Brazilian Standard Time is three hours behind Greenwich Mean Time. During the summer (November through February) clocks all over Brazil (except in the some northern states) are 1 hour ahead.

The metric system (based on the meter, the kilogram and the liter,) is officially adopted for weighting and measuring.

Foreign Investment Opportunities
The Constitution announced in 1988 by conservative parties was rather nationalist, thereby hampering foreign investments.

The great need for investment in Brazil is not covered by the volume of private capital, which is scarce. However, changes in current legislation have encouraged some foreign capital.

Anyhow, regardless of its nationalist character, the Brazilian legislation is no longer a drawback to foreign companies wishing to operate in Brazil. On the contrary, such companies need not even make any preliminary inquiries of the Government, unless some kind of official assistance or incentive is desired.

We recommend that any businessman interested in investing in Brazil should contact our office for a preliminary business analysis.

BUSINESS ENTITIES

Forms of Enterprise
Under the Brazilian legislation, the following types of companies are allowed:

a) Non-personified companies: these are companies in common and special partnerships; and

b) Personified companies: these are divided into:

- non-enterprising companies: these are simple, not-for-profit companies formed for intellectual, scientific or artistic purposes; and cooperatives; and

- enterprising companies: these companies, which are formed for economic purposes and for circulation of goods or service rendering, may be general, limited, private limited liability, or incorporated partnerships or companies.

The limited company, known as limitada is the most commonly used by entrepreneurs.

These and the corporation will be discussed in further detail as the most important forms of enterprise.

Limited Company
A limitada is regulated by articles 1052 through 1087 of the Civil Code instituted by Law no. 10.406 on January 10, 2002.

Unless otherwise stipulated under the articles of association, the Civil Code art. 997 – 1038 will apply.

The corporate acts must be registered in the Commercial Registry.

Partners’ Liability
The partners’ liability is limited to the amount of quotas held, although all partners are jointly and severally responsible for capital payment.

In other words, after paying for the capital held, each partner’s liability is limited to the amount of quotas held.

In the event of insolvency, all partners are jointly and severally responsible and any partner can be held accountable by the company’s creditors up to the amount of unpaid capital.

There is no limit to the partners’ liability, in case of deliberation against the law or the articles of association and in the event of default on tax, labor or social security debt.

Company name
A limitada may be designated by the name of one or more partners or the company name itself, in which case the mention to the type of activity is mandatory.
**Company management**

A company is managed by one or more people designated in the articles of association or in a separate document, a non-partner being allowed to perform this function, if expressly authorized by the articles of association.

A fiscal council may be formed for monitoring the actions of a limited liability management, the members thereof being selected in accordance with the articles of association.

Partner withdrawal and exclusion

A limited liability may be partially dissolved but not entirely extinguished, through withdrawal of the partners.

Any partner can withdraw from the company for any reason, at any time, on a sixty-day previous notice.

A minority partner cannot be excluded unless expressly provided for in the articles of association, and even so, his/her right to defense remains.

In the event of a partner's death, if the articles of association are silent on the matter, his/her heirs are not allowed to join the company, but are entitled to receiving the equivalent to the deceased partner's quotas, as determined at the time of his/her death.

**Sociedade anônima (S.A) (Corporation)**

The S/A is regulated by Law no. 6.404/76 (Lei das Sociedades por Ações) and subsequent amendments.

An S.A. corporation is equivalent to a public limited company in the UK. However, an S.A. can only have nominative shares, there being no bearer shares.

As a consequence, the anonymity suggested by the name does not exist.

The capital of a corporation is divided into shares, the liability of the shareholders being limited to the issue price of subscribed or acquired shares.

The main characteristics of an S.A. corporation are:

- It is always a commercial company (operating for profit) despite its civil objective, which is determined by its form;
- The company’s designation by denominação followed by Companhia or Sociedade Anônima, abbreviated or in full. The use of Companhia at the end is forbidden. The designation may contain the name of the founder, shareholder or anyone who has in some way contributed to the company's success;
- The company’s objective may be to participate in other companies, even if this is not provided for in the by-laws. Participation is allowed as a means to either accomplish social objectives or to benefit from fiscal incentives.

The following is required in order to form a company:

- Subscription, by at least two people, of all shares of capital prescribed by the by-laws
- Realization of 10% as a minimum of the issue price of subscribed shares, in the form of a down payment in cash.
- Deposit with Banco do Brasil S.A. or any other bank authorized by CVM (Brazilian Securities Commission) of part of the capital realized in cash.

Under the Brazilian law, a corporation can be formed:

- Either through public subscription (the founders subscribe a portion of the capital and another portion is offered for sale to the public) which is submitted to the CVM as a means to safeguard people's economic interests. The CVM does not authorize a share issue if it is considered unfeasible or risky or if the founders of the company-to-be are considered dishonest.

Subscription can only take place with the intermediation of a financial institution, through an underwriter or through private subscription (the founders subscribe the whole capital). Private subscription is the most common form, which can be performed by delivery of the subscribers at a general meeting or by indigence, under which all subscribers sign and are considered founders.

**Types of S.A:**

- Publicly-owned company
  - A publicly-owned company's funds are raised with the public, its securities (shares or debentures) are traded at the stock exchanges or on over-the-counter market.
  - Securities can be traded on the floor (by floor brokers) or over the counter (the first sale of securities not being performed by floor brokers).
  - In addition to tax incentives, to shareholders and the corporation itself, a publicly-owned company is very advantageous in terms of funding, as it is often less expensive than in the money market and carries no definite reimbursement obligations with it.

- Closely-held company
  - A closely-held company's capital is usually formed out of funds provided by the shareholders, who do not turn to the public for funding. The shares of this traditional form of company are not listed, but held by small groups.

- Authorized capital company
  - Under this company's by-laws, capital increase up to a certain limit (authorized capital) needs neither the shareholders’ agreement nor amendment to the by-laws. Therefore, its subscribed capital can be gradually increased through share issues, up to the authorized limit. Above that limit, determination of a new capital amount calls for shareholders’ agreement and amendment to the by-laws.

- Closely-held company
  - All companies are legally entitled to statutorily provide for capital increase authorization, with no need for amendment to the by-laws.

- Mixed-economy company
  - Having legal person under private law, in the form of a corporation, this company is intended for economic activities and the majority of its voting shares must be owned by the federal government or an indirectly managed entity.

A mixed-economy company is characterized by:

- Its corporation form
- Joint state and private participation in the capital
- Active state participation in management
- Formation for public interest
- Formation act of law
- Exemption from bankruptcy.
Corporation’s obligations are:

**General Shareholders’ Meeting**

This is the meeting of a company’s shareholders, complete with powers to decide on all the company’s affairs, whether or not relating to its objectives. In the first four months following the end of the company’s fiscal year a shareholders’ meeting - the General Ordinary Meeting - must be held. Should another meeting be necessary, that will be the General Extraordinary Meeting.

**Minutes and Call**

The minutes, which are written in the minutes book and published in newspapers, summarize all matters discussed and deliberated at the meetings. The shareholders’ meeting must normally be called by publication of an appropriate announcement in newspapers.

**Publication of Financial Statements**

All corporations must publish its financial statements annually in the Official Gazette and in a newspaper of wide circulation.

**Independent Auditors’ Opinion**

The financial statements are always the responsibility of a company’s management, and must be verified by a certified accountant. Published companies are legally required to publish the opinion of their independent auditors, and so are the institutions subordinated to BACEN (Brazilian Central Bank) and the Private Insurance Superintendence.

**Amalgamation, transformation, merger and split of a corporation**

A corporation can be liquidated by deliberation of the shareholders at a meeting. It can also undergo a transformation, i.e., change into another type of legal entity; an amalgamation, which occurs when two or more companies join to form a new company that succeeds to all rights and obligations of its predecessors; a merger, through which one legal entity absorbs another and succeeds to all the latter’s rights and obligations; and a split, which consists of transferring parts of a company’s assets to another.

**Labour Relations and Working Conditions**

**Labour law**

Labour relations are basically regulated by the Consolidation of Labour Laws - CLT and collective agreements entered into by unions representing the different labor categories. The terms of employment are mainly characterized by:

- A maximum of forty eight working hours per week
- A maximum of eight working hours per day
- Supplementary working hours not exceeding 50% of standard ones
- One day’s rest per week, preferably on Sundays
- Additional remuneration for night work at a rate of at least 20% higher than the equivalent day’s work
- A minimum R$ 622 monthly pay since 2012
- Annual paid vacation of up to thirty consecutive days, less any absences during the previous period
- Obligatory annual bonus (thirteen-month salary) paid in December each year.

**Workers’ council**

Workers’ councils are not obligatory in Brazil, although under the Consolidation of Labor Laws – CLT, some companies are required to form an Internal Accident Prevention Commission - CIPA. The number of members and creation of CIPA will depend on activities carried out by the company.

