

# TAX REFORM ON CONSUMPTION IN BRAZIL

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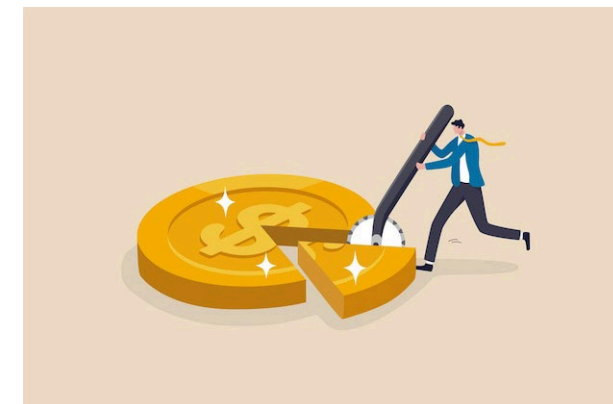
MINISTÉRIO DA  
FAZENDA



# THE CHALLENGES OF TAX REFORM IN BRAZIL



The consumption tax reform will drive **economic development** and income **redistribution**.



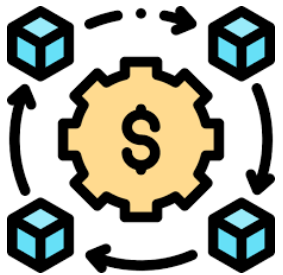
# THE BEGINNING OF VAT WORLDWIDE



The idea of a VAT emerged in the 1920s.



The VAT was implemented in France in 1954.



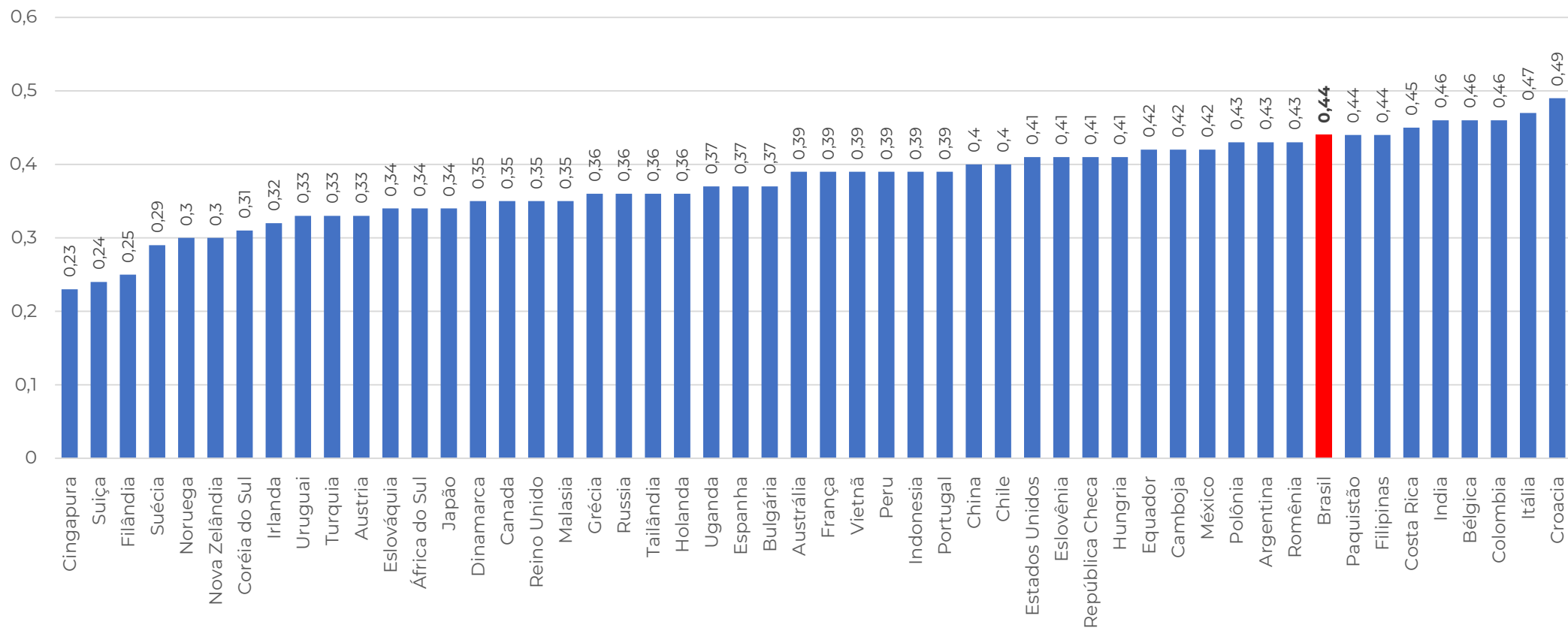
Brazil, with the 1965 tax reform, introduced a traditional VAT that applied at all stages of production.



The expansion of VAT was limited to fewer than 10 countries by the late 1960s.

# WHY REFORM THE BRAZILIAN TAX SYSTEM?

## Index Complexity (2020)



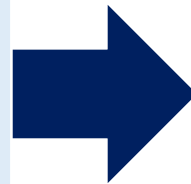
Fonte: taxcomplexity.org

# OVERVIEW | CURRENT TAX SYSTEM

“Brazil’s current tax system is complex and hampers economic efficiency” (OECD, 2023)

Problems of the current tax system:

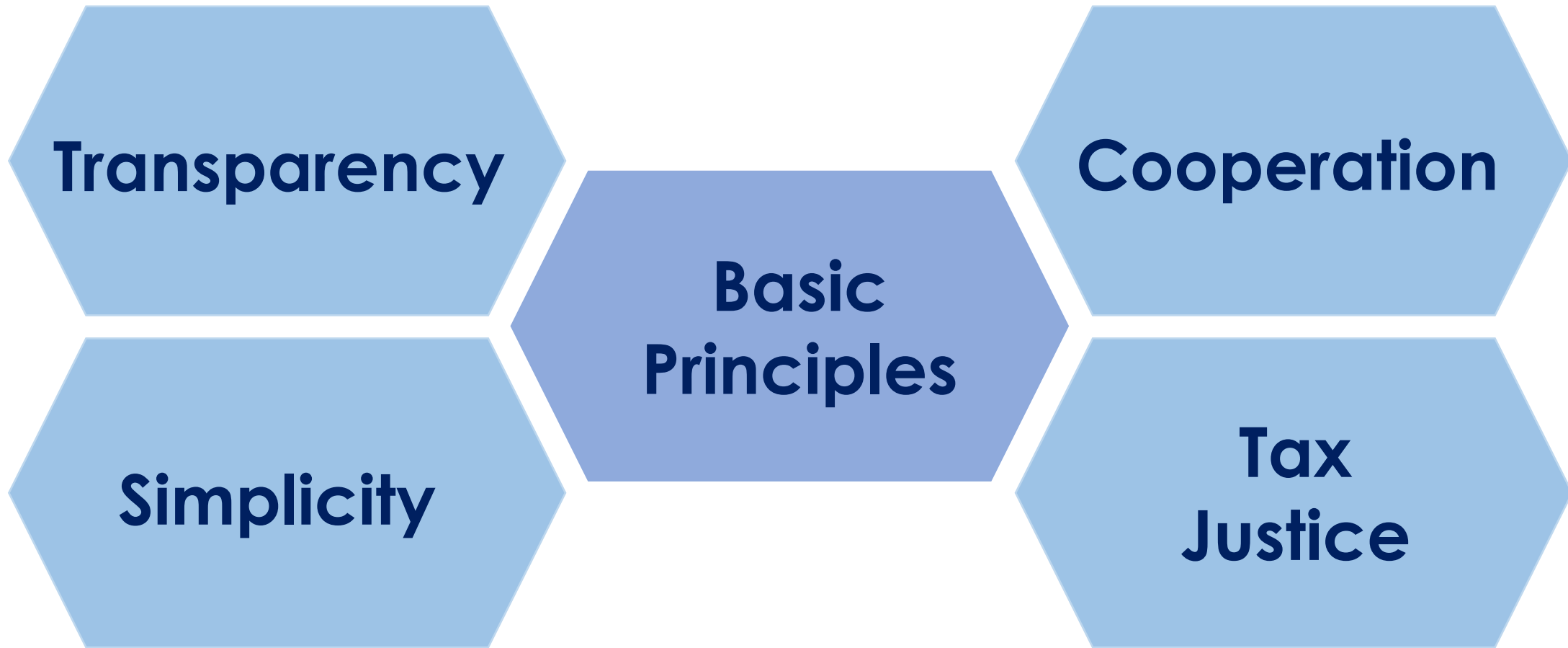
- **Fragmented** tax base.
- **Partial origin-based taxation.**
- Ineffective **non-cumulative** system.
- **Complex** legislation.



