



**DOING  
BUSINESS  
IN  
BRAZIL**

Updated until Nov 30<sup>th</sup>, 2017

## **I - INTRODUCTION - CHARACTERIZATION OF BRAZIL**

### **I.1 Geopolitics**

Brazil has an area of 8.5 million square kilometers and is located in South America, being the fifth largest country in the world. It represents approximately 50% of the area of the South American Continent.

Neighborhood: Brazil has direct frontiers with all countries in South America, except Ecuador and Chile.

Internal structure: the country has five regions: the North (consisting basically in the Amazon Region), the North-East, the Central-West, the South-East (where the cities of São Paulo, Rio de Janeiro and Minas Gerais are located) and the South (with the states of Rio Grande do Sul, Santa Catarina and Paraná).

Language: the language of the Country is Portuguese.

Population: the population in Brazil in 2017, according to the IBGE (official statistics institute) is about 212 million people, formed by a large percentage of children (almost one third).

Approximately 83% of the population lives in the cities, not in rural areas.

Currency: The Brazilian currency is the Real, since 1994. In the past, the country presented significant inflation, but in the last 18 years the situation seems to be relatively under control (occurring, however, first the depreciation of the Real between 1998-2004 in comparison with the US-dollar and the Euro, and between 2004-2009 a strong appreciation of the Real took place, except as per the Global Crisis Oct/2008 - Sept/2009). The process of appreciation of the Real was retaken as of Jul/2009 on, with some level of volatility, specially during the political crisis year 2015, 2016 and 2017.

### **I.2 Governmental Aspects**

The country has as form of government a Federal Republic, with twenty-six states and the Federal District.

In law aspects, there is a hierarchical division: Federal level, State level and Municipalities level, with Executive, Legislative and Judiciary Divisions.

Federal Level: the country is governed by President, Mr. Michel Temer, vice-president elected by direct vote, with term until 2018, together with the National Congress (Chamber of Deputies and Federal Senate), all submitted to the Federal Constitution.

State Level: Each state has a Governor, together with the State Deputies and according to the rules of the Federal and State Constitutions. Each state has its own Constitution.

Municipalities level: Each city has a certain level of autonomy, being represented by a Mayor, together with the municipal deputies ("vereadores").

The Judiciary Power is exercised by the Federal Supreme Court, the Superior Court of Justice, the Federal Court system as well as separate courts for military, electoral and labor matters. There is a State Court System with local jurisdiction.

### **I.3 Infra-structure Main Aspects**

Energy: the electrical energy is one of the most critical items in terms of infra-structure. The service is supplied partially by governmental organs and partially by private organizations, and has presented problems in terms of capacity of suppliance in the last years. A partial privatization of the sector is under discussion.

Telecommunications: the control, which priory was performed essentially by the government, nowadays is almost totally privatized, being the supply of the service generally adequate and technologically well developed.

Courier and Transport: The post service is generally adequate, being diffused in large, medium and small cities. There are also private messenger services in big cities. Transportation by air is fast but quite expensive, being adopted in emergencies or for goods of insignificant volume and/or higher prices. Regular international services are provided by national and foreign airlines to all parts of the world. Transport through ships is largely used for other countries where the location is applicable. Railroad facilities are underdeveloped, being the principal lines located in the State of São Paulo. Some highways are being privatized, generating higher costs of transportation but a better structure. Subway systems are operating in the cities of São Paulo and Rio de Janeiro, and alternative transit systems are being developed in other major cities. Commuter bus services remain the principal means of public transportation.



## **II - OPPORTUNITIES AND PARTICULARITIES FOR FOREIGN INVESTORS**

### **II.1 Current Situation**

Brazil has lack of capital to supply the needs of the country and its population. Consequently, foreign investment (if not for short terms applications) can become object of tax incentive by the Government.

In general, foreign investments require no prior requests to the Public Organs, except if the Company abroad intends to obtain any form of incentive. There are some exceptions, especially in the air transportation sector, public health, television, press as well as mining and financial institutions, being more adequate to check before the development of a whole project.

### **II.2 Public Policies**

The main objectives of the current Government are to encourage consumption and increase the volume of consumption of all population classes, mainly the lower classes (C, D, E), aiming to achieve economic growth with the increase of internal market. With the facilitation of imports and the devaluation of the foreign currencies compared to the Real, the national industry no longer enjoys state protection.

Nationally, in 1994 the Federal Government implemented the "Plano Real", an economic reform plan which reduced inflation rates based on the strength of the Federal Government's foreign currency reserves coupled with credit restrictions which raised interest rates. Initially, a certain redistribution of income to the lower class occurred, generating a consumption boom. In order to control inflation caused by this consumption, in the following year the interest rates were increased and the credit was restricted. These procedures had as consequence the reduction of the levels of the economy, which has been growing slowly since then. During the basically Socialist Government of President Lula (2002-2010), there was an incentive to social policies and a minimum governmental free aid ("bolsa-família") to the poorest class, activating the internal consumption level. However, the government has not reduced the public deficit, which compromises the effectiveness of the economical targets, implicating in the always present risks of return of the inflation.

Internationally, Trade with other countries in South America has increased significantly in the past few years, since the creation of a common market with Argentina, Paraguay and Uruguay (Mercosul) in 1991. However, all the countries involved still adopt several protectionism decisions to each country, making the effectiveness of the Market a nightmare.

### **II.3 Antitrust law and unfair trade practices**

Antitrust legislation defines currently more than twenty anti-trust violations, including tying arrangements, boycotts, and price fixing. In addition, Brazilian law states that a company or group of companies is presumed to hold a dominant position when it controls 20% of its market. Although dominance of a particular market is considered a violation, law allows the company to justify its position by proving that greater efficiency or productivity led to this situation. Merger and acquisition contracts which may limit or harm competition must be submitted to CADE for prior examination. The right of private parties to seek redress in court, concurrently with the administrative process, are foreseen by Brazilian Law.

Antitrust law has adopted the concept of the consent decree from U.S. antitrust law and also allows preliminary injunctions. Sanctions include substantial fines. The lack of clear precedent on issues such

as the definition of the relevant market and the requirement of proof of intent has caused some uncertainty.

## **II.4 Foreign Exchange Transactions**

Miscellaneous: The Brazilian Real (R\$) is not freely negotiable, and foreign currency may only be purchased for authorized transactions. Foreign exchange transactions are submitted exclusively to the control of the Central Bank of Brazil, which authorizes some Financial Institutions to operate, having, thus, a monopoly in regards to foreign currency. All foreign exchange transactions shall be made through a registered broker. An illegal black market operated in an organized way, but is being strongly combated by Brazilian Federal Police.

Registration of Capital: Brazil uses a system for the register of foreign capital together with its exchange control regulations. In order to allow the remittance of dividends, and to assure the eventual repatriation of the original capital and subsequent reinvestment, foreign investors shall comply with the foreign capital registration rules determined by the Central Bank of Brazil. As far as an initial investment is concerned, the rules are fairly straightforward. Rules involving the registration of reinvested profits are somewhat more complex, but do not involve significant effort or cost on the part of the investor.

Capital contribution: Capital in Brazil includes economic benefits in any form, and accordingly, foreign capital contributions include cash, credits, goods, services, and intangibles. In practical terms, usually, investments in cash and previously registered (before the Central Bank of Brazil) credits are more usual for initial investment purposes. Investments in form of assets and the capitalization of balances payable for goods supplied by foreign associated companies are eventually possible, but very complex, demanding special statements, valuations and other source registers.

The registration of intangibles is not well accepted and demands also a long valuation proof procedure.

