



**Grant Thornton**

An instinct for growth™

# Unlock Brazil

Helping you set up and grow your  
business

May 2018



# Contents

Expanding your business in Brazil	03
Why choose Brazil?	04
Which type of entity to choose	07
Requirements for incorporating	09
Requirements for acquiring a company in Brazil	11
Hiring people in Brazil	13



# Expanding your business in Brazil

Expanding into new international markets can be challenging due to the many issues to consider and resolve. Our Unlock Brazil service can provide expert advice and insight to support you every step of the way. From helping you find the best location, to setting up a branch or subsidiary, we are committed to providing pragmatic and timely advice that allows you to focus on achieving your business goals.

International expansion is an important step, but with a dedicated international business adviser, who takes time to understand your business and customise the specific services you require, you'll know you have the support to manage the risks and maximise the potential a new market offers your business. Our advisers can help

at every stage of your company's growth cycle - from starting-up, raising venture funding, listing on a global exchange, acquiring or merging with another company, or using Brazil as a base to expand into other markets - which means that whatever the challenge, we're at your side.

We can help you with the following services:



## 1. Back office services

- Fixed fee book keeping for middle market and start-ups
- Tax Compliance
- Special Projects
- Payroll and other HR services
- Business Process Solutions
- Financial reporting and accounting services



## 2. Financing your business

- Debt or equity funding advice
- Mergers and acquisitions



## 3. Employment issues

- Reward packages
- Employment tax issues
- Benefits
- Global mobility



## 4. Business growth support

- Expert, tailored support to help you grow your business in Brazil and globally
- Market assessment and competitor analysis



## 5. Taxation services

- Corporate and international taxes
- Indirect taxes



## 6. Direct taxes

- Transfer pricing
- Personal taxation advice
- Stock options and repatriation of funds