**Trade associations**

The employees’ interests are protected by the Brazilian Constitution, the Consolidation of Labar Laws - CLT and the Social Security Funding and Benefit Plan.

Membership of employees’ associations, named after their unions, is not obligatory.

On the other hand, employers are represented in these associations by employers’ unions, membership of which is mandatory.

**Social Security in Brazil**

The government administers the social security system and provides such benefits as service-length pensions, disability and sickness retirement pensions, see below for further comments) free medical care and occupational accident pension, among others.

The social security system is funded by employers and employees’ contributions, as follows:

- Employees - at the rate of 7.65% to 11% on a progressive scale based on base salary up to a maximum base salary of R$ 3,689
- Employers - at an average 27.8% on total monthly salaries paid
- Employers - at 3% on a company’s gross revenue or at 7.6% on a company’s net adjusted gross revenue. (Contributions to FGTS)

**Retirement**

**Retirement based on the contribution period**

This consists of a monthly pension paid to a male beneficiary who has worked for thirty five years or more, to a female beneficiary who has worked for thirty years or more in activity covered by the Social Security system.

**Old-age retirement**

This is collectible from the age of 65 for men and 60 for women, and from 60 and 55, respectively, in the case of rural workers.

**Disability retirement**

Any beneficiary who is unable to work, due to sickness, or to undergo professional rehabilitation likely to restore his ability to earn a living is entitled to this benefit.

This type of benefit is not granted until inability is duly confirmed through medical examination by the Social Security’s accredited doctors every two years.

**Special retirement**

This is a special monthly benefit granted to those who have performed unwholesome or dangerous work for 15, 20 or 25 years, depending on the field of activity.

**Severance Indemnity Guarantee Fund (FGTS)**

All companies established in Brazil must contribute to FGTS an amount equivalent to 8.5% of each employee’s gross compensation, on a monthly basis.

The accumulated balance of these monthly contributions deposited with authorized banks is intended to guarantee an employee’s past service, so that upon termination of employment, this amount plus interest can be withdrawn by the employee by way of severance indemnity.

**Employees’ Profit-Sharing Program (PIS)**

Companies doing business in Brazil are required to contribute to this program, which is aimed at promoting the employees' integration into the companies' development. Funds collected under this program are channeled to unemployment-insurance and used as an aid to low-income workers.

The contributions paid by companies (whether employers or not) to the PIS is equivalent to 0.65% of their net adjusted gross revenue, in general or to 1.65% of their gross revenue.
FINANCE

Monetary Authorities
Those who intend to do business in Brazil must comply with
federal, state and local legislation.

Below are details of the main regulatory agencies influencing the
market.

National Monetary Council (CMN)
As a regulatory agency in charge of establishing monetary, credit
and foreign exchange policies, the CMN does not carry out
executive functions.

Brazilian Central Bank (BACEN)
The financial system’s central executive agency, the BACEN
is responsible for compliance with, and enforcement of, the
system’s functional provisions, as well as CMN standards.

Securities Commission (CVM)
This is a regulatory agency specifically oriented towards the
development, discipline and monitoring of the securities market,
comprising of shares and debentures not issued by the official
financial system and the Federal Treasury.

Banco do Brasil (BB)
Operating in practice as a financial agent of the federal
government, BB is also the government’s main tool in
implementing its rural and industrial credit policies.

BB carries out functions not usually assigned to commercial
banks, such as operating the Departamento de Operações
de Comércio Exterior - DECEX (Foreign Trade Operations
Department).

National Social and Economic Development Bank (BNDES)
As the institution in charge of implementing the federal
government’s long-term investment policies, BNDES is Brazil’s
most important assistance institution:

Its basic objectives are:
• Foster Brazilian economic and social development
• Strengthen Brazilian entrepreneurship
• Enhance integrated agricultural, industrial and service activities
• Promote exporting expansion and diversification.

To this end, BNDES relies on special assistance funds and
programs, such as FINAME (Capital Goods Financing Agency).
• BNDES is in charge of the Brazilian privatization process.

Private Insurance Superintendence (SUSEP)
This agency is in charge of the control and surveillance of
insurance, private social security, capitalization and reinsurance
markets

Financial Institutions
Among the financial institutions, commercial banks, the basis
of the monetary system are the most popular because of their
multiple functions and services rendered.

Below, a description of financial institutions’ activities and
functions:

Commercial Banks
The objective of commercial banks is to provide adequate funds
to finance activities of commercial, industrial and service rendering
companies and individuals, in a timely manner.

These banks act as financial agents distributing resources through
selective lending and as resource generators, through the credit
multiplier effect.

Savings Banks
The savings banks (which are part of the Brazilian Savings
and Loan System and the National Housing System) and the
commercial banks are Brazil’s oldest financial institutions.

Of an essentially social nature, savings banks provide loans
and finance to social welfare, health, education, work, urban
transportation and sports programs and projects.

Development Banks
BNDES is the major federal grantor of long- and medium-term
loans to the primary, secondary and tertiary sectors.

The state development banks are part of a set of financial
institutions under state government control that make medium-
and long-term loans to companies in their respective states,
normally by relending resources provided by federal financing
agencies.
Credit Cooperatives
These institutions operate basically in the primary sector, to improve the distribution of farm products and facilitate transportation of crops to consumer centers. It is worth mentioning that the borrowers of a cooperative’s funds are always the cooperative members themselves.

Investment Banks
Investment banks are designed to channel funds into meeting a company’s working capital or fixed capital requirements, in the middle and the long run.

Their main objective is to extend loan and financing terms, especially to support a company’s capitalization process through the purchase of machines and the subscription of shares and debentures.

Credit, Financings and Investment Companies – Financieras
These companies’ main function is to finance durable goods under a direct consumer credit scheme - the crediario.

Also, in this category, are the so-called sales-promoting companies, which in the form of civil companies act as liaison between end-consumers, retailers and financing companies. They operate under specific contracts whereby special powers for drawing bills of exchange on behalf of borrowers and giving dél credere guarantee under the powers that are vested upon them.

Brokers
Typical share market institutions, they operate as securities dealers and brokers on behalf of third parties, and act as intermediaries in operations with the stock and the commodities exchange.

Distributors
A distributor’s basic activities are:
- Single subscription or under a consortium scheme, for joint issue of securities for resale.
- Dealing for placement of shares issued in the market
- Operations in the open market, in accordance with BACEN requirements.
- Commercial Leasing Companies

In general, a lease operation is similar to a rental, with an option for contract renewal upon expiry, acquisition of the leased equipment for the residual value stipulated in the contract or its return to the lessor.

Savings and Loan Associations
A savings and loan association’s active and passive operations are essentially similar to those of a housing financing company.

Active operations basically comprise housing financing, and passive operations consist of savings accounts which, in this case, pay interest by way of dividends, since depositors are entitled to corporate status which in turn allows participation in net operating income.

Housing Loan Companies
The housing loan companies are intended to serve higher income earners.

Their passive operations consist of placement of housing bills, the raising of savings and retiling the Caixa Econômica Federal’s funds.

The active operations, on the other hand, are used to direct housing financing to end-users or credit granting to real estate entrepreneurs.

Institutional Investors
Institutional investors can include mutual investment funds, closely-held private pension funds/foundations and insurance companies.

Mutual Investment Funds
Formed as open condominiums, the mutual investment funds consist of a savings pool designed for diversified investment in securities at an overall lower cost. Their objective is to ensure acknowledgement of the condominium participants’ quotas at a lower overall cost. The proceeds of these investments are also used to meet companies’ permanent capital requirements.

Closely-held private pension entities
These are entities held by small workers’ groups, funded by their contributions and those of the sponsoring entity, which are required to invest part of their compulsory technical reserves in the share market.

Insurance companies
An insurance company must invest part of its technical reserves in the share market.

National Housing System (SFH)
This system arose from the Brazilian urban population’s dramatic growth and the resulting need for an agent to pass on the required resources to the housing/urbanization/sanitation sector.

Under the 1964/1965 economic restructuring, the SFH was consolidated through the indexation of social contracts, the foundation of Banco Nacional da Habitação (which no longer exists), FGTS and the Brazilian Savings and Loan System (SBFH).

Multiple Banks
Aimed at streamlining the management of financial institutions, the multiple banks allow some of these institutions, which occasionally happen to be members of a group, to be a single entity with legal personality, thus enabling substantial cost savings.

A multiple bank operates several departments, namely: commercial, investment, housing loans, acceptances and development.

MONETARY, FISCAL AND FOREIGN EXCHANGE POLICIES

Monetary Policy
Dealing with the control of money supply and interest rates, so as to ensure the ideal liquidity levels in the economy, at any given moment.

The National Monetary Council is the regulatory agency in charge of monetary policies put into practice by the Brazilian Central Bank.

The Brazilian currency - the Real - is backed by exchange reserves.