Consequences:

- High tax compliance costs and elevated **litigation** levels.
- Increase in investment cost and **loss of competitiveness.**
- **Inefficient** resource allocation.
- Lack of transparency.
- **Conflicts** between states, municipalities and the federal government - Intense “Fiscal War”.

# TAX SYSTEM



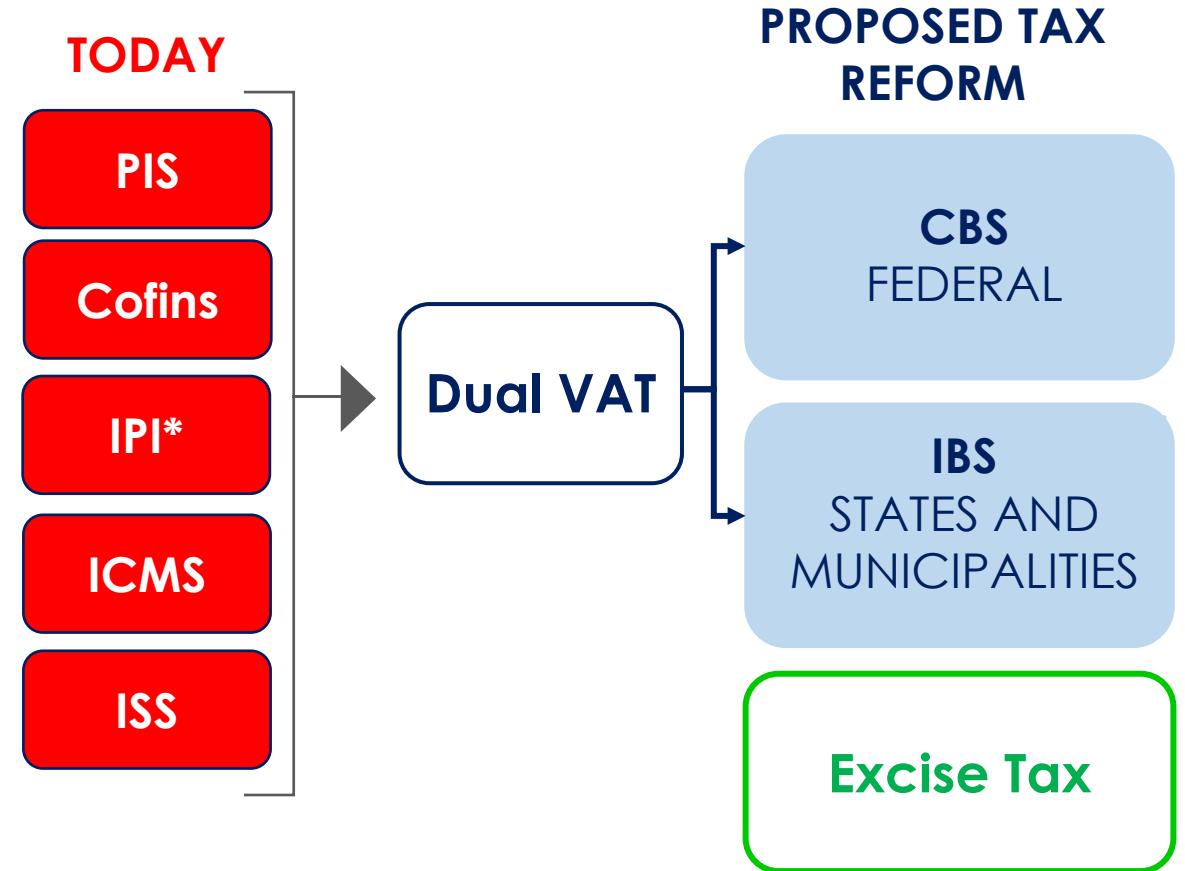
# TAX REFORM PROPOSAL

The **current five taxes** will be replaced by a **Dual VAT** and an **Excise Tax**:

- Federal Contribution on Good and Services (CBS);
- States and Municipalities Tax on Goods and Services (IBS).

The **Dual VAT** (IBS and CBS) will have:

- The same legislation;
- A broad tax base (tangible and intangible goods and services);
- Full destination-based taxation;
- Full input tax credits (except goods and services for personal use and consumption).



IPI will only be maintained for 5% of manufactured products that are produced in the Manaus Free Trade

# PHASES OF THE CONSUMPTION TAX REFORM

## CONSTITUTIONAL AMENDMENT

The Constitutional Amendment nº 132 was approved by Congress in 2023.

## REGULATION

Two Complementary Laws were Approved in the Lower Chamber and are in analysis by the Senate:

- PLP 68/2024 – CBS e IBS;
- PLP 108/2024 – IBS.



# MAIN FEATURES OF THE NEW SYSTEM

## Tax rates

- Reference rates set by the Senate:
  - Default rates;
  - Maintenance of the current tax burden.
- Autonomy for the federal, state, and municipal governments to set their own rates
- Rates for favored regimes defined as a percentage of the standard rates.

## Government procurements

- General rule: allocation of all revenue to the purchaser entity.
- In some cases: zero rate.

# TRANSITION TO THE NEW SYSTEM

2023

- **Constitutional Amendment No. 132, of the Tax Reform**

2024 e 2025

- **Complementary Laws that regulate:**
  - the IBS, the CBS and the Excise Tax;
  - specific aspects of IBS management and administration.
- **Ordinary Laws to define:**
  - Excise Tax rates;
  - operational aspects of the National Regional Development Fund and the Tax Benefits Compensation Fund;
- **IBS and CBS Regulation.**
- **Development of the CBS and IBS collection system.**

2026

- **Test year of CBS and IBS**, at rates of 0.9% and 0.1%, respectively, compensable with PIS/Cofins.  
  
