FOREWORD

A country’s tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions. This handy reference guide provides clients and professional practitioners with comprehensive tax and business information for over 90 countries throughout the world.

As you will appreciate, the production of the WWTG is a huge team effort and I would like to thank all tax experts within PFK member firms who gave up their time to contribute the vital information on their country’s taxes that forms the heart of this publication.

I hope that the combination of the WWTG and assistance from your local PKF member firm will provide you with the advice you need to make the right decisions for your international business.

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Eisner Amper LLP
richard.sackin@eisneramper.com
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The PKF Worldwide Tax Guide 2013 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world’s most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 1 January 2013, while also noting imminent changes where necessary.

On a country-by-country basis, each summary addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country’s personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

In addition to the printed version of the WWTG, individual country taxation guides are available in PDF format which can be downloaded from the PKF website at www.pkf.com
ABOUT PKF INTERNATIONAL LIMITED

PKF International Limited (PKFI) administers the PKF network of legally independent member firms. There are around 300 member firms and correspondents in 440 locations in around 125 countries providing accounting and business advisory services. PKFI member firms employ around 2,270 partners and more than 22,000 staff. PKFI is the 11th largest global accountancy network and its member firms have $2.68 billion aggregate fee income (year end June 2012). The network is a member of the Forum of Firms, an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide.

Services provided by member firms include:

- Assurance & Advisory
- Insolvency – Corporate & Personal
- Financial Planning/Wealth management
- Taxation
- Corporate Finance
- Forensic Accounting
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- IT Consultancy

PKF member firms are organised into five geographical regions covering Africa; Latin America; Asia Pacific; Europe, the Middle East & India (EMEI); and North America & the Caribbean. Each region elects representatives to the board of PKF International Limited which administers the network. While the member firms remain separate and independent, international tax, corporate finance, professional standards, audit, hotel consultancy and business development committees work together to improve quality standards, develop initiatives and share knowledge and best practice cross the network.

Please visit www.pkf.com for more information.
STRUCTURE OF COUNTRY DESCRIPTIONS

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   FEDERAL TAXES AND LEVIES
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   BRANCH PROFITS TAX
   SALES TAX/VALUE ADDED TAX
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   LOCAL TAXES
   OTHER TAXES

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I. TREATY AND NON-TREATY WITHHOLDING TAX RATES
# INTERNATIONAL TIME ZONES

**AT 12 NOON, GREENWICH MEAN TIME, THE STANDARD TIME ELSEWHERE IS:**

| **A** | | **B** | | **C** | | **D** | | **E** | | **F** | | **G** |
|---|---|---|---|---|---|---|---|---|---|
| Algeria | 1 pm | Angola | 1 pm | Argentina | 9 am | Australia | | | |
| - | | Melbourne | 10 pm | Sydney | 10 pm | Adelaide | 9.30 pm | | |
| | | | | | | Perth | 8 pm | | |
| Austria | 1 pm | | | | | | | | |
| | | Bahamas | 7 am | Bahrain | 3 pm | Belgium | 1 pm | Belize | 6 am | |
| | | | | | | Bermuda | 8 am | Brazil | 7 am | British Virgin Islands | 8 am | |
| | | | | | | | | | | |
| **H** | | **I** | | **J** | | **K** | | **L** | | **M** | |
| Hong Kong | 8 pm | India | 5.30 pm | Jamaica | 7 am | Kenya | 3 pm | Latvia | 2 pm | Malaysia | 8 pm | |
| Hungary | 1 pm | Indonesia | 7 pm | Japan | 9 pm | | | | | | Malta | 1 pm | |
| | | Ireland | 12 noon | Jordan | 2 pm | | | | | | Mexico | 6 am | |
| | | Isle of Man | 12 noon | | | | | | | | Morocco | 12 noon | |
| | | Israel | 2 pm | | | | | | | | | | |
| | | Italy | 1 pm | | | | | | | | | | |
| | | | | | | | | | | | | | |
| **N** | | **O** | | **P** | | **Q** | | **R** | | | |
| Namibia | 2 pm | Oman | 4 pm | Panama | 7 am | Qatar | 8 am | Romania | 2 pm | |
| | | | | | | | | | | | | | |
| | | Netherlands (The) | 1 pm | Papua New Guinea | 10 pm | Peru | 7 am | Philippines | 8 pm | | |
| | | New Zealand | 12 midnight | | | | | | | | | | |
| | | Nigeria | 1 pm | | | | | | | | | | |
| | | Norway | 1 pm | | | | | | | | | | |
| | | | | | | | | | | | | | |
| **Gambia (The)** | 12 noon | Germany | 1 pm | Ghana | 12 noon | Greece | 2 pm | Grenada | 8 am | Guatemala | 6 am | Guernsey | 12 noon | Guysey | 7 am |}