By currency and monetary assets is meant paper-money in circulation plus demand deposits in private and public commercial banks, including Banco do Brasil and state-owned savings banks such as the Caixas Econômicas Federais e Estaduais.

In 1999, after implementing the floating exchange scheme, the Brazilian Central Bank introduced an inflation-target policy as the main component of its overall economic policy. Under this policy, each year monthly inflation limits are established for the following two years, with all monetary tools available being used for attainment of inflation-related goals.

The interest rate is the Bank’s main monetary policy tool. However, other controls may be used to reduce or increase the market liquidity, e.g., the rate of obligatory deposits by commercial banks with the Brazilian Central Bank.

Fiscal Policy
In Brazil, informal economic activities account for approximately 50% of the Gross National Product.

The combination of fiscal austerity and heavier tax collection has helped Brazil reach a primary surplus of over 3.0% of its GNP, since 1999.

Concurrently with the modernization and restructuring of the Secretaria da Fazenda Federal (Federal Income Tax Authority), several loopholes that facilitated tax evasion were eliminated.

In 2000, the Lei do Responsabilidade Fiscal (Fiscal Accountability Law) limiting public debt and expenses at federal, state and municipal level was approved.

The settlement and recognition of long-standing debt including intergovernmental debt at the various government levels, the recognition of labour retirement and other rights and state-owned companies’ debts; as well as tax recovery were all important to ensure fiscal transparency in Brazil.

Both the state and the municipal governments strived to introduce fiscal discipline in their management agencies.

Currently, two important reforms are under way, namely:
- Social security reform, which has already passed, is aimed at bringing both public and private sector retirement/pension systems into balance from an actuarial standpoint;
- Tax reform, aimed at increasing tax collection by taxing informal workers, currently not taxed in the same way as legally organized enterprises. The tax reform, also aimed at reducing the current tax burden and simplifying tax determination, collection and inspection, has been divided into three parts to facilitate passing the Congress:
  - The first part of this reform, already passed, dealt solely with cash adjustments intended to ensure balanced fiscal conditions, i.e., rather than changing the current Brazilian Taxation Systems,
new taxation methods have been introduced, e.g., PIS and COFINS levied on imports of goods and services;

- The second part of the Tax Reform is primarily intended to federalize and harmonize ICMS legislation, and impose limitations on the granting of the related tax benefits;
- The third part is intended as a review for simplification and rationalization of the Brazilian Taxation System. Changing PIS ICMS, ISS, COFINS, PIS contributions to social security, a consolidated tax to be levied on the value added.

Foreign Exchange Policy
This policy consists basically of managing exchange rates and controlling exchange operations. Despite its indirect connections with monetary policies, it differs by being directly on all variables affecting Brazilian economic transactions abroad.

The foreign exchange market in Brazil is free, except for some stabilizing actions taken by BACEN, where necessary.

Brazil's balance of trade has recorded surpluses for some time.

The main export products are: coffee, soybean oil, sugar, orange juice, iron ore, pulp, crude oil and leather footwear.

The main imports are: wheat, cars, nafra, aircraft and helicopter parts.

The government has stimulated importation of durables and non-durables to meet domestic demand, aiming at ultimately bringing prices into balance and curbing inflation.

Price-Level Restatement System (Correção Monetária)
In highly inflationary economies where the currency's acquisition power varies widely, accounting for transactions at their historical value brings about serious distortions.

In such conditions, monetary items such as cash, receivables and payables are usually stated at currency of the present (or nearly present) acquisition power. On the other hand, non-monetary items such as property, plant and equipment, inventories and paid-up capital may be represented by values established over several years, at currencies of varied acquisition power.

Because a great number of countries have experienced high inflation rates lately, accountants, managers and tax authorities have been increasingly concerned about developing and improving the techniques that will allow an accurate measurement of a company's financial position and operating results in inflationary conditions. For example, accounting on a price level or replacement cost basis.

Brazilian accounting practices reflect the effort to upgrade the techniques to accurately recognize the effects of inflation on financial statements, and these techniques have been subject to strict government regulations.

As a consequence, the CVM now requires publicly-held companies to publish supplementary financial statements in constant currency, i.e. fully recognizing the effects of inflation on each original component.

Despite the upgrading of its monetary correction technique (recognition of the effects of inflation), the Brazilian government discontinued this practice as of January 1, 1996.

To lessen the impact of the monetary correction discontinuance, companies are authorized to remunerate capital based on the long-term interest rate or TLP (Long-Term Interest Rate).

The TLP which is at around 6% in the year is periodically fixed by the Brazilian Central Bank, based on the CMV (Brazilian Monetary Board) standards.

Environmental Policies
The Brazilian Constitution regulates the right to use environmental resources in an environmentally friendly way, by setting standards for government agencies' action, and especially, punishing individuals and corporations for ecological offenses.

Environmental protection matters are covered by federal legislation, based on the federal government's jurisdiction power to legislate on general health protection issues. Federal legislation also applies to state activities including those of the Federal District, municipalities and federal agencies.

Under this legislation, any activity deemed harmful to the environment brings administrative and legal sanctions to offenders, whether individuals or companies, in addition to them being liable for damages incurred.

Antitrust Law
The Brazilian Antitrust Law (Law no. 8,884/1994 and subsequent amendments) regulates economic and financial activities by cutting unlawful use of economic power for controlling markets, eliminating competition and arbitrarily increasing profits.

It is intended as a safeguard of people's economic affairs, competition and free initiative. Furthermore it protects the social function of ownership, consumers in general and, as previously stated, prevents the misuse of economic power.

The Secretaria Nacional de Direito Econômico – SNDE (Brazilian Secretariat of Economic Law), the competent agency which oversees economic safeguard policies in the competition and consumer protection areas, takes all necessary measures to ensure free competition and free distribution of assets and services.

The SNDE acts towards avoiding misconduct that is likely to affect fundamental economic principles.

Any agreement, deliberation, act, conduct or practice performed by a company, for the purpose of, or resulting in, domination of the goods or services market, hampering free competition or arbitrary increase in profits will be regarded as infliction.

It is worth mentioning that the SNDE or the Economic Protection Administrative Council (CADE) is open to inquiries about the lawfulness of acts likely to result in restrictions on competition or economic power concentration.

The entire Brazilian territory is within the jurisdiction of the Conselho Administrativo de Defesa Econômica – CADE – (Administrative Board of Economic Protection), which is part of the Ministry of Justice's SNDE, headquartered in the Federal District.

Dilma Rousseff has approved a new CADE. The main changes refer to Mergers & Acquisitions that have to be submitted for analysis by the SNDE. The SNDE should reach a decision on approval within 240 days.

M&A transactions subject to the new rules will concern companies with annual revenues of R$ 400 million.

Consumer Protection
In November 1990, the Law 8,907, also known as Código de Proteção e Defesa do Consumidor (Consumer Protection Code) was passed, under which the Departamento de Proteção e Defesa do Consumidor (Consumers’ Defense and Protection Department), was created as part of the Ministry of Justice's SADIE.

Based on this Code, a legal tool is available to protect consumers' rights and prerogatives in relation to the supply, consumption and use of goods and services.

The Code's basic principles are as follows:

- The burden of proof reversal
- Administrative intervention, detention of managers and substantial fines;
- Joint liability (everyone involved in the process is liable, from the initial input supplier to the manufacturers, to the distributor)
- Transfer of Liability from the corporation to the individual, majority shareholder, managers or administrators; and
- Strengthening of, (and incentive to) joint consumer protection.

Price Control
With the belief that competition is the best way to produce dynamic, innovative industries that are capable of meeting consumers’ needs and competing in globalized markets, the Brazilian government has reduced its interference with regards to trade relations to the least possible, thus leaving the market free to search for balanced prices.

The Ministry of Finance's SEAE (Secretariat of Economic Monitoring), created in 1993, is the main agency in charge of monitoring prices and supporting decisions on adjustments and review of public tariffs, while examining business concentration actions and repressing anticompetition behavior.

This Secretariat operates jointly with the following federal regulatory agencies: Agência Nacional de Energia Elétrica - ANEEL (Brazilian Electric Power Agency), Agência Nacional de Telecomunicações – ANATEL (Brazilian Telecommunications Agency), Agência Nacional do Petróleo – ANP (Brazilian Oil Agency), Agência Nacional de Vigilância Sanitária - ANVS/ Brazilian Sanitary Surveillance Agency), and Agência Nacional de Saúde Suplementar – ANS (Brazilian Supplementary Health Agency), and the entities representing civil aviation, interstate highway transportation, and railway transportation concession-granting powers.
FOREIGN INVESTMENT IN BRAZIL

Investment Rules
Foreign capital concept
Foreign capital includes all assets, machinery and equipment brought to Brazil without any initial exchange expenditure, and intended for producing goods and services, as well as any financial or monetary resources to be used in economic activities, provided, in either case, they belong to individuals or corporations resident, domiciled or with headquarters abroad.