(The payment of taxes may be waived if the taxpayer complies with the ancillary obligations)

2027

- **CBS enters into force**
- **Extinction of PIS and Cofins**
- **Extinction of IOF-Insurance**
- **Reduction to zero of the IPI rates** on all products, except those that are also industrialized in the Manaus Free Trade Zone (these represent only 5% of the total)
- **Selective Tax enters into force**

2029 a 2032

- **Transition from ICMS and ISS to IBS via gradual increase in the IBS rate and gradual reduction of ICMS and ISS rates:**
  - 10% in 2029
  - 20% in 2030
  - 30% in 2031
  - 40% in 2032
  - 100% in 2033

2033

- **Full application of the new model and extinction of ICMS and ISS**

# STATES AND MUNICIPALITIES

- Transition in the distribution of revenue to the states and municipalities:
  - 50-year transition:
    - Decreasing portion distributed according to the current share in the revenue;
    - Increasing portion distributed according to the new system.
  - Additional 20-year period for major losers.
- Creation of a Regional Development Fund as an alternative to the tax benefits.
- Tax Audits: autonomy with coordination.

# IMPORTS AND EXPORTS

## IMPORTS

- Treatment similar to a domestic supply for:
  - Intangible goods and service;
  - Small shipments.
- Treatment as imports for other tangible goods.

## EXPORTS

- Full exemption for the export supply chain.
- Intangible goods and services.
- Tangible goods.

### Mandatory Registration for Non-Residents

Non-resident suppliers must register and collect IBS/CBS on supplies provided within the country.

Digital platforms, even if non-residents, are responsible for registering, collecting and remitting IBS/CBS on supplies made through them.

If the supplier is a non-resident, the platform is responsible to collect IBS/CBS on the supply. The non-resident supplier is exempt from registering for IBS/CBS if making supplies only through platforms.

If the supplier is a resident, the platform is jointly liable if the supplier is not registered for IBS/CBS or does not issue an electronic invoice.

# CASHBACK FOR LOW-INCOME FAMILIES

- Direct benefit for families with a monthly **income of up to half a minimum wage per capita**, integrated into the Unified Registry.
- Refund of:
  - **100% of CBS and 20% of IBS** for the purchase of gas cylinders (13 kg) and utility bills for electricity, water, sewage, and piped gas;
  - **20% of CBS and IBS** on other products.
- Establishment of **refund limits** to ensure compatibility between refund amounts and family income.
- **Federative autonomy preserved**: subnational entities may, through specific law, set higher percentages (up to 100%).

Cashback is a mechanism that follows international best practices: more effective, fair and efficient.

# CONSTITUTIONAL IMMUNITY AND EXEMPTIONS

## NOT TAXABLE, EXEMPT OR SUBJECT TO CONSTITUTIONAL IMMUNITY

- Communication services in the form of **broadcasting of sounds and images** received free of charge and for no consideration.
- **Books, newspapers, periodicals and the paper** intended for their printing.
- Supplies provided by **political parties; trade unions; non-profit educational and social assistance institutions; religious entities and temples of any religion**, including their welfare and charitable organizations.
- Supplies between members and **cooperative societies**, provided that such supplies are intended to achieve their social objectives.
- Urban, semi-urban, and metropolitan **public passenger transport services**: exempt.

# PRE-EXISTING SPECIAL REGIMES

- **Simplified Tax Regime for Small Businesses (Simples)**
  - Option to remain under the current system or collecting/remitting IBS and CBS under the regular regime.
  - In both scenarios, when Simples businesses supply goods or services to other companies, those **purchasers may claim input tax credits** equivalent to the tax charged on the goods or services.
- **Manaus Free Trade Zone (ZFM) and Free Trade Areas (ALC):** continuation of tax incentives and benefits for IPI (Industrialized Product Tax) on a list of products currently manufactured within the ZFM, ensuring these regions retain a competitive advantage over others.

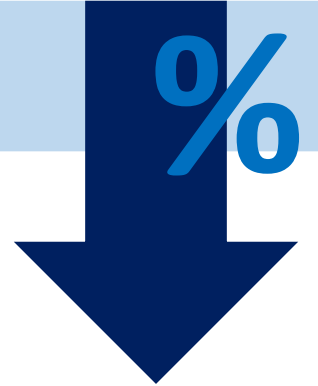
# DIFFERENTIATED REGIMES

## ZERO-RATED GOODS AND SERVICES

- **Food for human consumption:** basic groceries (including vegetables, fruits, eggs, meat, fish, cheese, and salt)- list.
- **Medicines, medical devices and accessibility devices** for people with disabilities (list).
- **Basic menstrual health products.**
- **Passenger vehicles** purchased by people with disabilities, those on the autism spectrum, or by taxi drivers.
- Services provided by a **non-profit Scientific, Technological and Innovation Institutions.**
- **Higher education services** (Prouni) – CBS only.
- Supply of goods and services provided under an **international treaty or convention.**



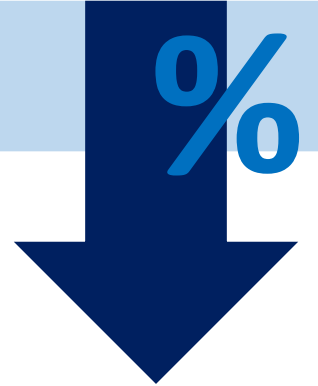
# DIFFERENTIATED REGIMES



## REDUCED RATE OF 60% (40% of the standard rate)

- **Educational services** (list).
- **Health services, medical devices and accessibility** for people with disabilities (list).
- **Medicines** not subject to zero-rate.
- **In natura** agricultural, aquaculture, fishing, forestry and plant extractive products .
- Typical **inputs** for agricultural and aquaculture (list).
- **Food for human consumption:** extended list of basic groceries (list).
- Personal **hygiene and cleaning** products primarily consumed by low-income families (list).
- **National artistic, cultural, event, journalistic and audiovisual productions** (list).

# DIFFERENTIATED REGIMES



## REDUCED RATE OF 60% (40% of the standard rate)

- Certain **sporting activities**.
- Supplies related to **urban rehabilitation projects** for the recovery and conversion of historic and critical areas.
- Goods and services related to **sovereignty and national security**, information security and cybersecurity (list).
- Certain **Institutional communications**.

## REDUCED RATE OF 30% (70% of the standard rate)

- Supplies provided by **intellectual professionals** in scientific, literary, or artistic services, subject to regulation by a professional council.

# DIFFERENTIATED REGIMES

## PRESUMED INPUT TAX CREDIT

- **Rural producers** with an annual revenue below R\$3.6 million and integrated rural producers who choose not to be a registered suppliers: their purchasers will receive a presumed input tax credit.
- Self-employed **cargo transporters**: purchasers will receive a presumed input tax credit.
- **Supplier of waste and other materials destined for recycling**, reuse or reverse logistics, who are individuals, cooperatives or other forms of popular organization: purchasers will receive a presumed input tax credit.
- Purchasers of **used goods intended for resale** will receive a presumed input tax credit.
- **Members of cooperative societies or supplies between cooperatives**, as long as they are associated to achieve social objectives.