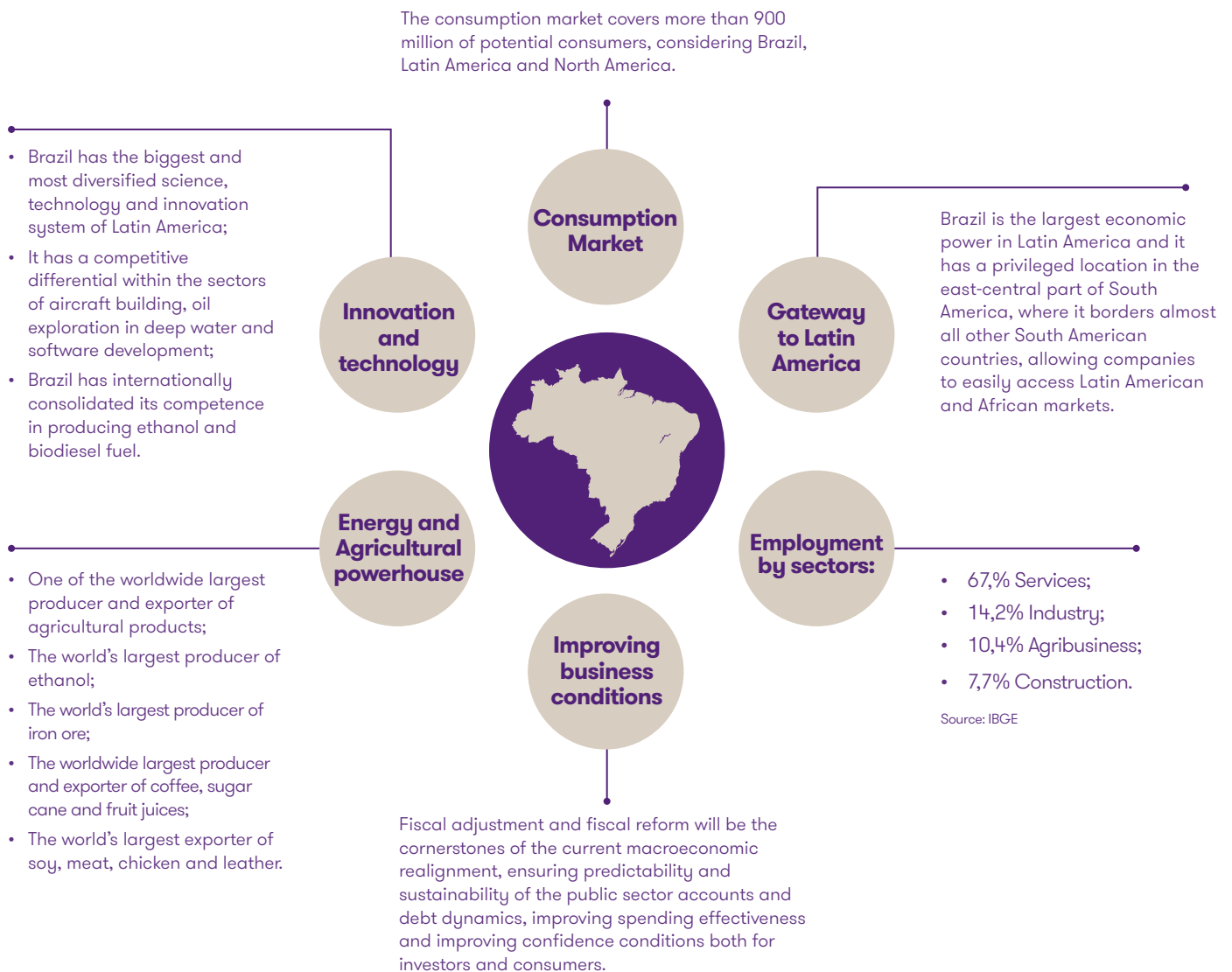


## 7. Audit and assurance

- Statutory and non-statutory audits
- Financial reporting advisory
- International financial reporting standards advisory

# Why choose Brazil?

Brazil is the fifth world's largest country in terms of territorial extension and population. According to the IBGE (Brazilian Institute of Geography and Statistics), the Brazilian population is about 207 million people in 2018, and the workforce is formed by 96 million people.



### Macroeconomic view

Brazil takes the leadership naturally in the Latin American region, being the largest economic power. Gross Domestic product (GDP) registered growth of 7,5% in 2010. In 2015, due to political issues and government's excessive expenditures a deceleration process was triggered, and culminated with a recession. In 2015 and 2016 Brazilian GDP decreased 3,5% per year. In 2017 the economy gave the first signs of a reaction, with a 1% growth rate. This halted the two-year recession period. Brazilian GDP registered a total amount of USD 2,03 trillion in the end of 2017<sup>3</sup>.

### Inflation and interest rates

The Brazilian Central Bank started to reduce interest rates in October 2016. The movement was possible due to the inflation fall in 2017, decreasing from 6,29% in 2016 to 2,95% in 2017. In the last year, inflation was the lowest since 1999, which was below the target. For 2018 the Brazilian Central Bank forecasts inflation at 3,96%, still below the target.

### Employment and salaries

In the end of 2016 the unemployment rate was in 12%. By the last quarter of 2017 it was in 11,8%. The stabilization of unemployment was seen as another sign of the economic recovery.

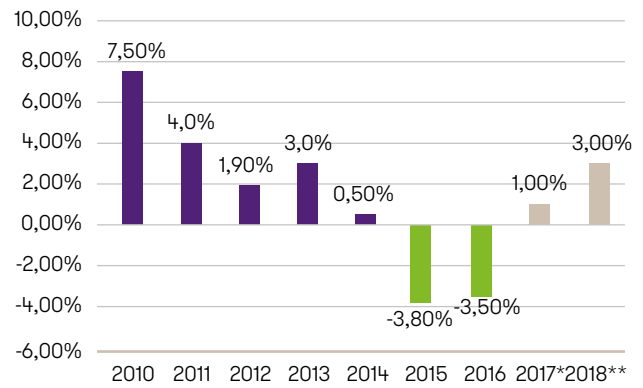
The average wage was in \$ 663<sup>3</sup> at the end of 2017, and registered an increase in 1,6% compared to same period of 2016. This produced an injection of \$ 2,03<sup>3</sup> in the salary mass.

### International investments in Brazil

According to the United Nations Conference on Trade and Development (UNCTAD), Brazil ranks number 6 in relation to receipts of direct investments. In 2017 the United Nations body pointed a 16% decrease in foreign investments globally, but in Brazil has risen to 4%. The National Bank of Development (BNDES), who is controlled by the federal government, had a dominant role in the market of long period loans lost its space due to the fiscal mismatch in the public accounts, and gave space to private capital.

