

**DOING
BUSINESS
IN BRAZIL**



HLB Brazil

*doing business
in Brazil*

foreword

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Laws in Brazil that regulate businesses and taxes are numerous and complex. Therefore we would advise you to consult an HLB International member firm in Brazil before taking any specific action.

HLB Brazil, May, 2014

about HLB International

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Up-to-date information and general assistance on international matters can be obtained from any of the member firm partners listed in this booklet or from the Executive Office in London.

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general information

Geography and climate

Brazil, officially known as República Federativa do Brasil is the largest country in South America and the fifth-largest country in territorial area (equivalent to 47% of the South American continent) and the number of inhabitants according to the 2010 census is 190,7 million. Having its east side bordered by the Atlantic Ocean, Brazil has a shoreline of 7,491 km. To the North, Brazil is bordered by Venezuela, Guiana, Suriname and by the French department of French Guiana; to the Northeast by Colombia; to the West by Bolivia and Peru; to the Southeast by Argentina and Paraguay and to the South by Uruguay.

Several archipelagos form part of the Brazilian territory, such as Fernando de Noronha, Atol das Rocas, Archipelagos of São Pedro and São Paulo, Trindade and Martim Vaz. Brazil shares borders with all South American countries except Ecuador and Chile.

Brazil's current constitution signed in 1988 defines Brazil as a Federal Presidential Republic, formed by the union of the Federal District and its 26 states.

Brazil's climate is very diverse with a variety of weather conditions in most of the country and a varied topography but most of the country is mainly tropical. As per the Koppen Climate classification system, Brazil has the following climatic subtypes: tropical, equatorial, subtropical, semiarid, temperate and highland tropical. The different climatic conditions provide environments that vary from equatorial forests in the North and semiarid regions in the Northeast to temperate coniferous forests in the South and tropical savannahs.

Several regions have totally different micro climates.

The equatorial climate characterizes a considerable large area in the North of Brazil. There is not an actual dry season but there are several periods with heavy rainfall. The average temperature is 25°C, with more drastic climate variations from day to night than from season to season. The rains in the Midwest of Brazil are more seasonal, typical of a savannah climate.

Population

The number of inhabitants according to the 2010 census is 190,7 million.. Its population growth is at a rate of 1.6% a year.

The population is densely concentrated in the Southeast region of Brazil (about 43% of the population) and in the Northeast (about 28% of the population) while the two most extensive regions, the Midwest and the North together account for 64.12% of all Brazil's territory but are sparsely populated with only 29% of the country's people.

The largest metropolitan areas of Brazil are São Paulo, Rio Janeiro and Belo Horizonte – all in the Southeast – with 11.2, 6.3 and 2.4 million people respectively, according to the 2010 census.

Almost every capital in the country is the largest city in its own state with the exception of Vitoria, the capital of Espírito Santo and Florianopolis, the capital of Santa Catarina.

The majority of Brazilians descend from indigenous people, Portuguese colonists,

European immigrants and African slaves. Since the arrival of Portuguese colonists in the country in the 1500's a considerable number of marriages have occurred among these 3 groups of people. Around 5 million people from more than 60 countries have migrated to Brazil mostly between 1808 and 1972, with the majority of the immigrants coming from Portugal, Italy, Spain, Germany, Japan and the Middle East.

Languages

The official language of Brazil is Portuguese which is spoken by the majority of the population and it is basically the only language used in newspapers, radio, television and for business and administrative purposes.

Brazil is the only Portuguese speaking country in America, making the language a really important part of the country's national identity and helping set its unique culture apart from its Spanish speaking neighboring countries. Brazilian Portuguese has developed into a unique language of its own, influenced by African and Amerindian languages. As a result the language is very different, especially phonologically from the Portuguese spoken in Portugal and other lusophone countries. These differences in language are comparable to differences between American and British English.

Religion

The constitution guarantees freedom of religion and State and Religion are officially separate, making Brazil officially a lay state. The law prohibits any form of religious intolerance; however, the Catholic church is still the majority accounting for 64.6% of the population in 2010.

Education

The federal constitution and the National Education Law determine that the Federal government, the States, the Federal District and their respective cities must generate and organize their own educational system. Each one of these public educational systems is responsible for their own maintenance that generates funds as well as mechanisms and sources of funding. The new constitution designates 25% of the state budget and 18% of the federal and municipal taxes to Education.

The higher education system starts with undergraduate studies and courses offering several options of specialization in different academic and professional careers. Depending on the choice made, the students have the option to improve their educational achievements with graduate studies and courses.

Living Standards

The living standards of a large proportion of the population are very low, while on the other hand, the living standards of a smaller part of the population is very high. This discrepancy in revenue between the rich and the poor has been a constant worry for the government. The GDP per capita of Brazil is US\$ 12,181 according to GDP and census of 2010, placing the country in the 75th position according with the data of the World Bank Group.

Cultural and Social Life

The culture is heavily influenced by the African, European and indigenous cultures. The Amerindians influenced language, cuisine, music, dance and religion. Brazilian art has been developed since the XVI century in styles that vary from the Baroque (the dominant style until the beginning of the XIX century) to romanticism, modernism, expressionism, cubism, surrealism, and abstract style.

The Brazilian cinema goes back to the birth of the media at the end of the XIX century and has gained since then international recognition.

Considerations for Investors

- Brazil is the fifth largest country in the world with a population of 190,7 million people (census of 2010) and it is also the fifth most populated country in the world, trailing behind China, India, United States and Indonesia.
- Brazil is the biggest economy in Latin America (and the second biggest in the Americas, behind the United States only), the sixth largest economy in the world in the exchange market and the seventh biggest in the purchasing power parity (PPC) according to the IMF and the World Bank Group.
- Brazil has a very rich biodiversity.
- Abundant agriculture and a great potential for energy generation.
- High potential for growth.
- Wide industrial base in infrastructure and a very diverse economy.
- Industrial policy clearly defined.
- Ever-evolving technological development.
- Audacity and aggressiveness in the making of new business.
- Favorable systems for micro and small businesses.
- Foreign investments are generally well welcomed.
- There is a big consumer market potential.
- Exporting is generally preferred.
- Foreign investors are eligible for the majority of the incentives available.
- There is a restriction of foreign homeship in certain strategic sectors.
- Exchange controls are extensive.
- Bank and financial institution regulations
- Income per capita growth
- Inflation and interest under target

economic structure and business environment

General description

Brazil is one of the top 10 biggest economies in the world and the country keeps on growing becoming very attractive to foreign investors, due to its growth potential and its big and competitive market and political stability. This business environment has been benefited from measures adopted by the Brazilian government in past decades aiming to promote a competitive economy, controlling inflation through very strict monetary policies.

An overhaul of Brazil's economy gave the country a brand new international recognition nationwide and globally. The country is one of the founding members of the United Nations UN, G20, Community of Portuguese Language Countries, Latin Union, Organization of American States (OAS), Organization of Ibero-American States (OEI), Mercosul - Common Market of the South and of the Union of South American Nations, in addition to being one of the countries of the BRIC (Brazil, Russia, India and China). Brazil is also home for a great diversity of wild animals, natural environments, and vast natural resources and an immense variety of preserved habitats.

Basically, there still is a considerable participation of the State in strategic sectors, such as transport and public services. The oil industry is a government monopoly, except when it comes to distribution. Specific legislation was promulgated a few years ago to privatize companies where the presence of the State was not considered essential.

Brazil has a large and dynamic private sector, which includes sizable foreign investments. In 2009, the manufacturing sector accounted for approximately 28% of

GDP, the services sector accounted for approximately 65.3% and agriculture accounted for approximately 6.7%. In 2009, Brazil's work force consisted of approximately 21 million people (according to IBGE, considering the six main Brazilian cities). At the last IBGE employment survey in May 2009, 8.8% of the Brazilian work force was not officially employed, that is, it is made up of workers that do not hold work cards.

Natural resources and agriculture have been the mainstay of the economy, supported by abundant human resources. Since 1960, however, emphasis has been put on industrial development financed for the most part by loans and investments. Therefore, today's exports reflect a balanced mixture of commodities and manufactured items. The import profile became a lot more regulated during the 1970's and 1980's due to the scarcity of foreign money. This situation has changed since the opening up of the growing economy to globalization.

The southeastern and southern remains as a major hub of industries, services and agribusiness. However northeast region has been highlighted in recent years as a major hub for service companies, and especially many industrial footwear, automotive, agriculture and fishing due to infrastructure development in ports and airports, and even by tax incentives developed by states and federal governments. In addition, the federal government has been motivate de economy and improving the income of the Northeastern population. The North region dominated by the Amazon forest has a low population density and it remains virtually unexplored.

Mineral and Energy Resources

Brazil is very rich in mineral resources and also one of the biggest manufacturers of quartz, tin and niobium of the world, and one of the 3 biggest manufacturers of iron, manganese and tantalum.

The Brazilian iron and steel industry is one of the seven biggest industries of the world. Several other minerals and precious stones are also extracted on a growing scale.

Natural resources in Brazil also include oil and hydropower generated electricity. Most of the electricity in Brazil comes from hydroelectric power plants. The Itaipu dam in the Southeast is the biggest in the world. The wind energy through has been encouraged through investment, and this time has been developed mainly in the northern regions.

Brazil has come up with very successful initiatives when it comes to sources of renewable energy. Through the expansion of the ethanol sector with a focus on efficiency and productivity, Brazil is known as the world leader in bioenergy. The production of alcohol from the sugar cane is an example of success for the entire world and there is also the opportunity to repeat the same feat with other types of biomass.

Agriculture, fishing and sivilculture.

Vast areas of land are adequate or adaptable to agriculture. The country invested in long term research and technology for tropical agriculture. That allowed for the development of agribusiness and has increased production and export.

Brazil is currently considered the biggest Manufacturer of the following products: coffee, sugar and orange juice. Brazil has a notable production of soya beans, about 25% of the world production.

In export terms, Brazil is the main exporter of the following products: soya, coffee, sugar, orange juice, ethanol and bovine meat.

Other important agricultural products include maize, cacao, tobacco and bananas.

Agribusiness performance has improved in the past five years, propelled mostly by soya, meat, pork and poultry exports.

Cattle's rearing has been expanding continuously and has made several advances in productivity. The cost of the meat production in Brazil is one of the lowest in the world, which makes it extremely competitive.

Brazil is the centerpiece of the biofuel and bioenergy sector, with the capacity to produce the greenest renewable world energy matrix. The sector is stimulated by other competitive advantages, such as highly qualified human resources, public and private research institute initiatives with international recognition and agricultural credit offer.

Manufacture

The main industries include petrochemical, steel, automobile, mineral, cement, paper, aircraft and products related to agribusiness and food processing. There is a great potential of growth in all sectors.

Technology

The high technology sector encompasses mainly the assembly of components and pieces. Multinational companies dominate the market but there are very large Brazilian groups as well.

Transport and Communication

Since the inclusion of the railway system controlled by the government in the National Privatization Programme, there has been significant investment in the development and modernization of the railway network. This network is located predominantly in the Southeast and in the South regions, even though there are plans to extend the rail network in the North and the Midwest regions. Almost all transportation companies have been privatized.

