

BRAZIL

Prepared as of _____, 199_

The information on the taxing regime of the above country is intended to be accurate and current. Before relying on the information, however, please contact the above firm which prepared and is responsible for revising the information to verify its accuracy

LEX MUNDI DESKBOOK - BRAZIL

INTRODUCTION

The Brazilian tax system is primarily governed by the Federal Constitution of 1988 and by the National Tax Code (Law nr. 5172) which was issued in 1966. This basic legislation contains all general provisions, definitions, competences, procedures and limitations concerning to tax administration and assessment. The National Tax Code is of general application and must be observed by all tax authorities within the country – federal, state and municipal.

Federal Constitution determines the taxes which each member of the Federation has the competence to impose and, also, set forth which are the main principles of taxation to be followed by the legislators.

The federal taxes are detailed by Federal Constitution on articles 153 and 154, and the main ones are listed below:

- (i) Import tax
 - (ii) Export tax
 - (iii) Income tax
 - (iv) Tax on manufactured products
 - (v) Financial transactions tax
 - (vi) rural and land tax
 - (vii) Provisional tax on banking transactions
 - (viii) Government fund for "Programa de Integração Social (PIS)"
- (ix) Social contribution on business entities' profits
 - (x) Social contribution for social welfare (COFINS)

(xi)Contribution over the Business entities' payrolls

State and Federal District taxes determined in article 155 of the Federal Constitution are the following:

- (i)Value-added sales and transportation tax (ICMS)
- (ii)Inheritance and donations transfer tax
- (iii)Vehicles ownership tax

Finally we have the Municipal taxes which are determined by article 156 of Federal Constitution and are the following:

- (i)Tax on sales of oil and gas, except diesel
- (ii)Service tax
- (iii)Real estate tax
- (iv)Property transfer tax

Each member of the Federation has a Tax Code, however as set forth above, they ought to observe the legal provisions of the Federal Constitution and National Tax Code.

There are several laws concerning to income tax. Actually, such rules were consolidated by Decree nr. 1041/94, which consists the "Regulamento do Imposto de Renda" that is applicable to individuals and business entities.

Moreover, Law nr. 6404/76 (Corporate Law) contains the major rules concerning to business entities accountancy.

Tax administration structure has its general provisions ruled by the National Tax Code and the administrative procedures concerning to Federal Tax Administration are regulated by Decree nr. 70.235, issued in 1972.

The main authority of Federal Tax Administration is the Ministry of Economy, subordinated to this Ministry is the Revenue Secretariat, with deputies in all Fiscal Regions which, as a general rule, corresponds to each State of the Federation.

Although the main tax administration rules are set forth by Federal Tax Code, the States and municipalities have competence to determine their own rules concerning claims procedures relative to the taxes of their competence.

INCOME TAXES AS APPLIED TO BUSINESS ENTITIES AND INDIVIDUALS

Corporations

Corporate taxation is based on accounting net profits, adjusted by additions and exclusions, authorized by fiscal rules. Such shall be calculated whether on an annual or on a monthly basis.

However, the settling of net profits on an annual basis does not exempt to pay the income tax monthly.

Corporations that settle the net profit on a monthly basis pay the income tax accordingly to that basis. On the other hand, corporations which settle their net profit on an annual basis pay income tax monthly, on an estimated basis. Corporate income tax is levied at the rate of 25% on each month's taxable profit (real net profit). An additional income tax of 10% is levied on the portion of real or determined profit exceeding 25,000 UFIR (i.e. fiscal reference unit, a fiscal index the value of which is disclosed daily by the government). A rate of 15% is levied on financial institutions.

On April 5th one UFIR corresponded to CR\$534,00, which is approximately US\$0,6.

In order to calculate income tax of corporations that settle their net profit on an annual basis, an income tax rate of 25% is levied on a tax basis determined by the utilization of different coefficients over the gross revenues plus capital gains not subject solely to withholding tax.

The coefficients of net profit presumption over the gross revenue to obtain the taxable estimated profit are the following:

- (i) 3% over oil and gas sales
- (ii) 8% over services rendered in general, except cargo transportation
- (iii) 20% over services rendered by professionals exercising an activity legally recognized
- (iv) 20% over the revenues of real estate business intermediation, real estate administration services and rental or administration of movable property
- (v) 3,5% over hospital services
- (vi) 6% over financial institutions and insurance companies
- (vii) 3,5% over the revenue of other activities

Corporations shall also opt to pay the income tax over the "presumed net profit" which is a much simpler taxation method.

However, shall only exercise such option corporations which have a total gross revenue (operational and non-operational), added with other profits and capital gains, less or equivalent to an amount of 9,600,000 UFIR during the fiscal year (1st January to 31st December), and which are not legally obliged to taxation over net profit.

Income tax over the "presumed net profit" shall be paid at a 25% rate levied over the following coefficients of the monthly gross revenue:

- (i) 3% over oil and gas sales
- (ii) 8% over services rendered in general, except cargo transportation and the other services listed below
- (iii) 20% over services rendered by professionals exercising an activity legally recognized
- (iv) 20% over the revenues of real estate administration services and rental or administration of movable property
- (v) 3,5% over hospital services
- (vi) 3,5% over the revenues from other activities

Such taxation method is not applicable to corporations on the below listed situations:

- (i) total gross revenue (operational and non-operational) of more than 9,600,000 UFIR on the precedent fiscal year
- (ii) open capital corporations
- (iii) financial institutions and insurance companies
- (iv) corporations that practice purchase and sale of real estate, real estate development, real estate incorporation and building
- (v) partner or shareholder resident and domiciled abroad
- (vi) parent corporation
- (vii) participation, direct or indirect, of federal, state or municipal legal entities
- (viii) branches, agencies or representatives, in the country, of foreign corporations
- (ix) under the "exploitation profit" benefit
- (x) incorporated, merged or splitted (only during the period of the event results)

I. What Tax Returns Must Be Filed

A. The Filing Dates

Tax returns ought to be filed every year, at least on the last working day of April and shall comprehend all the precedent fiscal year results.

B. Where and With Whom to File

All corporations shall file tax returns with the Revenue Secretariat, this can be done at any bank branch all over the country, under their fiscal jurisdiction.