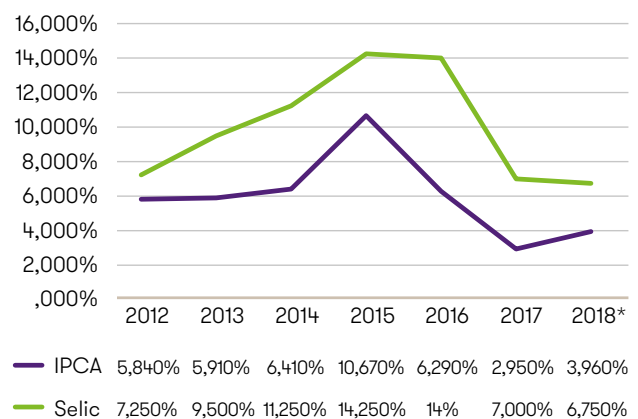
Brazil has an advanced and well regulated capital market, with a latent need for investments, creating an auspicious scenario with all the means and opportunities for long term investments, and generation of consistent profits for investors.

### Historical and projected Brazilian GDP

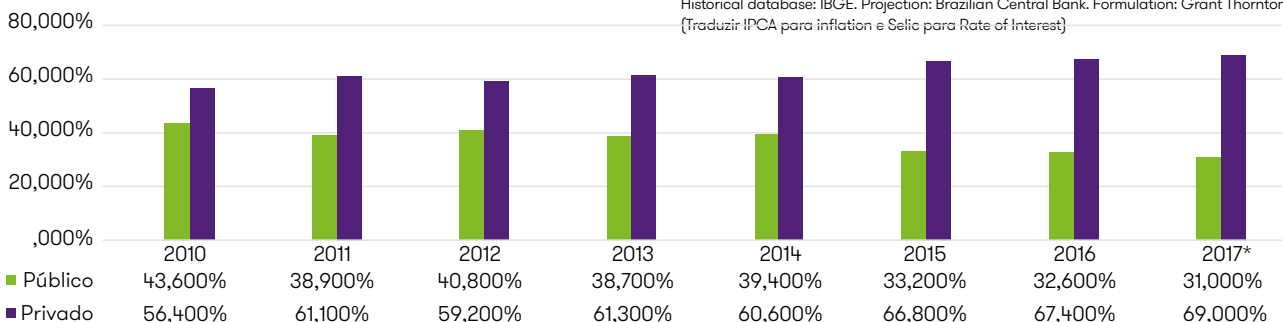


\*\* Grant Thornton projection. Historical database: IBGE. Formulation: Grant Thornton.

### Evolution of the rate of interest and inflation



### Public and private investment in infrastructure %



Historical database: IBGE. Projection: Brazilian Central Bank. Formulation: Grant Thornton  
{Traduzir IPCA para inflation e Selic para Rate of Interest}

<sup>23</sup> The value in dollars at an exchange rate of approximately BRL 3.25/1 USD, source IBGE  
<sup>4</sup> Source: Focus Bulletin - Brazilian central Bank

## Import and Export

Despite the fact that Brazil is bordered by nine countries in Latin America (Argentina, Bolivia, Colombia, Guiana, Peru, Paraguay, Suriname, Uruguay and Venezuela), most of the main commercial partners are from other continents.

Historically, Brazil is a great producer of agricultural products and extraction. The top seller goods are soybean, iron ore and crude oil. On the other hand, Brazil imports refined petroleum, vehicle parts and packaged medicine.

Besides that, the Brazilian trade balance was positive in 2016 and 2017, with results of \$ 14.762 billion and \$20,622 respectively.

### Export

Country	Amount
China	\$ 15.4 billion
United States of America	\$ 8.3 billion
Argentina	\$ 5.4 billion
Netherlands	\$ 2.9 billion

### Import

Country	Amount
China	\$ 8.6 billion
United States of America	\$ 7.6 billion
Argentina	\$ 2.9 billion
Germany	\$ 2.8 billion

Source: Ministry of Industry, foreign commerce and services. The value in dollars at an exchange rate of approximately BRL 3.25/1 USD

# 10 steps to get started:

We work with many businesses at their start up phase and continue to provide ongoing advice and services as they expand. To help you, we have set out the pathway to getting established in Brazil and provide some information relating to each step of your journey.