# SPECIFIC REGIMES

- **Margin-Based Services:** financial services (credit, financial intermediation and foreign exchange; securities; leasing; consortium administration; insurance, etc.), health care plans and games of chance:
  - **special calculation of the taxable base;**
  - input tax credits allowed for suppliers;
  - input tax credit for purchasers subject to certain criteria;
  - the IBS/CBS rate will be calculated based on the actual tax burden for the sector.
- **Fuels:** single-phase regime with uniform rates (specific tax rate - *ad rem*) throughout the national territory
  - differentiation by product;
  - input tax credits allowed for the purchaser (except distributors or resellers).

# SPECIFIC REGIMES

- **Supplies of real property:**
  - **taxable amount will be reduced:**
    - i) by the value of the real property as of Dec 31, 2026, on sales made after this date; or
    - ii) by the purchase amount for properties acquired after Jan 1st, 2027, from non-registered suppliers.
  - Supplies of real property will be subject to a **reduced rate of 60%** of standard rate and rentals will be subject to a **40% of standard rate.**
  - **Deduction of R\$100.000,00** from the taxable amount for new residential properties.
  - **Supplies made by suppliers not subject to the regular regime are not taxable** (e.g. individuals supplying real property outside the scope of commercial activities).

# SPECIFIC REGIMES

- Supplies of **food and certain beverages prepared by bars and restaurants.**
- Services related to **leisure and tourism activities** (hotels, amusement and theme parks, travel and tourism agencies).
- **Public passenger transport services:**
  - **inter-municipal/interstate;**
  - **regional air transport:** reduced rate;
  - **autonomous Football Society;**
  - **tax exemption for foreign tourists:** IBS and CBS paid will be refunded.

Input tax credits allowed for suppliers but not allowed for purchasers; the IBS/CBS rate will be calculated based on the sector's current tax burden.

# EXCISE TAX (Selective Tax - ST)

## TAXABLE SUPPLIES

- Polluting vehicles, vessels and aircraft (differentiated rates for sustainable vehicles).
- Tobacco products (ad valorem rate + *ad rem* rate).
- Alcoholic beverages (ad valorem rate + *ad rem* rate).
- Sugary beverages.
- Mineral goods (maximum rate of 0.25%).
- Games of chance.

**The Excise Tax aims to discourage the consumption of products and services harmful to health and the environment.**

## TAX RATES

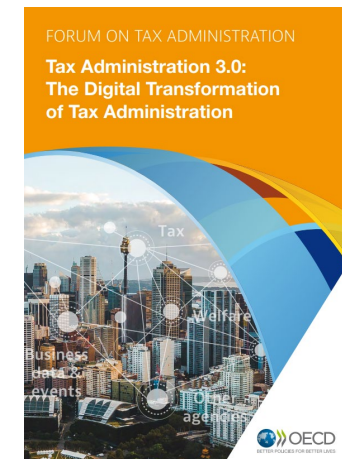
- Rate definitions will be determined by ordinary legislation.

# TAX ADMINISTRATION 3.0: THE DIGITAL TRANSFORMATION

## OECD

### TAXATION INCORPORATED INTO TAXPAYER'S NATURAL SYSTEMS

The Adaptation the tax process to fit taxpayers' natural systems will facilitate compliance by design, and “taxes will simply happen”.



OCDE, Forum de Administração Tributária  
[OECD Forum on Tax Administration | OECD.pdf](#)



# MAIN FEATURES OF THE NEW SYSTEM

**System based on an advanced electronic invoicing system.**

## **Management committee**

- Collection of IBS, tax refund and revenues distribution.
- For suppliers: only one entity for registering and collecting IBS.
- Harmonization of Interpretation.
- Coordination of subnational tax administration responsibilities.
- Main governance body:
  - 27 state representatives, and
  - 27 municipal representatives.

## **Input tax credit linked to settlement (*previous payment*)**

- Transaction-by-transaction control.
- **Settlement Methods:**
  - Use of input tax credits/use of tax credits.
  - Remittance by the supplier.
  - Split payment.

# MAIN FEATURES OF THE NEW SYSTEM

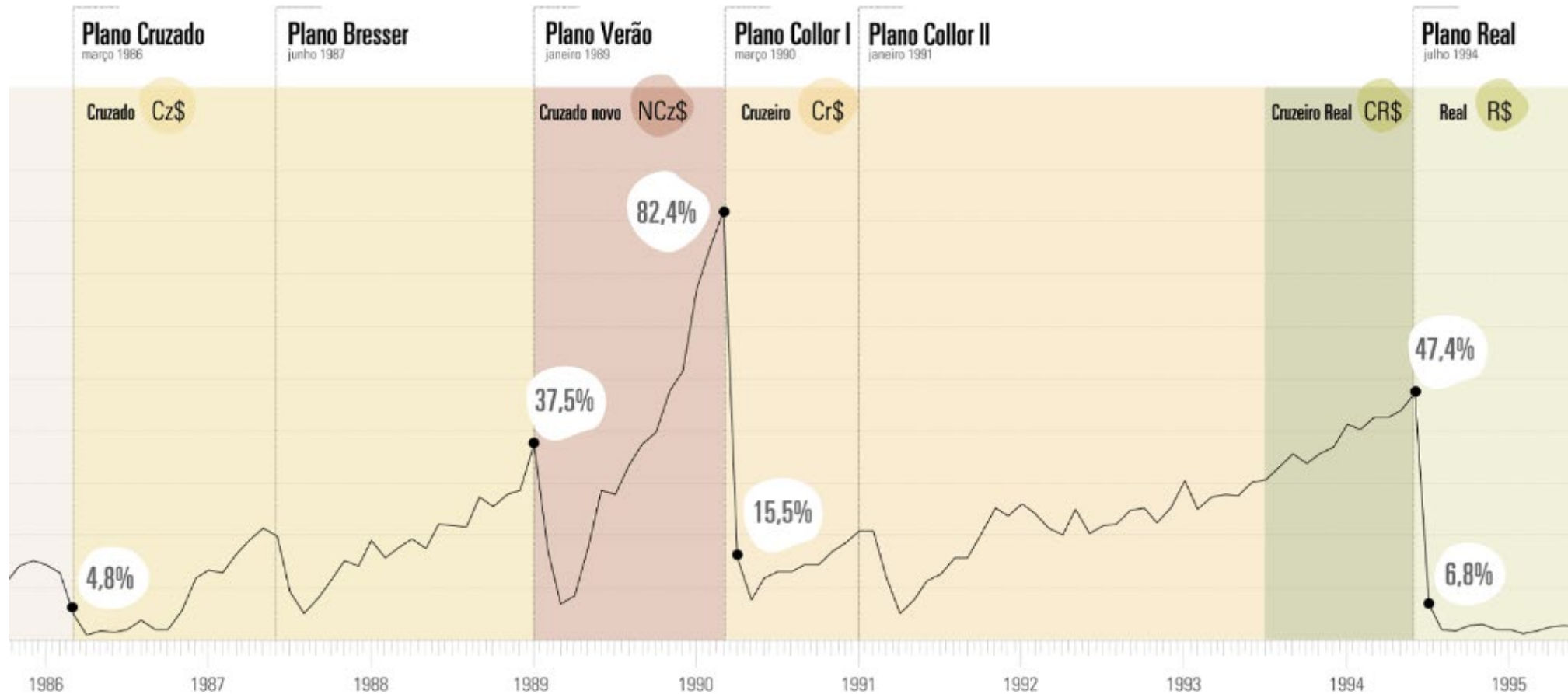
## Method of implementing destination-based taxation with the Management committee

- Transaction-by-transaction control.
- IBS collected on B2B transactions will not be distributed.
- Allow the IBS implementation at the Municipal level.