It must be understood that, in this context, an investor’s nationality is irrelevant, as long as he/she is domiciled abroad.

Capital registration
The registration of direct foreign investment in Brazil is dealt with by the Sistema de Informações do Banco Central - SISBACEN (The Brazilian Central Bank Information System) through the Registro Declaratório Eletrônico de Investimentos Externos Diretos RDE-IED (Direct Foreign Investment Registry) by electronic means.

Registration with the Brazilian Central Bank is mandatory in the following circumstances:

• Foreign capital brought into Brazil in the form of direct investment or loan whether in kind or in the form of assets.
• Direct foreign investments in Brazil are subject to capital control.
• The registration deadline is thirty days as of:
  • the exchange contract liquidation (also in case if simultaneous exchange purchase and sale operations, without foreign payment order) or international transfers of local currency, where incoming funds are involved.
  • the private purchase agreement, in cases involving disposal of shares or quotas to residents
  • the corporate act in the other cases.

Direct Investments
Direct Investments refers to participation in the capital of both local companies owned by individuals or companies resident, domiciled or headquartered abroad, and foreign companies authorized to operate in Brazil.

Direct investments and loans are registered by using the amount of foreign currency actually received in Brazil, through the RDE-IED (Direct Foreign Investment Registry).

Investments in Tangible Assets
These are characterized by capitalization of non-residents’ assets imported without exchange coverage and registered by the RDE system’s ROF (financial operation registration) and linked to the released DI (Import Certificate). The registration must be in the same currency shown in the ROF.

Credit Conversion into Investments
Through this operation, credits that may give rise to transfers abroad according to current rules, are used by non-resident creditors for acquisition or payment of stakes held in local companies’ capital.

ASSETS ACQUISITION BY FOREIGNERS

Goods and chattels
No restrictions are imposed on the acquisition of goods and chattels by foreigners.

Real Estate Properties
As far as urban real estate properties are concerned, there are no restrictions on acquisition by foreigners.

Acquisition and lease of rural properties are controlled and must be authorized by the Instituto Nacional de Colonização e Reforma Agrária – INCRA (Brazilian Institute of Settlement and Agricultural Reform).

REINVESTMENTS

Concept
Reinvestment means re-use of profits by the same company where they originated. These profits are earned by companies established in Brazil and attributed to individuals resident and domiciled abroad.

Currency Conversion
The reinvestment registration must be performed concurrently in local currency and in the currency of the country to which the profits could have been remitted.

Remittances Abroad
Any remittances abroad in relation to the return of and earnings from foreign capital, as well as profits, dividends, interest, amortization, royalties, technical assistance fees and similar remittances must be registered with the Brazilian Central Bank.

Profits or Dividend Remittance
Profits or dividends to be remitted are those available to partners resident or domiciled abroad, in which case:

• Authorized banks can directly contract profit and dividend remittance operations
• No foreign investor is allowed to receive profits or dividends arising from unpaid capital
Taxation of Earnings from Investments in Brazil

Any profits earned as from January 1, 1996 and remitted abroad are not taxed at source.

Other remittances (for example, royalties or payments for technical services) are subject to withholding tax at 15% (IRRF) except where the country of destination is regarded as a tax haven by the Brazilian legislation, in which case the tax rate on remittances rises to 25%.

Besides the IRRF, the CIDE (Economic Intervention Contribution) is levied at 10% on the following items, and borne by the Brazilian company who makes the remittance:

- amounts paid, credited, delivered, used or remitted to residents or those domiciled abroad, on a monthly basis, in payment of licensing, acquisition of technological knowledge or technology transfer;
- technical and administrative assistance and similar services to be rendered by residents or those domiciled abroad;
- payment, credit, delivery, use or remittance of royalties for any purpose, to beneficiaries who are resident or domiciled abroad.

IMPORT AND EXPORT

In order to import or export a company must be registered with the SECOEX - Secretaria de Comércio Exterior Foreign Trade Operations Department being the SRF and the DECEX – Departamento de Operações em Comércio Exterior (Foreign Trade Operations Department) being the REI – Registro de Exportadores e Importadores (Importers and Exporters Register), which is part of the SECEX – Secretaria de Desenvolvimento, Indústria e Comércio Exterior (Ministry of Development, Industry and Foreign Trade) agency.

The registration can be through the SISCOMEX, which is the SRPs' computerized system through which importers/exporters file all information on the commercial operation and the imported/exported goods, in order to obtain the Licenciamento Não- Automático de Importação - LI (Non-Automatic Import License), the DI and the ROF, in the case of imports, and the Registro de Exportação – RE (Export Registration) and the Solicitação de Despacho - SD (Dispatch Request), in the case of exports.

Imports

Imports serve to regulate the product supply and reduce costs, while increasing the Brazilian companies’ productivity and efficiency, as part of the Brazilian economy opening-up and greater exposure to the international market.

The Brazilian government’s policy of reducing tariffs and eliminating non-tariff barriers explains why imports participation is so important. An example is the 40% reduction of the import tax on parts, components, sets and subsets, both finished and semi-finished, as well as on tires intended for the car manufacturers’ and assemblers’ production processes.

The actual level of tax rates applicable to capital goods reflects the government’s efforts to modernize the Brazilian industrial complex by reducing import tax on foreign sourced capital goods.

Exports

The Brazilian export policy relies on free market principles. However, some goods are subject to special schemes, the so-called controlled export schemes.

Below are details of the types of exports:

- direct export: the sellers themselves invoice the goods on behalf of foreign buyers
- indirect export: producers sell the goods to an intermediary, specifically for export purposes. This export transaction is tax exempt, providing that it actually occurs; otherwise, the producer is required to pay the respective taxes. The intermediary may be a trading company operating solely as an exporter; a mixed company (importer, exporter and local trader); a cooperative; a consortium of producers and exporters; or an industrial company operating as a trader of third parties’ products
- indirect export via trading company: the trading companies, also known as exporting companies, are entitled to a special tax treatment, their sales being considered as direct exports. Accordingly, this type of exporter is neither taxed nor responsible for the continuity of the operation, due to their registration with the SRF and the DECEX – Departamento de Operações em Comércio Exterior (Foreign Trade Operations Department) being of a special type.

Export operations are performed under an incentive scheme where local taxes are avoided as a means to increase Brazilian products competitiveness.

Neither ICMS nor IPI is levied on these operations, and the input credit can be taken for deduction in other taxed operations not subject to PIS and CORRIS.

Another form of fiscal incentive is the drawback, under which imports or purchase on domestic market of the following items by manufacturers-exporters are tax exempt: products, goods or inputs to be used in manufacturing, processing or composition of a third product designed for further exportation.

This type of incentive is mainly intended as a means to reduce manufacturing costs of products destined for export, enable competition and generate foreign exchange.

INCENTIVE AREAS

Manaus Free Trade Zone

The Manaus Free Trade Zone, a free import and export area which benefits from special fiscal incentives, has been established to enhance formation of an industrial, commercial and agribusiness activity center in the interior of the Amazon. This zone is economically able to allow development in the harsh local conditions, one of which is the long distance between consumers and manufacturing centers.

Companies established in this area benefit from incentives relating to income tax (IR), import (IPI) and export tax (IET), social security contributions, value-added sales tax (ICMS).

Incentives

Incentives, Investments and Trade Marks

The Brazilian Constitution guarantees authors exclusive use, publication or reproduction rights on their original works. The intellectual property concept applies to both industrial property and copyrights.

Under Law 9610/98, any foreigner domiciled abroad is entitled to the protection granted to copyrights, inventions and trade marks in accordance with agreements, conventions and treaties ratified by Brazil.

Law 9279/96 provides for protection to rights on industrial property.

Inventors of anything new, which can be used industrially, are granted the right to a patent that ensures exclusive ownership and use of such invention. Companies can claim the invention privilege, provided the inventor expressly authorizes them to do so.

An industrial invention, design or model patent privilege lasts twenty years or fifteen years, from the date the privilege application is filed. At the end of this period, the invention comes automatically to the public domain. The privilege duration may be extended by the government, if deemed advisable for the sake of national interests.

Trademarks, viewed as signs individualizing a product to be marketed, are divided into:

- Industrial
- Commercial
- Industrial and commercial
- Exploration
- Services.

A trademark registration lasts for ten years and can be renewed for another ten.

Under Law no 9.609/98, the intellectual property protection applicable to literary work extends to computer programs.

Cultural Incentive

In Brazil, no taxes are levied on books, newspapers and periodical publications, nor is printing paper taxed.

This is a Constitutional right, the objective of which is to reduce these publications’ production cost and ultimately make them available to a greater number of people.