<sup>1</sup>The value in dollars at an exchange rate of approximately BRL 3.25/1 USD, source IBGE

# Which type of entity to choose

## Branch or subsidiary?

The first step in moving to Brazil is deciding what type of structure best suits the business. Incorporating a foreign company's branch in Brazil is usually a very time-consuming bureaucratic process: the establishment of a branch requires prior approval from the federal government by Presidential decree. The federal government must also authorize any amendments to the branch's Articles of Incorporation. Unlike subsidiaries, branches are considered part of the foreign entity in Brazil. In this regard, a branch of a foreign controlling company may have unlimited responsibility for its debts in the event that the branch is unable to fulfill such obligations. It is important to keep in mind that branches are subject to Brazilian laws and courts with respect to acts and transactions that take place in Brazil.

Therefore, the vast majority of investors in Brazil adopt the subsidiary model, since their shareholders are not responsible for the subsidiary's debts, except for specific provisions set forth by specific rules.

Once that is established, the investor will need to decide which format is more appropriate for the business. The investor may decide to acquire an existing company or assets, which would require a due diligence process. One could also form a Joint Venture, which could take the form of a Limited Liability company or a consortium agreement, which is commonly adopted for relevant infrastructure projects in Brazil. Therefore, the main decisions will be around incorporating or acquiring a company.



## Starting from scratch: incorporate a Ltda. or S.A.?

If the plan involves the incorporation of a new entity, there are some types of legal structures that are not available to companies with Foreign Capital. Therefore, the majority of legal entities incorporated in the country are either "Limitada" or "S.A.": the Limitada type of business (Sociedade Limitada or Ltda.) is a limited liability company, and a S.A. (Sociedade Anônima) is similar to a corporation. The Ltda. is usually the preferred vehicle for a wholly owned subsidiary, as legally the liability of the shareholders is limited to their capital contribution.

# Main differences

## Ltda.

- A Ltda. is ruled by Article no. 1,052 to 1,087 of the Civil Code, and it is organized through the Articles of Incorporation (bylaws), with limited liability partners.
- The management of a Ltda. is carried out by one or more individuals, shareholders or not, as indicated in the bylaws (contrato social).
- The Ltda. is a legal entity under private law and is defined as Limitada, because the responsibility of each partner is limited to the number of shares he/she owns. The power of each partner is limited and bound by approvals defined in the Civil Code. Thereby, the autonomy of each partner is also limited. It is the best option for the small business owner or a startup.

In a Limited company, the costs for establishment and maintenance are generally lower; however, minority quota holders are equally financially responsible.

1 - Quotas are the partner's share of contribution in relation to the share capital of the company.

The capital is divided into equity units, named quotas, which are registered. There are formally no minimum capital requirements.

## S.A.

A S.A. is established by the Brazilian Civil Code in Article 1,088, and its latest regulation is Law No. 1,1941 of May 27, 2009. It is a business corporation with shares. Dividends may be distributed to the shareholders in the form of interest over capital (Juros sobre Capital Próprio).

A S.A. may be managed by a Board of Directors and Executive Board, or solely by a Board of Directors. The Executive Board must have at least three members. If they do not reside in Brazil, they must appoint attorneys-in-fact to represent them.

The S.A. is a legal entity under a private law, regardless of its purpose, governed by statute whose capital is divided into shares. These shareholders have limited liability to the value of shares acquired by them. They are governed by special legislation: Law 6,404 of May 05, 1976 as amended, mainly by Law 9,457 of May 05, 1997 and 10,303 of October 31, 2001.

In a S.A., corporate governance is stronger and it ensures more rights for minority shareholders, with mandatory distribution of annual profits. In this type of partnership, the real function of the partners is to contribute with capital to the company. In a S.A., there are strict rules related to accounting/auditing as there is a mandatory publication of certain corporate acts and minutes of general meetings which must be signed.

A S.A. can be classified as: publicly held, where shares are traded on the Stock Exchange, or Privately Held (Capital Fechado), meaning shares are not traded.

## Registration

Ltdas. (Sociedades Limitadas) and S.As. (Sociedades Anônimas) need to be registered with the Board of Trade (Junta Comercial) and with the tax authorities. Nowadays when the registration with the Board of Trade is executed, the registration is automatically executed by the Federal Tax Authorities.

S.As. need to be registered with the Securities and Exchange Commission (Comissão de Valores Mobiliários - CVM), if the S.A. is publicly held.

S.As. entities must hold annual general shareholder's meetings by April 30th of each year (considering fiscal year from January 1st to December 31st) in order to approve financial reports. Minutes are generally drafted by local legal counsel. These must be signed by the accountant, Legal Acting Director, and in the case of a S.A., by the auditors. All documents and deliverables must be in Portuguese and all the amounts must be expressed in Brazilian Reais.