Repatriation of capital: The Central Bank has adopted the following procedures regarding the repatriation of registered foreign capital:

Sale of investment: Sale proceeds up to the amount of the registered foreign capital can be repatriated immediately. In case of any capital gain, the Brazilian Tax Authority reserves it self the right to review the sales price for the reasonableness of the transaction, taking the financial condition of the company into consideration. Once this review is satisfactorily completed, the portion of the sales proceeds relating to the capital gain can be converted into foreign currency and repatriated, after payment of withholding tax.

When payment is made outside Brazil, the purchaser may register the transfer of ownership, but he will not obtain a registration for any amount paid over the registered amount.

Capital reduction: The Central Bank will reduce the foreign capital registration in proportion to capital refunded to stockholders. For capital write-offs to absorb accumulated deficits, the Central Bank will only reduce the local currency equivalent of the registered amount and the number of shares/quotas owned by the foreign investor.

Liquidation of the investment: Investment Liquidation distributions are treated in the same manner as distributions of sales proceeds. If after the completion of the liquidation, any investment remains registered as foreign capital, the Central Bank of Brazil will cancel this investment, deeming it a realized loss on the investment.

Dividend remittance: Generally, there is no limit on the amount of profits that may be remitted, although law specifically recognizes the right of the Brazilian Government to restrict remittance of currency, in case



of a severe balance-of-payments crisis.

Financial Operations: the foreign investors, when qualified as “non-resident investor in Brazilian financial & capital market”, might benefit from lower taxation.

## II.5 Restrictions on Foreign Investments

Some specific areas, as health insurance services, TV and press, mining, aviation, "inter alia", have investment limits to foreigners. Foreign investors can currently maintain only a minority participation in media, financial institutions and insurance companies, but may acquire control of financial institutions provided they get a prior authorization from the Central Bank of Brazil, or under a reciprocal agreement. There are restrictions on some foreign participation in activities subject to national security concerns.

There are also tax restrictions and overcharges on investments and operations with countries located in the "Brazilian Black List of Tax Heavens (BBLTH)", or in any companies without economical substance, no matter where they are located. The BBLTH comprehends initially the following jurisdictions, where the existence or inexistence of economical substance is irrelevant:

I.	Andorra	XXXV.	Mashall Islands;
II.	Anguilla;	XXXVI.	Mauritius Islands;
III.	Antigua and Barbuda;	XXXVII.	Monaco;
IV.	Netherlands Antilles;	XXXVIII.	Montserrat Islands;
V.	Aruba;	XXXIX.	Nauru
VI.	Ascension Islands;	XL.	Niue;
VII.	Commonwealth of the Bahamas;	XLI.	Norfolk Island;
VIII.	Bahreïn;	XLII.	Panama;
IX.	Barbados;	XLIII.	Pitcairn Islands;
X.	Belize;	XLIV.	French Polynesia;
XI.	Bermuda Islands;	XLV.	Qeshm;
XII.	Brunei;	XLVI.	American Samoa;
XIII.	Campione D'Italia;	XLVII.	Western Samoa;
XIV.	Channel Islands (Alderney, Guernsey, Jersey and Sark);	XLVIII.	San Marino;
XV.	Cayman Islands;	XLIX.	Islands of St. Helena;
XVI.	Cyprus;	L.	Saint Lucia
XVII.	Singapore;	LI.	Federation of Saint Christopher and Nevis;
XVIII.	Cook Islands;	LII.	Saint Pierre and Miquelon Island;
XIX.	Republic of Costa Rica;	LIII.	Saint Vincent and the Grenadines;
XX.	Djibouti;	LIV.	Seychelles;
XXI.	Dominica;	LV.	Solomon Islands;
XXII.	United Arab Emirates;	LVI.	St. Kitts e Nevis; (revoked as from 13/09/2016)
XXIII.	Gibraltar;	LVII.	Swaziland;
XXIV.	Grenada;	LVIII.	Switzerland;
		LIX.	Sultanate of Oman;

XXV.	Hong Kong;	LX.	Tonga;
XXVI.	Kiribati;	LXI.	Tristan da Cunha;
XXVII.	Lebuan;	LXII.	Turks and Caicos;
XXVIII.	Lebanon;	LXIII.	Vanuatu;
XXIX.	Liberia;	LXIV.	United States Virgin Islands;
XXX.	Liechtenstein;	LXV.	British Virgin Islands;
XXXI.	Macau;	LXVI.	Curaçao (Included in 13/09/2016)
XXXII.	Madeira;	LXVII.	Sint Maarten; (included in 13/09/2016)
XXXIII.	Maldives;	LXVIII.	Ireland – (included in 13/09/2016)
XXXIV.	Isle of Man;		

Uruguay, Denmark, Netherlands, Iceland, Hungary, United States of America, Spain, Malta, Switzerland and Austria (also regarding Holding Companies), are in an intermediary position, i.e., there are restrictions for certain investments from these countries.

## **II.6 Technical and Registration Aspects of Intellectual Property:**

Brazil is signatory of the Berne Convention for the protection of copyrights. Brazil also signed the Universal Convention on Copyrights, which protects literary and art works, and has a specific body (INPI - Brazilian Intellectual Property Institute) which is strictly focused on this issue.

**Trademarks:** The registration of a Trademark in Brazil is required to guarantee the protection of ownership rights. Trademarks that have not been registered previously, with certain exceptions, can be registered at the INPI (Brazilian Intellectual Property Institute).

**Patents:** Brazil is a signatory of the Paris Convention, and an invention, to be protected, must be patented in Brazil. Therefore, citizens or companies of other signatory countries which have filed for patents in their home country have an exclusive right to apply for patents during certain periods, depending on the nature of the property.

**Licensing:** All license contracts must be registered at the INPI. The license must be used commercially within five years of registration at the INPI.

Royalty payments cannot be remitted abroad, except if underlying contracts for transfer of technology are previously approved by the INPI and duly registered before the Central Bank of Brazil. INPI registration is also a requisite for tax deductibility (Corporate Income Tax).

### III - BUSINESS ENTITIES

Law and Brazilian regulation on the constitution and standards for business companies in Brazil are very similar when stockholders are foreign or national entities.

For a business entity to exist, written articles of incorporation (either public or private) must be registered before the Board of Trade. A separate registration is required for each State where the entity has branches.

Brazil is not part of the "Den Haag" Treaty on Apostille. Therefore, all official documents from abroad, in order to be valid in Brazil, need to be submitted to a Brazilian Consulate abroad before coming to Brazil. There are some specific exceptions, like France, where a reciprocal Treaty dispenses this additional notarization.

#### III.1 Forms of Business Organization

The most appropriate type of organization for any particular business depends upon various issues, such as the nature of the business and the desired capital structure. However, foreign investment will normally be conducted either through a limited liability company (sociedade por quotas de responsabilidade limitada) or a corporation (sociedade anônima).

##### a) "Sociedade Limitada" (Limited Liability Company)

Minimum Capital and Members: No legal minimum-capital amount is required. If the Company needs to apply for specific registers, including an "Import or Export Permit", however, a minimum capital will be established on a case-by-case verification.

Generally is recommended for foreign investors to establish small to medium size firms, when the size of the Newco. is still not known.

At least two members (natural persons or legal entities) are mandatory. 100% of the Capital Stock may be owned by foreigners. However, in this situation a duly authorized representative resident in Brazil of each foreign stockholder must be appointed and empowered to receive writs of legal process.

The foreign partners of Brazilian companies shall be registered in the Brazilian Federal Tax Registry, defining a representative with power of attorney, with residence in Brazil, to represent them before Tax Authorities and before Trade Register Authorities.