C. When Taxes Must be Paid

The income tax of corporations must be paid for one month on the 1st day of the following month. The amount to be paid shall be converted to the UFIR of the day before the payment.

II. Calculation of Income Tax

A. How is Taxable Base Determined

1. What revenues are included?

The taxable base of income tax to corporations is the net profit reported on the balance sheet ("real net profit"), either annual or monthly, adjusted by additions and exclusions authorized by the fiscal rules.

2. What deductions are allowed?

As a general rule the deductible expenses are the ones that shall be considered necessary to obtain and keep the revenue source of the enterprise. Such ought to be proved by invoices and fiscal authorities have the right to determine whether such expenses are normal and reasonable or not.

The main expenses allowed to be deducted are the following:

- (i) business expenses
 - (ii) depreciation
 - (iii) depletion
 - (iv) interest
 - (v) royalties
 - (vi) employee remuneration
 - (vii) insurance premiums

(viii) inter-company charges

(ix) losses

(x) amortization

3. What, if anything, is included concerning national investment abroad?

profits obtained by branches or subsidiaries of Brazilian business entities abroad are not subject to taxation in Brazil, according to the principle of territoriality.

Neither an taxable profits or dividends distributed by much branches or subsidiaries, nor capital gains obtained in the liquidation of the investment.

As an exception to the territorial principle positive results obtained on hedge transactions made by Brazilian investors in foreign stock exchanges are considered when determining the net profit subject to income tax. However, deduction of negative results is allowed.

B. What Are The Applicable Rates?

1. Federal

Corporate income tax is levied at a rate of 25% on each month's taxable profit. An additional of 10% is levied on the portion of real or determined profit exceeding 25,00 UFIR monthly. A rate of 15% is levied on financial institutions.

2. State

Article 155, II of Federal Constitution has determined that States shall impose an additional tax, at a maximum rate of 5% over any income tax payment relative to profits, capital gains and capital revenues made to the Federal Union.

However, such tax is not yet applicable, since it depends on a Complementary Law to establish general provisions to be issued by National Congress.

3. Capital Gains

The taxable base of capital gains consists the positive difference between the price obtained on the sale of the asset and its purchase cost.

There is no specific rat for reprice gains obtained by corporations, which are included in the new profits.

C. How are Losses Handled?

Tax losses may be offset against taxable income at any time. Since January 1992 the losses may be offset against taxable income for the four subsequent years.

Capital gains and losses on business related assets are treated as ordinary business income and are subject to corporate income tax at normal rates.

D. Any Special Transfer Pricing Rules?

Decree-law nr. 1598/77 has determined seven (7) events that are presumed to be a disguised profit distribution. The amount distributed will be considered as a part of the net profit subject to income tax plus the applicable fine.

The events considered as disguised profit distribution are the following:

(i) transfer of assets to a connected legal entity or individual with a price lower than market value

(ii) acquisition of assets from a connected legal entity or individual with a price highly superior from the market value

(iii) loss of earnest money, guarantee deposit or amount paid to obtain acquisition option of an asset as a consequence of non exercising the acquisition right in benefit to connected individual or legal entity

(iv) transfer to a connected individual or legal entity of company's shares subscription rights

(v) Loan to connected individual or legal entity if on the loan's date have accumulated profits or profit reserves

(vi) payment to connected individual or legal entity royalties, rent, technical assistance equivalent to an amount highly superior from market value

(vii) deals in facilitation with connected individual or entity

Are considered as being connected individual for that purpose: partners, managers, partner's spouse and relatives until the 3rd grade.

E. Consolidated Returns for Affiliated Corporations

Corporation law requires that public corporations whose investments in

controlled companies exceed 30% of the investors' net worth are obliged to present consolidated financial statements. Groups of companies (as defined in the legislation) are also required to present consolidated financial statements; each corporation within the group must nevertheless publish its own financial statements.

Despite the need of consolidated returns each company that takes part of the group are taxed individually.

The controlling shareholder's interest in the net worth and net income of the period must be stated separately in the consolidated balance sheet and income statement, respectively.

The excess of the cost of shares in a controlled or associated company over their proportionate underlying book equity value must be classified as a permanent asset. Such excess represents goodwill that must be explained in a note to the financial statements. Should the underlying equity value of an acquired investment exceed its cost, the difference must be classified separately as part of deferred income until a gain is realized.

As stated above, the law requires that financial statements included in consolidations should be prepared on the basis of uniform accounting principles and as of similar dates. Where there is more than a sixty (60) day differential between the balance sheet dates, a special closing must be made for consolidation purposes.

III. Territorial Rules

A. What is the Corporation's Residence?

Brazilian tax law is based on the territoriality principle.

A corporation shall be considered as a resident in Brazil if its headquarters are located in the country.

B. Is Worldwide Income Taxed?

The taxable income is only the one arising from sources located in Brazil.

However, if a non-resident legal entity has any revenue in Brazil, such shall be subject to a withholding tax, depending on the nature of the income.

C. How is Branch Income Handled?

The taxable income of a branch is subject to Brazil normal corporate tax. Additionally, net annual income is subject to a 15% non-resident's withholding tax within two (2) weeks of the balance sheet date, since their profits are considered automatically distributed to the parent corporation when incurred.

D. How are Foreign Controlled Corporations Handled?

Foreign controlled corporations are subject to the same taxation system applicable to national corporations.

E. Tax Credits

1. Are there tax credits relating to legal dispositions other than provisions in Double Taxation Treaties, on the possibility of deducting taxes paid abroad or any others?

There are no tax credits, concerning to business entities, relating to legal dispositions other than Double Taxation Treaties provisions, since Brazil adopts the territoriality principle. Such principle, as set forth above, determines that the taxable revenues are only the ones produced in Brazilian territory.

However, concerning to individuals income tax law has adopted the principle of the worldwide income.

In order to reduce the taxation there are legal dispositions granting an ordinary tax credit to individuals who paid income tax abroad.

That ordinary tax credit is only applicable if the country where the revenues were produced has a Double Taxation Treaty signed with Brazil or gives a reciprocity treatment to revenues produced in Brazil.