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*PKF Worldwide Tax Guide 2013*
<table>
<thead>
<tr>
<th>Country</th>
<th>Time Zone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td></td>
</tr>
<tr>
<td>Moscow</td>
<td>3 pm</td>
</tr>
<tr>
<td>St Petersburg</td>
<td>3 pm</td>
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<td>S</td>
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<tr>
<td>Singapore</td>
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<tr>
<td>Slovak Republic</td>
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<td>Slovenia</td>
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<tr>
<td>South Africa</td>
<td>2 pm</td>
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<tr>
<td>Spain</td>
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<td>Sweden</td>
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<td>Switzerland</td>
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<td>Taiwan</td>
<td>8 pm</td>
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<td>Thailand</td>
<td>8 pm</td>
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<td>Tunisia</td>
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<td>Turkey</td>
<td>2 pm</td>
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<tr>
<td>Turks and Caicos Islands</td>
<td>7 am</td>
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<td>U</td>
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<tr>
<td>Uganda</td>
<td>3 pm</td>
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<tr>
<td>Ukraine</td>
<td>2 pm</td>
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<tr>
<td>United Arab Emirates</td>
<td>4 pm</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>(GMT) 12 noon</td>
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<tr>
<td>United States of America</td>
<td></td>
</tr>
<tr>
<td>New York City</td>
<td>7 am</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>7 am</td>
</tr>
<tr>
<td>Chicago</td>
<td>6 am</td>
</tr>
<tr>
<td>Houston</td>
<td>6 am</td>
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<tr>
<td>Denver</td>
<td>5 am</td>
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<tr>
<td>Los Angeles</td>
<td>4 am</td>
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<td>San Francisco</td>
<td>4 am</td>
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<td>Uruguay</td>
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<td>V</td>
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<td>Venezuela</td>
<td>8 am</td>
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</tr>
<tr>
<td>Zimbabwe</td>
<td>2 pm</td>
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Brazil

Currency: Reais (R$)  
Dial Code To: 55  
Dial Code Out: 00

Member Firm:  
City: Name: Contact Information:  
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A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

REAL PROFIT

In general, taxable income must be recognised monthly following the accrual basis criteria and subject to Corporate Income Tax (CIT). The tax return must be filed annually. Corporate taxable income is taxed under a unitary system whereby a single tax rate is applied. This rate is 25%, being 15% plus 10% on profits pre-tax over R$240,000 annually. Corporate income tax is generally computed on a calendar year basis. However, payments are made monthly on estimated advance taxes. Social Contribution on Net Profit is another federal tax and is calculated on profits pre-tax. The rate is 9% computed on an annual or quarterly basis. Calculations and payments are made monthly as estimated advance taxes. Both taxes on profits add up to 34% (25% plus 9%).

TRANSFER PRICING

Brazil established a transfer pricing system for imports with affiliated companies of goods, services and rights acquired abroad. The prices are based on three methods: Comparative Independent Price (PIC), Resale Price Less Profit (PRL), or Production Cost Plus Profit (CPL). The same system applies for exports to foreign related parties.