Capital Registry at the Central Bank of Brazil: Transfer of the original share capital from a foreign country to Brazil is usually easy, being required only the notification and registration of the investment at the Central Bank of Brazil (Banco Central do Brasil). The registry is required, among others, to allow an eventual return of capital, as well as future distribution of profits resulting from investments. The capital is registered in the original currency, and the registry must be done by the company receiving it in up to 30 days after the arrival of capital in the Banking Institution.

Management: In the Company Contract (Articles of Constitution or Incorporation) shall be defined who shall carry out the management and representation of the Company. Otherwise, all the partners jointly take over the management. The appointment of one or several managers, who are not partners, is allowed. In case of appointment as manager of a third person, the partners can and should reserve for



themselves certain decision rights, which should be included in the Articles of Incorporation. The manager may be designated for an undetermined period, but can be appointed also for a certain period.

If the partners have their domicile abroad, a manager resident in Brazil must be defined, because the business management is only permitted to be carried out by a natural person resident in Brazil.

**Foreign Members Compliance:** If one of the partners is a foreign corporate person, the proof of the existence of this corporate person, and the legitimation of its representatives is required (statement arising from the foreign Trade Registry), as well as a power-of-attorney certified by a public notary, of the previously mentioned commercial representatives and also of the representative before the tax authorities. All these documents must be legalized by a Brazilian Consulate in their original country, and translated by a sworn translator enrolled before the Brazilian Board of Trade.

Subsequently, the Articles of Incorporation as well as the required supporting documents are presented to the local Board of Trade of the state where the company has its headquarters. In case the company owns subsidiaries in other states, the registry must also be accomplished there. At the presentation the company receives its number of inscription NIRE (Número de Inscrição no Registro de Empresas).

With the registry in the Trade Registry, the company acquires legal personality as a corporate body. Immediately, the Federal Tax Number -CNPJ- must be requested to the Brazilian Federal Revenue Service (Receita Federal do Brasil). Other registries ought to be accomplished before the State Tax Authority and, at the Municipality, to request the Trade Permit (alvará de funcionamento), and possibly also in relation to the City Service Tax (ISS). The registry of possible trademarks and patents at the Brazilian Intellectual Property and Patent Institution -INPI is recommended.

The period for the constitution of a company is normally one to three months, depending upon the complexity of each case.

#### b) Corporations ("Sociedades Anônimas")

If some degree of public ownership is contemplated, it shall be necessary to adopt the "sociedade anônima", equivalent to the corporation in the United States.

**Main disadvantage of the corporation:** Disclosure of Corporate Meetings and Resolutions as well as balance and financial statements in newspapers, annual accounts and minutes of shareholders' meetings. The destination of 5% (five percent) of its profits of the fiscal year to a Legal Reserve (until the fund equals 20% of capital stock) is also mandatory.

**Structure:** The organization and its operation must be in accordance with Law 6.404/1976, amended by Laws 9.457/97, 10.303/2001, 11.638/2007 and 11.941/2009, among others.

The Securities Commission (CVM) regulates the transfer of shares of publicly-held companies. A publicly-held corporation must be registered before the Securities Commission (CVM) to enable its stock to be quoted in the stock exchange. The CVM's function is broadly equivalent to that of the Securities and Exchange Commission in the United States and the Securities Exchange Board in the United Kingdom. The stock of a closed corporation is not publicly traded.

**Capital Stock:** Divided into negotiable share units. Each share is indivisible in relation to the company.

The Bylaws establish the number and unit value of shares and can also provide for future capital increases up to authorized limits.

**Management:** The Bylaws attribute responsibility on behalf of administrative duties solely to the Board of Directors or to an Administrative Council in conjunction with the Board of Directors. The Bylaws indicate the number of members of each body, their term of office (which cannot exceed three years, although they may be re-elected), and how they can be replaced. Individuals may not be eligible for administrative positions under certain circumstances such as due to specific laws or criminal records.

**Administrative Council:** It is mandatory only for publicly-held companies (with stocks traded in the Stock Market) and corporations with Bylaws that provide for future capital increases up to authorized limits (at least 3 members, resident in Brazil or not).

**Board of Directors:** It is always mandatory and it is responsible for executing the policies laid down by the Administrative Council or by Shareholders' Meetings and is the sole body that can represent the company in relation to third parties. It must be composed of two or more individuals resident in Brazil, shareholders or not, elected by the Administrative Council or, in the absence of a council, by the Shareholders' Meeting. Up to one-third of the Council members may also be Board members.

**Fiscal Council:** It is a non-mandatory council, responsible for supervising the performance of the Administrative Council and the Board of Directors. A Fiscal Council must have a minimum of three standing members and three alternates, who must be individuals resident in Brazil and with a University Degree or similar requirements.

**Remuneration of Directors and of Administrative and Fiscal Council members:** The amount of remuneration is determined by the shareholders. In deciding the amount of such remuneration, attention should be paid to the degree of responsibility assigned to each position, the time spent in executing his or her functions, individual competence, professional reputation and market for each type of professional. Consequently, remuneration must be established in accordance with consistent criteria.

**Profit Participation:** Dividends may be paid out of accumulated earnings, profits and unrestricted reserves. Preferred dividends may also be paid out of certain capital reserves subject to authorization in the Bylaws. Shareholders have the right to receive a compulsory minimum dividend as established in the Bylaws. If the Bylaws are silent in regards to that, a compulsory dividend of 25% (twenty five percent) of the profit must be paid.

**Required Financial Statements:** Balance sheet, income statement, statement of retained earnings, indirect method cash-flow and, depending upon the size of the company, a corporate Balance normally based upon the value-added statement. The format of such statements is being converged since 2008 into IFRS and is not so far from the format generally used in the United States, modified according to Brazilian specificities. Financial statements shall be presented together with remarks, as well as with the figures of prior years for comparison purposes.

## IV - BUSINESS TAXATION

### IV.1 General Aspects

The Brazilian Federal tax system is managed by the Receita Federal do Brasil (Federal Revenue Service)- RFB, which is part of the Ministry of Finance (Ministério da Fazenda) and comprehends also the Social Security Charges Division - called "INSS". States and municipalities have similar bodies, but without "INSS", which consists of the unique Federal Authority responsible for the social security of workers.

### IV.2 Federal Corporate Income Taxes

#### a) Corporate Income Tax

Amplitude of the Brazilian Taxes over Income: regarding corporate taxes over income, profits and capital gains earned in other countries shall be recognized for Brazilian income taxes calculation purposes ("Universal Taxation System").

Tax Year: It determines mandatorily the calendar year (1st January to 31st December). Annual Income Tax Reports have to be submitted up to July 31th of the following year.

Tax Rates: the basic rate of Corporate income tax is 15% and there is a surcharge of 10 % for all corporate entities on annual taxable income over R\$ 240,000.

Tax Fines: prior to 1995, tax credits and obligations were adjusted by a government tax index. From 1995 onward, tax credits and obligations are calculated in local currency (Brazilian "Reais"). The minimum fine for overdue federal taxes is 0,33% per day up to 20% depending upon the period in arrears. Interest on overdue federal taxes is charged at a floating rate (SELIC) plus 1%. Assessed tax deficiencies are subject to a 75% fine. If fraudulent intent is proven, the fine is increased to 150%. When business entities are in arrears with any federal taxes or social security contributions, they are prohibited from distributing bonus shares to their stockholders or from paying any profit participation to "quotaholders", partners, directors, or administrative councils. Businesses which owe back taxes, are also subject to restrictions in bidding for government contracts and may encounter difficulties in several other aspects, such as when applying for a work permit on behalf of a foreign citizen.

#### b) Social Tax on Net Profit (CSLL) (Also Known As Corporate-Social Income Tax)

Tax introduced to fund social and welfare programs and is paid in addition to the corporate income tax.