IV. Withholding Taxes

- | | | | |
|----|--------------------|---|-----|
| A. | Rates on dividends | → | 15% |
| B. | Rates on royalties | → | 25% |
| C. | Rates on interest | → | 25% |

D. Rates of withholding tax on profits realized by a foreign corporation.

Profits realized by a foreign corporation are subject to a 15% withholding tax.

PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

I. What Tax Returns Must Be Filed?

A. Filing dates

Each year, at least on the last working day of April.

B. When and with whom to file

Tax returns are filed with the Revenue Secretariat and shall be delivered at any bank branch all over the country, under their fiscal jurisdiction.

C. If Taxes are Levied Against the Entity, When Must Be Paid?

Limited liability companies' profits are assessed for income tax purposes in the same manner as for corporations. Taxation of both is determined on a monthly basis and income tax for one month must be paid on the last day of the following month.

II. Calculation of Income Tax for Income Tax Purposes

Income tax is levied on partnerships and limited liability companies at a rate of 25% on each month's taxable profits. A 10% income tax supplement is levied on the portion of real or determined profit exceeding 25,000 UFIR.

A. If the entity is taxable, identify the basis of the taxation

Taxation is based on accounting net profits, which must be adjusted to calculate monthly taxable net profit, in the same way as for corporations.

OTHER ENTITIES

I. Associations

A. What Tax Returns Must Be Filed?

1. Filing dates

Each year, at least on the last working day of April.

2. Where and with whom to file

Tax returns are filed with the Revenue Secretariat and shall be delivered at any bank branch all over the country, under their fiscal jurisdiction.

3.If taxes are levied against the entity, when must they be paid?

Associations are assessed for income tax purposes in the same rules as for corporations.

B. Calculation of Income for Income Tax Purposes

1.If the entity is taxable, identify the basis of the taxation

Taxation is based on accounting net profits, which must be

adjusted to calculate monthly taxable net profit.

2. Identify how the income is allocated to the partner

Civil associations of legalized professions of which the associates are individuals domiciled in Brazil are permitted to opt to have its profits taxed separately on the associates' shares of the association income.

If the association has exercised such option, profits distributed to the associates are taxed on the following basis:

TAX BASE (UFIR)	RATE (%)	DEDUCTION (UFIR)
Up to 1,000	exempt	-----
From 1,000 to 1,950	15,0	1,000
From 1,950 to 18,000	26,6	1,415
More than 18,000	35,0	5,395

Furthermore, over the association's monthly revenues, shall include a withholding tax of 3% that should be compensated with the withholding tax over profit distribution.

II. Joint Ventures

The concept of an incorporated joint venture as a separate legal entity (as opposed to a jointly held corporate entity) does not exist in Brazil. Accordingly, the parties to a nonincorporated joint venture or consortium (*sociedade em conta de participação*) are taxed individually, based on their tax status and their share of taxable income.

However, profit distributions are submitted to a taxation rate of 15%.

INDIVIDUALS

I. What Tax Returns Must Be Filed?

A. The Filing Dates

Individuals must file their tax return at least at the last working day of April of each year.

B. Where and With Whom to File?

Tax returns are filed with the Revenue Secretariat and can be handed on every bank branches all over the country, under their fiscal jurisdiction.

C. When Must Taxes Be Paid?

After filing tax returns, individuals receive, from the Revenue Secretariat, a notice determining whether the amount declared to be paid is correct and if the individual is due to receive a restitution.

The payment, depending on the amount, shall be made in no more than six (6) installments, that shall be requested after filing the tax return.

After receiving the notice, the individual shall pay the income tax at the last working day of the subsequent month.

II. Calculation of Income Tax

A. How Is The Taxable Basis Determined?

1. What is the revenue included

Taxable revenue is the gross amount received by the individual less the deductions allowed.

2. What are the deductions allowed?

(i) Social Security contribution

(ii) 40 UFIR per month for each dependent under 21 years old (or 24 if he or she is in the University)

(iii) Alimony in compliance with a court decision

(iv) medical care and dental expenses

(v) educational expenses at an individual annual limit of 650 UFIR

(vi) donations and contributions to charitable, educational, cultural and scientific research institutions at a maximum limit of 10% of the income tax base

Individuals who received revenues from other individuals or of sources located abroad are subject to an income tax monthly payment, according to the table below.

TAX BASIS (UFIR)	RATE (%)	DEDUCTION (UFIR)
Up to 1,000	exempt	-----
From 1,000 to 1,950	15,0	150,00

From 1,950 to 18,000	26,6	376,39
More than 18,000	35,0	1,888,25

Such income tax shall be declared as paid on the annual return.

Deductions will provide the taxable income. The amount to be paid will be determined by means of the table below.

TAX BASIS (UFIR)	RATE (5)	DEDUCTION (UFIR)
Up to 12,000	exempt	-----
From 12,000 to 23,400	15,0	12,000
From 23,400 to 216,000	26,6	16,980
More than 216,000	35,0	64,740

Afterwards it shall be deducted:

- (i) 80% of the amount of donations made to improve cultural activities
- (ii) 60% of the amount to sponsor cultural activities
- (iii) the income tax subject to withholding
- (iv) income tax paid abroad

3. What exemptions allowed?

The following revenues are not subject to taxation since they do not take part of the gross revenue.