The cultural incentive legislation in force at the federal, state and municipal level is intended to foster culture in Brazil. It does so by using tax-deductible amounts contributed by companies or individuals to foster cultural projects approved by the Ministry of Culture and the State or Municipal Culture Secretariats.
IFRS – INTERNATIONAL FINANCIAL REPORTING STANDARDS

Brazil has gradually implemented the IASB’s International Accounting Standards since 2008 and the full IFRS since 2010. As a consequence, there have been several changes to Brazilian accounting practices, the most important of which is that these new accounting practices are required not only in consolidated financial statements but also in the individual financial statements (law 11638/07). These changes include the recognition of leasing transactions, depreciation treatment, the recognition of intangible assets, impairment concept, etc.

The Accounting Pronouncements Committee – CPC was established in 2007 and is responsible for issuing new Brazilian accounting standards.

From 2008 to the end of 2009, the CPC issued numerous new standards that were in essence a translation of the IFRS in order to apply IFRS standards in Brazil.

Thus, the convergence from BR GAAP to IFRS did not occur until 2010.

Listed companies, financial institutions and insurance companies must prepare their 2010 consolidated financial statements in full compliance with IFRS.

For such a process, the CVM, the Central Bank and SUSEP issue additional requirements to the entities regulated by them.

From 2011, all legal entities in Brazil are required to prepare their individual or consolidated financial statements in accordance with IFRS.

The Brazilian Authorities decided not to change the prevailing rules for tax, but created the RTT (Tax Transaction Temporary System) which focuses on the entire reconciliation of corporate and fiscal records as required by Law 11941/09 that guaranteed fiscal neutrality, i.e. no tax consequences should arise from the adoption of the new accounting criteria regarding the recognition of revenue, costs and expenses used to determine net income.

The RTT was optional for the 2008 and 2009 calendar years and mandatory as of 2010. It shall remain in force until a new tax law is enacted setting forth the tax effects.

The summary of the accounting Practices adopted in Brazil are as follow:

1 – Mandatory for Listed Companies and regulated by CVM
• Consolidated and individual financial statements in accordance with IFRS from 2010, with early adoption allowed

2 – Mandatory for Financial Institutions and regulated by the Brazilian Central Bank
• Consolidated and individual financial statements in accordance with IFRS from 2010, with early adoption allowed

3 – Mandatory for All other companies regulated by CPC
• Consolidated and individual Financial Statements in accordance with IFRS. CPC has adopted a standard equivalent to IFRS for Small and Medium Entities – SME, which in the past has been applicable in Brazil for all companies.
Strict Legality Principle
The most important principle of all, it prescribes that tax obligation validity depends on previous express statement to this effect in the legislation. Based on this principle, levying or collecting taxes is precluded unless previously prescribed under pertinent legislation.

Anteriority Principle
Under this principle, taxes must be levied or increased one year before that in which they will be collected. Some exceptions, stipulated in the Brazilian Constitution are: import and export taxes, excise tax, financial operation tax, and extraordinary taxes (those levied in the event of actual or impending war or disaster).

Non-Cumulativeness Principle
Applicable only to ICMS and IPI, this principle grants taxpayers the right to credit on incoming raw materials or goods, in which credit is taken against the amount of outgoing materials or goods.

As from December 2002 the contributions to PIS and as from February 2004 to COFINS are no longer cumulative for certain activities that are allowed to take some credits.

Non-Confiscation Principle
This principle prevents taxes from being used for confiscation purposes. Confiscation is the act of forcibly dispossessing taxpayers of property.

Non-Bis in Idem Principle
This principle precludes the imposing of the same tax by two or more entities.

Brief Summary
The Brazilian taxation system comprises taxes, rates and contributions to improvements, compulsory loans and special contributions.

As a Federation, Brazil has federal, state and municipal taxes.

Both the tax jurisdiction and identification are dealt with in the Brazilian Constitution, and regulated by the Brazilian Taxation Code, which sets general Tax Law standards applicable to the various entities.

Jurisdiction and Distribution of Tax Revenue
Tax jurisdiction means the ability of the federal, state and municipal governments to legislate on tax matters.

The approach to tax jurisdiction under the Constitution is as follows:

Federal - taxes under the federal government jurisdiction
State - taxes under the member-states government jurisdiction
District - taxes under the federal district jurisdiction
Municipal - taxes under the municipalities’ jurisdiction.

Federal Taxes and Contributions
Import Tax (IPI)
Export Tax (IE)
Income Tax (IR)
Excise Tax (IPI)
Financial Operations Tax (IOF)
Rural Land Tax (ITR)
Wealthy Tax (FG)
Social Contribution on Net Profits (CSL)
Contribution to Social Security Funding (COFINS)

TAX MANAGEMENT
Each government level has its own administrating, collecting and monitoring tax agency. For example, the Ministry of Finance’s Federal Tax Authority Receita Federal - is in charge of federal taxes.

The Constitution grants states and municipalities autonomy to create new taxes as long as they observe the general mandatory rules states by the Constitution.

State and Federal District Taxes
Value-added sales tax (ICMS)
Transfer and Donation Tax (ITCMD)
Automotive Vehicles Tax (IPVA).

Municipal Taxes
Service Tax (ISS) is levied on services not taxed by ICMS, as determined by Supplementary Law
Urban Real Estate Tax (IPU)
Transfer Tax (ITV).

Constitutional Taxation Principles
The most important are:

Private Tax Jurisdiction Principles
The Federal Government, the States, the Federal District and Municipalities are prohibited from legislating on tax matters out of their respective jurisdictions.

Territoriality Principle
Under this principle, a taxing entity can only legislate within its territory.

Equality Principle
Also known as the isonomy principle, this is intended to ensure equality among taxpayers, by precluding discrimination due to occupation or function.

Non-Retroactiveness Principle
Under this principle, no tax can be levied by Federal, state or municipal government on taxable events occurred before enactment of the law that gave rise to such tax. This principle underlies the constitutional safeguard of Vested Rights, Perfect Juridical Acts and Res Judicata (matter adjudged).

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• Income Tax (IR)
• Excise Tax (IPI)
• Financial Operations Tax (IOF)
• Rural Land Tax (ITR)
• Wealthy Tax (FG)
• Social Contribution on Net Profits (CSL)
• Contribution to Social Security Funding (COFINS)
• Contribution to the Employees’ Profit-Sharing Program (PIS)
CHAPTER 4
BUSINESS TAXES

CORPORATION TAX SYSTEM

Corporate Income Tax (IRPJ) general aspects

Taxable event
With respect to income tax, the taxable event is the acquisition of income in both economic and legal terms, i.e., proceeds of capital (addition to assets) work, or a combination of both, as well as any kind of revenue.

Taxpayers
There are two types of taxpayers:
• Individuals
• Corporations

Territoriality
In accordance with income tax regulations, profits earned by Brazilian companies or foreign companies headquartered in Brazil are subject to income tax.

Foreign-sourced income earned by Brazilian companies, be they branches, subsidiaries or affiliates, will be taxed in accordance with Brazilian legislation.

Brazil adopts a worldwide tax basis. It means that all incomes arising from foreign sources are taxable in Brazil with special rules for income tax purposes.

Basis of calculation
The income tax is calculated based on the actual, arbitrated or estimated amount of taxable revenue of any kind. The majority of Brazilian companies calculate their income based on the taxable income.

Base period
The taxable income can be determined on a quarterly or an annual basis, with monthly prepayments, if the company opts for annual determination.

Tax rates
The income tax rate is 15%.

Any annual real income that surpasses R$ 240,000, whether estimated or arbitrated, will be subject to a 10% surtax on the excess.

Taxable income
Taxable income is the net income for the base period adjusted for legally prescribed additions and authorized exclusions and carry-forwards. The taxable income is determined based on accounting records maintained by taxpayers in compliance with commercial and tax regulations.

Mandatory additions
The following must be added to the net income for the base-period:
• costs, expenses, charges, losses, provisions, participations and any other non-deductible amounts
• income, revenues and any other taxable amounts not included in the determination of net income, which are legally required to be included in taxable income.

Accepted exclusions
The following can be excluded from the net income for the base-period:
• deductible amounts not included in the net income for the year;
• income, revenue and any other amounts included in net income, which are not legally required to be included in taxable income.

Accepted carry-forwards
Any losses referring to previous years’ base-periods can be totally or partially offset, by up to 30% of the taxable income for the period.

Non-operating losses determined as from January 1996 can only be offset against profits of the same nature, in periods subsequent to their accrual, always within the 30% limit. (By non-operating income is meant any income arising from disposal of permanent assets or rights)
Accounting principles
The income book value, determined in accordance with generally accepted accounting principles, must be adjusted for purposes of determining taxable income. In determining taxable income, non-deductible costs must be added, non-taxable revenues excluded, and previous losses carried forward.

Inventory evaluation
Goods and raw materials must be stated at the acquisition cost, whereas products in process and finished products must be shown at the production cost. The accepted inventory evaluation criteria are FIFO (first-in-first-out) or the weighted average. The LIFO (last-in-first-out) method is not permitted by the taxing authorities. For accounting purposes, the market price prevails, if it is lower; however the adjustment for inventory reduction to market value is not deductible for fiscal purposes.