## Operationalization

- Registration with unique identification.
- Monthly return filings and remittances.
- Optional pre-filled returns.
- Compensation and reimbursement:
  - Assessment within 30 or 60 days:
    - Investments (goods and services incorporated as fixed assets);
    - Suppliers that are usually in a reimbursement position.
  - Assessment within 180 days in other cases.

# DECADES OF HYPERINFLATION FOSTERED A ROBUST FINANCIAL SYSTEM IN BRAZIL



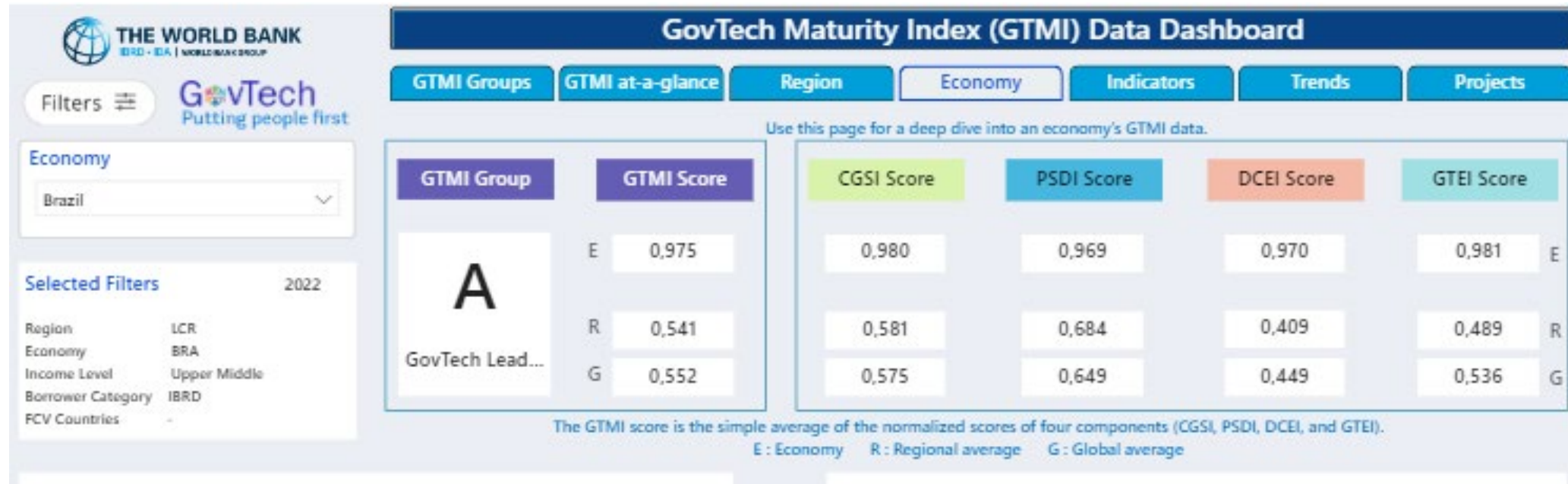
# USING PIX IN BRAZIL



Street vendor at  
the traffic light

# PRE-CONDITIONS: DIGITALIZATION OF THE ECONOMY AND GOVERNMENT SERVICES

Brazil was recognized by the World Bank as the world's second most mature country in digital government, according to the [GovTech Maturity Index 2022](#),

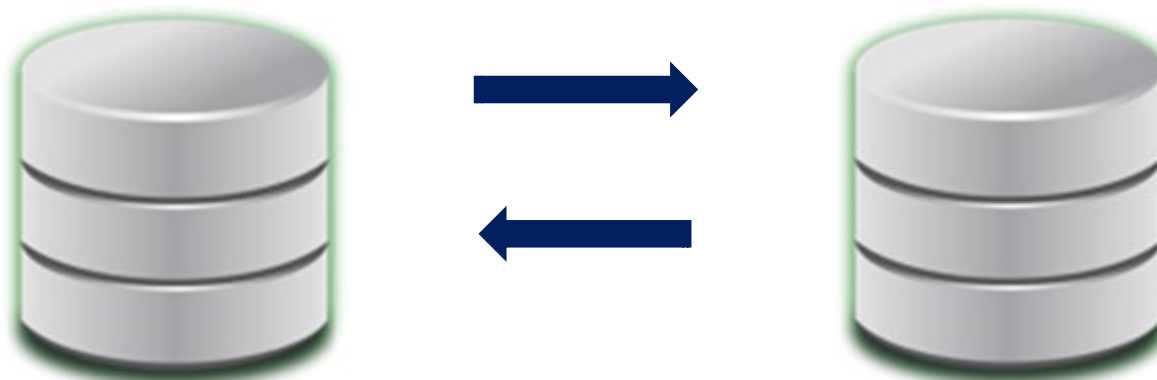




# PRE-CONDITION: ELECTRONIC FISCAL DOCUMENTS



Synchronized Repositories



# DECLARATION THROUGH FISCAL DOCUMENT

The taxpayer of IBS and CBS must issue an electronic fiscal document with a declaratory nature, which will constitute an acknowledgment of the IBS and CBS amounts owed as stated in the fiscal document.

# IBS/CBS FINANCIAL CREDIT

The utilization of credit is contingent upon verification of the actual collection of the tax, provided that:

- the purchaser is able to make the payment of the applicable tax on their acquisitions, or
- The tax is collected during the financial settlement of the transaction.



# INSTALLMENT PAYMENT OPTIONS



## Intelligent Split :

- According to the rates of goods and services traded;
- According the taxpayer's debt.