Since the end of 2012, Brazil has been changing some of the methods applicable to Transfer Pricing on imports and also creating additional methods. Basically, PRL presumed profit margin was changed from 20% to 40%, 30% and 20% depending on the business sector in which companies operate.

According to the Federal Law 12.715, two new methods were established, one applicable to imports and other applicable to exports. In accordance with the method called “Method of Price Under Quotation on Import (PCI)”, price is defined as the average daily amount of assets or rights subject to public prices in internationally recognised commodities and future exchanges.

With respect to the new method applicable to exports called “Method of Price Under Quotation on Export (PECEX)”, which is briefly defined as the average amounts of the quotation of assets or rights subject to public prices in internationally recognised commodities and future exchanges.

THIN CAPITALISATION

Law 12.249 states a limitation for corporate income tax purposes related to deductible interest, accrued or paid, in favour 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 purpose only.
• If the expenses are necessary for the company’s activities, and
• Both of the following thresholds are met:
  a. The related party debt-to-equity ratio does not exceed 2:1 calculated on the proportion of related party debt to direct equity investment made by related parties; and
  b. The overall debt-to-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 benefiting 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 purpose.

The Transfer Pricing rules affecting cross-border loan agreements registered or not registered at the Brazilian Central Bank should be limited to Libor plus 3% spread to be deductible for CIT, as do the general requirements for deductibility.

**PRESUMED PROFIT METHOD**

Companies with prior year revenues of up to R$ 48 million can choose, under certain circumstances, to pay income tax and social contributions by the Presumed Profit Method which is calculated through a percentage of the quarterly gross revenue on the cash basis.

There are some business activities and other circumstances which the law does not consider as eligible for this treatment. The applicable percentages range from 1.6% to 32%. In general, the most applicable rule for presumed profit margin is 8% on sale or resale and manufacturing companies. Income tax is charged at a rate of 15% on the presumed profit with an additional 10% chargeable in excess of R$ 60,000 per quarter plus Social Contribution Tax at the rate of 9% on the presumed profit based on gross revenue.

**FRINGE BENEFITS TAXATION**

Companies participate mandatorily in different forms of social security obligations to federal agencies. These either directly or indirectly benefit pension programs, working time compensation, social work assistance and health programs, among others. All contributions are deductible for corporate income tax purposes.

**COFINS – SOCIAL SECURITY CONTRIBUTION**

COFINS is payable each month as a contribution to health, social work assistance and social security program of the Federal Government.

In general, for companies that adopt the regular method for calculating the Income Tax (taxable income Profit) the COFINS rate is 7.6% of the monthly gross revenue. Deductions are allowed in respect of services and material costs applied in companies’ operating activities.

For companies that choose to be taxed under the Presumed Profit Method, the COFINS rate is 3% of the monthly gross revenue, without such allowed deductions mentioned above.

The import of assets, goods and services also pays COFINS of 7.6% of import value. This value will be used as a credit to offset the COFINS of sales in a non-cumulative way. Companies taxed under the Presumed Profit Method will not be eligible for this offset.

**PIS – SOCIAL INTEGRATION PROGRAM CONTRIBUTION**

These contributions are payable each month as a fund to employees. This is calculated based on 1.65% of monthly gross revenue. As it is with COFINS, the PIS rate is generally 1.65% of the monthly sale, in a non-cumulative way. It means, deductions are allowed in respect of services and material costs applied in companies’ operating activities.

For the companies that choose to be taxed by the Presumed Profit Method, PIS will be 0.65% of the monthly sale in a cumulative way, without such allowed deductions above mentioned.
PAYROLL TAX
This is a monthly obligation for social security and other funds levied on payroll

<table>
<thead>
<tr>
<th>Tax</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security (INSS)</td>
<td>20</td>
</tr>
<tr>
<td>Accident Insurance (SAT)</td>
<td>1 to 3</td>
</tr>
<tr>
<td>Employee Indemnity Guarantee Fund (FGTS)</td>
<td>8</td>
</tr>
<tr>
<td>Education Fund (SE)</td>
<td>2.5</td>
</tr>
<tr>
<td>Other</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Employees contribute monthly to the social security system at rates from 7.65% to 11% on a progressive-scale base salary considering a maximum base salary of R$ 3,689.