The company needs to be constituted by at least two partners. A partner can be either an individual or a legal organization, and need legal representation in Brazil, if the professionals are not Brazilian resident.

The Board of Directors represents the S.A. and ensures that everything is in place for its day-to-day activities. It is composed of at least two Directors, who may be shareholders and individuals, and who must be Brazilian residents. They may be elected for a maximum of 3 years.

If the Board understands that it is necessary, establish an Audit Committee could be one action in order to ensure that the company follows best practices in corporate governance. The company needs to be audited yearly and must consistently publish financial reports in national printed newspapers or online, as they are normally required by banks, tender processes and suppliers.



# Requirements for incorporating

## Bylaws

After a company decides on the most appropriate legal entity to establish in Brazil, the next step is to draw up the company's bylaws. The company will only be able to operate after it has registered with the Board of Trade and tax authorities, and has been granted a Federal Tax ID number (Cadastro Nacional de Pessoa Jurídica - CNPJ).

Below are some of the most important topics to be decided before setting up the bylaws, and it is highly recommended involving an attorney in this stage of the process:

- **Name of the Brazilian entity:** the name should be in Portuguese, describing the purpose of the legal entity, and one must verify with the Board of Trade whether the name is not currently being used by other parties; and
- **Shareholders:** two shareholders are needed for a Ltda. These might be a corporation or an individual, foreign or Brazilian. If the shareholders are foreigners, a legal representative must be appointed so that these entities (or individuals) are granted a CNPJ number. This number does not mean there are obligations related to this entity. The legal representative is a contact person between the entity and tax authorities (for summons, inspections, dividend distribution, and others). The shareholders draw up a power of attorney, which needs to be translated into Portuguese, and registered in Brazil.

The shareholders must therefore appoint an attorney in fact. Articles 1,074, Paragraph 1 of the Brazilian Civil Code, 119 and Article 126, Paragraph 1 of Law 6,404, dated December 15, 1976 of the Brazilian legislation, rules the obligation of a foreign company (quota or shareholder of a company in Brazil) to have an attorney-in-fact in the country in order to represent it within the national territory, with powers to receive summons referring to legal actions filed against it.

The legal representative, according to the instructions and authorizations from the foreign shareholder(s), also:

- Participates in meetings, assemblies and other deliberation sessions;
- Acquires, disposes, cedes or transfers shares or quotas; and

- Carries out all other rights concerning the conditions of a partner, quota or a shareholder of the Brazilian company in question.

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

- Purpose of the legal entity (objeto): choosing the purpose of the legal entity determines to which tax and labor laws the company is subject to. It also determines, for example, whether the company needs to be registered with the municipality or state, if it will be subject to the Tax on Services (Imposto sobre Serviços - ISS) or State Value-Added Tax, or simply State VAT (Imposto Sobre Mercadorias e Serviços - ICMS) taxes, what type of licenses it will need, and which classification on the National Registration of Economic Activity (Cadastro Nacional de Atividade Econômica - CNAE) will be necessary.
- Legal Acting Director: one or more individuals carry out the management of the Ltda. and this governance is formalized by means of a contract or a separate appointment. The shareholders may determine the duration of this appointment in the bylaws, and a change is formalized with the amendment and registration of the same bylaws, to which the professional, who will no longer fulfill this position, must agree upon.

Article 1,011 and its respective paragraphs of the Brazilian Civil Code, Article 35, paragraph II of the Law 8,934/94, deliberations from the National Department of Business Registration, and among others, stress the condition that the manager must be domiciled in Brazil; foreigners must have a permanent visa.



In addition to being responsible for the full legal representation of the company, the Legal Acting Director appointed by the foreign partners may be held responsible on civil and criminal grounds if he/she does not comply with the rules established in the contract or legislation, including the obligation to compensate damages and losses borne by the foreign companies.

The appointment of the manager for this position is terminated by means of dismissal, at any given time, or when the term stipulated in the company's Articles of Incorporation has expired.

The Legal Acting Director also represents the legal entity and acts before other parties, some of which include:

- Banks, as a signatory to bank accounts;
- The Brazilian Central Bank, for registration of capital inflows and outflows, signature on documents related to foreign exchange transactions, and the filing of obligations;
- Tax authorities;
- Signing of financial statements;
- Labor Department for the signing of professional books;
- Signing of suppliers (rentals, warehouses, cellphones, internet, and others) and client contracts; and
- Courts.