## Simplified Split :

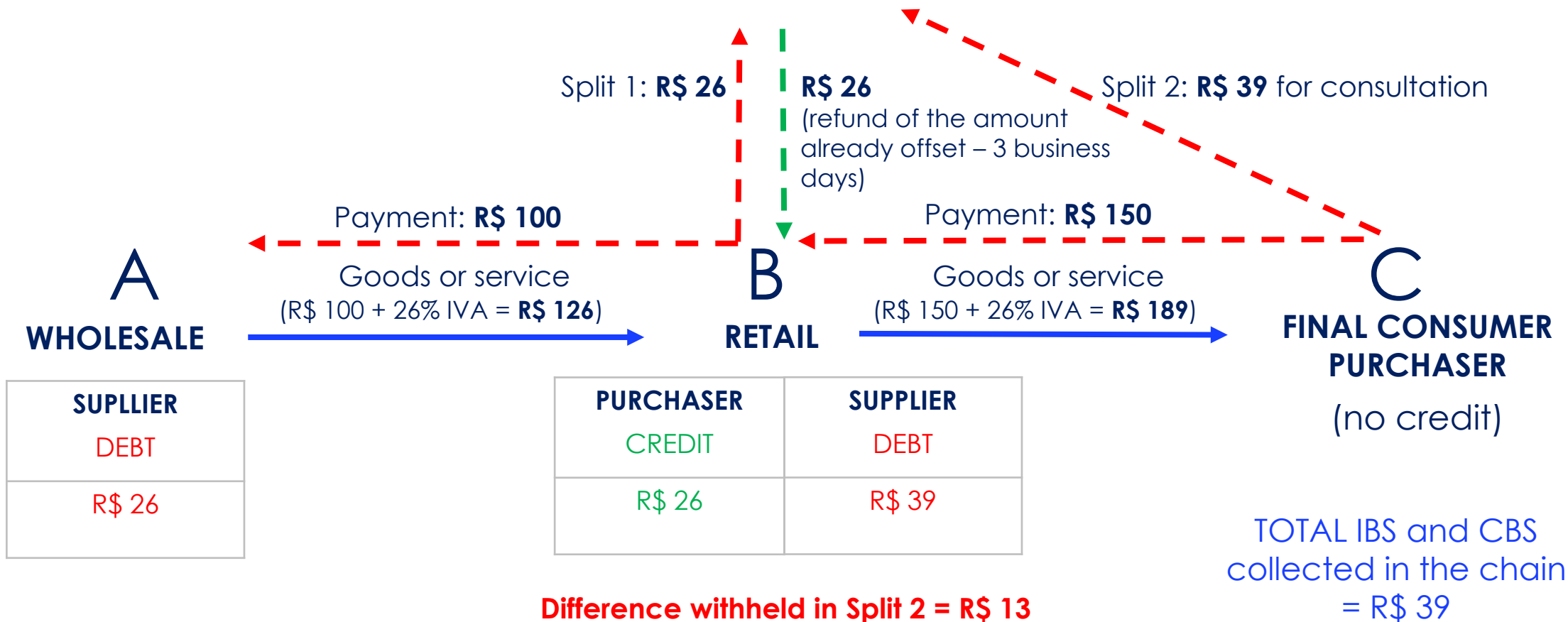
- For all transactions;
- By economic activity.



## Manual Split

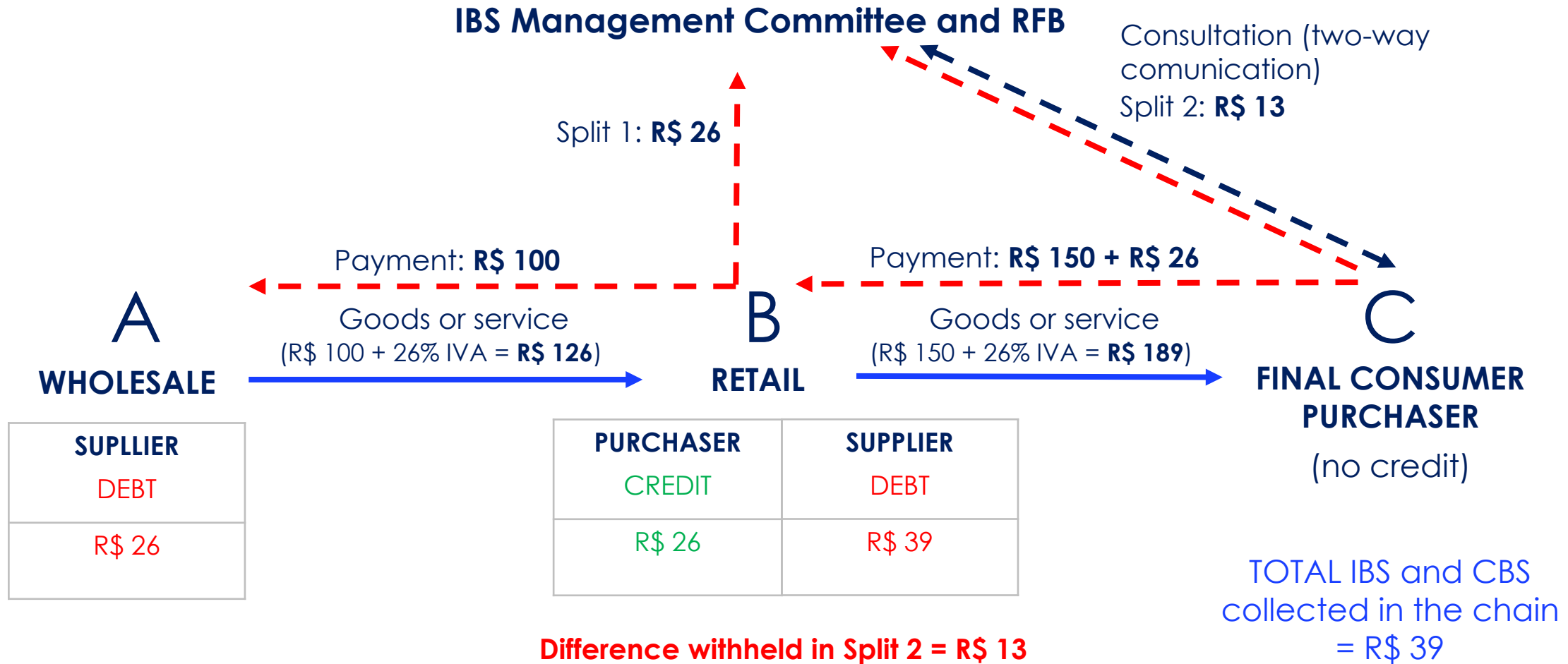
# EXAMPLE 1 | SMART SPLIT (offline)