Operating expenses
For an expense to be deductible, it must be:
• Necessary for the company's regular activities;
• Duly documented and accounted for;
• Charged to the income of the respective year.

The most important deductible expenses are:
• Employees’ compensation;
• Depreciation, amortization and depletion, at the tax authorities established rates;
• Consulting and professional services;
• Vacation and thirteen-month salary;
• Repairs, maintenance and insurance;
• Advertising, travels and commissions;
• Training and education;
• Vacations and thirteen-month salary;
• Debts, unless, in the form of lease or not, providing it is intrinsically related to the production or distribution of goods or services;
• Taxes, except individual income tax.

Non-deductible expenses are:
• Personal expenses;
• Corporate income tax;
• Fiscal fines;
• Interest paid to controllers, over certain limits (see interest);
• Donations to certain institutions, over certain limits;
• Certain types of profit transfer for example: royalties and interest paid to related parties over prescribed limits;
• Depreciation at higher-than-stipulated rates;
• Provision for payment of non-incurred expenses; and
• Gifts.

Return on Capital - interest
Interest on loans to shareholders is regarded as a non-deductible expense, as long as it is provided for in writing, and the interest rates do not exceed those usually charged in the money market.

Economic-Fiscal Information Return (DIPJ)
The deadline for filing the DIPJ referring to the previous fiscal year is the last business day of June each year.

This return contains the balance sheet and a summary of monthly calculations with payable or recoverable differences, in connection with IRPJ, CSLL and IPI. It also contains incoming and outgoing transactions and needs to be registered at the Brazilian Central Bank.

International treaties
Brazil has entered into several international treaties, aiming at minimizing or eliminating income tax held at source and avoiding double taxation.

In general, these treaties envisage the utilization of tax credits both in receiving and remitting profits.

Brazil has signed treaties with Argentina, Austria, Belgium, Canada, Chile, China, Czech Republic and Slovak Republic, Denmark, Ecuador, Finland, France, Hungary, India, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, Norway, Peru, Philippines, Portugal, Russia, South Africa, Spain, Sweden, Ukraine and Venezuela.
The following chart indicates the withholding tax rates that are applicable to dividends, interests and royalties payments by Brazilian companies to non-residents under income tax treaties currently in force between Brazil and the mentioned countries. If the applicable treaty rate is higher than the domestic rate, the latter applies. Also if the domestic rate is higher than the treaty rates under Brazilian Tax Code the treaty rates will be applied.

To minimize withholding taxes and in order to calculate the total tax costs on cross border transactions we recommend checking with international tax experts.

TRANSFER PRICING
This matter started to be ruled in Brazil with the enactment of Law number 9.430/96, following similar but not equal determination methods stipulated by the OCDE and the USA.

Under pertinent legislation, costs, expenses and charges relating to assets, services and rights as described in import or purchase documents supporting related-party operations are Income Tax and Social Contribution deductible only up to an amount not exceeding price (determined on one of the methods described below).

For transfer pricing legislation purposes, a related party to a company domiciled in Brazil is:

- its parent company, or branch domiciled abroad
- an individual or company resident or domiciled abroad, whose participation in the company’s capital characterizes it as a parent or affiliated company
- a company domiciled abroad, where the company domiciled abroad has common corporate or administrative control with the company domiciled in Brazil or when at least ten percent of either company’s capital is owned by a single company or individual
- an individual or company resident or domiciled abroad whose joint participation with a company domiciled in Brazil in the capital of a third company characterizes both of them as the latter’s parent or affiliated company
- an individual or company resident or domiciled abroad, who through a consortium or a condominium is its associate in any venture, in accordance with pertinent Brazilian legislation
- a foreign resident individual who is a relative up to the third degree of consanguinity, the spouse or a person who cohabits with any of the directors or controlling shareholders of the company domiciled in Brazil
- an individual or company resident or domiciled abroad who is the exclusive agent, dealer or concessionaire, for purchase and sale of assets, services or rights of the company domiciled in Brazil
- an individual or company resident or domiciled abroad whose exclusive agent, dealer or concessionaire, for purchase and sale of assets, services or rights is the company domiciled in Brazil
- a company headquartered in a country with a special taxation scheme or local legislation requiring secrecy on a company’s ownership.

Transfer Pricing and Import Costs
For determining the price-parameter of goods, services or rights imported from a non-related party, the importer may opt for one of the following methods:

- Comparative Independent-Price Method (PIC): The arithmetic mean of identical or similar prices determined in the domestic and other markets for sale and purchase operations performed under similar payment conditions:
  - sales by a single exporter to non-related, resident or non-resident companies
  - purchase by a single importer from non-related, resident or non-resident companies
  - sale and purchase operations between non-related, resident or non-resident companies.
- Resale-Price-Less-Profit Method (PRL): Arithmetic mean of the resale prices of goods, services or rights established in accordance with pertinent legislation, net of:
  - unconditional discounts given
  - sales taxes and contributions
  - commissions and brokerage fees paid and
  - the profit margin of 65% in the case of imported goods used in production. This margin is calculated based on the resale price, net of the above mentioned amounts and any value added locally, or
  - 25% in the case of simple goods resale
- Production-Cost-Plus-Profit Method (PCL): The average production cost of similar or identical goods, services or rights prevailing in the country of origin, plus export taxes and charges therein, plus 25% profit margin on costs thus determined.

Transfer Pricing and Export Revenue
Revenues from related-party operations are subject to arbitration, when the average adjusted selling price of exported goods, services or rights is lower than ninety percent of the average selling price of those same goods, services or rights in non-related-party operations:

- in the domestic market, in the same period and under similar payment conditions; or
- based on information from other companies who perform sales of identical or similar goods, services or rights in the local market.

Where the export selling price is lower than 90% of the average, adjusted price, the revenues from export are determined based on prices calculated by one of the following methods:

- Resale-Price-Less-Profit Method (PRL): Arithmetic mean of export sales prices used by the company in operations with other non-related clients in Brazil, or by another exporter of identical or similar goods, services or rights, in a single period and under similar payment conditions.
- Acquisition-or-Production-Cost-Plus-Taxes-and-Profit Method (APC): Arithmetic mean of acquisition or production costs of exported goods, services or rights plus taxes and contributions charged in Brazil with a 15% profit margin on the sum of costs, taxes and contributions.

Transfer Pricing and Interest
When resulting from a contract not registered with the Brazilian Central Bank, any interest paid or credited to a related party will be taxable income deductible, but only up to an amount not exceeding the LIBOR-based interest prevailing for deposits in US dollars plus a 3% spread.

Thin Capitalization
As of 1 January 2010, a new rule (mp 472/09) was converted into the law 12,249 which states a limitation for corporate income tax purposes related to deductible interest, accrued or paid, in favor of a foreigner not resident in a tax haven.

Under the rules, interest paid to related parties that are not located in a tax haven jurisdiction or that do not benefit from a preferential tax regime may be deducted on an accrual basis for corporate income tax purposes only:
- if the expenses are necessary for the company’s activities, and
- both of the following thresholds are met:

Wholesale-Price-in-the-Country-of-Origin-Less Profit Method (PPIA): Arithmetic mean of selling prices of identical or similar goods under similar payment conditions in the wholesale market of the country of origin, net of taxes (included in prices used in that country) with a 15% profit margin on the gross wholesale price.

Retail-Price-in-the-Country-of-Destination Less Profit Method (PVPP): Arithmetic mean of selling prices of identical or similar goods under similar payment conditions in the retail market of the country of destination, net of taxes, with a 30% profit margin on the gross retail price.

Acquisition-or-Production-Cost-Plus-Taxes-and-Profit Method (APC): Arithmetic mean of acquisition or production costs of exported goods, services or rights plus taxes and contributions charged in Brazil with a 15% profit margin on the sum of costs, taxes and contributions.
- a) the related party debt-equity ratio does not exceed 2:1 calculated based on the proportion of related party debt to direct equity investment made by related parties, and
- b) the overall debt-equity ratio does not exceed 2:1 based on the proportion of total debt to total direct investment made by related parties.

Interest paid to an entity or individual located in a tax haven or that benefits from a preferential tax regime (regardless of whether the parties are related) may be deducted only if the expenses:
- Are necessary for the company’s activities, and
- Both of the following thresholds are met: a) the amount of the Brazilian entity’s indebtedness to the tax haven resident does not exceed 30% of the net equity of the Brazilian entity, and b) the Brazilian entity’s total indebtedness to all entities located in a tax haven jurisdiction or benefitting from a preferential tax regime does not exceed 30% of the net equity of the Brazilian entity.

Any excess interest will be treated as a non-deductible expense for corporate income tax (CIT) and contribution on net profit. The Transfer Pricing rules affecting cross-border loans agreements registered with the central bank or Libor plus 3% spread remain in effect, as do the general requirements for deductibility.