Advice for the Business Traveler

A foreign resident must obtain either a permanent or a temporary visa to start working in Brazil.

A person who has a temporary visa is subject to taxation in Brazil if he/she already has a work contract upon arrival in the country. If the person does not possess a work contract, taxation will apply if the person stays in the country for more than 183 days, independent of whether the days were consecutive or otherwise in any period of 12 months. A person who has a permanent visa is subject to taxation from the date of arrival in Brazil. In the case of a Brazilian subsidiary director from a foreign company, he/she must have a permanent visa.

The permanent visa is valid for a period of five years. A work contract is not a pre requirement for obtaining a temporary business visa, which is valid for 90 days and it is renewable for an extra 90 days.

To be registered as an employee in Brazil, foreigners must obtain an ID (Foreigner Identification Card or RNE) issued by the local authorities and a work card by the Ministry of Labor.

Currency

The currency in Brazil is the REAL (R\$), which is divided in 100 units called centavos. Even though participation is restricted to authorized importers and exporters, the Central Bank of Brazil does not set a fixed exchange rate, which in turn fluctuates freely in the market. Notwithstanding the Central Bank of Brazil intervenes when there are signs of speculative operations.

Plans of Economic Development

There is a necessity in Brazil to reduce social disparities, to reorganize the urban structure, fiscal balance and for management modernization. Besides that, it is also necessary to improve the basic conditions of life for workers in order to guarantee adequate living, health care

assistance and access to food with reasonable prices. As a consequence, recent specific government targets were as follows:

- Workforce improvement, boosting education, health and wellness programmes.
- Accomplish a more uniform revenue distribution.
- Reduce inflation to manageable levels through government budget cuts and monetary policy control.
- Negotiation of the external debt.
- An energy expansion programme.
- Agricultural sector development.
- Market strengthening in local capitals, attracting personal savings and foreign capital.
- The privatization of some companies in the public sector.

Below follows comprehensive data on the economic evolution of recent years.

- Revenue disparity tends to fall over time. The welfare programme Bolsa-familia turned 9 in 2012 and aims to eradicate poverty in Brazil. The programme resulted in higher school attendance among children and teenagers, prenatal exams and in breastfeeding. During this period the Bolsa-familia became a model for revenue distribution programmes around the world and is still among the programmes most recommended by the UN.
- Better access to basic needs, such as water supply.
- Computers with internet access were goods whose presence in the market increased rapidly. They went from 27.3% in 2009 to 36.5% in 2011.
- Credit volume keeps on expanding in the country. The volume has increased 16.6% in the last 12 months. The expansion occurred concomitantly with the reduction of interest rates to natural persons as well as to legal persons. In the past 12 months interest rates dropped 10.2%

foreign investment and business opportunities

Exchange Controls

Despite the intention of more flexible regulation, the Central Bank of Brazil still imposes strict controls on international transactions. That is a really important issue to national and foreign investors who wish to invest internationally or in Brazil. In theory the approval of the Central Bank of Brazil should not be a problem provided the operations are supported by legal documentation. The intention is to make transactions a little less bureaucratic and stimulate the inflow and the outflow of funds in Brazil. In reality, however, the control on the inflow and outflow of foreign money was passed on to private Brazilian banks that are now responsible for the enforcement of the exchange rate policy. In general, foreign investment are still subject to the electronic information system of the Central Bank of Brazil (SISBACEN), while the remittance of funds abroad are transferred using specific routes or regulated codes by the Central Bank of Brazil through the Regulations for International Foreign Exchange and Capital Markets (RMCCI).

Noncompliance with exchange regulations is subject to serious sanctions, especially in the case of tax evasion, false statements, money laundering and private compensation operations.

Remittance of Interest

There is no restriction to the amount of dividends distributed to foreign stockholders as long as the contract is signed under market conditions and that it is properly registered with the BACEN. Paid or credited interest under loan contracts signed by parties abroad and

that are not registered with the Central Bank of Brazil must comply with transfer pricing policy.

Remittance of Royalties and Other Fees.

Royalty payments are allowed and deductible provided the underlying intangible is duly registered in both the country of origin and in Brazil. Remittances of royalties abroad for trademarks, patents and technical assistance that involve the transfer of know-how are subject to prior registration with and approval from the Brazilian Industrial Property Agency (INPI). They must be also registered with the BACEN.

The deduction of royalty expenses is generally limited to an amount between 1% and 5% of the net receipts derived from the product manufactured or sold (excluding software and similar copyrights). The same limitation may also be imposed on the amount of the royalty that may be effectively remitted abroad.

The payment of royalties and technical assistance fees is generally subject to 15% withholding tax (or 25% of payments made to a low-tax jurisdictions) and a 10% special contribution called CIDE. CIDE is charged on royalty payments including fees for technical assistance and technical services.

Repatriation of Capital

The repatriation of share capital is not generally restricted if the investor registers the original investment and any capital increases or capitalized earnings with the BACEN Central Bank of Brazil. Generally, repatriation is accomplished after the sale of the shares to a local resident, by a

capital reduction or liquidation of the company. Commercial law contains specific rules on share redemptions and on companies re-acquiring their own shares.

Capital is most commonly repatriated through the sale or redemption of shares. Any capital gain recognized as the result of a sale transaction is subject to withholding tax in Brazil at a general 15% rate unless otherwise provided by tax treaties signed with Brazil. Capital gains are generally computed as the positive difference between the sales price and the cost of acquisition of the investment. If the seller is a non resident entity, some controversy exists as to whether the cost basis should be the original investment in foreign currency (as registered with the Brazilian Central Bank) or the original investment in local currency plus inflationary adjustments.

Share capital may also be repatriated through a capital reduction, which may also trigger withholding tax provided certain conditions are met. If a Brazilian company has accumulated losses, it may be required to first offset such losses before implementing the capital reduction. Liquidations are audited by the tax authorities and they may take a long time to be finalized. They are taxed similarly to a sale of shares. Repatriated funds in excess of the amount of foreign capital registered with the BACEN are subject to a 15% withholding tax.

Structure of Business Entities

Laws governing the organization of business entities in Brazil are the same for Brazilian residents and for foreigners.

Wages and Salaries

Brazilian companies are authorized to remit salaries and wages taxed via a local payroll to a foreign bank account held by the employee. Such a possibility used to be limited only to engineering companies and is now authorized for all industries.

Restrictions on Foreign Investment.

In general, Brazil does not restrict foreign ownership of national enterprises. However, foreign individuals and companies are not permitted to control investments in certain sectors, including the news media, where the participation of foreign investors is allowed only up to a limit of 30% of a company's capital. Other sectors, such as transportation, are subject to specific operational restrictions. Non-resident individuals and companies with headquarters abroad are not authorized to acquire it directly.

Taxpayer Identification Number

The Brazilian Federal Revenue demands that foreign investors obtain a tax ID in order to perform any of the following activities: owning real estate, owning a vehicle, vessel or airplane; holding an interest in a Brazilian company; holding a bank account; holding investments in the Brazilian financial market or the Brazilian capital market; purchasing intangible assets with payment terms exceeding 360 days; executing a loan operation; executing an import finance transaction; executing a leasing operation or leasing or renting of equipment or undertaking a vessel freightage transaction; importing assets for capitalization in a Brazilian company; and lending funds to a Brazilian resident or investing funds in Brazil.

After October 1st of 2002, foreign resident entities need to register with the National Register of Legal Entities (CNPJ). A local resident lawyer should be assigned for this purpose and also have the power to manage assets of the foreign entity in Brazil. Furthermore, copies of the foreign entity's bylaws or articles of incorporation or equivalent, notarized and certified at the consulate, must be filed with the Federal Revenue Service at the same time.

The regulations do not specify a penalty for not obtaining a tax ID number; however, a foreign entity that does not comply with this requirement is subject to administrative penalties, including the

denial of the approval of its corporate documentation (archived in the CRRE or in the Central Bank of Brazil). In practice, this kind of sanction could lead to other difficulties, such as the inability to repatriate earnings, participate in public bids, or in entities liquidation in Brazil.

Investment Incentives

For the past 15 years the government has been increasing foreign investment and the incentive to export. State and municipal governments will provide other tax incentives to investments in their own regions. Several local governments, especially in the North and in the Northeast of Brazil, offer significant incentives to attract business to their regions.

Tax Incentives in the Northeast States and the States of Amazonas and Espirito Santo

Brazil offers a variety of tax incentives meant to attract business of meaningful importance and promote development in certain underdeveloped regions.

The following incentives are offered by the Superintendence for the Development of the Northeast (SUDENE), and by the Superintendence of Development for the Amazon (SUDAM):

- Reduction of 75% of the income tax and non-refundable;
- Stepwise reduction of 12.5% in the income tax and non-refundable;
- Deposits for reinvestment. Until December 31, 2018, legal entities that have projects in operation in the area of SUDENE and SUDAM and falling within the economic sectors considered as priorities for regional development, may deposit in Banco do Nordeste do Brasil S / A - BNB or Banco da Amazônia S / A, respectively, for reinvestment in new machinery and equipment, 30% (thirty percent) of the amount of income tax payable by such assets, calculated on the operating income, plus 50% (fifty percent) own resources;

- Accelerated depreciation for purposes of computing income tax;
- Discount, within 12 (twelve) months from the acquisition of investments in the credits of PIS / COFINS and PASEP;
- Exemption from the freight surcharge for renewal projects related to the Merchant Marine;
- Exemption from income tax and the additional calculated based on operating profit for companies manufacturers of machinery, equipment, instruments and devices, based on digital technology, focused on the digital inclusion program.

Industrial and Agricultural Technology Programmes

Projects that operate under the Industrial and Agricultural Technology Development Programmes (Programa de Desenvolvimento Tecnológico Industrial e Agropecuário or PDTI and PDTA) and that are approved by the Industrial Development Council (Conselho de Desenvolvimento Industrial or CDI) are entitled to a withholding tax credit on the remittance of royalties abroad, technical assistance and specialized services fees. These credits are equivalent to the following decreasing percentages:

20% from January 1, 2006
to December 31, 2008;

10% from January 1, 2009
to December 31, 2013.

The following additional benefits are currently available under the PDTI and PDTA.

Deduction of research and development expenses (except royalty expenses paid to nonresidents) invested in research and development for industrial and agriculture technology during the fiscal year. This deduction is an incentive calculated on the total income tax due limited to 4%.

Accelerated depreciation (twice the applicable depreciation rate, without jeopardizing normal depreciation) for machinery, equipment, and new instruments used in research and development of industrial and agricultural technology.

Accelerated amortization, for income tax purposes, of the expenses incurred with the acquisition of intangibles related to research and development of industrial and agriculture technology. The amortization must be recognized during the period in which the intangibles were acquired.

Deduction of royalties and technical or scientific assistance fees as operational expenses. The deduction is limited to 10% of the net income derived from the sale of goods produced with the related technology percentage. To benefit from the 10% deduction limit for corporate income tax purposes, the company must commit itself to invest twice the value of the benefit in research and development in Brazil.