Federal law obliges companies to distribute part of their annual net income to employees. Participation is negotiated by each company and disputes are settled by arbitration. Amounts distributed are deductible for corporate income tax purposes and not subject to social security.

Brazilian Government changed the criteria for companies in some business sectors to calculate the collection of INSS. Basically, law changed the basis for calculation of INSS from 20% under payroll salary to apply 2% or 1% under the revenues generated monthly by the companies which are subject to the new rules.

According to Law 12.546, companies that render IT services, technologies, call centres and hotels will be subject to pay 2% of their monthly gross revenues.

Brazilian Government changed the criteria for companies in some business sectors to calculate the collection of INSS. Basically, law changed the basis for calculation of INSS from 20% under payroll salary to apply 2% or 1% under the revenues generated monthly by the companies which are subject to the new rules. According to Law 12.546, companies that render IT services, technologies, call centres and hotels will be subject to pay 2% of their monthly gross revenues.

Companies that manufacture fluids for hydraulic brakes, plastic, clothing and accessories, fur, leather, silk, wool, rugs and other coatings to floors, hats and artifacts of similar use, machinery and appliances, pressure reducing valves, among others will be subject to pay 1% of their monthly gross revenue.

LOCAL TAXES

VALUE ADDED SALES AND SERVICES TAX (ICMS)
This state tax is levied on the sale or physical movement of goods, freight, transportation, communications services and electric energy. Intrastate transactions are taxed at 18%, interstate transactions are taxed at 7% or 12%, and most imports are taxed at a rate between 18% and 25%. The lower rates normally are charged on transfers to less developed states. Some states offer rate reductions or later payment dates as a fiscal incentive for the installation of factories. Communication services are taxed at a rate between 13% and 25%.

New rules will be applied to ICMS due to imports of goods. In summary, Government reduced the ICMS tax rate to 4% on interstate transactions with imported products solely when such imports will be at least 40% of the end product produced and sold in Brazil. Such new rule is applicable from 1 January 2013.

REAL ESTATE TAX (ITBI)
A property transfer tax is normally payable at a rate of up to 4% on inheritances and donations of properties and rights.

SERVICE TAX TAX (ISS)
A services tax is imposed on gross revenue generated from companies that render services to many cities. Rates vary substantially between cities. Higher rates are more common in larger cities. Hospitals, schools, colleges, construction, leasing, tourist and other services pay ISS from 2% to 5%. ISS must be paid on import of services provided by non-residents.

OTHER TAXES

EXCISE TAX (IPI)
This federal value added tax is levied on nearly all sales (gross revenue) and transfers of products manufactured in or imported into Brazil with a tax rate that varies according to the degree of necessity. 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 (export 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. 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 upon the customs clearance of the goods or products.

**IMPORT TAX (II)**

This tax is used to regulate foreign trade, to stabilise the balance of payments at times of economic crisis, to protect and stimulate the growth of Brazilian industry and to encourage foreign investments. The rates vary according to the type of product imported and are frequently changed by the government by a decree, without the need of submission to Congress.

The calculation basis of the Import Tax is the price at which the goods are offered for sale on the wholesale market of the exporting country, plus the cost of insurance and freight (CIF). It is charged upon the customs clearance of the goods.

In case there is no national product similar to the imported product or if its national production is not sufficient for the demand of the internal market, reduction or exemption of the Import Tax may be granted.

**FINANCIAL OPERATIONS TAX (IOF)**

This tax is levied at various rates on financial transactions such as loans and credit operations, insurance policies, and foreign exchange operations for certain services rendered. Rates change frequently.

As a general rule, foreign exchange transactions made in order to allow payments to non-residents, considering royalties, technical services, technical, administrative and any other assistance or any other revenue, including the reimbursement of any costs, are subject to IOF.