Rate: currently 9%

Payment of the social contribution follows the same procedures applicable to the corporate income tax.

c) Additional Tax Ad-Valorem - Adjustments From Corporate Accounting Profit Into Taxable Profit

The following additional adjustments apply to Income Taxes (letters "a" and "b"):

- equity pick-up adjustments are made for investments in related companies;
- non-deductible provisions are added back;
- dividends received from other companies are deducted;
- revaluation reserve realized during the tax year is added;
- income not received on long-term contracts with government agencies may be deferred;
- debenture, employee, founders, and administrators participations as well as contributions to employee retirement funds may be deducted.

d) Additional Ad-Valorem Tax - Adjustments From Corporate Accounting Profit Into Taxable Profit  
Transfer Pricing

Brazil has double taxation treaties in force with various countries. The main method of tax relief under the treaties is the reduction or elimination of withholding taxes rates on dividends, royalties and loan interest payments remitted abroad. The lower of the treaty or domestic tax rate will apply.

e) Transfer pricing rules: according to Law 9.430/1996 and further amendments. Considers all operations between related parties (associated companies) and transactions with residents in tax heaven countries, as well as transactions with exclusive distributors.

In 2012, Law No. 12.715/2012 came into light, which made changes in the calculations and criteria to be used for transfer pricing adjustments. These changes became mandatory from fiscal year 2013 and on, with the optional use for the year 2012.

The principal aspects of transfer pricing regulation are:

e.1) A company domiciled in Brazil is considered related to:

1. its parent company domiciled abroad;
2. its branch or subsidiary domiciled abroad;
3. an individual or legal entity domiciled abroad holding at least 10% of the share capital or control of the Brazilian company;
4. a legal entity domiciled abroad in which the Brazilian company holds at least a 10% participation or has voting control;
5. a legal entity domiciled abroad which is under common corporate or administrative control with an entity domiciled in Brazil or when at least 10% of the capital of each belongs to a common shareholder;
6. a legal entity or individual taxpayer, residing or domiciled abroad, which jointly with the entity domiciled in Brazil owns capital of a third corporate entity which characterizes this holding as controlling or subsidiary holding (10% or more of the capital or power to appoint administrators);
7. a corporate or individual taxpayer residing or domiciled abroad associated, in a consortium or condominium in any undertaking, as defined by Brazilian law;
8. an individual taxpayer residing abroad who is a consanguineous relative or related to the third degree, spouse or companion of any director, partner or controlling owner in a direct or indirect participation;
9. the exclusive agent, distributor or concessionaire for the purchase and sale of goods, services or rights residing or domiciled abroad or in relation to whom the corporate entity in Brazil acts as such.



## e.2) Transfer price calculation

Imports: In operations with related parties, costs, expenses and charges on goods, services and rights are only deductible for tax purposes up to the reference amount determined by one of the following methods:

- I. Comparable Uncontrolled Price Method, whereby a reference price is arrived at by calculating the average of similar or identical purchase and sale operations between unrelated parties, in the Brazilian market or the market of other countries, under similar payment conditions.
- II. Resale Price Method: Until the issuance of Law No. 12.715/12, the method of Resale Price Less Profit - PRL, forced companies importing goods for resale to use profit margin of 20%, and the ones importing of products to be processed, the margin of 60%.

With the changes there is no more difference between calculation and profit margins in operations dealing with resale or processing. However, the proportionality of the sale price based on the participation of the imported item in the final price of the product must be used, as it was used in case of transformation (margin of 60%).

The new margin percentages were established by sectors of the industry, distributed as follows:

- Margin of 40% for:

- a) manufacture of pharmaceutical chemicals and pharmaceuticals;
- b) manufacture of tobacco products;
- c) manufacture of optical, photographic and cinematographic equipment;
- d) trade of machinery, apparatus and equipment for use in dentistry, medicine and hospitals;
- e) extraction of oil and natural gas, and
- f) manufacture of petroleum products.

- Margin of 30% for:

- a) manufacture of chemicals;
- b) manufacture of glass and glass products;
- c) manufacturing of cellulose, paper and paper products, and
- d) metallurgy.

- Margin of 20% for:

- a) the other sectors.

- III. Cost Plus Profit Method, whereby a reference price is arrived at by calculating the average cost of production in the country where they were originally produced, plus taxes and charges imposed by that country on exports and a profit margin of 20 per cent is calculated.
- IV. Price under Import Listing Method (PCI), this method was established by Law No. 12.715/12,

and should be used when importing commodities.

Based on this method, the prices of imports of these products have as parameter the prices on commodity exchanges in future internationally recognized markets.

Through specific regulation, the Brazilian tax authorities set which products are subject to commodities, as well as the stock exchanges and research institutes to be observed for price comparison purposes.

The adjustment will be through the average price.

The averages above are calculated considering the prices practiced and the costs incurred during the entire tax year.

Freight and insurance costs will be included if they are the responsibility of the importer. Import-related taxes are also included.

The amount exceeding the price arrived at through one of the above methods is added back to net profits to determine taxable earnings or deducted from the basis for depreciation and amortization charges.

Exports: When the average sales price of goods, services or rights, on exports to a related party is lower than 90% of the average price charged when the same goods, services or rights are sold in Brazil, during the same period and in similar financial conditions, revenues from exports are subject to arbitration. If the company does not make sales in the Brazilian market, the average prices will be determined based on data of other companies that sell similar or identical goods, services or rights in the Brazilian market.

For the purposes of comparison, the sales price in the Brazilian market is calculated net of unconditional discounts granted as well as taxes on sales and exports, after deducting freight and insurance charges, if these are paid by the exporter.

When the sales price of exports is lower than the mentioned limit, revenues from exports sales must be determined based on the amount calculated according to one of the following methods:

- I. Comparable Uncontrolled Price Method, which compares the sales price with the average export sales price on exports to non-related parties of similar or identical goods, services or rights during the same tax year period and under similar payment conditions.
- II. Wholesale Price Method, which compares the sales price with the wholesale market price of identical or similar goods sold on the wholesale market of the country to which the product is exported, under similar payment conditions, less sales taxes in that country and a profit margin of 15 per cent on the wholesale price.
- III. Retail Price Method, which compares the sales price with the average price of identical or similar goods sold between unrelated parties on the retail market of the country to which the goods are exported, under similar payment conditions, less sales' taxes in that country and a profit margin of 30 per cent on the retail price.
- IV. Cost Plus Method, compares the sales price with the average purchase cost of the goods, services or rights exported, plus Brazilian taxes as well as contributions and a 15% profit margin.
- V. Price under Export Listing Method, this method was established by Law No. 12.715/12, and should be used when exporting commodities.

Based on this method, the prices of exports of these products have as parameter the prices on commodity exchanges in future internationally recognized markets.

The adjustment will be through the average price.

The averages will be calculated for the tax basis period of the Brazilian company.

If the price arrived at using one of the methods above is lower than the import sales price, the latter will be used.

When more than one method is used, the lower amount will be final.

The amount exceeding the price arrived at through one of the above methods is added back to the net profit to determine taxable or deducted earnings from the basis for depreciation and amortization charges.

The Finance Ministry can change the aforementioned percentages under certain circumstances.

e.3) Intercompany loans: among other aspects emanating from Law No. 12.715/12, one that impacted most was the change in the application of transfer pricing rules in intercompany loans.

Based on the changes, ALL contracts are subject to the rule of the transfer price, including contracts regularly registered with the Central Bank of Brazil - BCB, which were not subject to this rule, though they did apply the rules contained in legislation on "thin capitalization".