## IBS Management Committee and RFB



**IBS + CBS = 26%**

# EXAMPLE 2 | SUPER SMART SPLIT



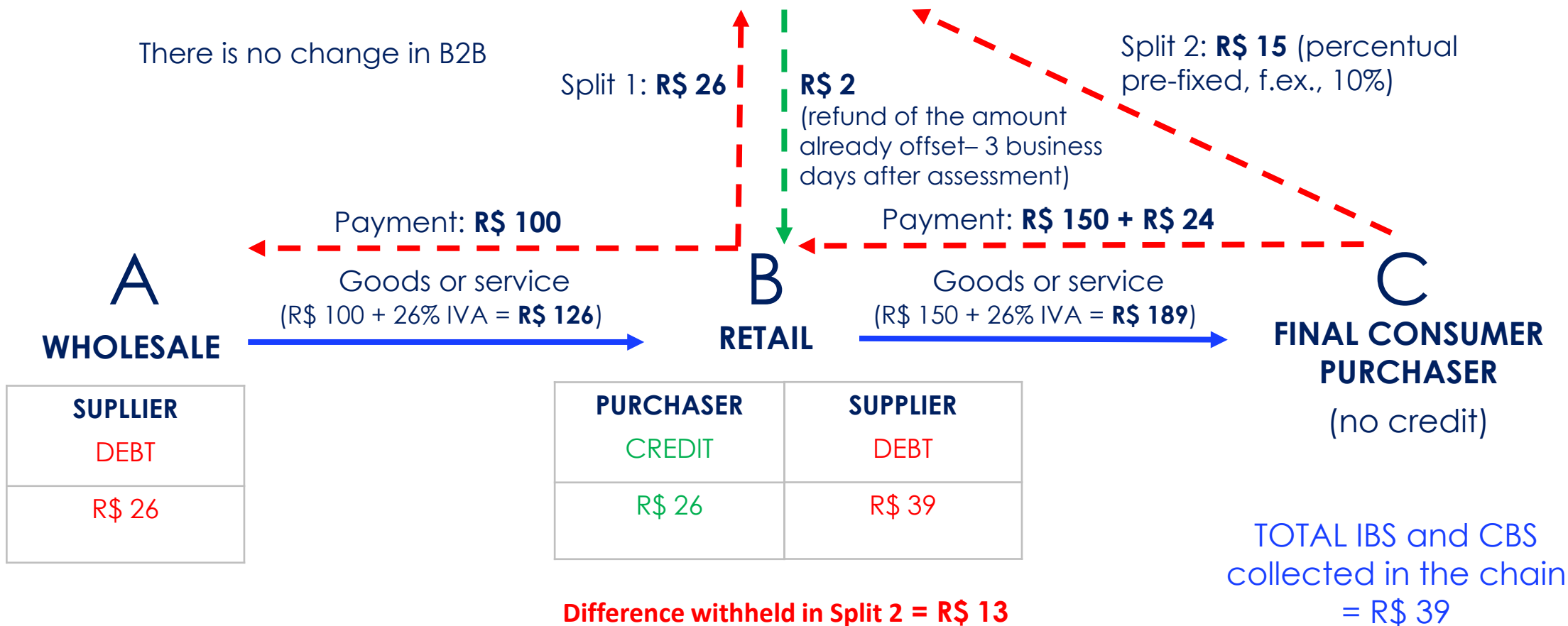
**IBS + CBS = 26%**

# EXAMPLE 3 | SIMPLIFIED SPLIT (retail)

With payment of the difference

## IBS Management Committee and RFB

There is no change in B2B



**IBS + CBS = 26%**

# Taxpayer Portal – CBS calculation

## Operações de Crédito

+ Documento Fiscal

Período

JAN/1900

Total de Créditos: ⓘ  
R\$ 1.000.000,00

Total de Créditos Ativados: ⓘ  
R\$ 1.000.000,00

Total de Créditos Não Ativados: ⓘ  
R\$ 1.000.000,00

### Operações



<input type="checkbox"/>	Data	Documento Fiscal	Situação	Total de Crédito	Créditos Não Ativados	Ações
2 Item Selecionado						
<input type="checkbox"/>	01/01/1900 23:59:59	Lorem ipsum dolor	Activated	R\$ 1.000.000,00	-	
<input checked="" type="checkbox"/>	01/01/1900 23:59:59	Lorem ipsum dolor	Partial	R\$ 1.000.000,00	R\$ 500.000,00	
<input checked="" type="checkbox"/>	01/01/1900 23:59:59	Lorem ipsum dolor	Not activated	R\$ 1.000.000,00	R\$ 1.000.000,00	

# FINANCIAL SERVICES REMUNERATED BY MARGIN

- Unification of Electronic Services Declaration from Financial Institutions - DES-IF: a monthly declaration already required by many municipalities to calculate ISS - Service Tax, which is cumulative.
- Margin calculations are already performed to determine cumulative PIS and Cofins for financial institutions.

# ASSUMPTIONS OF TAX AUDITING



Autonomy of tax authorities and their prerogatives.



Possibility of joint actions for promoting self-regulation and tax auditing.



Use of borrowed evidence for tax requirement.

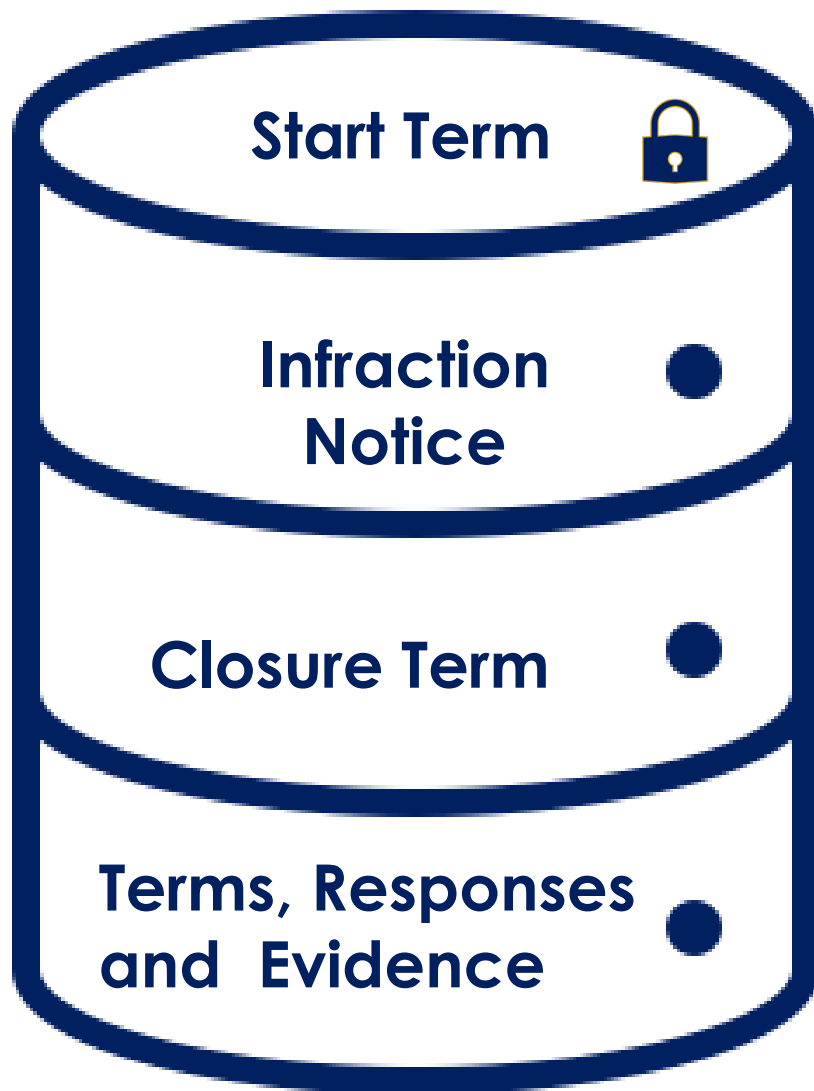


No prevention of jurisdiction.



Electronic Tax Residency.

# SHARED ENVIRONMENT



## Municipalities



## States



## Union





# ASSUMPTIONS

Reciprocal delegation of IBS and CBS tax auditing activities in small-value tax processes.

Does not characterize the start of the tax procedure:

- data cross-checking;
- Monitoring;
- Exploratory.

Notices of procedural acts will be issued through the DTE, including when addressed to legal representatives.

Legal Presumptions.

Special Tax Auditing Regime – REF.

# FISCAL DOCUMENTS

Employment of existing fiscal documents, with full sharing between federative entities according to national standards.

# CONSTITUTIONAL AMENDMENT N° 132, DE 2023

Art. 156-B. States, the Federal District, and Municipalities will exercise their jurisdiction, in an integrated through the **Goods and Services Tax Management Committee**, according to the limits set by this Constitution and complementary law, the following administrative competences related to the tax referred to in the art. 156-A:

I - **edit unic regulations and standardize the interpretation and application of the tax;**

.....

§ 6° The **Goods and Services Tax Management Committee**, the Union's tax administration, and the Attorney General's Office of the National Treasury will share tax information and **will act with the aim of harmonize rules, interpretations, ancillary obligations and procedures related to the taxes provide for in arts. 156-A e 195, V.**

.....

