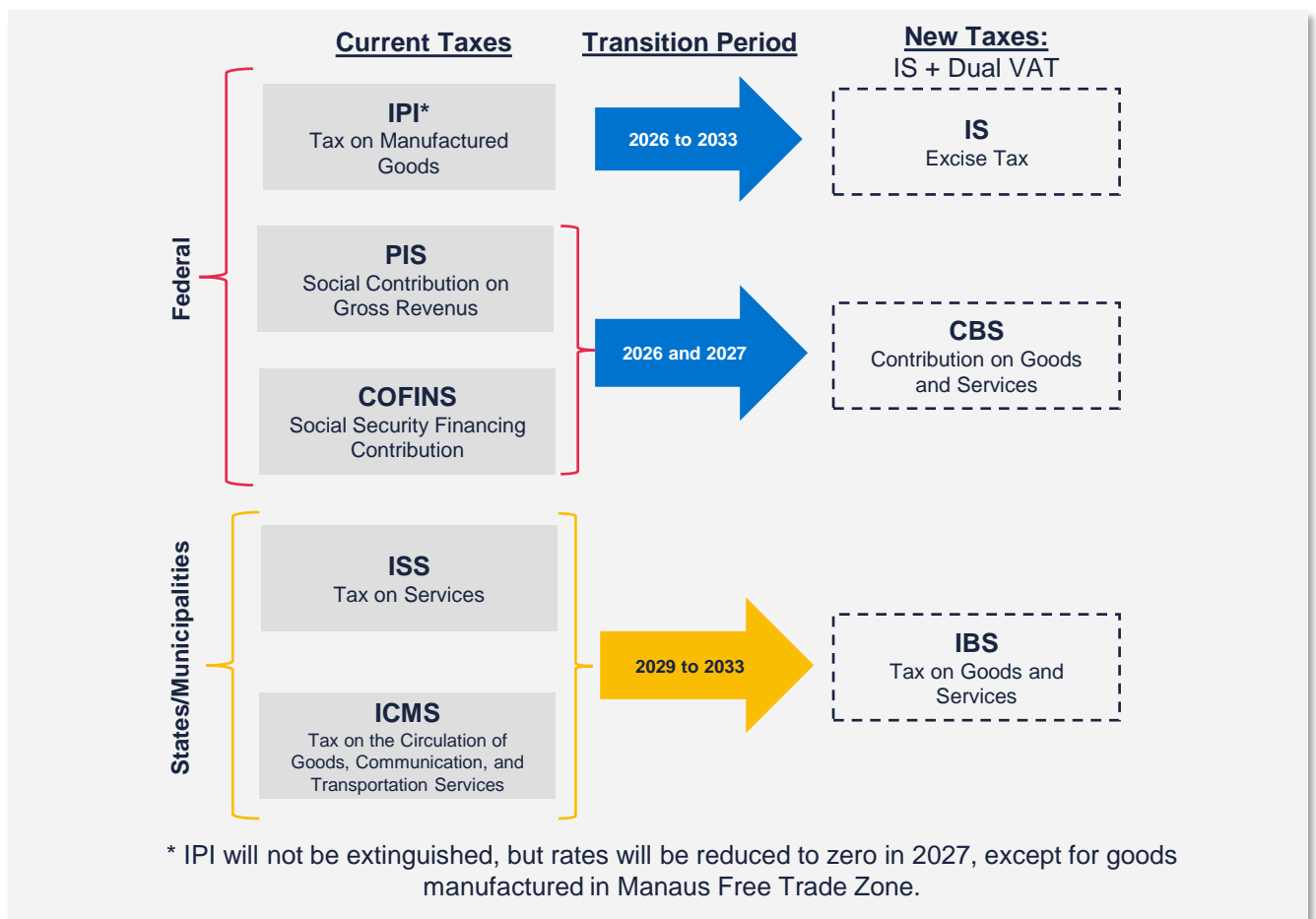


Brazil Tax Reform focused on Consumption (Indirect Taxes)

Constitutional Amendment

In light of the final approval of Constitutional Amendment 132 by Congress, we have a definitive picture of the framework of the reform and now the Federal government must submit the legislative bills which will fully regulate the newly created taxes.