The margin shall be calculated based on the LIBOR rate for a 6-months-terms + market-oriented Margin Percentage Spread (to be defined by the Finance Ministry). Currently, the spread is determined in 3,5%.

e.4) Support documentation

Average prices and costs must be calculated based on:

- publications, official government reports or tax authority statements of the country of the buyer or seller, when that country and Brazil maintain bilateral tax treaties to avoid double taxation and economical complementation;
- research performed by well-known and highly reputable institutions or technical publications where the sector, period, companies researched and profit margins are specified. These publications must identify the company and the data used as a basis for the study.
- in order to confirm the prices of the imported goods, it is allowed the presentation of a specific independent external auditors report, in which it is observed that the cost value of the acquisition of goods was registered in accordance with the Brazilian law, along with the enumerative report of the commercial invoices of products' acquisition by the related supplier company.

To be admitted as proof, publications, research and official reports must have been prepared in accordance with generally accepted international valuation and appraisal methods. They may be disqualified by a tax authority decision if considered inconsistent or unreliable.

e.5) Tax heavens

The price, costs and interest rules mentioned above are also applicable to transactions of a corporate entity or individual taxpayer, resident or domiciled in Brazil, with any corporate or individual taxpayer, whether or not related, resident or domiciled in a country that does not have income taxes or levies

income taxes at 20% or less.

In the case of individual taxpayer residing in Brazil, the following rules are applicable:

- The amounts recognized as cost and expenses of imports will be considered as cost of acquisition for capital gains purposes;
- Export rules will apply when calculating the sale price for capital gains purposes;
- The price of services rendered in accordance with export rules will be classified as taxable earnings;
- Interest determined according to the applicable rules will be considered as taxable earnings.

#### f) Thin Capitalization Tax Ad-Valorem

Brazilian Act 12.249/2010 (originated from former MP 472/2009) introduced into the Brazilian Taxation System a "Thin Capitalization" ad-valorem on the Brazilian Corporate Income Tax (IRPJ) and Social Income Tax (CSLL). By means of this control, interests paid to foreign entities may not be tax deductible or only partially tax deductible.

Often Brazilian Companies borrow money from linked companies abroad, which may or may not be stockholders in the Brazilian firm, because interest rate and other financial conditions might be more favorable. Thin Capitalization occurs when the level of third capital is higher to some Brazilian standards, when compared to the level of own capital. If this situation is configured, interests paid on these loans are deemed to be considered totally or partially non-deductible towards IRPJ and CSLL calculations.

According to Law 12.249/2010, if a loan occurs with any linked person or company located in a country listed on the BBLTH (Brazilian Black List of Tax Heavens), a cap interest limit of 30% on the Net Share Equity (own capital) is to be considered.

If the related individual or company is located in any other country (not listed in the Blacklist) and it is also a shareholder of the Brazilian entity, it must be taken proportionally according to the percentage shareholding of the foreign grantor shareholder as a limit, not exceeding 2x (twice) the value of the direct participation.

If the linked person or company who grants the loan is not member of the Brazilian Entity, the cap interest limit shall be 200% of the Net Share Equity (own capital) of the Brazilian Company.

### **IV.3 Immediate Withholding Taxes**

#### a) Loan Interests and Royalties Remittance to Foreign Countries

Standard rate of 15% or at the applicable treaty rate.

For royalties, 15% withholding as well as a 10% Contribution of Intervention in the Economy (CIDE).

Payments for services made to beneficiaries in tax heaven countries are subject to a 25% withholding income tax.

A zero withholding income tax rate is available (subject to eventual government approval):

- For sea and air charter, demurrage, container and freight payments to foreign companies;
- For aircraft and ship leases;
- On commissions paid by exporters to their agents abroad;
- Payments relative to hedging operations;



- Interest and commissions on export notes;
- Interest and commissions related to credits obtained abroad for export financing.

#### b) Tax on Dividend Distributions

There is profit exemption since 1996. Nevertheless, with entrance in force of Law No. 12.973/2014, which made several amendments in the Tax Law, especially regarding adjustments arising from the adoption of international accounting standards, the tax exempted profits to be distributed as dividends shall be determined only by the tax regulations (“taxable profit”). When the distributed profits exceed the tax profit, (difference from accounting adjustments), the difference shall be taxed.

#### c) Operations with Foreign Transfers Involving Related Parties (Acquired or prorated Services)

The operations of a legal entity with its respective shareholders, "quotaholders", related companies, partners, directors or their relatives living abroad, involving the payment of services or their apportionment shall be made based on the fair value. Revenues related to those issues are taxable to the recipient and shall or shall not be deductible for tax purposes of the legal entity in Brazil.

#### d) Income of Investments

The income from fixed-income investments is subject to a withholding tax of 22,5% up to 15% (depending on the time of investment), while income from investment in the stock exchange is subject to a withholding tax at the rate of 10%.

The capital gains due to sales of shares in market and of future assets, performed by nonresident investor, are exempt from taxation. However, if the investor has main seat in a tax Heaven, over the net profits, there shall be taxation of 15% regarding Income Tax.

Accordingly, the gains in financial operations in different modalities offered in the country, are subject from exemption to taxation up to the rate of 25%.

#### e) General Expenses and Commissions

Commissions and other payments made by a corporation are only tax deductible if the corresponding transactions are specified, documented, and the beneficiaries are identified. If not, these payments are subject to a withholding tax at the rate of 35%, which must be grossed-up. In the case of other business entities, any commission, payment of undocumented bonuses, etc. are characterized as payments to the owners and taxed accordingly.

#### f) Return of Foreign Investment

Income earned by nonresidents on the return of their capital investment up to the amount of the foreign capital registered with the Central Bank of Brazil is free of tax. Capital gains by non-residents are subject to 15% withholding income tax.

#### g) Loans and their Taxation

The loans in Brazil undertaken between two companies (borrower and lender), regardless they are related or not, are subject to progressive IRRF tax rates, on the remuneratory interests, in accordance with the term of the agreement that may vary between 22,5% (until 180 days) and 15% (above 720 days), being the lender the responsible to collect the tax.

IOF also levies on these operations, in three modalities according to the case. When the loans have:

1) Value and term defined: IOF levies at the rate of 0,0041% per day, limited to 365 days (1,4965%), plus 0,38% on the total available;

2) Value defined and term indefinite: IOF levies at the rate of 0,0041% per day, limited to 365 days (1,4965%), plus 0,38% on the total available;

3) Value and term indefinite (considered as "current account"): IOF levies at the rate of 0,0041% per day, plus 0,38% on the amount available, without limit of days (consecutive days).

In the case of renewal of a loan classified in the condition 1 and 2 above, as long as a new contribution of values does not occur, IOF is to be maintained to the maximum rate of 1,4965%. In case the initial contract determined a term less than 365 days, and the loan is extended until 365 days or more, the complementation to the tax shall be made until reaching 1,4965%. In case the limit has already been reached (1,4965%), there will be no taxes to be paid.

#### IV.4 Indirect Federal Taxes

##### a) Brazilian Federal Value-Added Tax (Excise Tax )(IPI)

Tax on Industrialized Products (IPI) excise tax is paid basically on all goods manufactured in Brazil or imported from other countries.

The tax is paid upon import or manufacture of a product. Credit is given with respect to the IPI tax paid on the raw materials or component parts used in the finished product or consumed in production. The difference in IPI must also be paid if the goods or products are:

- imported and sold at a higher price by the importer to a domestic purchaser;
- repackaged for sale at a higher price;
- sold at a higher price by the producer or manufacturer through a branch;
- sold through exclusive distributors, a joint venture, or through an affiliated concern.

The tax is normally charged on an "ad valorem" basis according to the classification of the product in the "Incoterm Table". Rates range from 0% to a maximum of 300% and their average is about 15%. Luxury goods are at the high end of the tax scale.

The IPI tax is passed on to the purchaser through an addition to the sales price. The amount included in the billing must be shown separately in the invoice.