Transitory Tax Regime (RTT)
The Brazilian authorities decided not to change the prevailing rules for tax but created the RTT which focuses on the entire reconciliation of corporate and fiscal records laid out in Law 11.041/2009 that guarantees fiscal neutrality, i.e. no tax consequences should arise from the adoption of the new rules for tax but created the RTT which focuses on the entire reconciliation of corporate and fiscal records laid out in Law 11.041/2009 that guarantees fiscal neutrality, i.e. no tax consequences should arise from the adoption of the new

**IPI – EXCISE TAX – GENERAL ASPECTS**

**Taxpayers**
- Importers, in connection with customs release of imported goods
- Industrialists, in connection with industrialized goods dispatched
- Any industrial or similar units, in connection with goods dispatched therewith.

**Taxable event**
The IPI taxable event is the customs release of imports and the dispatch of industrialized goods from an industrial or equivalent unit.

**Basis of calculation**
- In the case of foreign products, IPI is calculated based on tariffs incurred at the time of dispatch, plus taxes and exchange charges actually paid or due by the importer and the price at the time of dispatch from the exporting unit.
- IPI on locally manufactured products, on the other hand, is calculated based on the price.

**Tax rates**
Rates vary from 0 to 330%, depending on how essential a product is for the Brazilian market. The average is 15%. Examples of rates for various products and groups of products are as follows:

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food in general</td>
<td>0</td>
</tr>
<tr>
<td>Soft drinks</td>
<td>44</td>
</tr>
<tr>
<td>Alcoholic drinks</td>
<td>11-143</td>
</tr>
<tr>
<td>Plastic and rubber</td>
<td>0-20</td>
</tr>
<tr>
<td>Textile materials</td>
<td>0-15</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>0-20</td>
</tr>
<tr>
<td>Precision instruments</td>
<td>0-15</td>
</tr>
<tr>
<td>Transport</td>
<td>13-35</td>
</tr>
<tr>
<td>Other</td>
<td>0-60</td>
</tr>
</tbody>
</table>

Most exports (exportation of manufactured products) are exempt from IPI. Imports of goods (raw material and products) are normally taxed at the same rate as Brazilian-made products. Although, rates change frequently. For all sales of manufactured products, the IPI must be paid monthly.

For imported goods or products, the IPI (and other taxes due) must be collected when the goods or products clear customs.

**Non-Cumulation**
The difference between IPI on goods dispatched and goods received, during a certain period is used in determining taxes payable.

**Industrialization concept**
This entails operations likely to alter the nature, function, finish, presentation or purpose of a product or improving it for consumption.

**Industrialization Types**

**Transformation**
This is the process to which raw materials or an intermediary product is subject in order to produce a new kind of product.

**Processing**
This intends to modify, upgrade or in any other way alter a product functioning, utilization, finishing or presentation.

**Assemble**
This consists in combining products, parts or pieces to make a new product or an autonomous unit, even if it remains in the same fiscal category.

**Packaging or repackaging**
Through packaging or repackaging a product presentation is changed, except where the new package is only intended for transportation.

**Renewal or reconditioning**
This is the process of renewing or restoring a used product or the remains of a deteriorated or useless product.

**ICMS – GENERAL RULES**

**Taxpayers**
Any natural individual or corporation who regularly performs operations related to physical movement of merchandise, or renders interstate or inter-municipal transportation and communication services are subject to ICMS.

**Taxable event**
Taxable events in connection with ICMS are operations related to exchange of goods and rendering of interstate and inter-municipal transportation and communication services. Foreign goods received and services rendered abroad are also subject to ICMS, even if they are intended for use or consumption by an entity, or to be part of its fixed assets.

**Basis of calculation**
ICMS is calculated based on the operation amount, there being therefore no legally prescribed basis.

**Tax Rates**
- Interstate operations and imports: 17% or 18%, depending on the state;
- Interstate operations with the Southern and Southeastern states: 12%; and
- Interstate operations with the Northern, Northeastern and Central Western states, and the Espírito Santo state: 7%.

For some products classified as superfluous, such as cigarettes and liquor, the intrastate tax rate is 25%.

Some staples, on the other hand, are taxed at 7%.

**Non-Cumulation**
ICMS is subject to a non-cumulative tax. The amount due on each physical movement of merchandise or interstate and inter-municipal transportation or communication service is deducted from the previous levies in the same or a different state.
Capital goods
Internal rates are used as the basis of the ICMS calculation on industrial equipment and agricultural implements, including imported ones, is lower.

Imports of machinery, equipment, apparatuses, instruments or materials and the related accessories, spare parts or tools for an industrial company’s fixed assets ICMS exempt, provided none of these assets has a similar product manufactured locally.

ISS – SERVICES TAX – GENERAL ASPECTS

Taxpayers
A company, individual firm, or self-employed service provider.

In the case of services rendered abroad with results felt in Brazil, the taxpayer is the service recipient.

Those rendering services under employment bond, occasional workers, and directors and members of a company’s advisory or fiscal board are not taxpayers.

Taxable event
A tax event is the provision of services of any kind not subject to ICMS, even if rendered abroad with results felt in Brazil.

Basis of calculation
ISS is calculated based on the service price.

Tax rates
Rates are fixed or variable, depending on the type of service rendered and each municipality’s legislation.

Cumulativeness
It is not permitted to offset ISS tax due on any given operation against the amount of previous levies.

IOF – FINANCIAL OPERATIONS TAX

Taxpayers
Borrowers, importers, purchasers of insurance policies and securities purchasers, as well as the first borrowers under the National Housing System must pay IOF.

Collectors
The following entities are in charge of collecting IOF on behalf of the Brazilian Central Bank:

- On loans: financial institutions.
- On foreign exchange: institutions authorized to perform exchange operations;
- On insurance: insurance companies or financial institutions in charge of collecting insurance premiums, the former being responsible for providing the data shown on collection documents;
- On marketable securities: the institutions authorized to purchase and sell securities.

Taxable event
Loans: the total or partial obligation amount made available to the borrower.
Foreign exchange operations underlying imports: the execution of the exchange contract liquidation
Insurance: premium receipt
Securities: issue, transfer, payment or redemption thereof.

Basis of calculation
Loans: the total obligation amount (including principal and interest);
Exchange operations: the total amount in local currency which is received, delivered or made available;
Insurance: the total premium amount;
Securities: it is the amount of:

- acquisition, redemption, assignment or renegotiation thereof;
- financing operation carried out at stock, futures and commodities exchanges and similar entities
- redemption of investment fund / club quotas
- payment for settling acquisition operations, redemption or assignment of securities, when lower than 95% of the initial operation amount.

Tax rates
Tax rates vary from 0% to 25%, depending on the nature of the operation.

II – IMPORT TAX – RELATED ASPECTS

Taxpayers
Il must be paid by importers, those being the people responsible for incoming foreign goods, the addressees of international parcels and purchasers of merchandise kept in warehouses.

Taxable event
The taxable event is the receipt, whether real or fictitious, of a foreign product in Brazil.

Basis of calculation
The FOB value of exports.

Tax rates
Tax rates vary between 0% and 35%, according to the product imported.

Capital goods
The II rate for machinery, equipment, apparatuses and instruments, as well as their related parts, may be reduced to 0%, provided no locally manufactured similar exists and the imports are intended for the importer’s fixed assets. The imported goods must be brought in by a Brazilian flag vessel, lest all benefits be voided.

IE-RELATED ASPECTS

Taxpayers
Exporters are subject to IE. Exporters are those responsible for dispatching national or nationalized goods abroad.

Taxable event
The taxable event is the dispatch of national or nationalized goods from Brazil.

Basis of calculation
The FOB value of exports.

Tax rate
Tax rates vary between 0% and 30% depending on the basis of calculation.

FISCAL ASPECTS OF SOCIAL CONTRIBUTIONS

CSLL – Social Contribution on Net Profits

Taxpayers
Social contributions must be paid by corporations domiciled in Brazil and any equivalent organization considered as such under tax legislation.

Basis of calculation
Social contributions are calculated based on the adjusted pretax income for the year.

Tax rate
Social contributions are calculated at 9%.

ISS \- SERVICES TAX \— GENERAL ASPECTS

Taxpayers
A company, individual firm, or self-employed service provider.

In the case of services rendered abroad with results felt in Brazil, the taxpayer is the service recipient.

Those rendering services under employment bond, occasional workers, and directors and members of a company’s advisory or fiscal board are not taxpayers.

Taxable event
A tax event is the provision of services of any kind not subject to ICMS, even if rendered abroad with results felt in Brazil.

Basis of calculation
ISS is calculated based on the service price.

Tax rates
Rates are fixed or variable, depending on the type of service rendered and each municipality’s legislation.

Cumulativeness
It is not permitted to offset ISS tax due on any given operation against the amount of previous levies.