**CONTRIBUTION OF INTERVENTION DEVELOPMENT AND ECONOMIC (CIDE)**

The government introduced a special contribution in 2000. Brazilian legal entities that license, purchase or otherwise acquire technological knowledge must pay a special contribution of 10% on activities such as: trademark, technical services assistance, administrative services and any royalty payments. Based on the law in force, CIDE must even be paid on activities that do not involve the transfer of technology.

**TAX ON ROYALTIES (CIDE)**

This tax has the objective of stimulating technological development in Brazil through a federal program of technological research at universities, research centres and productive sectors.

Tax on royalties is 25% (15% as the withholding tax and 10% as CIDE payable by the sender company).

**TAX ON FUEL (CIDE)**

The CIDE will be paid monthly on the import and export of petroleum, derived and natural gas, and fuel alcohol. The rate will be based on the value in Reais of the cubic meters or tons of fuel.
RURAL REAL ESTATE TAX (ITR)
The basic rate is annually calculated based on certain premises on assessed property values and depending on the stage of use and exploration of the property. Very small properties are exempt and the maximum rate applied corresponds to 20% of the land value without any improvements.

B. DETERMINATION OF TAXABLE INCOME

To determine the income tax payable, items deductible from gross income include the expenses needed to obtain, maintain and preserve such income. The income tax law contains specific regulations for determining the cost of products, fixed assets, real estate, or securities being disposed of, as well as for deducting uncollectible debts and calculating depreciation / amortisation. Business income is determined on the accrual basis.

IFRS – INTERNATIONAL FINANCIAL REPORTING STANDARDS

Brazil adopted the IASB’s International Accounting Standards in 2008 on a gradual basis and the full IFRS since 2010. As a consequence, there are several important changes to the 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 include the recognition of leasing transactions, depreciation treatment, the recognition of intangible assets, impairment concept etc.

The Brazilian authorities decided not to change the prevailing rules for tax purpose but created the RTT (Tax Transaction Temporary System) which focuses on the entire reconciliation of corporate and fiscal records forced by Law 11.941/2009 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 (mandatory as of 2010) and shall remain in force until a new tax law is enacted setting forth the tax effects.

DEPRECIATION

Fixed assets shall be depreciated over their estimated useful lives for accounting purposes (IFRS). For fiscal purposes, the straight-line method is usually adopted, using the following annual rates: buildings 4%; machinery and equipment 10%; vehicles 20%; IT equipment 25% etc. Assets subject to depletion (mines, quarries, etc.) may be amortised proportionately to the units extracted in each period. In some cases, such as for assets used in R&D activities, the taxpayer may opt for accelerated depreciation.

STOCK/INVENTORY

The cost of goods sold for production is generally valued using the weighted average cost method, although the FIFO (first in, first out) basis may be elected. The method adopted determines the basis for the valuation of closing inventory.

DIVIDENDS

Brazil follows a dividend exemption system. Amounts distributed to shareholders resident in Brazil or abroad (since the investment is registered at the Brazilian Central Bank (BCB)) are not subject to withholding tax.

INTEREST DEDUCTIONS

There is a limitation of interest expenses to be deductible:

i) loan from foreigner companies (thin capitalisation), and

ii) loan from abroad must be registered at Central Bank of Brazil (transfer pricing).

Interest due must be at fair market value and necessary to business activities and will be subject to withholding tax (WHT) following the accrual basis.

The calculation of interest on a partner’s or shareholder’s capital (JCP) is allowed, however, for remittances if it is considered as dividends (it means the Brazilian Co needs to be profitable). The interest is deductible for income tax and social contribution up to the limit of the official long-term interest rate (TJLP). Profits for the current period or previous periods must be at least double the value of the interest to be distributed. Interest is subject to a 15% withholding tax at source. Interest may be paid or capitalised.

TAX LOSSES CARRIED FORWARD

Tax losses can be carried forward to offset against future profits up to 30% of the real profits arising in each period (year). Losses that are offset may be carried forward indefinitely. There are restrictions on losses transferred as a result of a
company merger or where there is a change in the control and activity of the loss
generating company.