IS

- Applicable over the production, commercialization and importation of goods and services harmful to human health and the environment, as defined in specific law.
- It can be applied with other taxes.

CBS and IBS

- Both taxes will have the same:
 - Taxable events (transactions with physical or intangible goods, including rights, and services), tax basis, non-incidence hypothesis, and taxpayers.
 - Immunities.
 - Regimes: specific, differentiated, or favorable, according to the Law; and
 - Non-cumulative and credit rules (VAT).
 - Basic consumption goods will have rates reduced to zero.
- Reference rates will be defined by the Senate, to be further reviewed.
- No incentives can be granted, except those allowed by the Constitution

CBS

- Federal government will define the rates.
- No incentives can be granted, except those allowed by the Constitution.

IBS

- States and Municipalities will define the applicable rates according to parameters defined by the Senate.
- Rates will be defined by the destination (where the buyer is located).
- No incentives can be granted, except those allowed by Constitution, and existing benefits will be maintained until 2029 (beginning of transition period) and will be gradually reduced until 2032.

Contributions over inputs

- States can create a contribution over primary and semi-manufactured goods, produced within their territory.
- Such contribution will be invested in infrastructure projects.
- Applicable until December 31, 2043.

Anticipated Impacts to Economic Sectors

Energy and Natural Resources

- a. The law will define specific regimes for IBS and CBS over fuel.
- b. IS may also apply over transactions with non-renewable energy, oil and fossil fuels.

Healthcare

Health services might have IBS and CBS rates reduced to 40%.

Infrastructure, Construction, and Transport

Urban, semiurban, and metropolitan transportation services may be exempt from IBS and CBS, or subject to rates reductions to 40%.

Life Sciences

IBS and CBS may have the following reductions to:

- a. 0% for certain medicines; and
- b. 40% reduction for medical devices.

Services

IBS and CBS should apply over such goods at full rates which is likely to result in significant increase in the tax burden compared to the current system. The law will define intellectual services to have a 30% reduction.

Consumer Goods, Food & Retail

- a. IBS and CBS should apply over such goods at full rates.
- b. IS should apply on goods considered as harmful to the human health, including tobacco, alcohol and non-healthy food.

Real Estate

The law will define specific regimes for IBS and CBS over real estate.

Technology

IBS and CBS should apply over such goods at full rates over intangible goods and services.

Media, Sport & Entertainment

Artistic activities may be granted with partial exemption of IBS and CBS rates reduced to 40%.

Government Contracting

The law will define specific regimes for IBS and CBS over transactions hired by the government.

Industrials

The Manaus Free Trade Zone regime should be maintained with its benefits.

Hospitality and Leisure

Hotels, theme parks, restaurants, and regional aviation will have a specific regime.

Financial Services and Insurance

The law will define specific regimes for IBS and CBS over fuel.

Agribusiness

Agricultural products may have IBS and CBS rates reduced to 40%.

Points of Attention

- Total tax burden expected to be increased to certain sectors, particularly Services Sector.
- Small companies system of taxation (SIMPLES) and benefits related to the Manaus Free Zone (Zona Franca de Manaus) will be maintained.
- Long transition period will increase tax compliance burden and may result in more tax litigation.
- During the transition period, CBS will be part of the ISS, and ICMS tax basis, due to the wording approved. CBS will also be part of IPI tax basis, with the difference that IPI will not be terminated by the end of the transition period.

Future outcomes

- The Executive Branch has:
 - 90 days to present a income tax reform.
 - 180 days to propose the bills to regulate the present Constitutional amendment (tax over consumption reform).
 - 90 days to present a reform over taxes on payroll.