All manufacturers and importers of manufactured products must register with the government revenue service and obtain licenses for payment of the IPI.

#### b) Tax over Financial Operations (IOF)

Taxes collected by financial institutions and banks regarding some specific money market transactions, loans, payment of insurance and foreign exchange contracts.

This tax is levied at different rates, depending on the maturity terms and the type of transaction, from zero to 25%.

Currently the IOF tax rate is reduced to zero on some exchange transactions.

Furthermore, there is an additional taxation of the tribute, at the rate of 0.38% for all transactions.

#### c) COFINS

This tax is described as a "social contribution" and is targeted for funding of social welfare programs. The COFINS is divided in two modalities: cumulative and non-cumulative format. In the first, the amount of the contribution is charged on "gross receipts" including income from financial investments, currency transactions, and financial transactions. In the second, only operational income compounds the calculation basis. The rates are respectively 3% or 7.6% (according to the cumulative or non-cumulative procedure adopted). The financial income, except if originated from exchange rate and monetary variations, are subject to the rate of 4% in the non-cumulative format. The exchange rate variations, due to operations with goods and merchandises from abroad or with loans and financings obtained with entities domiciled abroad, remain taxed at rate "zero".

This contribution is also due on the importation of products, at the rate of 9,65% as a general rule, being applicable an additional rate of 1% over some products. In the imports of services, the rate is of 7,6%, adjusted by the other taxes (ISS and PIS).

#### d) Employee's Social Integration Program (PIS)

Created to fund the unemployment insurance program. The fund is financed by an employer contribution of 0.65% or 1.65% (also according to the cumulative or non-cumulative procedure adopted) of gross general income. The financial income, except if exchange rate or monetary variations, are subject to the rate of 0,65% in the non-cumulative system. The exchange rate variations, due to operations with goods and merchandises from abroad, or with loans and financings obtained from entities domiciled abroad, remain taxed at rate "zero".

This contribution is also levied on imports of goods at the rate of 2,10%, as a general rule. In the import of services, the rate is of 1,65%, adjusted by the other taxes (ISS and COFINS) .

#### e) Tax over Bank Transactions (CPMF)

The tax was collected on all debit movements of bank current accounts, being the rate now of 0.38%. It was suspended as of 1st January 2008 on.

#### f) Import Duties

The taxable event is the physical entry of foreign-made goods into the country. Import taxes levied against foreign goods are used as a protectionist mechanism, with variable rates charged on the value of the goods. The classification of products for the purpose of determining the import taxes is generally based on the Harmonized Commodity Description and Coding System, developed and maintained by the World Customs Organization (OMA – Organização Mundial das Alfândegas).

#### g) Export Duties

Exports of certain agricultural and mineral products are subject to export taxes.

#### h) Land Property Tax (ITR)

The ownership or possession of real estate located outside urban perimeters is subject to taxation at varying rates, in accordance with land-use.

### **IV.5 State and Municipal Taxes**

#### a) State Governmental Value-Added Tax (ICMS)

Tax due in the moment of the physical movement of the good. Rates vary from 4 to 30%, depending on the state and type of good. The amount paid might be compensated in the following transaction, considering the whole economic cycle (horizontal plan), except for the final consumer. It is demonstrated separately in the invoice ("nota fiscal").

The interstate rate of 4% is unified for all the operations occurred in the Brazilian territory, as long as the good is 100% imported or with a import content above 40%.

Regarding national goods or with an import content above 40%, the interstate rate varies between 7% (States of the North, North-East and Espírito Santo) and 12% (other Brazilian States).

The operations occurred in the territory of the same State are subject to rates that vary between 12% and 30%, according to the State and the nature of the operation and products.

#### b) Property Transfer Tax

The transfer of real estate may be subject to a municipal tax at variable rates (from 2 to 6%). This tax is not usually levied if real estate is transferred to a corporation as a capital contribution or in a merge or in



a spin-off.

c) City Property Tax(IPTU)

The City Property Tax (IPTU) is annually assessed by municipalities on the value of the property and is normally paid by the tenant if the property is rented.

d) Service Tax (ISS)

Service Tax (ISS) is a municipal tax on gross billings for services. Services subject to the ISS are defined by federal law. The most common tax rate is 5%, although there are lower rates (from 2% on) for specific services and in some cities.

#### **IV.6 Tax Incentives**

A wide range of government incentives is available for start-up projects in Brazil. In theoretical terms, the foreign investor has same access as national ones to these incentives, but in the reality there are main discrete focuses of "hidden nationalism".

Type of Incentives: usually subsidized-rate loans financings and tax exemptions or reductions.

Regional Incentive Programs: some states offer incentives to encourage economic development in Brazil, either on a regional or industry basis, by offering taxpayers the opportunity to invest part of their tax liability and also by granting fiscal incentives for approved investments. As an example, the Manaus Duty Free Zone.

#### **IV.7 Tax Regulations Resulting from the International Accounting Standards**

Law No. 12.973/2014 (arising from the conversion of Provisional Measure No. 627/2013) brought important changes in tax regulations. Its text is wide – it contains 100 articles in total – in which a number of topics is discussed, such as the tax amortization of the goodwill, revaluation of assets (tangible and intangible), the calculation basis of PIS/COFINS (conceptualization of gross revenue – universal basis), corporate restructuring (merger, split), interest on equity capital, taxation of income earned abroad, leasing, subventions for investment, ancillary tax liabilities, tests of impairment, payment of dividends, fair value of assets and liabilities, premium earned from the issuance of securities, update of the minimum value of activation of assets, among others.

One of the main relevant aspects is referred to the introduction, by this law, in the legal system, of a set of measures to regulate the taxation of legal entities domiciled in Brazil, in relation to the equity increase resulting from the participation in profits earned abroad by subsidiaries and affiliates, and profits earned by individuals resident in Brazil through a legal entity controlled abroad.

The controlling legal entity domiciled in Brazil or its equivalent is required to register, in subaccounts of the investment account in the controlled company abroad, individualized, the accounting income of the variation in the investment value equivalent to the profits or losses earned by the direct controller and its direct subsidiaries in Brazil or abroad, for the fiscal year in which the balance was calculated, observing the proportion of its interest. It should not be included in the income of the direct or indirect subsidiaries the income of other legal entities

## **V - LABOUR ASPECTS AND SOCIAL SECURITY AND P.A.Y.E. TAXATION**

### **V.1 Personnel Aspects**

Brazil has significant labour force, but with many semiskilled or unskilled workers.

There is a shortage of management, supervisory and technical staff at disposal, in the Brazilian market.

Fringe benefits and social security costs are a significant element of the total labour costs.

Regularly, the working journey is six days a week with daily journey of 7:20 hours or five days with 8:48 working hours, a weekly basis limited to 44 hours.

Employers with continuous shifts shall not exceed 6 hours a day.

These estimates of schedule are not applicable to managers and other employees in positions of trust and responsibility.

### **V.2 Salaries**

Employees have the right to a monthly wage, and additionally to the monthly wage, they have the right to:

- 13th Salary (once a year - value of a regular wage);
- Vacations (monthly wage plus one third (1/3) of the wage value);
- FGTS (value deposited in a specific account, in a percentage of 8.0% of the regular wage, to be at disposal of the employee when he or she becomes unemployed);
- Current Minimum wage: R\$ 937 (aprox. U\$ 275).

### **V.3 Paid Vacation**

After a 12-month period, employees have right to a 30-calendar day paid annual vacation which must be taken within the subsequent 12 months. During the month of vacation, the employee is entitled to an addition 1/3 of the monthly salary. In case the legal period for the vacation has expired, that means, in case the employee does not take vacation, the employer shall pay the employee in double. There is the possibility of converting 10 days into payment to the employee. In this case, the employee will take only 20 days of vacation.