The limitations of the powers of the Legal Acting Director are reflected in the bylaws. Note that these limitations might also affect day-to-day banking transactions.

- **Address:** if the nature of the business is services, i.e. if no goods are traded, the entity may choose to have a virtual office to which all correspondence will be directed. However, if the nature of the business is the trading of goods, the entity may employ a warehouse to store goods and invoice customers from a branch established within the bylaws, and registered with the tax authorities.
- **Capital Requirements:** formally, there are no minimum capital requirements. It is important to review this information if the company plans to hire expatriates to manage the Brazilian business, as other rules may apply. If the company plans to enter tenders or will need an import/ export license, there also may be additional requirements. All foreign capital inflows must be registered with the Brazilian Central Bank.
- **RADAR-SISCOMEX:** a legal entity that needs to import and export products must obtain prior authorization from Secretariat of Foreign Trade (Secretaria do Comércio Exterior - SECEX), Integrated System of Statistics on Trade (Sistema Integrado de Comércio Exterior - SISCOMEX) and from the Brazilian Central Bank. SECEX reviews and compares import prices in order to prevent the dumping of products in the Brazilian market. It is advisable to request a specialized broker to apply for this license due to its bureaucratic requirements.

Bylaws must be amended when there is a change to any of the items above. Later amendments must be registered with the Board of Trade, tax authorities (Receita Federal - RF), and other authorities according to the specific amendment.

# Requirements for acquiring a company in Brazil



If an investor wants to start a business in Brazil with an already operating company, it is possible to acquire an existing business.

An acquisition between two companies of the same nationality is a highly complex process and must be well-planned. Therefore, it is necessary to perform careful due diligence in order to maximize the possibility of success.

In a transaction between companies of different nationalities (cross-border), the due diligence process is even more important and major care should be taken in the prior assessment of corporate cultures. This is mainly regarding the culture of adherence of the key people who will face new challenges.

Also, tax issues that arise from acquiring legal entities in Brazil depend, to some extent, on the residency of both the purchaser and the seller. In general terms, capital gains are taxed in Brazil even in the case of transactions executed entirely abroad, when the assets (or shares) sold are located in Brazil.

Share deals are generally more common than asset deals in Brazil because even in the case of an asset purchase, there is a significant risk that the tax liabilities of the previous business will be attached to the acquired assets. Additionally, share deals generally result in lower levels of documentation and indirect taxation for acquirers. A case-by-case analysis is always recommended for the company in order to decide the ideal acquisition structure.

When properly structured, the most significant advantage of a share deal over an asset deal is that the amount (or part) paid in excess of the target's net equity may generate an amortizable premium or a step up (goodwill) in the tax base of depreciable or amortizable assets, and/or a reduction on the direct taxable income calculation. The possible outcome should be analyzed by a tax expert.

This potentially amortizable step up is subject to several tax, legal, accounting, business and substance requirements, and must be very carefully analyzed and supported in order to mitigate any risks associated with such an acquisition structure.

## Corporate taxes on profits

There are two corporate taxes on profits in Brazil, and their combined rate is approximately 34%. Generally, the Corporate Income Tax (Imposto de Renda sobre a Pessoa Jurídica - IRPJ) has a basic rate of 15%, plus 10% surtax on annual taxable income that exceeds BRL 240,000. The Social Contribution on Net Profit (Contribuição Social sobre Lucro Líquido - CSLL) is applied at a base rate of 9%. This rate may be different for financial institutions.

There are three major options for Brazilian legal entities to calculate and pay corporate taxes on profits: the Actual Profit System, the Presumed Profit System and the Simplified Profit System.

- 1** **The Actual Profit System** corresponds to applying the IRPJ and CSLL rates (34%) to the company's net book profits under Brazilian GAAP (Generally Accepted Accounting Principles), adjusted by certain specific add-backs and deductions.
- 2** **The Presumed Profit System** is based on a presumed net profit, which is calculated by applying a predetermined presumed profit rate on the gross revenues of the company. The profit rates are determined by the Federal Government and vary according to each company's activity. However, this system is not always possible because of several restrictions, including a maximum annual turnover of BRL 78 million in the previous year.
- 3** **The Simplified Profit System** (Integrated Payment of Taxes and Contributions from Micro and Small Companies) is a simplified tax regime applicable to micro and small companies that meet specific gross revenue thresholds and other legal requirements. The Simples regime allows these companies to calculate taxes applying reduced rates and calculation bases, and it also provides them with the possibility of paying several taxes together, including federal (IRPJ, CSLL, PIS, COFINS, IPI, INSS), state (ICMS) and municipal (ISS) taxes using one single payment slip. The current cap to be able to elect for this regime is a annual turnover limited to BRL 3.6 million.