REPES e RECAP – Tax Incentives on Exports

The Special Tax Regime for Technology Information Services Export (Regime Especial de Tributação para a Plataforma de Exportação de Serviços de Tecnologia da Informação or REPES) benefits Brazilian legal entities engaged in the development of software and in supplying information technology services if they have 60% or more of their gross sales income derived from exports.

The tax benefits associated with the REPES comprise the suspension of PIS and COFINS (See chapter VII item 14 – Gross Receipt Tax) charged on imports of goods and services destined for the development of software and technology information services, provided that the import is directly made by the beneficiary of the REPES. The suspension is converted to zero-rate tax after three years from the date of the import transaction. REPES also grants PIS and COFINS suspension on local sales of goods to be incorporated in the fixed assets of companies benefiting from REPES.

In addition, REPES grants IPI suspension on the importation of certain goods listed in law which will be incorporated in the fixed assets of the beneficiary of the REPES. The suspension is converted to

exemption after three years from the date of the import transaction.

Another special tax regime for Brazilian exporters is the Special Regime for the Acquisition of Capital Goods by Export Companies (Regime Especial de Aquisição de Bens de Capital para Empresas Exportadoras or RECAP). To benefit from RECAP, a company must have recognized gross revenue derived from exports in the past year equal to or higher than 70% of its total annual gross income and it must maintain a minimum of 70% export revenue for the following two years (Or the following three if the company does not comply with the first requirement).

RECAP applies to certain equipment, instruments and machinery imported directly by the RECAP beneficiary to be incorporated as fixed assets. Under RECAP, PIS and COFINS taxes triggered on the import are suspended and converted into a zero tax rate upon compliance with the requirements of the system. The regime also provides for the suspension of PIS and COFINS on local acquisitions made by the beneficiary of the RECAP.

The RECAP does not apply to Brazilian companies subject to the PIS and COFINS under the “cumulative” regime.

In addition to the conditions listed above, to benefit from both REPES and RECAP, a Brazilian legal entity must not have any debts with the Brazilian Federal Revenue Service.

The benefits are cancelled if the legal entity does not comply with the minimum export revenue of 70%; if the beneficiary does not comply with the requirements for REPES and/or RECAP; or at the beneficiary’s request. A legal entity excluded from REPES or RECAP must pay interest and penalties on the taxes suspended, calculated from the date of acquisition of the imported products and services or the registration of the import transaction with the electronic Customs system (SISCOMEX).

REPETRO - Tax Incentives for the Oil and Gas Sector

REPETRO (Regime Aduaneiro Especial de Exportação e Importação de Bens Destinados às Atividades de Pesquisa e de Lavra das Jazidas de Petróleo e de Gás Natural) is a Brazilian special customs regime which applies to the importation and exportation of goods destined to foster the growth of the oil and gas industry. REPETRO is applicable to a determined set of products listed in the Law, allowing the exportation of goods without physical exit from Brazilian Territory with subsequent importation into Brazil through the temporary admission regime. REPETRO also allows the importation of raw material to be used in the industrialization process with PIS, COFINS and IPI suspension through the special customs regime.

However it should be noted that REPETRO is not applicable to the importation of goods originated abroad under a leasing agreement with a foreign entity.

REIDI - Special Regime for Investments in the Infrastructure Sector

REIDI (Regime Especial de Incentivos para o Desenvolvimento da Infra-Estrutura) is a special regime aimed to promote investment in the infrastructure sector by private entities, specifically for companies interested in investing in the transport, port facilities, energy, sanitary and irrigation sectors.

The benefits of the REIDI mainly constitute of the suspension of PIS and COFINS charged on local acquisition and importation of new machinery, tools and equipment to be utilized or integrated in infrastructure investments destined to be incorporated in the fixed assets of the beneficiary. Furthermore, the material used in the construction of infrastructure is granted with suspension of PIS and COFINS under the REIDI regime. Upon the use or incorporation of such goods to infrastructure investment the suspension of the PIS and COFINS will be converted into zero rates.

Moreover, the benefits of the REIDI will be valid by a period of five years, counted as from the approval of the infrastructure project by the tax authorities.

REPORTO - Special Regime for Investments in the Port Facilities

REPORTO (Regime Tributário para Incentivo à Modernização e à Ampliação da Estrutura Portuária) is a special regime aimed to foster investments in the modernization and enlargement of Port Facilities by port operators, port concessionaries, public use port lessees, companies authorized to operate port facilities of private and public use and dredging companies

Import Duty is only suspended when the imported goods do not have any equivalent in Brazil. The IPI and Import Duty are converted into exemption after five years from the purchase of goods. The suspended PIS and COFINS are converted into zero rates after five years from the purchase of goods.

PADIS e PATVD - Programmes for the Development of the Semiconductors and Digital Transmission Industries

Aiming at the development of the semiconductors industry, the PADIS (Programa de Apoio ao Desenvolvimento Tecnológico da Indústria de Semicondutores) is a programme developed to promote investments in this sector through the concession of zero IPI, PIS and COFINS rates, charged on local acquisitions and importations of goods destined to be used in the manufacture of a specific list of products edited by the Brazilian Ministry of Science and Technology. PADIS also grants CIDE zero rate upon the remittance of payments to abroad for royalties, as well as for the payment for the supplying of technology services from abroad.

The PATVD (Programa de Apoio ao Desenvolvimento Tecnológico da Indústria de Equipamentos para TV Digital) programme grants the reduction to zero, PIS and COFINS rates upon the local acquisition and the importation of raw

materials, fixed assets and software to be used at the manufacture of digital transmission devices listed by the Federal Government. The PATVD also grants a zero rate of CIDE due upon the remittance of payments abroad for royalties, as well as for the payment for the rendering of technology services from abroad. In addition, PIS, COFINS and IPI charged on the sales transactions with products manufactured under the PATVD are also zero rated. The approval of projects under the PADIS and PATVD programmes is conditional upon the regularity of the interested company in the payment of the Federal taxes and contributions.

Manaus Free Trade Zone (MFTZ)

The Manaus Free Trade Zone (MFTZ) is a free trade area offering special tax incentives to attract businesses to the underdeveloped Amazonia. Foreign goods used in the Manaus Free Trade Zone for consumption, manufacture or assembly, and goods imported for storage and re-export, are exempt from import duties, PIS and COFINS and IPI. The local government of the State of Amazonas may also grant an exemption and/or a reduction on the ICMS. In order to enjoy these benefits, a company must obtain prior approval from the Brazilian authorities (SUFRAMA). Approval is generally granted for projects that involve a minimum manufacturing process, and that meet other requirements in Brazilian tax legislation.

Import Duties (II)

- Import Duty exemption for products destined for internal consumption in the MFTZ;
- Import Duty exemption for certain products destined for the Western Amazon (Amazonia Ocidental, which includes Amazonas, Acre, Roraima e Rondônia);
- Import Duty reduction of up to 88% for raw materials that are imported through the MFTZ and subsequently used in the manufacturing process of products that are destined for the Brazilian market. The reduction percentage depends on the value added to the products manufactured.

Industrialized Product Tax (IPI)

- IPI Exemption for goods entering the MFTZ and an exemption of Import Duties;
- IPI exemption for goods leaving the MFTZ, for products that have undergone the minimum basic production process as determined in the Federal Law dealing with the MFTZ incentive, called Basic Productive Process (PPB). However, requirements must be met in order to benefit from this incentive, such as the products are being listed in the law. If a specific product is not mentioned in the PPB list, the company interested in manufacturing in the MFTZ may file a request with SUFRAMA requesting its inclusion in the PPB list;
- Exemption of IPI for products manufactured outside the MFTZ and destined for the MFTZ;
- Exemption of IPI for manufactured goods destined for internal consumption, either in the MFTZ or in the western Amazon region

Income Tax

- An income tax reduction of up to 75% on the profit.

Social Contributions on Turnover (PIS e COFINS)

- Special rates of PIS and COFINS ranging from combined rates of 0%, to 3.65% and 7.3%, depending on the activity and the transaction;
- PIS and COFINS suspension upon the acquisition from outside the MFTZ and importation of goods to be consumed in a manufacturing process approved by SUFRAMA;
- Reduction of PIS and COFINS upon supply of goods within MFTZ, if such goods are destined to a manufacturing process approved by SUFRAMA.

State Incentives (ICMS)

- ICMS credit equal to the amount that would generally be charged on the interstate sale of industrial products.
- Other ICMS credits may be available depending on where goods are sold (that is, an ICMS credit may be obtained even on a sales transaction);
- ICMS deferment for certain imported raw materials;
- ICMS exemption on goods destined for the MFTZ.

Municipal Incentives

- Exemption for ten years from IPTU – Tax on Urban Real Estate;
- Exemption for ten years from the fee charged on business licenses.

Special Free Trade Zones

Foreign companies that invest in manufacturing goods for export may establish industrial ventures in Export Processing Zones (Zonas de Processamento de Exportação or ZPEs), which are created by Federal decree. ZPEs are special free trade zones that are not considered to be Brazilian territory for the purposes of customs control. A maximum of 20% of the products manufactured in ZPEs may be destined to the Brazilian market.

The following tax and customs exemptions are offered for a period of 20 years to companies operating in ZPEs:

- Suspension of the Import duty, IPI, PIS, PIS-import, COFINS, COFINS-import and AFRMM;
- Exemption from customs and administrative restrictions and controls (for example, export and import licenses) for certain goods imported or exported;
- Exemption from withholding tax due on payments for services rendered by foreign entities, and
- Exemption of the income tax during a period of 5 years.

It is important to note, however, that no ZPEs are currently operating in Brazil.

Other Special Benefits for Export Companies

Companies that have at least 70% of their revenues originating from exports qualify for the incentives granted to “preponderantly exporter companies”. Preponderantly exporter companies are granted the suspension of the IPI, and the contributions to PIS and COFINS, upon the importation of raw material, intermediate products and packing materials. In addition, producers of certain goods defined in Law (i.e. leather wallets, shoes and harvesting equipment) may obtain the same benefits by obtaining of 60% of its revenues originated from exportations.

Sources of Funding for Foreign Investors

Brazil has obtained trade surpluses in the last couple of years and the country still plays an important role in worldwide trade as one of the largest exporters of agricultural products. The trade surplus has arisen from several economic and political factors, mainly associated with the devaluation of the local currency against the US dollar and the measures introduced by the Brazilian government to improve exports (such as the increase in the financial and tax incentives for exporters).

Brazil has attempted to make import and export transactions less bureaucratic. On the other hand, the Brazilian foreign exchange rules may present an issue for importers because of the registration requirements relating to financing import transactions (if payments exceed a 360 day period).

Foreign investors that operate in Brazil through a subsidiary or a branch generally have access to the funding sources that are available to Brazilian companies. Generally, the instruments available are similar to those used in most developed countries. Hard currency hedges against inflation are available at reasonable cost.