IOF – FINANCIAL OPERATIONS TAX

Taxpayers
Borrowers, importers, purchasers of insurance policies and securities purchasers, as well as the first borrowers under the National Housing System must pay IOF.

Collectors
The following entities are in charge of collecting IOF on behalf of the Brazilian Central Bank:

- On loans: financial institutions.
- On foreign exchange: institutions authorized to perform exchange operations;
- On insurance: insurance companies or financial institutions in charge of collecting insurance premiums, the former being responsible for providing the data shown on collection documents;
- On marketable securities: the institutions authorized to purchase and sell securities.

Taxable event
Loans: the total or partial obligation amount made available to the borrower.
Foreign exchange operations underlying imports: the execution of the exchange contract liquidation
Insurance: premium receipt
Securities: issue, transfer, payment or redemption thereof.

Basis of calculation
Loans: the total obligation amount (including principal and interest);
Exchange operations: the total amount in local currency which is received, delivered or made available;
Insurance: the total premium amount;
Securities: it is the amount of:

- acquisition, redemption, assignment or renegotiation thereof;
- financing operation carried out at stock, futures and commodities exchanges and similar entities
- redemption of investment fund / club quotas
- payment for settling acquisition operations, redemption or assignment of securities, when lower than 95% of the initial operation amount.

Tax rates
Tax rates vary from 0% to 25%, depending on the nature of the operation.

II – IMPORT TAX – RELATED ASPECTS

Taxpayers
Il must be paid by importers, those being the people responsible for incoming foreign goods, the addressees of international parcels and purchasers of merchandise kept in warehouses.

Taxable event
The taxable event is the receipt, whether real or fictitious, of a foreign product in Brazil.

Basis of calculation
In cases where a specific rate applies, the II will be calculated based on the quantity of goods expressed in the measurement unit prescribed.

Should the ad valorem rate prevail, the basis of calculation will be the customs duties determined in accordance with the General Agreement on Tariffs and Trade (GATT).

Tax rates
Tax rates vary between 0% and 35%, according to the product imported.

Capital goods
The II rate for machinery, equipment, apparatuses and instruments, as well as their related parts, may be reduced to 0%, provided no locally manufactured similar exists and the imports are intended for the importer’s fixed assets. The imported goods must be brought in by a Brazilian flag vessel, lest all benefits be voided.

IE-RELATED ASPECTS

Taxpayers
Exporters are subject to IE. Exporters are those responsible for dispatching national or nationalized goods abroad.

Taxable event
The taxable event is the dispatch of national or nationalized goods from Brazil.

Basis of calculation
The FOB value of exports.

Tax rate
Tax rates vary between 0% and 30% depending on the basis of calculation.

FISCAL ASPECTS OF SOCIAL CONTRIBUTIONS

CSLL – Social Contribution on Net Profits

Taxpayers
Social contributions must be paid by corporations domiciled in Brazil and any equivalent organization considered as such under tax legislation.

Basis of calculation
Social contributions are calculated based on the adjusted pretax income for the year.

Tax rate
Social contributions are calculated at 9%.
Contribution to Social Security Funding (COFINS)

**Taxpayers**
In general, companies and the legally established equivalents thereto, are subject to COFINS, and so will importers of goods and services from May 2004 on.

**Basis of calculation**
COFINS is levied on monthly sales, by which is meant all revenues earned by a company.

Taxpayers whose contribution is determined on a technical non-cumulative basis, are allowed to deduct the respective tax credits on certain legally stipulated acquisitions, charges and costs at the applicable COFINS rate. Among the transactions not giving rise to tax credits are payments for services rendered by individuals whether salary-earners or not.

Where imported goods are involved, the basis of calculation is the customs expenses comprising CIF value plus ICMS, PIS and COFINS itself.

In the case of imported services, the basis of calculation is the amount paid plus ISS, PIS and COFINS itself.

**Tax Rate**
Basically two COFINS rates are applicable to sales, depending on the determination method adopted:

a) If calculated on a non-cumulative basis, the tax rate is usually 7.6%, which can rise to as much as 10.8%, depending on the type of revenue and/or activity performed;

b) If calculated on a cumulative basis, the tax rate is 3%, as a rule.

If levied on imported goods or services, the COFINS rate is usually 7.6%, but can rise to 10.8%, depending on the type of goods imported.

Contribution to the Social Integration Program (PIS/PASEP)

**Taxpayers**
Private law entities and equivalents, as stipulated by the income tax legislation, are subject to PIS/PASEP and as are importers of goods and services, as of May 2004 on.

**Basis of calculation**
As a rule, the contribution is levied on monthly sales, by which is meant all revenues earned by a company.

Like COFINS, if determining PIS/PASEP payable on a technical non-cumulative basis, taxpayers are allowed to deduct the respective tax credit on certain legally stipulated acquisitions, charges and costs, at the applicable PIS rate. Among the transactions not giving rise to tax credits are payments for services rendered by individuals whether salary-earners or not.

Where imported goods are involved, the basis of calculation is the customs expenses comprising CIF value plus ICMS, COFINS and PIS itself.

In the case of imported services, the basis of calculation is the amount paid plus ISS, COFINS and PIS itself.

**Tax rate**
Like COFINS, two PIS rates are applicable to sales, depending on the determination method:

a) If calculated on a non-cumulative basis, the tax rate is usually 1.65%, which can rise to 2.3%, according to the type of revenue and/or activity performed;

b) If calculated on a cumulative basis, the tax rate is 0.65%, as a rule.

PIS is usually levied on imported goods and services at 1.65%, the rate rising to as much as 2.3%, depending on the type of goods imported.

**Other Taxes**
Given their minor importance, no comment is given on the other taxes charged.
5. TAXATION OF INDIVIDUALS

Individuals’ Taxation System

Income Tax-Related Aspects

Income Tax Structure
Income from the following sources is subject to income tax:
- Salaries
- Self-employment
- Rental
- Legally stipulated allowance
- Rural activity
- Capital gains
- Gains on financial operations.

International aspects
Foreigners established or domiciled in Brazil receive the same tax treatment as Brazilians.

All kinds of income (including that from foreign source) received by residents are taxed in Brazil.

The income earned in Brazil by non-residents is subject to withholding tax at 15% or 25%.

Permanent visa holders
Income earned by foreigners who hold permanent visa is taxed as from the date of their arrival in Brazil.

Temporary visa holders
Income tax as a resident is levied on any foreign individual who comes to Brazil bearing a temporary visa:
- In order to work as a regular employee, taking into consideration tax events which occurred from the date of arrival; and
- For any other reason, but staying for over a hundred and eighty three days, consecutive or not, within a twelve month period as from the date of arrival, taking into consideration tax events which occurred from the subsequent day to the completion of the stay period.

Income Tax Return
Taxpayers are required to file an income tax return, describing their earnings and any changes in their assets in relation to the previous calendar year, not later than the last working day of April each year.

Main deductible items
The following are the major items deductible from income earned in the year:
- Contributions to government-sponsored social security system
- R$ 1,974.72 per dependent per year
- Educational expenses up to R$2,708.94 per year
- Medical expenses, without limit
- Private pension plan expenses limited to 12% on annual individual incomes
- Cultural incentives limited to reduce 4% of individual income tax
- Audiovisual incentives to reduce 4% of individual income tax.

Tax rates
Income tax rates vary from 15% to 27.5%, depending on the amount of income earned.

Income Tax – Graduated Rate Table for Calculation of an Individual’s Annual Income Tax

<table>
<thead>
<tr>
<th>Annual Basis of Calculation (R$)</th>
<th>Tax Rate (%)</th>
<th>Deductible Portion (R$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 21,453.24</td>
<td>Exempt</td>
<td>-</td>
</tr>
<tr>
<td>From 21,453.25 to 32,151.48</td>
<td>7.5</td>
<td>1,608.99</td>
</tr>
<tr>
<td>From 32,151.49 to 42,869.16</td>
<td>15</td>
<td>4,020.35</td>
</tr>
<tr>
<td>From 42,869.17 to 53,585.72</td>
<td>22.5</td>
<td>7,235.54</td>
</tr>
<tr>
<td>Over 53,585.72</td>
<td>27.5</td>
<td>9,913.83</td>
</tr>
</tbody>
</table>

Withholding tax
Any income remittance must be taxed at source, and a tax payment voucher filed with tax authorities before the remittance is authorized.

Local firms or companies and the Brazilian branches or subsidiaries of foreign firms or companies are also required to withhold at source the taxes levied on income paid to directors, managers and employees.

Capital gains
Capital gain represents the difference between the transfer value of an asset or right and its acquisition cost.

Any such gain is subject to tax at 15%, if over R$20,000.

Any capital gains arising from disposal of assets abroad will be taxed in accordance with treaties between Brazil and the country in question. In the absence of such treaties or legal provisions on pertinent tax treatment, capital gains will be taxed in Brazil.
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