### TAXES ON REVENUE - PIS AND COFINS

The Contribution to the Employees' Profit Participation Program (Programa Integração Social - PIS) and the Contribution to the Financing of the Social Security (Contribuição para o Financiamento da Seguridade Social - COFINS) are federal taxes charged on gross revenues, on a monthly basis and under two regimes, cumulative and non-cumulative.

Under the cumulative regime, the combined rate is 3.65% and no credit mechanism is applicable. In other words, under this regime, the PIS and the COFINS are a cumulative tax, not VAT. Companies that adopt the presumed profit system for taxes on profits must calculate their PIS/COFINS under the cumulative regime. Generally, companies under the actual profit system will apply the non-cumulative regime, which subjects taxpayers to a combined PIS and COFINS rate of 9.25%. However, under this regime, tax credits for PIS and COFINS levied on certain inputs are available. Both PIS and COFINS are also due on the import of goods and services, generally at a combined rate of 9.25%.

### TAX ON MANUFACTURED PRODUCTS - IPI

The Tax on Manufactured Products (Imposto sobre Produtos Industrializados - IPI) is a federal tax levied on the Import and manufacture of goods. In many aspects, it operates as a VAT tax which is charged on the aggregated value of the final product. As a general rule, IPI paid on a previous transaction can be used to offset the IPI liability arising from subsequent taxed operations as a tax credit.

The applicable rate changes according to the product and its classification under the Table of Excise Tax Levy (Tabela de Incidência do Imposto sobre Produtos Industrializados - TIPI) which generally follows the Brussels Harmonized Tax Codes. These rates may vary considerably, from 0% to more than 300%, according to the products. As an excise tax, IPI rates can be higher for "non-essential" products such as cigarettes, perfumes and others.

Since the IPI tax has a regulatory nature, the federal government may increase or decrease its rates at any time by decree as a way to implement financial and economic policies.

On import transactions, as a general rule, an IPI tax credit for the amount of the tax paid on the import is granted in cases in which the subsequent transaction involving the same product, or another product in the manufacturing process of which the imported product was used, is subject to the IPI.

### VALUE ADDED TAX ON GOODS AND SERVICES - ICMS

The ICMS is a type of state VAT tax generally levied on imports (customs clearance), sales, transfers and other transactions involving goods (including electricity), inter-municipal and interstate transportation services and communication services.

For imports of goods and transactions within the same state, the regular ICMS rates range from 17% to 19%. However, for some specific goods, the applicable rate on import operations and sales within the state may differ from the regular ones. When transactions involve two different states, the rates are 7% or 12%, depending on the states within Brazil are involved. The applicable rate is 4% on interstate transactions with imported goods, regardless of the states involved, with some minor exceptions.

The ICMS tax is also due either when a product is resold in the domestic market or when it is physically moved from a manufacturing facility and/or between branches.

Given the fact that it is a VAT, ICMS taxpayers are generally entitled to a tax credit for the amount of the tax paid in the previous transaction with the same goods (inputs), provided that the purchaser is an ICMS taxpayer regarding that product. The tax credit may be offset against future ICMS payables.

Importers are generally entitled to recognize a tax credit at the amount of the tax paid to be used to offset future ICMS liabilities.

### TAX ON SERVICES - ISS

The Services Tax (ISS) is a municipal tax levied on revenues derived from the provision of services and on the import of services. Although it is a municipal tax, the specific services subject to the ISS are listed in a federal law and each city regulates its rates.

The tax base for the ISS is the price or value of the service. The rates vary from 2% to 5%, generally depending on the municipality where the service provider or importer is located, where the service is provided and the type of service.

# Import Tax

The Import Tax (Imposto de Importação - II) applies to the customs value of imported products at variable rates. As it is considered an effective import cost, it is not recoverable, thus it does not generate credit.

## WITHHOLDING TAXES

The Brazilian tax legislation determines that end clients (corporate clients) shall withhold some taxes (PIS, COFINS, IRPJ and CSLL) when paying the service provider. These withholding tax rates are predetermined by the Federal Government and are generally 1.5% (IRPJ/IRRF) and 4.65% (CSLL, PIS and COFINS, all combined).