As a result of Brazil’s historically inflationary economic environment, most credit instruments are reimbursed in the short- or medium-term. The financial instruments

structure changes frequently because of constantly changing market conditions that make banks change their sources of funding. The Central Bank of Brazil regulations also change from time to time. Depending on specific monetary policy needs, the Central Bank of Brazil may issue treasury bonds denominated in dollars. Because of the rapidly changing nature of financial instruments, prospective investors should try to obtain the most up-to-date information available before investing in Brazil.

Contracts between Brazilian residents may not be denominated in foreign currency. A hedge against inflation is generally provided by investments that have a clause for monetary correction based on an official inflation index or by acquiring a specific commodity within the Futures and Commodities Market (Bolsa Mercantil e Futuros or BM&F).

Export revenue may be used for new investments, for financial transactions and for the settlement of obligations abroad.

Medium-term loans are generally funded through certificates of deposit that compensate investors for inflation plus interest.

Long-term financing is generally available through transfer loans, that are long-term loans made to local banks by foreign banks in foreign currency, which the local bank passes on to final borrowers for shorter terms (generally one year). Long-term financing is generally available through transfer loans, that are long-term loans made to local banks by foreign banks in foreign currency, which the local bank passes on to final borrowers for shorter terms (generally one year). The final borrower assumes the foreign currency risk and pays the interest, the withholding tax and a transfer fee. Another long-term financing source is the Special Agency for Industrial Financing (Agencia Especial de Financiamento Industrial), which makes funds available for the purchase of capital goods produced in Brazil.

Export financing may be available from the

following additional sources:

- ACC (Adiantamento sobre Contrato de Câmbio) – an advance on export transactions which allows a Brazilian company to receive an advance payment equal to the export transaction to be effected. This export financing may be obtained from any private bank duly authorized to operate in the foreign currency exchange market.
- ACE (Adiantamento Sobre Cambiais Entregues) – an advance on previously-made export transactions which are generally used after an ACC transaction and after the shipment of the goods. This financing may also be obtained from a private bank duly authorized to operate in the foreign currency exchange market.
- Bonus bonds issued in the international financial market for long-term financing of export contracts.
- Long-term financing for export transactions available under the Export Finance Programme (Programa de financiamento às exportações or PROEX). Managed by Banco do Brasil, this financing is divided into two main programmes:
 - a) PROEX Financing, which is a direct financing programme available to the Brazilian exporter with resources from the Brazilian National Treasury; and
 - b) PROEX Equalization, under which Brazilian exports are financed by local or foreign financial institutions, while financial expenses charged by private banks are equalized by the Brazilian government to bring them into line with international market conditions.
- Long-term financing for exports of manufactured products, granted by the National Bank of Social and Economic Development (BNDES), which comprises the financing of the entire export chain (the manufacturing, shipment and trade of the finished products abroad) and aims to improve the competitiveness of Brazilian products exported and traded abroad.

Restrictions and Controls

Import and export transactions are subject to control by the Chamber of Foreign Trade (Secretaria de Comércio Exterior or SECEX) an agency of the Ministry of Development, Industry and Foreign Trade. Brazilian importers and exporters are required to register with the SECEX to obtain an Exporter and Importer Registration (Registro de Importadores e Exportadores or REI), before they may enter into cross border trade transactions.

In order to import and export goods, it is also necessary to register with RADAR, an electronic system operated by the Brazilian Federal Revenue Service.

This registration requires a specific application form and the presentation of a list of documents to the Brazilian customs authorities. Once registered with RADAR, Brazilian importers and exporters must be qualified by the Federal Revenue Services to operate through the SISCOMEX electronic system that deals with all customs operations (imports and exports of goods).

To the extent that both import and export transactions represent outflows and inflows of funds from and into Brazil, all exchange contracts must be registered in the electronic system maintained by the Brazilian Central Bank (RDE-ROF).

Few imports and exports are forbidden or restricted. Exports of certain types of products require special procedures such as obtaining prior approval from the Brazilian government (this procedure applies to products of animal origin, oil, gas and other products). Prior license may also be required for transactions involving used goods (including capital goods) and for products related to human and animal health. In general, the importation of used consumer goods for commercial purposes is forbidden.

Import Licenses

Generally, no prior import licenses are required for an import transaction. The

transaction must be registered in the SISCOMEX electronic system to obtain an import declaration (DI) for the goods to clear through customs.

If a prior import license is required, this must be obtained before the shipment of the goods to Brazil; the license is generally valid for 90 days after shipment of the goods to Brazil. The need for a prior license must be verified based on the tariff code of the goods to be imported.

Importers may also obtain an import license for drawback operations or import operations destined for the Manaus Free Trade Zone.

Certain products, such as human blood, medicinal, weapons and ammunition, nuclear material, petrochemicals, herbicides and pesticides, also require authorization from special agencies as a condition for the issue of an import license.

After obtaining the import license, the importer must complete an Import Declaration and register the import in the SISCOMEX electronic system to get customs clearance.

Export Registration

Export transactions must also be registered in the SISCOMEX electronic system. An Export Registration (Registro de Exportação – RE) must be obtained for the goods to clear customs.

Export transactions must occur within 60 days after the RE is obtained.

The following export operations require special procedures:

- Transactions involving a non-convertible currency;
- Transactions without currency coverage;
- Sale or return of goods;
- Goods that are scarce in the internal market; and
- Goods containing nuclear and radioactive materials, weapons and ammunition.

Exports of timbo, animals and other pre-determined products are either specifically prohibited or severely restricted.

The Ministry of Agriculture regulates the export of certain goods of animal origin and certain vegetables (including beans, coffee and potatoes). The Ministry of Health regulates the export of medicine, and the Ministry of Defense controls the export of weapons and ammunition. A license must be obtained prior to the exportation of any of these goods.

Customs Duties

Import duty (Imposto de Importação - II) is charged on imported goods based on the customs value of the goods. The customs value is generally based on the cost plus insurance and freight value of the goods. The applicable customs duty rate may vary depending on the tariff classification code of the goods, according to the Common External Tariff for non-Mercosul members (TEC), but the average rate is 15%. Import duty is a non-recoverable tax, thus, a cost for the importer.

Import transactions are also subject to federal and state taxes (IPI and ICMS respectively). IPI is calculated on the CIF value of the goods, plus import duty of 15%. If the imported goods are used in a manufacturing process in Brazil, the Brazilian importer may recover these import taxes.

PIS-Import and COFINS-Import are both social contribution taxes charged on the importation of goods and services, generally they are charged at a combined rate of 9.25%. The tax base for PIS-Import and COFINS-Import on imported products is the customs value plus ICMS and PIS and COFINS, which leads to an effective tax rate of around 13.45%. The Brazilian Importer may compute a PIS and COFINS tax credit for inputs acquired under the non-cumulative PIS and COFINS regime. Exemptions may apply to certain imports.

The Additional Freight charge for the Renovation of the Merchant Navy (AFRMM)

is a federal fee created to fund the improvement of Brazil's aquatic transportation system; therefore, this fee does not apply to imports made by land or air. AFRMM is charged at a rate of 25% based on the international freight value on entry of a shipment into national harbors. An exemption from AFRMM may apply to shipments made through ports located in the North and Northeast of Brazil, to allow for development, modernization, enlargement or diversification of these ports.

Exemption may be obtained following a specific request made to either the Superintendence for the Development of the Amazon (Sudam) or to the Superintendence for the Development of Northeast (Sudene), depending on the project's location.

Government standards for foreign investment

The Constitution establishes that foreign investment should be of national interest and these investments are welcomed, at the same time that it represents a long-term commitment to contribute to economic development, particularly in the areas listed as priority by the government. These include the development of agriculture, technology, manufacturing of products that are currently imported and those that boost the amount of exports.

Some restrictions to foreign property are imposed mainly for the reason of national security, in the areas of defense, communication, air transport, and oil prospecting and refinement. There are also some other restrictions on participation in the computing, financial and rural property sector (The term computing encompasses hardware and software, industrial automation and electronics in general).

Opportunities for Investment

In general Brazil offers excellent investment opportunities given the following:

- There is a considerable potential in the local market. There are still plenty

- of unsatisfied consumers.
- Abundance of raw material and natural resources.
- Considerable and growing workforce.
- Manufacturing of items that are currently imported.
- Using Brazil as a production base for exports, especially when it comes to Mercosul opportunities.
- Improving the infrastructure is considered a priority, including railways, roads, port facilities, airports, water treatment and residues and energy generation.
- Taking the opportunity of the enormous investments that are expected in relation to the current findings from Petrobras, can mean reserves of over 50 million barrels of oil, a volume four times greater than the current national reserve. Also the 2014 World cup and the 2016 Olympic Games.

future profits remittance, the capital gains and the return of the capital investment. The funds utilized for each investment must remain in Brazil for at least 6 years.

National Privatization Programme

The BNDES is responsible for the administration of this government programme that started back in 1991. Foreign investors may participate in such privatizations through the conversion of Brazilian external debt bonds that originated from contracted obligations of federal public entities of the sector. The conversions are regulated by the Central Bank and the funds converted must remain in Brazil for at least 6 years. Profits and dividends produced by investments derived from such conversions may be remitted abroad under the term of the current tax and foreign capital legislation.

Foreign investors may also participate by registering privatization funds integrated with Brazilian external debt bonds upon an agreement with the DFA and other bonds related with the external debt. The participation of foreign capital in these funds is regulated by the Central Bank. The funds utilized for the acquisition of quotas, as well as the reapplication of accumulated investments must registered with the Central Bank, mainly for the control of foreign capital and to permit a

regulatory environment

Business Regulations

The main regulatory agencies involved with business activities and the stock market are the following:

a. Central Bank (BACEN):

Responsible for the execution of monetary policy, exchange controls, registration of foreign capital, profit remittances and regulation of banks and financial institutions.

b. The Securities Commission (CVM)

Responsible for the securities market and for companies listed on the stock market.

c. Administrative Council For Economic Defense (CADE):

Responsible for suppressing economic power abuse, monopoly, oligopoly, cartel and antitrust monitoring.

d. Brazilian Intellectual Property Agency (INPI):

Responsible for technological development. INPI has power over technology transference agreements.

e. Industrial Development Council (CDI)

Responsible for industrial development and for granting tax incentives to certain industrial projects.

f. Foreign Trade Department (DECEX) of Banco do Brasil:

Responsible for Foreign Trade administration and for export and import licenses control.

financial sector

National Banking System

The national banking system is governed by the following government institutions:

- The National Monetary Council (CMN):

The CMN supervises the financial system as whole. The members of the Council are the Minister of Finance (CMN) and Economic Planning and Budget Minister.

- Central Bank (BACEN):

BACEN performs the traditional duties of a Central Bank and implements policies of the CMN

- Superintendence of Private Insurance (SUSEP):

SUSEP is responsible for the private insurance sector.

- Complementary Department of Pensions (SCP):

SCP is responsible for the supervision of the complementary pension plans industry.

- The Securities Commission (CVM):

CVM is responsible for capital markets and for the assets management sector.