### **V.4 13° Salary (Christmas Bonus)**

At the end of each year, employees are entitled to an annual bonus equivalent to 1 month's salary.

This Christmas Bonus ought to be paid in two installments: the first until 30. November, and the second until 20. December.

## **V.5 Profit Sharing or Results**

The employees' profit sharing or the participation in the company's results is established in the Brazilian Constitution and is mandatory in some cases according to the Union Agreements. The law determines that the profit sharing or the participation in the company's results has to be granted annually, but it does not provide rules for calculating the amounts. Hence, many companies pay a fixed value, previously agreed with the employees. It is necessary to establish a formal Agreement between Company, Employees and the respective Union.

## **V.6 Overtime**

In general, compensation for overtime work is paid at a premium of at least 50% of the compensation paid for normal working hours.

## **V.7 Night Shift Additional Payment**

Employees that work between 10:00 p.m. and 5:00 a.m. are entitled to an additional payment for night work, which corresponds to an increase of, at least, 20% of the amount paid per the daily working hour.

## **V.8 Family-Salary**

A monthly allowance is granted for each employee's child under 14 years of age or to those who are disabled. Currently, the amount per child corresponds to R\$ 44,09 (approximately 13,00 dollars) for employees with salaries up to R\$ 859,98 (about 253,00 dollars), and R\$ 31,07 (approximately 9,00 dollars) for employees with salaries between R\$ 859,89 and R\$1.292,43 (approximately 380,00 dollars). Employees with higher salaries than these amounts do not have the right to this allowance paid by the Social Security.

## **V.9 FGTS**

Under the FGTS system, employers must deposit monthly, on the employees' behalf, in a blocked bank account, an amount equivalent to 8.0% of the remuneration of each employee. This deposit is borne by the employer without any discount on the employee's salary.

## **V.10 Social Security Charges**

Companies must pay to the National Institute of Social Security (Instituto Nacional do Seguro Social - "INSS"), an amount equivalent to 20% of the total payroll (monthly remuneration paid to all employees). In addition to this, some 8% to 11% (depending on salary levels and up to the limit of about R\$ 608,44) of the employees monthly salary is withheld by the employer to be paid to the government.

From December/2011, the Brazilian government implemented a tax reform with the purpose of reducing taxes on payroll, and various branches of industry, services and information technology, received the

allowance to collect the INSS at the rate of 2,5% to 4,5% on gross revenues of these activities instead of 20% on the monthly remuneration paid to employees. This taxation method is not mandatory to the Company.

In some cases, however, it is noted that the new system raises the taxation, diverging from the initial intention of the federal government.

### **V.11 Insurance Against Labor Accidents**

Payment of insurance by employers against labor accidents is normally due at rates which vary from 1% to 3% of the total remuneration paid to employees, depending on the "level of risk" presented by the type of activity of the company.

### **V.12 Education-Salary**

Employers are also required to pay to INSS (a social security fund), a monthly contribution to "education-salary" equivalent to 2.5% of the total remuneration paid to employees.

### **V.13 Third Party Contributions**

Payment to specific institutions, such as the National Institute of Agrarian Reform - INCRA, Social Service of Commerce - SESC, Social Services of the Industry - SESI, Brazilian Service of Support to Small Businesses - SEBRAE, National Commercial Training Service - SENAC, and Industrial Training Service - SENAI, with total percentage of 5.8% of the total remuneration paid to employees.

### **V.14 Other Additional Payments**

- The payments contractually agreed between employer and employee, since it is legally provided;
- Additional remuneration due to employee for unhealthy or dangerous working conditions. This is paid only to a position in which there is an obligation to pay established by a Report of Working Conditions.
- Weekend remuneration (Sundays and Holidays);
- Remunerated absence (sickness, maternity-leave, marriage, military service and electoral service enrollment, etc.);
- Labor union fees.

### **V.15 Union Definition**

Any company that has employees needs to have its Union defined according to its main activity. There is a Union that represents the employees and a Union that represents the economic activity of company. Therefore, the Unions are divided according the type of activity. An annual agreement negotiated between the parties establishes rules that are legally enforceable. Usually this agreement determines the rate of salary raise which shall be complied with.



In recent years, as a general rule, these raises have been the same as the official inflation index, in some cases with highest rates.

## **V.16 Benefits**

Legal and/or Union Agreement Benefits:

- Transportation Vouchers - The company must provide urban public transportation vouchers to its employees that guarantees transportation from the residence to work and return with funding from the employee at a maximum rate of 6% of their monthly salary.
- Meal Vouchers - Agreement with service providers to be used by the employees for meals at restaurants. There are some Union agreements on this issue. The employees may have a salary deduction of up to 20% of the total value of the benefit. This type of benefit may be granted on a voluntary/optional basis when not determined on the Union agreement.
- Child Care Subsidy - Amount given to the female employee with children under 6 years old. Value varies starting from R\$ 125,00 (USD 37,00).
- Additional payment for working years - A percentage of the employee's salary is added to the monthly payment for every five year period working for the company. This percentage varies starting at 2%.

Optional Benefits:

- Medical and Dental Assistance/Insurance - Optional for companies. May be granted with 100% funding by the company or even 100% funded by the employee. Each company may determine the payment system for this benefit.
- Private Pension Plan
- Life Insurance

These benefits, although they may be granted voluntarily by the company, should be granted to all employees, without distinction.

## **V.17. New Labor Legislation**

New amendments to the labor legislation shall come into force as of November/2017, whose main provisions are the following:

- Bank of Hours system – Unpaid overtime may be the object of an Individual Agreement between the Employer and the Employee, for compensation in a period of 12 months.
- Home Office – Clear regulation for the contract of employees that work exclusively from home.
- Vacations – Vacations can be split in up to three periods, since one of them last at least 14 days.
- Intermittent employment contract – Rules provide the possibility of contracting an employee in seasonal periods and under a neither non-exclusive nor habitual manner.
- Award's payment – The payment of an award or allowance dissociated from integration into the salary with no effect on the payment of vacation or on the 13<sup>th</sup> salary.
- Termination of contract – The obligation of the Union's homologation of the termination of contract of an employee with more than one year working in the company is extinguished.
- Union Dues – The compulsory obligation of discount of one day of salary from the Payroll of the employee for the Union's collection is extinguished.
- Outsourcing – Clearer and more flexible rules to contract under the Outsourcing condition.

## **VI - EXPORTING AND IMPORTING**

### **VI.1 Miscellaneous**

Export has been largely stimulated in Brazil in the current government, in order to generate surpluses in the balance of payments. Due to the same reason, imports have been overtaxed and have been submitted to severe control rules.

### **VI.2 Exports**

Register required with the SECEX (an agency of the Ministry of Economy which controls imports and exports in Brazil). Companies engaged in foreign trade must register with SECEX as an importer/exporter.

In some cases, the previous approval is necessary to export certain goods. This license is normally valid for 60 days.

Tax incentives (continuously in change): exemption of excise tax on manufactured goods; credit mechanism for excise tax due and turnover taxes paid; Exemption from sales tax; Exemption from excise taxes and import duties is granted on material, parts, and semi-manufactured goods imported to be used in the production of goods targeted for export ("drawback").

Financing: Banks provide financing for exporters against forward sales contracts and by discounting drafts accepted by foreign importers. This financing has also been made available for "indirect exporters" or manufacturing companies, which export through trading companies.

Duties: only on Exports of certain agricultural commodities and manufactured products.

Government Regulation: register with SECEX in order to qualify as an export company; input of information in the SISCOMEX to obtain an export registration (RE), and to allow the execution of an export transaction ("export permit").