INCENTIVES
Brazil offers incentives through the reduction of domestic taxes or exemption from
withholding tax in the forwarding of royalties or commissions on international
financing. In addition to incentives for exports, there are incentives for the
implementation of industrial units in specific regional areas. There are also some
programs linked to research activities or technological and cultural activities.
The most important of these are:
- special basis of taxation for the export of technological information services
- special tax incentives for exporting companies in the acquisition of fixed assets
  and equipment
- special tax incentives for computer manufacturing companies investing in new
  technology
- fiscal incentives for new projects in Brazil North and North East
- fiscal incentives for development and new technologies
- fiscal incentives for new projects in Brazil (Petroleum—RepeneC, Aviation—
  Retaero).

ROYALTIES AND TECHNICAL ASSISTANCE EXPENDITURES
Royalties are deductible expenses but are restricted to between 1% and 5% of
sales revenues for companies that make cross-border trademark and patent royalty
payments. Expenditure incurred in the creation of patents and manufacturing
formulas and processes are considered capital intangible assets and are amortised
over the life of the asset. This is also true for trademarks, whereas copyright,
software, and franchising are generally deductible from operational results if they are
related to the activities of the company.

Technical, scientific and administrative expenditures and royalties paid to foreign
companies which have direct or indirect control of the Brazilian company are
deductible if the contracts are duly registered with the Brazilian Institute of Industrial
Property (INPI) and with the Brazilian Central Bank (BCB). There are no restrictions
for the remittance of these monies abroad. However, some remittances of funds to
abroad are subject to 15% WHT and 10% of CIDE or only 25% WHT.

C. FOREIGN TAX RELIEF
Profits and gains from foreign sources are taxable in Brazil. Tax credits are available
to relieve double taxation subject to a maximum of the Brazilian tax payable on the
income.

D. CORPORATE GROUPS
For tax purposes, consolidation of affiliated companies is not allowed. Losses can
only be offset against profits of the same company.

E. RELATED PARTY TRANSACTIONS
Charges from foreign affiliates or head offices are only allowed for specific items
relating to the activity of the local company or branch. The pro-rata allocation of a
foreign entity’s expenses is generally not acceptable for tax purposes.

Brazil generally follows transfer pricing guidelines but sets fixed margins for certain
situations, regardless of the specific situation of the taxpayer or peculiarities of the
industry.

F. WITHHOLDING TAX
Almost all remittances (except dividends) to companies or persons domiciled abroad
are subject to income tax at source. The remittance of capital gains or returns of
capital is not subject to withholding tax. The overall withholding tax rate is 15% (25% in
special situations).

All personal income in general is subject to withholding tax at progressive rates from
15% to 27.5%. Payments are made monthly and a personal income tax return is
filed annually. Capital gains that do not arise from financial investments are subject to
income tax at 15%.

G. EXCHANGE CONTROLS
The Central Bank allows the official exchange rate to float freely within periodically
established bands but participation is restricted to authorised dealers. The bank
intervenes when there are signs of speculative operations. There is an official tourist rate that ranges normally close to the commercial rate.

H. PERSONAL TAX

Brazilian resident individuals are taxable on their worldwide earnings, as well as gains on the disposal of worldwide assets and rights. An individual is resident in Brazil if he or she:

- has a habitual residence in Brazil
- works for a Brazilian government department or agency outside Brazil
- enters Brazil under a permanent visa
- enters Brazil under a temporary visa to work and remains in Brazil for more than 184 days within a 12-month period.

I. TREATY AND NON-TREATY WITHHOLDING RATES

The overall rate of withholding tax at source used in the remittance of interest and royalties is 15%, except for Japan with a rate of 12.5%. There is no tax on the remittance of dividends. Any remittances to tax haven countries (blacklist) are subject to withholding tax at the rate of 25%.