- (i) extra allowances
- (ii) transfer of assets or rights with a value of less than 10,000 UFIRs on the month of the transaction
- (iii) food, transport and uniforms granted by the employer
- (iv) private Social Security benefits
- (v) student grants
- (vi) pensions received by mentally disabled

- (vii) private Social Security contributions
- (viii) saving accounts
- (ix) free cession of real estate
- (x) contributions to the savings and investment plan
- (xi) employer's contribution to the private Social Security
- (xii) "per diem" received by employees
 - (xiii) dividends received from quotas of the National Fund of Development
- (xiv) donations and inheritances
 - (xv) investment funds in quotas from Financial Application Funds (FIQFAF)
- (xvi) indemnity for employment-related accidents
 - (xvii) indemnity for employment contract rescision
- (xviii) indemnity for dispossession related to agrarian reform
- (xix) indemnity related to insurance
- (xx) interest from mortgage notes
- (xxi) profits distributed by companies
- (xxii) savings received by retirees from the Social Security
- (xxiii) pensions paid to individuals with occupational diseases
 - (xxiv) deposits concerning to the Programme of Social Integration (PIS) and to the Programme of Public Employee Patrimony Formation (PASEP)
 - (xxv) pensions to individuals with more than 65 years on a maximum limit of 1,000 UFIR
- (xxvi) monetary fluctuation
- (xxvii) unemployment insurance
- (xxviii) family wage

(xxix) accounts received from savings and investment plan

B. What Are The Applicable Rates?

1. Federal

TAX BASIS (UFIR)	RATE (%)
Up to 12,000	exempt
From 12,000 to 23,400	15,0
From 23,400 to 216,000	26,6
More than 216,000	35,0

C. How Are Losses Handled?

1. Operating/capital

Individuals are, as a general rule, not allowed to handle losses.

However, when the individual is exercising a rural activity, considered as cattle breeding, agriculture, vegetal and/or animal extraction, and any other animal cultures, he/she is allowed to recognize losses on these activities and offset them against taxable income for the next periods.

III. Territorial Rules

A. Where is the individual subject to tax?

B. Is the individual subject to tax on his world income?

The basic principle of taxation of individuals in Brazil is that residents are taxed on their worldwide income and non-residents only on income derived from Brazilian sources.

Domicile is considered as being the place where the individual has a permanent residence.

C. Expatriates

Revenues received by foreigner residents in Brazil, with a fiscal domicile abroad, are subject to a monthly taxation at the rate of 25%.

IV. Withholding Taxes

A. Is salary subject to withholding tax at source, what is the treatment of residents as compared to non-residents?

Salary is subject to withholding tax as follows:

TAX BASIS (UFIR)	RATE (%)	DEDUCTION (UFIR)
Up to 1,000	exempt	-----
From 1,000 to 1,950	15.0	150,00
From 1,950 to 18,000	26.6	376,39
More than 18,000	35.0	1,888,25

Revenues and capital gains received by individuals residents or domiciled abroad, from sources located in Brazil, are subject to a withholding tax at a rate of 25% on the gross income.

If such revenues are received from sources located abroad, it must be observed Double Taxation Treaties provisions or local legislation that allows reciprocity on fiscal treatment to revenues and taxes on both countries.

In the absence of a Double Taxation Treaty or of specific definition, it shall be observed if in the country where the revenues are granted there is any local legal provision that permits fiscal treatment reciprocity.

In such case income tax over revenue paid at the origin country shall be offset in Brazil.

If an individual is domiciled in Brazil and in other country, he/she shall observe the tax laws from Brazil and Double Taxation Treaties, if existent, to define which country he/she will be treated as resident.

Non-residents, as said before, are submitted to withholding income tax on their revenues coming from Brazil.

However, such taxation will depend on their residence condition. Revenues from Brazilian sources received by foreigner holders of a permanent visa are taxed as if received by residents, since their entrance in Brazil.

Concerning revenues received by foreigner holders of a temporary visa:

(i) are subject to a withholding tax of 25% during the first twelve (12) months of stay in Brazil or until the date the temporary visa is converted to permanent, if such is done before the twelfth (12th) month.

Concerning revenues arising from foreign sources:

(i) such are not subject to taxation in Brazil during the twelve (12) months of stay in Brazil or until the date temporary visa is converted on a permanent, if that is done before the twelfth (12th) month'

(ii) from the thirteenth (13th) month of stay in Brazil on, or until the date of obtaining the permanent visa, if such is done before the twelfth (12th) month, revenues are subject to taxation on the same basis as the ones received by nationals, according to the rules established by Double Taxation Treaties signed by Brazil and the country of the revenues origin.

ALL OTHER TAXES, CONTRIBUTIONS OR TRANSFER REGIMES DIFFERENT FROM INHERITANCE AND GIFT TAXES AND LEVIES

I. Taxes

A. Value Added Tax

Value added taxes are the most significant sources of income in Brazil.

1. Sales Tax

ICMS - Imposto sobre Circulação de Mercadorias e Serviços

Such tax consists of a state and Federal District tax payable on an added-value basis on all physical movement of merchandise (calculated on all steps of industrialization and commercialization, imports are also included) and also over commercialization and transportation services rendered between states and municipalities.

The rate is normally of 16% to 17% for intrastate transactions. Rates are reduced on interstate transactions.

The total sales tax assessed must be shown separately in the delivery note ("nota fiscal"), but it is considered as an integral part of the sales transfer value of each item listed on it.

ICMS is calculated over the price of the merchandise or service, and must be paid fifteen (15) days after the sale or after the date of rendering the service subject to such tax.

Sales tax on imports are generally levied to a rate of 16% to 18%.

2. Tax on manufactured products

IPI - imposto sobre Produtos Industrializados

IPI is known as tax on manufactured products and is a federal tax payable, with a few exceptions including some exports on all goods or products imported into or produced, in Brazil. All related law and regulation were consolidated in Decree nr. 87.981 of December 1982.

IPI rates are variable and shall be modified by the Executive during the fiscal year. It represents on a certain way 10% of the price of the transaction and it shall be paid fifteen (15) days after occurring the taxable event.

3. Tax on services

ISS - Imposto sobre Serviços

All forms of services rendered are subject to a service tax (ISS) of 2% to 5%, except when the service forms part of a transaction connected with the delivery of goods subject to ICMS or IPI. Lower rates are collected by some municipalities and a 10% tax is levied on specified entertainment activities. In the case of certain professional firms or individuals, the above rates are substituted by an annual contribution based on the number of practicing professionals.

The tax base of ISS is the price of the services rendered and it is calculated on a monthly basis.

B. Real Estate Tax (IPTU)

Real Estate Tax (*Imposto sobre a Propriedade Territorial Urbana*) is payable annually based on the value of the property as assessed for this purpose at rates that vary according to the municipality and location of the property. It is payable to the municipality where the property is located.