The Brazil Bank is the entity responsible for the control and monitoring of the following: capital and loan limits, compulsory deposit levels, interest rate, accounting procedures, foreign investment and exchange market among other activities. The entities that operate in the financial market may be controlled by government or private institutions. The main government institutions are the following:

- National Bank for Economic and Social Development (BNDES):

The BNDES executes government investment policy, the concession of loans and the supervision of financing plans of the government and it is also responsible for the National Privatization Programme.

- Brazil Bank:

The Brazil Bank is a government financial agency that deals with all revenues and federal payments. It is also a commercial and an agricultural bank.

- Federal Savings Bank (CEF):

The Federal Savings Bank controls the retirement programme and the national lotteries.

The largest banks of the private sector have been organized as financial conglomerates, able to offer a variety of services. These banks are also considered to be sophisticated and competitive and offer a range of financial services.

Investment Institutions

Investment Institutions that are not investment banks include insurance companies, pension funds and of mutual investment. The insurance industry continues to be regulated and there are strict controls on investment policy. However, insurance premiums charged and types of risk are now influenced by market conditions. Private and public pension plans are growing.

Financial market

After 2000, the stock markets in Brazil had to transfer their stocks to the BM&F and to the Stock Market of Sao Paulo (BOVESPA). In 2008 BOVESPA was created from the merger of BM&F and BOVESPA.

Together, these 2 companies are one of the largest stock markets in the world in terms of market value and it is the second largest in America.

Among Its vast range of commercial products, Bovespa trades stocks, public and private sector securities, futures contracts based on financial assets, indexes, interest rates, foreign exchange rates and commodities, in addition to spot US Dollar.

labor relations

Considerations for Investors

- The labor markets in Brazil are regulated.
- Brazil has an adequate and growing work force;
- Labor issues are generally resolved through collective negotiation, but government influence is significant;
- Labor legislation is notably favorable to the workers;
- The unions are very active.
- All employees must receive an additional salary every year as a compulsory bonus.
- Employers must contribute to federal security and to institutions of social assistance.
- Discrimination in the workplace is prohibited
- The need to add foreign personnel will be analyzed by authorities of the federal government.
- The termination of an employee's contract is regulated by the federal government.

Labor Supply and Relations

Availability of Skilled Workers

According to figures published in 2004, Brazil's workforce consists of approximately 89 million people. Unskilled workers are readily available, but certain regions have shortages of skilled workers and of mid-level workers such as managers, supervisors and technicians.

Unskilled workers from regions other than the main metropolitan areas in the South and Southeast often need substantial training before they reach a satisfactory skill level. The government operates programmes to improve the quality of the unskilled labor force, such as industrial training schools (the SENAI programme), commercial trade schools (the SENAC programme) and professional education programme for rural workers.

Nationality Requirements

To preserve job opportunities for Brazilians, the government generally requires that at least two-thirds of the employees in any Brazilian company are Brazilian citizens, and that two-thirds of the total remuneration is received by Brazilians. Companies must prepare an annual report for the Ministry of Labor with a statement showing the proportion of national to foreign employees and other relevant data.

A foreigner is deemed to be a Brazilian citizen if he or she has lived in Brazil for at least ten years and the foreigner is either married to a Brazilian citizen or is a parent of a Brazilian-born child or has Portuguese citizenship.

Wages

The Brazilian Federal constitution stipulates a minimum wage. In January of 2014, the minimum wage was set at R\$ 724 (about US\$ 339). Salaries are payable at least monthly and they may not be reduced. If an employer makes certain payments regularly, such as bonuses or overtime, these payments are treated as part of the salary for labor law purposes. Currently, labor law does not provide for mandatory salary increases, therefore any increases are generally a result of free negotiations between employees and employers.

Executive Compensation

Executive compensation in Brazil is competitive by international standards. In addition to a base salary, executives are often entitled to fringe benefits such as a health insurance plan, a company car, life insurance and a private pension plan. Certain benefits are considered part of the base salary.

Termination of Employment

An employment contract may be terminated either by the decision of the employer or by the decision of the employee. Dismissal may occur for just cause (such as improper conduct, or indiscipline) or without a just cause. If either party terminates an indefinite employment contract without just cause, the party terminating the contract must give the other party prior notice of at least 30 days.

Employees who are dismissed unfairly have the following rights:

- At least a 30-day prior notice period, with the salary paid in cash;
- A 13th monthly salary payment, proportional to the time worked in the year;
- The balance of salary for the remainder of that month; and
- Proportional holiday pay.

The employer must also pay the employee 40% and an additional of 10% of the total amount of the deposits made into the Severance Pay Indemnity Fund (FGTS) while the employee is entitled to withdraw the total balance out of the severance fund.

Companies may not terminate the employment contract of any worker who is a candidate for a labor union post. If the worker is elected, the employer may not terminate the employee's contract within one year after the election, provided that the employee has not committed any serious fault. The same rules apply to employees elected to the Internal Accident Prevention Commission (Comissão Interna de Prevenção de Acidentes or, CIPA). A pregnant worker may not be dismissed during the period between the announcement of the pregnancy and five months after the birth, provided, that the pregnant employee has not committed any serious fault.

Labor Legislation

Labor relations are governed by the Consolidated Labor Laws and numerous complementary laws and regulations. The Brazilian Constitution guarantees employees a series of labor rights and benefits. If any of these rights or benefits is not observed, an employee may make a claim in court for a period of up to two years after the termination of the employment contract.

Employees' basic rights may be increased through collective negotiation between employers and employees. Employee negotiations are generally led by the unions.

Every worker must hold a work card which must record the terms of his or her employment contract. Employers must maintain files containing detailed information about each employee and submit this information to the labor authorities annually.

For temporary activities, temporary labor contracts may be used. Labor contracts are generally concluded in writing for a limited or unlimited period of time. Although labor legislation recognizes the validity of verbal contracts, labor agreements for a limited period of time must be concluded in writing. A labor contract for a limited period of time may be renewed once and its total duration may not exceed two years. Upon expiration of the contract, the employee is entitled to all labor rights granted on dismissal, except for the right to prior notice of dismissal and the 40% payment of the total amount of the deposits made to the INSS.

Another type of labor contract, called an experience labor agreement, also exists. An experience labor agreement is used to hire a worker for a fixed term and it allows the employer the chance to verify whether the employee's capabilities meet the expectations for the position before the employee is hired for an unlimited period. This type of agreement may be renewed once and its total duration may not exceed 90 days.

Civil and Labor Law Rights

Civil and labor law rights provide that all workers must be treated equally regardless of gender, race or age. The Federal Constitution grants the right to strike to workers in private sector companies, and to civil servants that do not carry out activities considered to be essential. Other principal labor rights include the following:

- Pregnancy leave of 120 days for the mother, 28 days before birth and 92 days leave for the father. Tax benefits are available for companies extending the maternity leave to 180 days.
- Unemployment insurance for workers dismissed without just cause. This benefit, which is financed by the government, provides financial assistance to the employee for a certain period of time. The amount payable varies according to the employee's salary; and
- Employers must supply their employees with transportation vouchers, which entitle them to free transportation to and from work. Employees contribute a maximum of 6% of their monthly salaries to the cost.

Labor Union Organization

The most powerful labor unions are the Central Única dos Trabalhadores (CUT), the Força Sindical and the Central Geral dos Trabalhadores (CGT), which compete to obtain new members. Labor union organization is strongest in Brazil's leading industrial centers, especially in the steel, automobile and transport industries based in the Southeast. Not all workers join labor unions, but all workers registered with a specific company must make an annual contribution to the unions equal to one day's salary, regardless of whether they are members. The payment is withheld by the employer.

Other Payroll Taxes and Employee Benefits

Pensions

Although private pension schemes funded by contributions from employees or employers are still rare in Brazil, they are becoming increasingly more common. The public pension scheme, controlled by the National Institute of Social Security (INSS), is funded by contributions from active workers, but it generally provides very low benefits.

Vacation

After each 12 month employment period, employees are entitled to 30 days of vacation, to be taken in the subsequent 12 month period. After 24 months if the vacation days are not taken in the prescribed period, the employer will be obliged to pay double the amount. Vacation payment should be increased by 1/3 (one-third) over the base salary as a compulsory vacation allowance. In addition, employees may choose to receive in advance 50% of their 13th monthly salary at the beginning of the vacation period.

Working Terms and Overtime Pay

Brazilian legislation establishes that the maximum working week is 44 hours, spread over five or six working days. The working day may not exceed ten hours, made up of eight normal work hours and a maximum of two overtime hours. A lunch period of one hour must be given to workers who work more than six hours a day, and a 15 minute break is mandated for those who work more than four hours a day.

Overtime work is not mandatory (unless there is a prior agreement between the employer and employee) and it must be paid at a premium rate of at least 50% of the normal salary, unless previously agreed otherwise (with the assistance of the union). Managers or employees in a position of trust or who are not subject to working time controls and other special employee groups are not entitled to overtime pay.

Overtime are those that go beyond the normal hours fixed by law, collective agreement, normative judgment or individual employment contract, and the employee extends his work period up to 2 hours per day. Also, the employees must observe the workday intervals between one day and the other at least 11 hours.

Bonus

Workers have the right to receive an annual bonus, referred to as the 13th monthly salary, which is proportional to the amount of time worked during the year. The 13th month salary is paid in two installments, the first payment in the period between February and November, and the second in December.

Incentives

Employees may also receive incentives in the form of transportation and meal subsidies. Meal vouchers may be used in restaurants and other eating establishments.

The transportation subsidy is a compulsory benefit that employers must grant to their employees. The meal subsidy is generally optional for employers, except in cases where this benefit is governed by a union agreement.

Profit Sharing

The Federal Constitution expressly grants workers the right to participate in profit sharing schemes. Profit sharing schemes must result from negotiations between labor unions and employers and payments should not occur more than twice a year. For the purpose of labor and social security legislation, profit sharing is not considered to be remuneration; therefore, payments are not subject to social or labor charges.

Special Requirements for Foreigners Entry Visas and Work Permits

A foreign resident must obtain either a permanent or temporary visa to start

working in Brazil. A foreign individual will be subject to Brazilian taxation as a local resident in the following situations:

- If the individual has a labor contract from the date of arrival in Brazil; or
- If the individual has no labor contract, taxation applies if the person stays in the country for longer than 183 days, consecutive or otherwise, in any 12 month period, starting from the date of any entry into Brazil;
- A person holding a Permanent Visa is subject to taxation from the date of arrival in Brazil. To serve as a director or officer of a Brazilian subsidiary of a foreign company, a foreigner must hold a permanent visa. A permanent visa is valid for a period no longer than five years.

taxation

Considerations for Investors

- Income tax is calculated based on the taxable profit at one single tax rate, with a certain surcharge on the income above a certain level.
- Net income distributed to shareholders is not subject to withholding tax.
- Foreign earnings/income/gains of any kind are subject to taxation.
- Individual payers, including foreign residents are taxed at progressive rates
- Non-residents are taxed exclusively by withholding income tax
- Brazil has more than 62 taxes imposed on the activities of businesses and individuals which result in several different and specific compliance rules to be followed.
- The efficient administration of tax payment is one of the greatest challenges for Brazilian Companies. Brazil has a heavy tax burden, complex and dynamic legislation and an agile and efficient collection system, so the risks for organizations that are not able to keep up to date with tax regulation affecting their business are high.
- In order to avoid undue increase in tax burden, tax contingencies and other unpleasant surprises that impair an organization's financial health due to lack of information, it is necessary to permanently invest in staff qualification or seek specialized advisory services.
- The tax system results in several different Compliance activities to be followed by corporations domiciled in Brazil.
- The fiscal year starts on January 1st and closes on December 31st.