Brazil has signed treaties to avoid double taxation with several countries including:

- Argentina
- Austria
- Belgium
- Canada
- Chile
- People’s Republic of China
- Czech Republic
- Denmark
- Ecuador
- Finland
- France
- Hungary
- India
- Italy
- Israel
- Japan
- Korea
- Luxembourg
- Mexico
- Netherlands
- Norway
- Peru
- Philippines
- Portugal
- Slovakia
- Spain
- Sweden
- South Africa
- Ukraine

In calendar year 2010, the Brazilian Federal Revenue stated the new blacklist forced by Normative Instruction SRF No. 1,037/10, which contains the long-awaited “tax blacklist” of (1) “low tax jurisdictions” and (2) “tax privileged regimes”.

Non-resident entities that are incorporated in a jurisdiction that qualifies as either a “low tax jurisdiction” or a “tax privileged jurisdiction” are generally subject to unfriendly Brazilian tax rules. The most punitive Brazilian tax rules, however, generally apply only to non-resident entities located in “low tax jurisdictions”.

Prior to June 2008, the Brazilian tax authorities had only considered the concept of the “low tax jurisdiction” which was generally defined as a jurisdiction that taxed its residents at a tax rate of less than 20%. Non-resident entities formed in “low tax jurisdictions” were subject to additional taxes when doing business with Brazilian companies. For example:

- the increase in withholding tax from 15% to 25% on interest, royalties, and charter payments
- the increase in withholding tax from 15% to 25% on capital gains (non-publicly traded companies)
- enhanced transfer pricing scrutiny (including scrutiny of transactions with unrelated parties).

The new normative instruction revealed to practitioners that the Brazilian Federal revenue (IRS) would start to look beyond a “country-by-country” blacklist.

Tax privilege regimes states, by law, include:

I  Holding Company set up under Luxembourg law
II  SAFIS constituted under Uruguay law until December 2010
III  Holding Company set up under Denmark law that has no substantive economic activities
IV  Holding company set up under law applicable to corporate in United Kingdom with no substantive economic activities
V  International Trading Company – ITC set up under law of Iceland
VI  Offshore KFT Company set up under law applicable to corporate in Hungary
VII  United States Limited Liability Company (US LLC) as a “tax privileged regime" when the membership of the US LLC “is composed of non-residents, not subject to federal income taxation.” The US LLC was not listed as a "low tax entity." The United States “corporation” avoided both blacklists.
VIII  E.T.V.Es – “Entidad de Tenencia de Valores Extranjeros” company set up under Law applicable to corporate in Spain
IX  United States Limited Liability Company (US LLC) as a “tax privileged regime” when the membership of the US LLC “is composed of non-residents, not subject to federal income taxation.” The US LLC was not listed as a "low tax entity." The United States “corporation” avoided both blacklists.

Aside from shifting transfer pricing issues into the new category of “tax privileged regimes,” all of the other limitations and additional taxes that historically applied to entities formed in “low tax jurisdictions” remained the same.
After the new concept of the “tax privileged regime” was created in calendar year 2008, the concept was expanded in late 2009 to place tougher Brazilian “thin capitalisation” restrictions on parent companies lending money to their Brazilian subsidiaries.

In summary, tax impacts forced by the new blacklist represents two main limitations that now apply to entities that are formed under “tax privileged regimes”:

- Increased transfer pricing scrutiny; and
- Stricter thin capitalisation standards.

Brazil is not a member of the Organization for Economic Co-Operation and Development (OECD), Latin American Integration Association (LAIA) and is a signatory to the World Trade Organization (WTO), formerly the General Agreement on Tariffs and Trade (GATT). Until now, membership in LAIA has not affected the size of the market available to local industry and the foreign investor.

Brazil, Argentina, Paraguay and Uruguay are the signatory members of Mercosur (South Cone Market), which was officially ratified on 1 January 1995 after a phasing-in period. Under the treaty agreement, most tariffs have been reduced to zero. Movement of labour, goods and services is unrestricted, capital investment encouraged, macroeconomic policies co-ordinated, and foreign trade policies and rates for non-member countries harmonised.