C. Financial Transactions Tax (IOF)

IOF is a Federal tax and has as tax base credit, exchange, securities and insurance transactions. Rates may be levied up to 25%, but in general have been levied up to of 3%.

Such rates can be modified by the Executive as set forth above in IPI.

Transaction with gold as a financial asset is considered as a credit transaction and also subject to the IOF payment.

D. Provisional Tax on Banking Transactions (IPMF)

This tax levies any and all financial operations at 0,25% rate.

In the case of issuance of cheques, the payment of the tax shall be made by the final beneficiary. The discount at the bank shall be made automatically and returned to the Public Treasury within five (5) working days.

However, transfers between current amounts of the same holder, even in different banking Companies shall be exempted from the tax, as well as transactions in the commodity exchange. All the cheques issued within the country shall have only one endorsement.

It is important to highlight that the intermediate financial operations by banks and any financial institutions are not liable to the payment of this tax.

Such tax is provisional, levying only on the tax points to occur before December 31, 1994.

E. Social Contributions

In order to finance the Social Security, Federal Union collects the following "social contributions".

1. Contributions to the programme of Social Integration (PIS)

Companies are required to contribute to this program, which was started in 1971 to grant financial assistance to employees through the creation of a fund that can be used on the occasion of marriage, retirement, incapacity, or home purchase, to an extent dependent upon the employee's salary level and length of service. Income from the fund attributable to each employee may be withdrawn annually. The fund is financed by employer contributions based on the gross operational revenue at a rate of 0,65% (Decree law nrs. 2445 and 2449/88).

However such Decrees were recently considered by Supreme Court unconstitutional. According to such decision PIS shall be payable accordingly to complementary law nr. 7/70 which determines that business entities practicing the render of services are due to that tax levied over 5% of income tax payable and all others business entities must pay the equivalent to 0,75% of the invoicing. That Supreme Court decision is enforceable on a case by case basis.

2. Social Contribution Over Profits (CS)

Such contribution levies over the net profit of legal entities at a rate of 10%. Over financial institution profits this contribution is levied at a rate of 23%.

3. Financial Contribution Over Invoicing (COFINS)

COFINS incides, monthly, over legal entities invoicing, considered as the gross revenue of sales and service, at a rate of 2%.

Financial institutions and some professional firms, such as accountants, lawyers, etc. are exempt from COFINS.

4.Social Contribution Over The Payroll (INSS)

Individuals who receive salaries are subject to a compulsory contribution to Social Security which varies between 7,77% to 9,77%, depending on their salaries. After discounting such it is calculated the income tax subject to withholding.

Legal entities ought to retain that tax at the source and transfer to INSS.

Independent contractors shall pay a tax of 20% over their revenues, while working by themselves.

Legal entities pay such contribution at the rate of 20% when hiring independent contractors, levying over the payment made.

F. Assets Transfer Tax

There are two different transfer taxes in Brazil: one under Municipalities, Federal District and States non-divided in municipalities competence which levies over the transmission "*inter vivos*" of real estate (ITBI); the other is under States divided in municipalities and Federal District competence and levies over "*mortis cause*" transmission and donations of property.

It is important to highlight that the transfer of real estate to a legal entity as capital subscription or as a consequence of merger or split is exempt from taxation, only if the legal entity has as object clause real estate transactions in that case such tax will levy.

There are a great variety of rates, depending on the state and the municipality. The tax levies over the value of the transfer.

"*Mortis cause*" and donations rates are limited to 4% and "*inter vivos*" maximum rate is of 2%.

G. Social Charges

FGTS - Fundo de Garantia por Tempo de Serviço

Such consists in a fund to which all employers shall contribute at a rate of 8% over salaries. Such contributions are made at the employees benefit that can receive

the amount deposited in occasion of an imotivated dismissal.

H. Export Tax

A limited number of exports, mostly agricultural and mineral products are subject to this Federal Tax which is applied more as an economic regulator than as a revenue instrument.

Rates are levied from 0% to 6%. Leather, rubber and steel exports are subject to such tax, in compliance with international commerce treaties.

I. Import Tax

Import tax, which is a Federal Tax, has as tax base the price of the merchandise importation. Rates are quite variable and shall be changed by the Executive during the fiscal year.

Some imports are highly taxed, representing, sometimes, 85% of the imported merchandise value.

Moreover, since 1990 tax tariffs are being reduced in order to make national industry more competitive.

J. Rural Land Tax

Rural land tax is levied at the basic rate of 0,2%, this percentage can be reduced or increased, depending on the stage of utilization and exploration of the land. Small rural properties are exempt, provided they are cultivated by the owner or his family. Such is a Federal Tax.

K. Operating Licenses (*Alvará de Funcionamento*)

Operating licenses are issued by the Municipalities where the legal entity is going to operate and generally consists on a fixed tax.

L. Automobile Ownership Tax (IPVA)

IPVA is a State Tax. Rates are variable depending on the year of manufacturing of the vehicle.

N. Tx on Oil and Gas Sales (IVVC)

IVVC is a Municipal Tax and has as tax base the sales of liquid and gaseous combustibles, except diesel sales which are exempted.

The maximum rate is of 3%.

O. Fringe Benefits

Fringe benefits are not subject to a special tax. Such are considered as part of individual's revenues and are taxed by income tax on individuals. This taxation was determined by art. 784 of Law 8.383 from December 30, 1991.

- II. Registration Duties for Business Entities
 - A. Registration Duties Due Upon the Incorporation of a Company
 - B. Registration Duties Due Upon an Increase in Capital
 - C. Registration Duties Due Upon the Transfer of the Companies Shares
 - D. Registration Duties Due Upon a Transfer of Corporate Assets

There are no registration duties.

INHERITANCE AND GIFT TAXES

As set forth in item I above (all other taxes), such are under State competence and rates are variable.

Such taxes must be paid in the ct of the transfer and the taxable base is the market value of the asset transferred.

OTHER MATTERS

- I. Tax Incentives
 - A. Informatics and Automation

Tax incentives in informatics and automation activities are, as a general rule, only granted to business entities which the effective control is owned, directly or indirectly, by individuals resident and domiciled in Brazil. Effective control is considered as being the ownership of 51% minimum, of the corporation's voting share capital.