Legislative Framework

Tax Law

The Brazilian tax system is regulated by the Federal Constitution and by the National Tax Code (CTN) issued in 1966. This basic legislation contains all the general

dispositions, definitions, competencies, proceedings and limitations related to the tax system. The CTN is of general application and should be observed by all tax authorities within the country: federal, state and municipal. The executive branch of the Ministry of the Finance is responsible for implementing tax statutes. This function is specifically carried out by the Federal Revenue of Brazil (RFB), which is responsible for the interpretation of the statutes in accordance with the intention of the CTN.

The regulations are written in general terms in order to explain the dispositions of the CTN

Jurisprudence

Judicial interpretation provides different degrees of precedents, depending on the nature of the problem and of the authority that gave the ruling. In situations where authorities alone do not provide a solution for the fiscal issue, the payer must consult a lawyer as well as the administrative authorities in order to settle the issue.

Records of discussions on legislation, such as academic and professional opinions are important sources of interpretation. Opinions given by people of great professional reputation are useful in the development of arguments in support of specific cases, especially in litigious areas.

Anti-evasion

The current anti-evasion legislation is in the 982/93 decree. Several dispositions of the National Tax Code prevent the tax payer from resorting to advantageous law dispositions in situations where the main reason or one of the main reasons is to avoid taxation.

Clearance Proceedings

It is not necessary to obtain prior authorization from the fiscal authorities before entering into significant transactions. However, the majority of transactions with the public sectors require CND certificates.

Transfer Pricing

Concept: transaction prices for goods (import or export), services and / or rights between companies of the same economic group, or in countries with a favorable tax regime.

Objective of rules: to have prices controlled between related parties considered, in order to avoid the transfer of taxable profits abroad via imports and / or exports through price manipulation operations. Control is also exercised on interest paid or credited on account of loans.

The matter is currently regulated by Law No. 9.430/96, and regulated by RFB Normative Instruction n ° 1.312/12 and later changes.

Who are intended to observe these rules:

- Individuals or entities who carry out transactions in Brazil with individuals or legal entities abroad, considered to be related, even through an intermediary;
- Individuals or entities that carry out operations in Brazil with any person or entity resident or domiciled in the country or in a tax haven;
- Individuals or entities resident or domiciled in Brazil that carry out transactions with related individuals or entities resident or domiciled abroad.

Relationship possibilities:

Direct relationship:

The parent Company of the Brazilian company, when domiciled abroad;

Its subsidiary or branch domiciled abroad; The person or entity abroad, characterized as its parent or affiliate;

The legal entity domiciled abroad characterized as its subsidiary or affiliate
Indirect relationship:

A legal entity abroad, and when it and a Brazilian company are under common corporate control or administration or when at least 10% of the capital stock of each belong to the same person or entity; A person or entity abroad, which, together with a Brazilian entity has ownership interest in the share capital of a third entity, characterizing them as parent companies or affiliates thereof;

An individual or legal entity resident or domiciled abroad, which is associated in a consortium or condominium, as defined in Brazilian law, in any endeavor.

Concept of Tax Favorable Country:

Income not taxed or is taxed at a rate lower than 20% (twenty percent), or; Whose legislation does not allow access to information related to shareholding composition of legal entities, the ownership or the identification of the beneficial owner of income attributed to non-residents.

“Privileged” Tax Regime

Income not taxed or is taxed at a rate lower than 20% (twenty percent); It grants advantage of tax to a person or entity not resident:

- No requirement to carry out a substantial economic activity in the country or dependency;
- Conditioned on the non-exercise of a substantial economic activity in the country or dependency;

Is not taxed or is taxed at a rate lower than 20%, income earned outside its territory;

It does not allow access to information related to shareholding composition, ownership of assets or rights or economic transactions carried out;
Tax adjustment

The "Parameter" Price is calculated as one of the methods of Transfer Pricing and the "Practiced" Price is the price used effectively in imports and / or exports.

It is necessary to register a tax adjustment for:

- Imports: When Parameter Price < Practiced Price
Exports: When Parameter Price > Practiced Price

For purposes of the law on income tax and social contribution, the deductibility of costs of goods, services, and import duties and recognition of revenues and income derived from export operations carried out by individuals or legal entities resident or domiciled in Brazil, with individuals or legal entities resident or domiciled abroad, considered to be related, should be carried out according to the legislation that deals with the control of transfer pricing.

Brazilian Transfer Pricing Rules for Imports

PIC

The PIC method, the prices of goods, services or rights acquired abroad from a related company, will be compared with the prices of goods, services or rights, which are identical or similar:

- a) Sold by the same company exporting to companies not related;
- b) Acquired by the same importer from legal entities not related;
- c) In purchase and sale transactions between parties not related.

To obtain comparable figures, the sample used must represent at least 5% of the value of import transactions subject to transfer pricing control.

CPL

The average cost of production of goods, services or rights, identical or similar, in the country where they were originally

produced, plus taxes and fees charged that country's exports and profit of twenty per cent (20%), calculated on the cost calculated.

PRL

Application only when the imported goods are resold or used as input goods sold in the country to non-related parties. Defined as the arithmetic average resale price of goods, services or rights less: unconditional discounts granted, taxes levied on sales, commissions and brokerage fees paid; a profit margin of 20%, 30% or 40% is applied, as shown next:

40% for:

- Pharmaceutical chemicals and pharmaceutical products;
- Tobacco products;
- Equipment and optical instruments, photographic and cinematographic;
- Machinery and equipment for dental-medical-hospital use;
- Extraction of Petroleum and Natural Gas and
- Products derived from petroleum.

30% for:

- Chemicals;
- Glass and glass products;
- Pulp, paper and paper products, and
- Metallurgy.

20% for:

- Other sectors

PCI

Applicable to the importation of commodities subject to trading on Futures and Commodities Exchange - BM&F, internationally recognized.

Definition and considerations for application:

- a) It is defined as the average daily price of assets or rights subject to public prices on commodity futures and internationally recognized.

b) Prices of goods imported and declared by individuals or entities resident or domiciled in the country will be compared with quotation prices of these goods, contained in commodities and futures internationally recognized, adjusted for more or less average premium market at the transaction date.

Brazilian Transfer Pricing Rules for Exports

Revenues derived from export transactions entered into with foreign related parties are subject to adjustment under the Brazilian transfer pricing rules if the average price used for the export transaction is lower than 90% of the average price of identical or similar goods, services or rights traded by the Brazilian company in Brazil during the same period and under similar payment terms (the absolute safe harbor provision).

In general, Brazilian transfer pricing rules require that a minimum export revenue is recognized by the Brazilian company when trading with a related party abroad based on a parameter export price reached by applying of one of the transfer pricing methods provided for exports, which are based on: resale minus; cost-plus; or comparables. No "best method" rule also applies to export transactions. If the export price reached by applying of one of the transfer pricing methods is higher than the export price effectively adopted for the export transaction, the positive difference must be added to the exporter's taxable income and is subject to corporate taxes in Brazil. The transfer pricing methods provided for export transactions are:

PVEX

Arithmetic average selling prices of exports made by the company itself, to other clients, or other national exports of goods, rights or services identical or that have similar conditions with similar payment.

PVA

Average sales prices of goods in the wholesale market of the country of destination less the taxes included in the price and a profit margin of 15% on the selling wholesale price.

PVV

Arithmetic average selling prices of goods in the retail market of the country of destination, less the taxes included in the price and a profit margin of 30% on the selling price at retail.

CAP

Weighted arithmetic average of the cost of acquisition or production of goods, services or rights exported, plus the taxes charged in Brazil and a profit margin of 15% on the total cost, plus taxes and contributions.

PCEX

Applicable to the exportation of commodities subject to trading on Futures and Commodities Exchange - BM&F, internationally recognized.

Definition and considerations for application:

It is defined as the average daily price of assets or rights subject to Futures and Commodities Exchange - BM&F, internationally recognized.

In the event that there is no listing of assets in Futures and Commodities Exchange - BM&F, internationally recognized, prices for exported goods may be compared:

- I - with those obtained from independent data sources provided by research institutions internationally recognized industry, or
- II - with prices set by regulators or agencies and published in the Official Daily Government Newspaper/ Official Federal Gazette.

Safe Harbor Provisions for Exports

Brazilian transfer pricing regulations also provide for two safe harbor provisions (Dispensa de Comprovação or “relief of proof” rules), which exempt taxpayers with relatively small export revenue or with minimum profitability on exports made to related parties abroad from compliance with the Brazilian transfer pricing rules through the use of one of the methods provided for exports. Brazilian taxpayers are entitled to demonstrate the adequacy of the export price adopted by disclosing commercial documents that normally support the export transaction (and the burden of proof is shifted to the Brazilian tax authorities in the case of a future tax audit).

The safe harbor provisions apply in the following situations:

- The taxpayer’s net export revenues do not exceed 5% of total net revenues during the fiscal year; or
- The taxpayer demonstrates that a minimum pre-tax profit of 5% is reached on the export transaction (for the fiscal year analyzed and the two preceding years).

Main Taxes

The constitutional system is based on three jurisdiction and tax collection levels. The Constitution sets forth that Federal Government, States, Federal District and Municipalities have different and independent powers to impose and collect the following main taxes specified therein:

Federal Government:

- Import Duty (II)
- Export Duty (IE)
- Income Tax (IR)
- Excise Tax (IPI)
- Tax on Financial Operations (IOF)
- Rural Land Tax (ITR)
- Tax on Personal Wealth (IGF)
- Social Contributions (CSSL/PIS/COFINS)
- Labor and Social Security Taxes (INSS, FGTS and Withholding Tax)
- Domain Economic Intervention Contributions (CIDE)

States:

- Tax on real estate and donation of assets or rights
- Value-added Tax on Sales and Services (ICMS)
- Vehicle Tax (IPVA)

Municipalities:

- Municipal Real Estate Tax (IPTU)
- Property Transfer Tax (ITBI)
- Service Tax (ISS)

Social Contribution Tax (SCT):

- Same methods as Corporate Income Tax.
- Deemed profit rates are only 32% for service and 12% for the other activities.
- 9% flat rate on taxable income.

CIT and SCT systems

Combined tax rate of approximately 34%.

CIT and SCT may be paid quarterly based on actual profits for the quarter or alternatively monthly in advance on an estimated basis.

Companies with gross revenue of less than R\$48M (approx. US\$27M) in the previous year may opt into the deemed-profit regime.