This is a cash flow issue, since any taxes withheld by the end client could be offset against the taxes (PIS, COFINS, IRPJ and CSLL) owed by the service provider on its regular activities.

Please note that these withholding taxes are not related to the corporate income tax regime (actual vs profit) nor with the gross revenue taxes regimes (cumulative vs non-cumulative). The withholding taxes are only a way for the Tax Authorities to anticipate the payment of taxes – instead of only charging them at the end of each month, they charge part of these taxes (the amounts to be withheld) on each payment of service fees.

## INTERVENTION IN THE ECONOMIC DOMAIN TAX – CIDE

In addition to the IRRF, a Contribution for Intervention in the Economic Domain (Contribuições de Intervenção no Domínio Econômico - CIDE) of 10% is levied on payments to non-residents and includes certain royalties, technical and administrative services and technical assistance, among others. The CIDE is imposed on the payment of the fees and cannot be reduced by double tax treaties.

## WITHHOLDING INCOME TAX – OVER REMITTANCES

The Withholding Income Tax (Imposto de Renda Retido na Fonte - IRRF) applies to certain domestic transactions such as fee payments to service providers and financial income from investments.

The IRRF tax is also due on general payments by a Brazilian source to most non-residents (e.g.: the payment of service fees, license fees, interest, interest on net equity, royalties, cost sharing, management fees, among others). The rate depends on the nature of the payment, the beneficiary's residence and the existence of double tax treaties. Normally, rates range from 15% to 25%, the tax event is the payment.

## FINANCIAL TRANSACTION TAX - IOF

The Tax on Financial Transactions (Imposto sobre Operações Financeiras - IOF) is a federal tax levied on credit operations, foreign exchange transactions, insurance and securities transactions executed through financial institutions and includes intercompany loans and some operations with gold.

The rates vary according to the nature of the transaction and the maturity term. Since IOF rates have been constantly changing over the past several years, it is recommended careful and updated analysis regarding this topic prior to entering any such transactions.

# Hiring people in Brazil

Brazilian employment law and conditions have unique features such as the 13th month salary entitlement on which we can advise. There are opportunities to reward employees efficiently by paying meals, providing transportation, pension and insurance premiums. Beginning in November 2017, labor legislation has undergone changes in order to make some items more flexible for the Companies.



## A. Employment Taxes

There are three main payroll taxes in Brazil: FGTS, INSS and IRRF.

Each month the employer must contribute 8% of the total salaries to the Federal Government Severance Indemnity Fund for Employees (FGTS). These contributions do not apply to payments made to independent professionals and are not mandatory for directors who are not also employees.

The Brazilian Social Security Institute (INSS) contribution must be paid at a rate of 20% on gross salaries, increased by 1% to 3% referring to the Work Place Accident Risk (RAT) rate and 5.8% intended for other entities in accordance with the Target Company's activity. Beginning January 2010, the RAT rates have been decreased or increased according to the application of the Workplace Accident and Prevention Factor ("FAP"), the calculation of which is based on several labor and social security issues. The objective of the FAP is to motivate an improvement in workplace conditions and in workers' health by stimulating companies to implement more effective occupational health and safety policies to reduce accidents.

Employee contributions to Social Security usually range from 8% to 11% and must be withheld by the employer.

The Withholding Income Tax (IRRF) on Brazilian source payments made to employees for services must be withheld on a monthly basis and ranges from 7.5% to 27.5%.



## B. Social Security Contributions on Gross Revenue

In August 2011 the Brazilian Federal Government launched the Plano Brasil Maior, a set of measures intended to reduce the tax burden of certain industry sectors. One of these measures introduced a different calculation method for the social security employer contributions for companies in certain industries, aiming at reducing labor costs and creating new jobs.

Essentially, for these industry sectors, the standard employer contribution of 20% on the payroll of employees was replaced by a fixed percentage that is levied on the gross revenue of the company. Under the new approach, depending on the economic reality of each entity, the change in calculation of social security contributions may actually increase an employer's tax burden - for example, in industries that use high value-added technologies, but have low need for manpower. Although the plan targeted only some specific industries, the Federal Government has been expanding the reduction to other sectors since 2012.

We understand how complex it may be to initiate your company in compliance with government and Tax authorities in Brazil. You can rely on us to support you in such an important step for your business.

## Contact

For more information about how we can help you Unlock Brazil, please contact:



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