Business entities which are not under such conditions shall obtain informatics tax incentives, however they ought to file with CONIN (Nacional Council of Informatics and Automation) documents proving that the following aims are being developed.

- Program of capacitation of their technical body on the goods technology and production process.
- Research and development programs to be settled in Brazil.

- Progressive programs of informatics exportation.

The fiscal incentives are the following:

1. Deduction of expenses insured with researches and development at a maximum limit of 50% from the income tax payable. That incentive is granted until December 31, 1997.

2. Deduction of up to 1% from the income tax payable, under the condition that such value is directly invested in new shares form corporations of national capital (51% of the voting share capital owned directly or indirectly by individuals residents and domiciled in Brazil).

3. Special depreciation rates to informatics and automation machinery and equipment.

B. Artistic and Cultural Activities

Business entities, taxed, by income over real net profit, shall deduct from their income tax payable contributions made to cultural and artistic projects previously approved by PRONAC (National Program of Cultural Support).

Deduction shall not exceed:

- 40% of the amount donated
- 30% of the amount of sponsorship

C. Programs of Industrial, Agricultural and Cattling Technology Development

Agricultural and cattling activities are subject to special depreciation rates to machinery and equipment if some conditions are accomplished.

Business entities which contribute to the industrial development of the country, in accordance to the Technological and Industrial Program rules and authorized to use special depreciation and amortization rates and also to deduct up to the limit of 8% from the income tax payable, the amount equivalent to the result form application of the applicable income the rate over the sum of all expenses incurred with industrial technological development activities.

D. Cinematographic Activities

Business entities shall deduct from their operational profit as operational expenses the investments made on cinematographic activities, up to the fiscal year of 2007.

E. Regional Incentives

1. Northeast Region

For tax incentive purposes, this region comprises the states of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia, and the northern area of the state of Minas Gerais.

The investment incentive plan under the administration of the federal government agency SUDENE offers the following fiscal benefits to companies operating approved projects in the area:

(i) Exemption from all federal taxes and charges on imported equipment for new industries to be established in the region.

(ii) Exemption from income taxes for a period of 10 years for all new agricultural and industrial investments made in the region.

(iii) Reduction of 50% in income taxes for industries already operating in the region, until 1994 fiscal year.

(iv) Exemption from income taxes for a period of 10 years to business entities that developed projects of modernization, diversification and enlargement of their industrial and agricultural activities.

2. Amazon Region

This region comprises the states of Acre, Amazonas, Rondônia, Amapá and Roraima, and parts of the states of Mato Grosso do Norte, Goiás and Maranhão.

The federal government agency administering the development projects in the region is known as SUDAM, and the fiscal benefits available are the same as those described above for the Northeast region.

3. Manaus Free Trade Zone

The port of Manaus, capital of Amazonas state, is considered a free trade zone and all imports through this port are tax free, provided the goods are consumed within the zone or are exported abroad. Sales or transfer of these goods to other parts of Brazil result in payment of the previously exempt taxes. Sales from other parts of Brazil to the Manaus Free Trade Zone are also entitled to some tax benefits.

F. Tourism Activities

Enterprises with approved investment projects for the construction or development of hotels and related tourism activities, are also entitled to certain tax holidays or tax reductions, when they qualify under the investment programs

administered, by the federal government agency EMBRATUR.

G. Fiscal Incentive Investments

Entities subject to income tax at the standard corporate rate may choose to invest monies otherwise payable as income tax in government approved projects of their own, or in those of third parties, by way of the investment funds described below. Investments made on this basis are generally referred to as fiscal incentive investments. The funds are:

1. *Northeast Investment Fund (FINOR)* - Up to 40% of income tax due may instead be invested in projects considered by the responsible government authority (SUDENE) to further the economic development of the Northeast, including projects related to tourism, fishing, forestation, and reforestation.

2. *Amazon Investment Fund (FINAM)* - Up to 40% of income tax due may instead be invested in projects considered by the responsible government authority (SUDAM) to further the economic development of the Amazon region.

3. *Espirito Santo State Economic Recovery Fund* - Up to 33% of income tax due may be invested in Espirito Santo's state economic development plans. Only business entities domiciled in Espirito Santo state are due to such scheme.

II. Exchange Control Regimes

A. Limitations on Profit Remittances Abroad by Foreign Investments

Profit remittances abroad are limited to the percentage of registered foreign capital with which the foreign investors take part on the business entity in relation to the portions capitalized or distributed by such.

Are not subject to that limit the rights granted by open-companies or financial institutions stocks relative to public or private issue previously approved by the Stocks and Exchange Commission (CVM) or by the Central Bank of Brazil (BACEN).

B. Limitations to the Free Possession of Foreign Currency by Residents

The limitations concerning the free possession of foreign currency by residents comprehend only two aspects of this possession: the bank accounts in foreign currency, and the remittance or departure from the country with foreign currency.

All Brazilian bank accounts operate with national currency; the only situation when foreign currency shall be deposited in a Brazilian bank account is when this

account is held by a Brazilian citizen living abroad or by a foreign citizen temporarily in Brazil, who has the option of maintaining the capital in foreign currency, and even in this case, the holder of the account must deal only with national currency, which is done by through exchange transactions deposit or withdraw.

It is important to notice that only banks accredited by the Central Bank of Brazil to operate with exchange may present such accounts.

Remittances from Brazil shall be free from previous authorization until the limit of US\$4,000.00 to Brazilian citizens and foreigners shall declare the capital they bring with them to the country so that this money can be taken away from the country when they leave.

The international transfer of significant amounts of money are usually subject to prior authorization of governmental bodies, as the sender of the capital presents the proper justification for such transfer.

Agents of financial institutions and similars, for example and in the terms of the financial and exchange laws and their executing administrative deeds, are not allowed to freely take any amount of money abroad because as they operate the exchange, they deal with a resource of capital and currency under the control of the government; therefore, they are more strictly treated.

However, residents are allowed to buy foreign currency at any Bureau of Exchange without limitation. Limits will be imposed on the remittance.

For tourism purposes, travellers are allowed to buy, at the official exchange rate a limit of US\$8,000.00 or the equivalent in any other currency.