Under this regime, the taxpayer’s taxable income is determined by applying a deemed-profit margin that ranges between 1.6% and 32%.

Capital gains

Capital gains of residents are taxed in Brazil at ordinary rates.

b. Non-resident capital gains - 15% (25% on payments to low-tax jurisdictions).

Withholding taxes

No withholding tax on dividends since January 1st, 1996.

Non-resident income subject to a rate of 15% (25% on payments to low-tax jurisdictions)

Interest and Penalties

Voluntarily income tax paid after the due date is subject to the following interest and penalties:

b. Interest calculated at the rate applicable to the Special System for Liquidation and Custody (SELIC) which is monthly published by government; and

A daily fine of 0.33% of the tax due, up to a maximum penalty of 20% of the tax due (excluding interest). Assessments resulting from an audit by the tax authorities are subject to a penalty equal to 75% of the amount due in cases of insufficiency or lack of payment. The penalty is 150% when tax authorities see intent of fraud. These penalties can be reduced by 50% if the payment is made by the last day of the appeal period (other penalty reductions are available during the appeal process).

Tax Net Operating Losses (NOLS)

NOLs may be carried forward indefinitely but can only offset up to 30% of taxable income in any given tax period.

Segregation of NOLs between operational and non-operational will be necessary under certain circumstances.

Accumulated NOLs could potentially be lost in the event that a Company is merged or if a change of control and corporate objective are in the same period.
Import Duty (II)

Import duty is levied on foreign goods entering Brazilian territory. As a general rule, the taxable amount for Brazilian customs purposes is the customs value in accordance with the GATT (General Agreement on Tariffs and Trade).

Brazilian import duty is not recoverable and, consequently is a cost to the importer. The import duty tax rate may

vary depending on the product that is being imported, as it will depend on their classification in the Brazilian External Tariff Code (TEC).

Value Added Tax on Sales and Services (ICMS)

As a general rule, Brazilian States charge ICMS on transactions relating to the circulation of goods and on the rendering of services of interstate and inter-municipal transportation and on communication services, even if services/transactions start from abroad. Exports are exempt.

The ICMS taxpayer is the businessman, industrialist or producer who undertakes shipment of goods, who imports it from abroad or renders the services mentioned above.

The basis for the calculation of the ICMS is the value of the operation, including any and all amounts, expenses, accessories, interest, increases, bonuses, or other benefits received by the taxpayer, but excluding those related to discounts or rebates unconditionally granted. For the import of goods into Brazil, the basis for ICMS calculation is the customs value of the goods increased by the Import duty, IPI, PIS, COFINS and customs expenses. Also, the amount of ICMS due must be grossed up by the States. The amount of ICMS due on import operations may be included on its own tax basis for calculation purposes.

ICMS rates, which may range from 3.5% to 25%, on internal operations, are generally levied at a rate of 18% in Brazilian States. On interstate operations ICMS rates may be 7% or 12%, as described below:

- i. From South and Southeast (except Espírito Santo State) Area to North, Northeast, Middle west and Espírito Santo State – 7%
- ii. From South and Southeast (except Espírito Santo State) to South and Southeast (except Espírito Santo State) – 12%

- iii. From North, Northeast, Middle west and Espírito Santo State to From North, Northeast, Middle west and Espírito Santo State – 12%

ICMS is a non-cumulative value added tax, where the amount charged in each successive taxable transaction is deducted from current transactions, except when the good is destined for consumption. When a good is allocated to fixed assets, ICMS credit will be allowed at 1/48 installment on the proportion of the taxed shipment and total shipment.

Excise Tax (IPI)

The IPI is charged by the Federal government on finished goods (national and foreign finished goods). Pursuant to the IPI Regulation, finished goods are the result of an industrial process even if this process is incomplete, partial or intermediary.

For IPI purposes the following taxable events can be distinguished: (i) the customs clearance of finished goods; and (ii) the shipment of finished goods from an industrial or similar establishment. Exports are exempt.

IPI is a non-cumulative value-added tax, where the amount charged in each successive taxable transaction is deducted from current transactions. The possibility of IPI credits must be noted as listed in the legislation in force.

IPI rates vary according to the classification of the goods in the IPI Tariff Table (that includes the same classification system as the TEC) and may vary from 0% to 330%. The IPI taxable basis is normally the price of the shipment (within the domestic market) or of the import operation (i.e. product's customs value plus Import duty), including all the accessory expenses charged to the entity to which the product is destined, except for transport and insurance expenditures when entered separately in invoice and provided they comply with the legal requirements.

Gross Receipt Tax (PIS and COFINS)

The PIS and COFINS are social contributions levied on legal entities for financing the social security system and calculated on the company's monthly gross receipts from any source, irrespective of its accounting classification.

Nowadays, there are three methods of calculating PIS and COFINS due, which will be applicable to specific legal entities/operations, based on the legislation in force: Non cumulative, cumulative and mono phase regime.

As a general rule PIS and COFINS are calculated based on the non-cumulative regime, the rates applicable are 1.65% and 7.6%, respectively, and entities are allowed to offset PIS and COFINS credits, also calculated at the rates of 1.65% and 7.6%, in order to deduct from PIS and COFINS due.

PIS and COFINS are calculated on expenses such as:

- i. Goods for resale;
- ii. Goods and services used as inputs in manufacturing or rendering of services;
- iii. Energy consumed in the establishments of the Company;
- iv. Amounts paid for the rent of buildings, machines and equipments used on the Company's activity;
- v. Amounts paid for leasing operations;
- vi. Goods returned, whose sales revenue have been included in billing of the current or previous month;
- vii. Storage of goods and freight costs on the sales operation, for goods for resale or used as input when the burden is done by the seller
- viii. On the depreciation or amortization expenses of machinery, equipment and other fixed assets, as well as on buildings and constructions used in the activities of the Company.

Some specific entities, such as those subject to income tax on the basis of estimated profits, financial institutions, cooperatives, are subject to PIS and COFINS under the cumulative regime and to tax at the 0.65% and 3.0% rates, respectively, which do not allow offsetting PIS and COFINS credits.

Finally, other legal entities which carry out specific operations, such as oil and gas distributors, pharmaceutical manufacturer/importer and others, are subject to PIS and COFINS mono phase regime, the highest rates are where applicable and it is permissible to offset some credits.

On importation of goods and services PIS and COFINS are also levied at rates of 1.65% and 7.6%, respectively. The PIS and COFINS on imports apply to the individual or companies that promotes the entry of foreign goods

Into the country (the importer), the individual or company that hires services from non-residents and the beneficiary of an imported service for which both the hiring party and service provider are located outside of Brazil.

The goods and services acquired abroad and subject to PIS and COFINS importation may be considered as PIS and COFINS credits to be offset against PIS and COFINS due.

Service Tax (ISS)

As a general rule, Brazilian Municipalities charge ISS on the rendering of services, even if the rendering starts from abroad. The services taxed by ISS are set out at "ISS list" attached to Complementary Law 116/03, the law that governs the ISS. ISS will also be due on the importation of services and the responsibility for its payment will be of the service contractor located in Brazilian territory.

Exports are exempt, if the result of the service did not occur on Brazilian territory. Simply payments in foreign currency do not define an export for ISS purposes.

The ISS taxpayer is the service provider and its tax basis is the price of the service, including any and all amounts, expenses, accessories, interests, increases, bonuses, or other benefits received by the taxpayer, including those related to discounts or rebates granted. ISS rates may range from 2% to 5% and will depend on the Municipality where the service provider is located and the type of service.

Unlike the taxes abovementioned, ISS is a cumulative tax, where the amount charged in each successive taxable transaction cannot be deducted from current transactions.

other tax obligations

- Currently several companies are under enquiry due to differences in the amount of taxes disclosed in the Electronic Tax Returns required by Brazilian IRS.
- Considering that regulatory and supervisory bodies are well equipped with information systems, there is now a higher potential risk of receiving tax assessments due to inconsistent information, which makes taxpayers spend their time in justifying differences in the completion of such tax returns.
- The increase in tax requirements also increases potential problems and therefore the opportunities of identifying alternative solutions for specialized professionals, who periodically evaluate information filed with the tax authorities.

Taxes Administration – Main Federal Tax Accessory Obligations

- Social Contributions Return (Demonstrativo de Apuração das Contribuições Sociais – DACON)
- Declaration of Federal Tax Debts and Credits (Declaração de Débitos e Créditos Tributários Federais – DCTF)
- Corporate Income Tax Return (Declaração de Informações Econômico-Fiscais da Pessoa Jurídica – DIPJ)
- Transition Tax Account Control (FCONT)
- Withholding Tax Return (Declaração de Imposto de Renda na Fonte – DIRF)
- Offsetting and Refund Request Return (Pedido Eletrônico de Restituição ou Declaração de Compensação – PERDCOMP)

Corporate Income Tax Return (DIPJ)

Regardless of the accounting year and the tax election (payment in an estimated or actual basis), companies must file annual tax returns (Corporate Income Tax Return (DIPJ)) based on their consolidated results for the calendar year. Federal consolidated returns covering the previous calendar year must be filed in electronic format by

the last working day in June. Taxpayers must prepare and submit their Corporate Income Tax Returns annually to the Brazilian IRS. DIPJ has to be signed by the accountant and legal representative of the company.

- The following are the main schedules of DIPJ:
 - Costs of goods and/or services and Profit and loss;
 - CIT calculation (15%+10%) plus SCT calculation (9%);
 - Monthly estimated CIT payments and SCT payments;
 - Transfer pricing method, adjustment and list of 50 major transactions under transfer pricing rules;
 - List of all company locations in Brazil;
 - Monthly payments of Federal VAT (IPI) (The Federal VAT Return is included in the DIPJ);
 - List of 100 major suppliers and 100 major customers;
 - List of 50 major raw materials and 50 major transactions;
 - Balance Sheet - beginning and ending balance sheets;
 - Interest and services paid / received abroad; and
 - Profit from foreign subsidiaries.

PIS and COFINS Tax Return (DACON)

DACON is the PIS and COFINS tax return calculation. The schedules of DACON comprise the tax calculations and it must be prepared and submitted on a monthly basis until December 2013. As of January 2014 the tax authorities substituted DACON to EFD (digital fiscal bookkeeping) an electronic system information submitted to the tax authorities in monthly basis.

Federal Tax Debt and Credit Return (DCTF)

DCTF (Federal Tax Debt and Credit Return) shall be filed monthly by legal entities and

shall report the federal debts and credits of taxes handled by the Brazilian IRS and also the taxes whose levy has been temporarily suspended. The DCTF shall be filed no later than the fifth business day of the second month after the tax triggering event.

- The following taxes must be notified via DCTF:
 - Corporate Income Tax (CIT);
 - Social Contribution Tax on Net Profit (SCT);
 - Federal VAT (IPI);
 - Financial and Exchange Operation Tax (IOF);
 - Withholding Tax (IRRF);
 - Social Integration Programme Tax (PIS);
 - Social Contribution Tax on Revenues (COFINS);
 - Bank Account Transactions Tax (CPMF); and
 - Economic Contribution Tax (CIDE).