The SECEX and SISCOMEX registers are not always easy to be gotten. Many aspects, such as financial capacity, identification of main potential suppliers and customers, existence of a consistent business plan, physical and administrative structure of the Entity are analyzed by Brazilian Authorities, among other factors.

### **VI.3 Trading Companies**

Commercial companies that purchase manufactured goods solely for export may register as trading companies, which entitles them to tax benefits and the use of special customs warehouse rules. These rules facilitate both export and import operations. Trading companies are also eligible for additional financing facilities permitted by the Central Bank for companies with 75 percent domestic capital.

The principal features of trading company regulations may be summarized as follows:

- The trading company must be incorporated as a corporation with registered voting shares and

- a minimum capital equivalent to approximately US\$ 500,000;
- Up to 50 percent of the capital may be in the form of non-voting preferred shares;
- A special customs warehouse system permits a tax deferral for imported goods until sold on the local market, and on manufactured goods for exports, in which case the tax deferral becomes a tax exemption upon effective exportation; the maximum deposit period is one year, but authorization for an extension may be obtained.

The warehouse rules are applicable to warehouses controlled by ports and airports, those of general warehouse businesses, and those managed by public or private entities. However, the benefit of these rules is granted only to goods deposited by registered trading companies.

#### **VI.4 Imports**

Government Regulation: Brazil's foreign trade position has been critical due to the primary objective of economic policy to generate a favorable trade balance. At the same time, the Brazilian economy has developed such that it is able to supply most manufactured articles.

In the past, import restrictions have been a major element of Brazilian trade policy. Nevertheless, as mentioned above, import tariffs across the board have been reduced in recent years, and for the time being, importing has been also stimulated to provide more consuming alternatives to the people.

All importers must be registered with SECEX and prior authorization for import, normally valid for 90 days, is generally required for each importation. This is accomplished through SISCOMEX, an on-line computer register that processes all import licenses. The authorization is normally issued within five days of application and the goods must be loaded for shipment within 90 days of the issuance of the import license.

As we mentioned referring to exports, to obtain an "import permit" before SECEX and SISCOMEX is also not easy to be accomplished. Many aspects, such as financial capacity, identification of main potential suppliers and customers, existence of a consistent business plan, physical and administrative structure of the Entity are analyzed by Brazilian Authorities, among other factors.

Rates: Import duties range from a maximum of 36% and average 15%. Ad valorem duties are levied on the CIF value of the product. The classification of products for the purpose of determining the import taxes is generally based on the Brussels nomenclature.

Besides the Import Tax, the following taxes are also due on the imports:

- Federal Tax on Industrialized Products (IPI): rates of zero (commodities) to 360% (cigarettes);
- State Sales Tax (ICMS): rates from 12% to 30%;
- PIS: rates of 1.65% or 3.52%
- COFINS: rates of 7.6% or 17.48%

NOTE: These taxes can be offset in future transactions, when the Company adopts "Real Profit" with non-cumulative calculation of ICMS, PIS and COFINS.

**VII. DEADLINES TO THE PRESENTATION OF ANCILLIARY LIGATIONS – LEGAL ENTITIES ON THE REAL PROFIT TAX CALCULATION METHOD**

<b>Municipal (City) Level</b>			
<b>Tax / Contribution</b>	<b>Ancillary Obligations</b>	<b>Frequency</b>	<b>Deadline</b>
ISSQN	Electronic File	Monthly	According to the each City Rules
<b>State scope</b>			
<b>Tax / Contribution</b>	<b>Ancillary Obligations</b>	<b>Frequency</b>	<b>Deadline</b>
ICMS	GIA	Monthly	According to the each Brazilian State Legislation
ICMS and IPI	EFD - Fiscal	Monthly	According to the each Brazilian State Legislation
<b>Federal scope</b>			
<b>Tax / Contribution</b>	<b>Ancillary Obligations</b>	<b>Frequency</b>	<b>Deadline</b>
All Federal Taxes	DCTF	Monthly	By the 15th working day of the 2nd month following the one in which the taxable events occurred.
IRRF/CSRF	DIRF	Annual	Variable. Annual regulation; however, the deadline is usually established as the last working day of February of the following year.
IRPJ e CSLL	ECF	Annual	The deadline is usually established as the last working day of July of the following year.
INSS/FGTS	SEFIP/GFIP	Monthly	By the 7th day of the following month to the month of the salary payment, credit or month in which it became owed to the employee and/or if other facts that generate obligation of contribution or information to the Social Security have occurred.
PIS/COFINS and INSS	EFD - Contributions	Monthly	By the 10th working day of the 2nd month after the month that the bookkeeping refers to.
ACCOUNTING RECORDS	ECD	Annual	The deadline is usually established as the last working day of May of the following year.

Abbreviations:

ISSQN	Tax over Services Rendered
ICMS	State Governm.Value-Added Tax to Recover
IPI	Braz.Federal Value-added tax
PIS	Employees'Social Integration Program
COFINS	Tax for Social Security Financing
IRRF	Retention of Immediate Income Withholding Tax
CSRF	Withheld Social Contributions (CSLL/PIS/COFINS)
IRPJ	Corporate Income Tax



CSLL	Social Tax on Net Profit
INSS	Social Security Charges
EFD	Digital Tax Bookkeeping
DCTF	Statement of Federal Tax Debits and Credits
DIRF	Statement of Withheld Income Tax
ECD	Digital Accounting Bookkeeping
ECF	Tax Accounting Bookkeeping



## VIII - SUMMARY - MISCELLANEOUS ASPECTS

### VIII.1 Advantages of Doing Business in Brasil

- Brazil is the fifth largest country in the world in area, has the seventh largest economy and a population of almost 206 million people.
- Many local companies are still demanding restructuring, capital and technology.
- Enormous growth potential and consumer market.
- Internal consumer market in fantastic growth phases due to social development programs.
- Broad industrial base and infrastructure, and a diversified economy.
- Creativity and flexibility of labor force, coupled with a competitive cost basis.
- Abundant agricultural, mineral and energy resources and potential.
- Transportation networks in development (railways, highways, ports) and distribution channels in most industrialized areas.
- Inflation under control.
- Import duties in variable levels.
- Foreign investors are eligible for most available fiscal incentives.
- Abundance of semi-skilled and unskilled labour.
- Goodwill generally tax deductible.
- New regulations favoring minority shareholders.
- Social federal programs broadening the consumer market population.
- Regulations generating a transition period (2008-2012) from BR-GAAP to IFRS in matter of balance and statements disclosure.

### VIII.2 Disadvantages of Doing Business in Brazil

- Complex tax and employee related regulatory environment, with high taxes and social charges on payroll, sales and income.
- Multiple taxes with fast changing legislation affecting business plans and increasing risks of contingencies, and very bureaucratic satellite-accounting tasks, implemented through the requirement of presentation of ancillary obligations (statements) with high penalties in case of non-fulfillment of these requirements.
- Semi-volatile economic environment.
- Fast-changing business conditions.
- Lack of local financing coupled with high real interest rates.
- Quality of historical financial information affected by fluctuations in exchange rates and differences between local and international GAAP, although the convergence process already begun.
- Complex transfer pricing and foreign capital registration rules.
- Difficulties in reorganizing companies quickly, including high costs for employee terminations.
- Important cultural peculiarities, including a different perception of the due diligence process.
- Sometimes the "know-who" is more important than the "know-how" in the local market.
- Considerable bureaucratic rules and regulations for certain businesses and industries.
- Further investments needed in the distribution channels and infrastructure of certain areas.
- Import duties in variable levels.
- Lack on specialized and technical labor.
- Syndicates with crescent pressing force and activity turning labor conditions more Expensive.