Finally, there are some remittances made by individuals which are not subject to Central Bank control. Such are listed below:

- (i) assets transfer up to US\$500,000.00
- (ii) inheritance US\$500,000.00
- (iii) pensions and retirement pensions up to a monthly limit of US \$6,000.00
- (iv) contribution to workers unions with headquarters abroad US \$20,000.00 (monthly)
- (v) pension funds contributions up to US\$2,000.00 (monthly)
- (vi) personnel expenses maintenance up to US\$4,000.00 (monthly)
- (vii) prizes gained on sport competitions and non-insured indemnities (no limit)

III. Are There Any Anti-Deferral Regimes

Since territoriality consists the basic taxation principle in Brazil anti-deferral regimes does not exist.

IV. Tax Treaties

Argentina

Decree #87.976, of 12-22-82 (DOU of 12-23-82)
Edict #22 of 01-25-83

Austria

Decree #78.107 of 07-22-76 (DOU of 07-23-76)
Edict #470 of 12-03-76

Belgium

Decree #72.542 of 07-30-73 (DOU of 08-02-73)
Edict #271 of 06-03-74

Canada

Decree #92.318 of 01-23-86 (DOU of 01-27-86)
Edict #199 of 05-13-86
Edict #55 of 01-25-88

China

Decree #85 (DCN of 11-25-92)

Czechoslovakia

Decree #43 of 02-25-91 (DOU of 02-26-91)

Denmark

Decree #75.106 of 12-20-74 (DOU of 12-26-74)
Edict #68 of 02-24-75

Ecuador

Decree #95.717 of 02-11-88 (DOU of 02-12-88)

Finland

Decree #73.496 of 01-17-74 (DOU of 01-21-74)
Decree #25 (DCN of 09-18-90)
Edict #223 of 05-07-74

France

Decree #70.506 of 05-12-72 (DOU of 05-16-72)
Edict #287 of 11-23-72
Edict #20 of 01-14-76

Germany

Decree #76.988 of 01-06-76 (DOU of 01-07-76)
Edict #43 of 02-04-76

Hungary

Decree #53 of 03-08-91 (DOU of 03-11-91)

India

Decree #510 pf 04-27-92 (DOU of 04-28-92)

Italy

Decree #85.985 of 05-06-81 (DOU of 05-08-81)
Edict #203 of 08-20-81
Edict #226 of 12-12-84

Japan

Decree #61.889 of 12-14-67 (DOU of 12-18-67)
Decree #81.194 of 01-09-78 (DOU of 01-11-78)
Edict #92 of 02-15-78

Luxembourg

Decree #85.450 -f 08-18-80 (DOU of 08-20-80)
Edict #413 of 12-23-80

The Netherlands

Decree #355 of 12-02-91 (DOU of 12-03-91)

Norway

Decree #86.710 of 12-09-81 (DOU of 10-12-81)
Edict #25 of 01-26-82
Edict #227 of 12-12-84

Philippines

Decree #241 of 10-25-91 (DOU of 10-28-91)

Portugal

Decree #69.393 of 10-21-71 (DOU of 10-26-71)
Edict #181 of 07-24-73

Spain

Decree #76.975 of 01-02-76 (DOU of 01-05-76)
Edict #45 of 02-04-76

South Korea

Decree #354 of 12-02-91 (DOU of 12-03-91)

Sweden

Decree #77.053 of 01-19-76 (DOU of 01-20-76)

Edict #44 of 02-04-76

Extended for 10 years from 01-01-86 (DOU of 01-03-86)

V. Tax Treaties

A. Tables

1.Dividends from foreign sources received by residents in Brazil

	Ordinary Tax Credit	Germany Belgium China Denmark Finland France Hungary Japan Luxembourg Norway The Netherlands Portugal Sweden Czechoslovakia
	Exemption	Spain
	Matching Credit of 25%	Italy South Korea Philippines
	Mixed Regimes	<ul style="list-style-type: none"> • Argentina minimum participation of 10%; exemption other cases: ordinary tax credit • Austria minimum participation of 25%; exemption other cases: ordinary tax credit • Ecuador minimum participation of 10%; exemption other cases: ordinary tax credit • India minimum participation of 10%; exemption other cases: ordinary tax credit

2.Dividends from a Brazilian Source Received by Residents in

Other Countries

Exemption	Argentina Czechoslovakia
Progressive Exemption	• Spain
Tax Credit	• China • Denmark • Portugal
Matching Credit of 25%	• South Korea • Philippines • Hungary • Norway
	<ul style="list-style-type: none"> • Germany minimum participation of 25% progressive exemption minimum participation of 10% (voting capital) matching credit of 25% other cases: matching credit of 20%; less 90% of operational activity; ordinary tax credit • Austria minimum participation of 25% other cases; matching credit of 25% • Belgium exemption requests accordingly with Belgium legislation: exemption other cases: deduction of 20% • Canada minimum participation of 10% profits from business activities: exemption minimum participation of 10%; in other cases: matching credit of 25% other cases: tax credit

	<ul style="list-style-type: none"> • Ecuador minimum participation of 10%; exemption other cases: matching credit of 25% • Finland minimum participation of 10%; exemption (with limits) other cases: matching credit of 20% • India minimum participation of 10%; exemption other cases: ordinary tax credit
	<ul style="list-style-type: none"> • Italy minimum participation of 10%; exemption other cases: matching credit of 25% • Japan minimum participation of 10%; matching credit of 25% other cases: ordinary tax credit • Luxembourg minimum participation of 25%; exemption other cases: matching credit of 25% • The Netherlands minimum participation of 10%; matching credit of 25% other cases: matching credit of 25% • Sweden in cases of exemption accordingly with Sweden legislation: exemption other cases: matching credit

3. Double Taxation Treaties Rates Concerning to Interest

General Interest	25%	<ul style="list-style-type: none"> • Norway • Sweden if beneficiary is an association or an individual
------------------	-----	--