Withholding Income Tax Return (DIRF)

The Withholding Income Tax Return (DIRF) shall be filed yearly by the following legal entities, whenever paying or using earnings on which withholding income tax has been levied, whether in a sole month of the calendar year to which DIRF refers, as third party's attorneys-in-fact:

- headquarters of legal entities governed by private law domiciled in Brazil, including those tax immune or exempt;
- legal entities governed by public law;
- branches, affiliates or representation offices of legal entities based abroad;
- sole proprietorships;
- savings and loans institutions, associations and unions and trade associations;
- notaries public and registrars;
- residential condominiums;
- individuals;
- administrators of funds or investment clubs; and
- Managers of port labor.

- The DIRF shall also be filed by legal entities that have withheld tax in a single month of a calendar year to which the DIRF refers, CSLL, COFINS and PIS/Pasep contributions on payments made to legal entities.

Transition Tax Account Control (FCONT)

- FCONT is a bookkeeping, balance sheet and P&L in double entries which uses the accounting methods for tax purpose related to the Law 11.638/07.
- FCONT is mandatory for all actual or estimated Corporate Income Tax regimes.
- It must be submitted monthly

Tax Offsetting Return (PER/DECOMP)

- PER/DCOMP (E-Request for Federal Tax Recovery, Refund and Offset) shall be filed by companies whenever federal tax credits handled by the Brazilian IRS are offset against taxes due. PER/DCOMP allows tax credits subject to recovery or refund to be used in offsetting own, overdue or current debts regarding any tax or contribution handled by the Brazilian IRS.

Public Digital Bookkeeping System (SPED)

- SPED is an electronic system of accounting and tax registration. The result of a federal, state and municipal governments initiative, consisting in the modernization of the systematic obligations, transmitted by tax payers to tax agencies and inspecting organization.
- The SPED covers:
 - "ECD" - Digital Accounting bookkeeping;
 - "EFD" - Digital Fiscal bookkeeping and
 - "NF-e" - Electronic invoice, whose use is compulsory from January 1,2009.

Main Objectives

- Promote integration within the diverse tax levels through standardization and sharing of accounting and tax information;
- Accelerate and improve inspection/audit processes;
- Possibility of cross-checking accounting to tax data;

- Reduces unintentional involvement in fraudulent acts;
- Strengthening of control and inspection, through exchange of information between the diverse tax levels, thereby improving the means to fight tax evasion;
- Allows information exchange between Taxpayers by means of a standard layout;

GEFIP/SEFIP:

- a. Reported monthly to the ministry of labor
- b. Main purpose is to calculate and report payroll contributions: INSS and FGTS

General Database of Employment and unemployment (CAGED)

- a. Reported monthly to the bureau of statistics
- b. It is due whenever there is a change in the number of employees: hiring or dismissals.
- c. Provides information on employment rates to the government

Annual Report on Social Information (RAIS)

- a. Due annually by any corporate entity regardless of having or not employees.

types of business organizations

Companies

The most common business entities in Brazil are corporation (sociedade anônima or SA) and the limited liability company (sociedade limitada or limitada). The main difference to consider when electing for one or the other form of business is that only corporations are entitled to issue shares to be publicly traded in the stock exchange, while a limited liability company tends to be a more appropriate vehicle for structuring foreign direct investments in Brazil as the management and other requirements are simpler than for a corporation. With respect to responsibility of the investors, a corporation is limited to the amount subscribed by the individual or company, while in a limited liability company the quota holders are liable for the full amount of the company's legal capital until it has been paid in.

Corporations are similar in form to both US and European corporations. Limitadas are similar in form to European limited liability companies.

Corporations

The main requirements for the constitution of a corporation are as follows:

The share capital must be subscribed by at least two original subscribers. The subscribers may be Brazilian or foreign individuals or legal entities. Foreign subscribers, who are not resident in Brazil, must be represented by a Brazilian citizen empowered to receive subpoenas.

A non-resident shareholder must obtain a tax identification number from the Brazilian Internal Revenue Services (CNPJ or CPF).

For publicly traded corporations, at least 10% of the issue price of shares subscribed for in cash must be paid in and deposited in a bank authorized by the CVM. The 10% rule also applies to subscriptions in kind (for example, machinery and products.). In this situation, an evaluation prepared by three experts or a specialist firm is required.

- An application for registration and the bylaws of the company must be filed with the local Board of Trade.
- Depending on the corporation's intended activities, other registrations might be required.
- A corporation must publish its documents and certificate of registration in the Official Gazette (Diário Oficial) and in another wide circulation newspaper within 30 days of registration. This requirement must be complied with, before the corporation commences business.
- Publicly traded corporations are required to be audited every year for CVM purposes. Privately held corporations do not face the same requirements.

a) Capital of a Corporation

In addition to the information mentioned above, the bylaws must state the value of the share capital in local currency, which may contain a provision authorizing capital increases independently of any amendment to the bylaws after the initial shares have been subscribed, up to a limit expressed as a number of shares or an amount of capital (the authorized capital).

b) Payment of Dividends

Dividends may be paid from the net profit of the company during the fiscal year or as

set out in its bylaws, based on a percentage of profits, share capital or any other criteria established in the bylaws. The law requires an annual payment of dividends with reference to the minimum portion established in the bylaws, with minimum limit of 25% of the net profit of the year or, if not prescribed, half of the year's net profits adjusted for the following items: appropriations to the legal reserve, contingency reserves, and reserves for unrealized profits.

Payment of a minimum dividend may also be avoided if the payment is shown to be incompatible with the company's financial situation.

Payment of interim dividends out of current year profits or existing profits reserves from previous years is also possible, as long as this is provided for in the bylaws.

c) Shares

Shares must be denominated in Brazilian currency. The bylaws must determine the number of shares of the corporation and whether they are to be issued with or without a nominal (par) value. Common (ordinary) and preferred shares may be issued. Ordinary shares generally grant voting rights, while preferred shares may carry preferential rights to receive dividends, a refund of capital or both (which must also be established in the bylaws of the company). Preferred shares without voting rights may not exceed 50% of the total capital.

d) Shareholders' Rights

Fundamental rights of shareholders that may not be denied by either the bylaws or shareholder's agreements, include the following: participation in yearly profits; participation in the net assets if the investment is liquidated; supervision of the conduct of the business; preference in subscribing for new shares, debentures to

be converted to shares and subscription bonuses; and withdrawal under certain circumstances, with reimbursement of shares.

e) Management of a Corporation

A corporation is administered by a board of directors and, optionally, an administrative council. An administrative council is mandatory for a corporation with authorized capital and for a publicly traded corporation.

The board of directors must be composed of at least two directors, who may or may not be shareholders of the company. They are elected and dismissed by the administrative council or, if there is no administrative council, by the shareholders at a general shareholders meeting. Directors must be residents of Brazil but not necessarily Brazilian citizens.

The board of directors is responsible for representing the corporation in its dealings with third parties, for the day-to-day management of the business, and for implementing resolutions of the administrative council (if appropriate).

The administrative council must have at least three members. They must be shareholders of the corporation and they are elected and dismissed by the shareholders in a general meeting.

Unlike the directors, members of the administrative council may be foreign individuals who are not resident in Brazil. A non-resident foreigner must be represented by a Brazilian citizen empowered to receive subpoenas. Responsibilities of the administrative council include defining the corporation's overall strategy, electing and dismissing directors and supervising their performance, calling shareholders' meetings, and choosing and dismissing the independent auditors, if any, among others. Another body that may be appointed at a general meeting of shareholders is the

fiscal council, an audit committee that may function permanently or not. It must have between three and five members. The fiscal council basically oversees administrative acts performed on behalf of the corporation to ensure that they are in accordance with the articles of incorporation and current legislation, and provides an analysis of the corporation balance sheet.

f) Financial Statements

Corporations are required to prepare and publish their financial statements with the local Board of Trade and publish them in the Official Gazette (Diário Oficial) and in another wide circulation newspaper. In addition, the Securities Exchange Commission may require publication in the localities where open corporations trade their securities. This requirement does not apply to privately held corporations with less than 20 shareholders and net worth of less than R\$1 million. Companies with assets greater than R\$ 240 million or turnover greater than R\$ 300 million are called "large companies" and shall have their financial statements audited by independent auditors. Companies subject to control of the Brazilian Securities Commission (Comissão de Valores Mobiliários or CVM) must always have their financial statements audited.

IFRS from 2010 was required for financial institutions and public companies, also adoption to small and middle entities. The Accounting Pronouncements Committee (CPC), a Body created in 2005 by the Federal Accounting Council (CFC) with assignments to study, prepare and exclusively promote accounting procedures was in-charge to lead the implementation of new accounting standards.

Limited Liability Companies

A Limited Liability Company (limitada) is a useful corporate form for businesses with few owners and with no intention to raise public funds (by issuance of shares or

bonds). Members may be foreign or resident individuals or corporate entities. Limited liability companies are regulated by Brazilian Civil Code and they may also be governed by the provisions set forth in the Corporation Law (in the absence of proper regulations in the Civil Code). In general, a limited liability company is subject to fewer legal formalities than a corporation. The most important features of a limited liability company are:

- The company (limitada) must have a minimum of two shareholders (called quota holders);
- The company's capital is divided into quotas (instead of shares); Any nonresident quota holder must grant a power of attorney to a Brazilian citizen or resident;
- A non-resident quota holder must obtain a tax identification number from the Brazilian Internal Revenue Services (called CNPJ or CPF);
- The administration of the limited liability company must be by Brazilian residents or citizens;
- The company name must make reference to the core business of the company. For example, this means that the company name may not be simply ABC do Brasil Ltda., but it must mention the company's main business purpose such as, ABC do Brasil Information Technology Equipment Ltda.
- In general, unanimous votes are required for amendments to the articles of incorporation;
- Quota holders' Meetings - The articles of association must disclose whether approval of accounts (annual financial statements), election, removal and resignation of company officers, definition of remuneration, amendments to the articles of association, take-over, mergers or spin-offs, among others, shall be resolved in a quota holders' meeting.

- If the limited liability company has more than ten shareholders, it is required to publish notices for quota holders' meeting, as well as the minutes of certain meetings in the Official Gazette (Diário Oficial) and in another wide circulation newspaper;
- The entire capital must be subscribed on incorporation of the company, but no minimum percentage needs to be paid upon subscription;
- Until the full capital is paid in, the quota holders are jointly and severally liable for the total capital subscribed;
- No legal reserve or minimum dividend is required;
- Members may withdraw and receive the repayment of their quotas in case of disagreement; and
- A limited liability company does not need to publish its articles of incorporation, financial statements or minutes of quota holders' meetings in an Official Gazette or newspaper, as required for the Corporations.

A limited liability company may be converted into a corporation (and vice versa) easily and inexpensively and without triggering any corporate tax consequences.

Limited Liability Companies with assets greater than R\$ 240 million or turnover greater than R\$ 300 million are called "large companies" and must follow the rules of the Corporations regarding to the preparation of their financial statements. Also, large companies shall have their financial statements audited by independent auditors.

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