§ 8° Complementary Law **may will predict for the integration of the litigation administrative** related to taxes provides for in arts. 156-A e 195, V."

# REGULATION OF IBS AND CBS

- Competence of the Goods and Services Tax Management Committee and the Union to issue the respective regulations.
- Common provisions for both taxes and their amendments:
  - Approval through a joint act of the Goods and Services Tax Management Committee and the Head of the Federal Executive, incorporating these provisions in the respective regulations.

# TAX ADMINISTRATION HARMONIZATION COMMITTEE

- 4 Representatives from the RFB;
- 4 Representatives do GGIBS (States, Federal District and e Municipalities);
- Decision by consensus; and
- Alternating Presidency between RFB and CGIBS.

## Tax Administration Harmonization Committee responsibilities:

- Standardize regulation and interpretation of IBS and CBS legislation related for common matters;
- Prevent litigations related to the common norms applicable to IBS and CBS; and
- deliberate on ancillary obligations and common procedures related to IBS and CBS.

The resolutions approved by the Committee bind the tax administrations.

# FORUM LEGAL HARMONIZATION FOR ATTORNEY GENERAL'S OFFICE

- 4 Representatives from the Attorney General's Office of the Ministry of Finance (PGFN);
- 4 Representatives from the Attorneys General of states and municipalities indicated by CGIBS;

- Decision by consensus;
- Alternating Presidency between Attorney General's Office of the Ministry of Finance and Attorneys General of states and municipalities

## Responsibilities of the Legal Harmonization Forum:

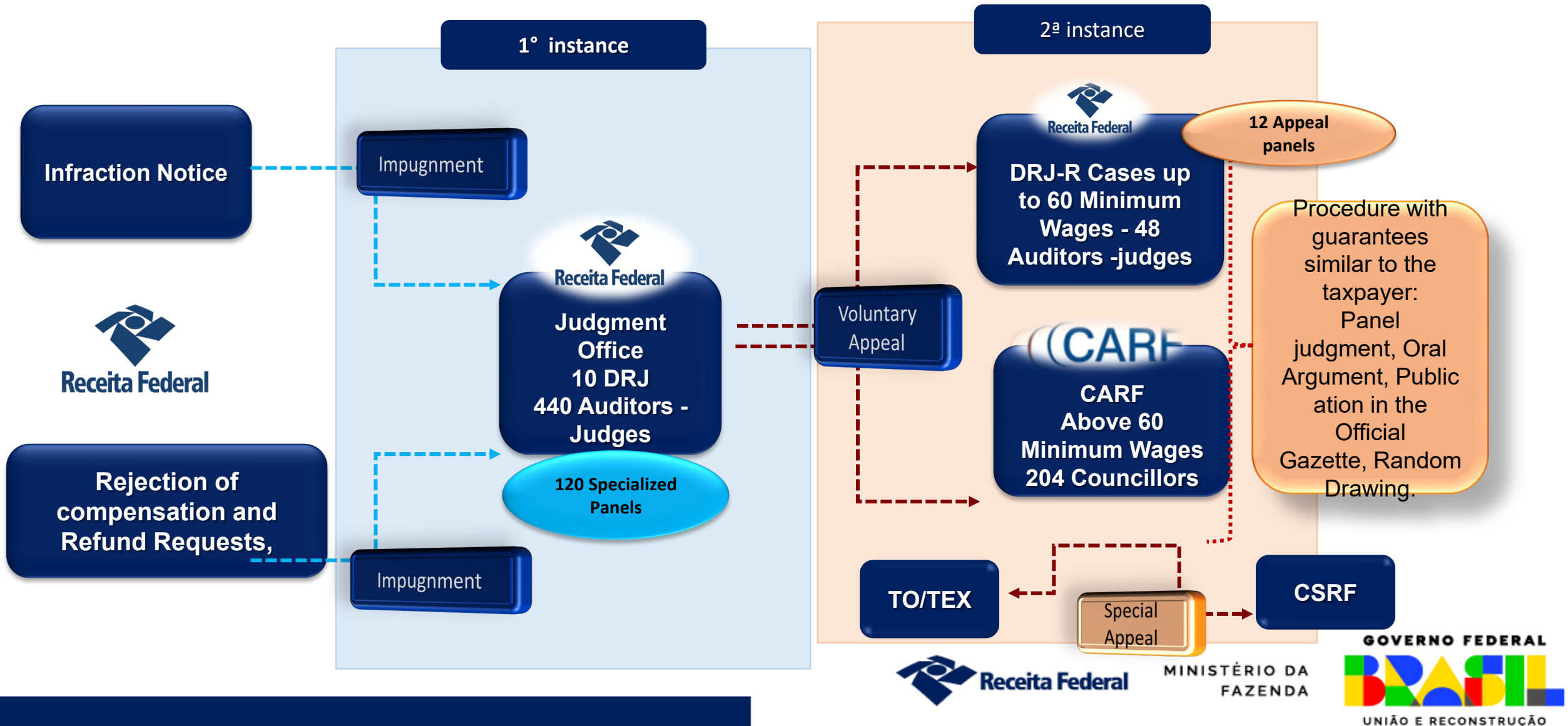
- act as an advisory body to the Tax Administration Harmonization Committee in activities related to standardizing and interpreting common rules applicable to IBS and CBS; and
- analyze relevant and widespread legal controversy related to IBS and CBS raised by:
  - The President of the IBS Management Committee; and
  - The highest authority in the Ministry of Finance.

The resolutions approved by the Forum bind Attorney General's Office of the Ministry of Finance as well as the Attorneys General from the Municipalities, States and the Federal District.

# IBS AND CBS LITIGATION

- There are no provisions for integrating IBS litigation with CBS litigation.
- Therefore :
  - litigation involving the Union will be governed by federal legislation;
  - IBS litigation will be governed by Complementary Law Project No. 108/2024, which includes specific rules for this tax;
  - exception: low complexity litigation established through agreement.

# ADMINISTRATIVE PROCESS





# IBS Litigation Structure

- Three levels of judgment organized by federative unit state and federal district, ensuring equal representation between the group of States and the Federal District, and the group of Municipalities and the Federal District in all instances, as well as ensuring parity of taxpayer representative entities.
- It is the responsibility of the States, the Federal District, and the Municipalities, in an integrated manner and exclusively through the CGIBS, to decide on the administrative litigation related to IBS, together with taxpayer representative entities.

# Harmonization of Administrative Jurisprudence for IBS and CBS

- The harmonization of IBS and CBS will be ensured by the **Tax Administration Harmonization Committee**, according to complementary law of IBS and CBS. **The decisions of this Committee shall have a binding effect on the administrative decision-making bodies.**
- The Tax Administration Harmonization Committee shall mandatorily consult the Legal Harmonization Forum of the Attorneys' Offices, which must participate in the meetings of the Tax Administration Harmonization Committee.

# Harmonization of Administrative Jurisprudence for IBS and CBS

- Uniformity in administrative jurisprudence for IBS and CBS will be carried out by the Tax Administration Harmonization Committee related to IBS and CBS through submission by the following authorities:
  - President of the IBS Management Committee; and
  - The highest authority of the Ministry of Finance.
- The decisions made by the Tax Administration Harmonization Committee shall have binding effect.

# THANK YOU!

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