	15%	<ul style="list-style-type: none"> • Germany • Austria • Belgium • Canada • South Korea • Denmark • Ecuador • Spain • Philippines • France • Hungary • India • Italy • Luxembourg • Norway (temporary) • Portugal • The Netherlands • Sweden (temporary) • Czechoslovakia
	12.5%	<ul style="list-style-type: none"> • Japan
Interest from long term banks financing to the purchase of equipments (10%)		<ul style="list-style-type: none"> • Germany • Belgium • Canada • South Korea • Spain • France • Hungary • Luxembourg • The Netherlands • Czechoslovakia

4. Interest from Brazilian Sources Received by Residents in Other Countries

Ordinary Tax Credit	<ul style="list-style-type: none"> • China • Portugal
---------------------	---

Matching Credit of 20%	<ul style="list-style-type: none"> • Germany • Canada • South Korea • Spain • France • Japan • Luxembourg • The Netherlands • Sweden
Matching Credit of 25%	<ul style="list-style-type: none"> • Austria • Denmark • Ecuador • Philippines • Finland • Hungary • India • Italy • Norway • Czechoslovakia
Deduction of 20%	<ul style="list-style-type: none"> • Belgium
Exemption	<ul style="list-style-type: none"> • Argentina

5. Interest from Foreign Sources Received by Residents in Brazil

Ordinary Tax Credit	<ul style="list-style-type: none"> • Germany • Argentina • Austria • Belgium • Canada • China • Denmark • Finland • France • Hungary • Italy • Japan • Luxembourg • Norway • Portugal • The Netherlands • Sweden • Czechoslovakia
---------------------	---

Matching Credit of 20%	<ul style="list-style-type: none"> • South Korea • Spain
Matching Credit of 25%	<ul style="list-style-type: none"> • Ecuador • Philippines • India

6. Royalties Rates

	Copyrights	Films	Trade Marks	Others	Paid to Controllers
Germany	15	15	25	15	15
Argentina	*	*	*	*	*
Austria	10	25	25	15	15
Belgium	10	25	25	15	15
Canada	15	15	25	15	25
China	15	15	25	15	15
South Korea	15	15	25	15	15
Denmark	15	15	25	15	25
Ecuador	15	15	25	15	15
Spain	10	10	15	15	15
Philippines	15	25	25	15	15
Finland	10	10	25	15	15
France	10	10	25	15	15
Hungary	15	15	25	15	15
India	15	15	25	15	15
Italy	15	15	25	15	15
Japan	15	15	25	12.5	12.5
Luxembourg	15	25	25	15	15
Norway	15	25	25	15	15
Portugal	10	10	15	15	15

Netherlands	15	15	25	15	15
Sweden	15	15	25	15	15
Czechoslovakia	15	15	25	15	15

7. Royalties from a Brazilian Source Received by Residents in Other Countries

Ordinary Tax Credit	<ul style="list-style-type: none"> •China •Portugal
Matching Credit of 20%	<ul style="list-style-type: none"> •Germany •Canada •South Korea •France •Japan •The Netherlands
Matching Credit of 25%	<ul style="list-style-type: none"> •Germany •Austria •Alemanhu •Ecuador •Spain •Philippines •Finland •Hungary •India •Italy •Luxembourg •Norway •The Netherlands •Sweden •Czechoslovakia
Deduction of 20%	<ul style="list-style-type: none"> •Belgium
Exemption	<ul style="list-style-type: none"> •Austria •Argentina
Regime to royalties paid to a business entity that owns 50% of the share capital minimum, since such royalties are not deductible	

8. Royalties from a Foreign Source Received by Residents in Brazil

Tax Credit	<ul style="list-style-type: none"> •Germany •Argentina •Austria •Belgium •Canada •China •Denmark •Finland •France •Hungary •Italy •Luxembourg •Norway •Portugal •The Netherlands •Sweden •Czechoslovakia
Matching Credit of 20%	<ul style="list-style-type: none"> •South Korea
Matching Credit of 25%	<ul style="list-style-type: none"> •Ecuador •Spain •Philippines •India

9. Tax Credits

Applicable regime to revenues in general (except interest, dividends and royalties)	Full Exception	<ul style="list-style-type: none"> •Argentina •The Netherlands •Czechoslovakia
	Progressive Exemption	<ul style="list-style-type: none"> •Germany •Austria •Belgium •France •Hungary •Luxembourg •Norway

<p style="text-align: center;">Ordinary Tax Credit</p>	<ul style="list-style-type: none"> •Canada •China •South Korea •Denmark •Ecuador •Spain •Philippines •Finland •India •Italy •Japan •Portugal •Sweden
<p style="text-align: center;">Proportional Ordinary Tax Credit</p>	<ul style="list-style-type: none"> •Brazil concerning <ul style="list-style-type: none"> to→ Belgium → Finland → France •Other countries <ul style="list-style-type: none"> concerning to → Denmark → Italy

INSTRUCTIONS TO THE WORD PROCESSING DEPARTMENT

AUTHOR: _____

(Note: Summer Associates MUST fill in the name of the ATS&D Attorney who assigned them the project.)

If other than Author, Return to: _____

YOUR CURRENT Document Information MUST Be Supplied

FOLDER NAME: 08888\00540 FILENAME: J0754

REVISION DATE: May 9, 2002

OPERATOR: Jensen

AUTHOR: Phil Louis

CLIENT NAME: Firm - Tax Department

DESCRIPTION: Brazil Lex Mundi Deskbook

Preparation Instructions:

_____ **Draft** or _____ **Bond** (Final)

_____ Copy Existing Doc (FOLDER\DOC NAME: __________.____)

_____ Create New Document (Is this a Master Form?)
_____ Yes

_____ Scan Material _____ Cleanup by WP
_____ Cleanup By Secretary

_____ Compare Document
[To What Document (FOLDER\DOC NAME: __________.
____)]

Spacing:

Paper:

_____ SS	_____ 8-1/2x11	_____ Envelopes
_____ DS	_____ 8-1/2x13	_____ Letterhead
_____ TS	_____ 8-1/2x14	Labels:[# sets_____]
_____ 1-1/2	_____ 5 Hole	_____ ATS&D
_____ Landscape (sideways)		_____ Plain White

COMPLETION: DATE: _____ TIME: _____ am / pm

Other Instructions: