



## **Brazil currently implements the following varieties of indirect taxes, commonly referred to as Value-Added Tax (VAT):**

- State VAT (ICMS)
- Federal VAT (IPI)
- Municipal service tax (ISS)
- Federal social contributions (PIS-PASEP and COFINS)

### **State VAT (ICMS)**

State VAT, known as ICMS in Brazil, is levied by the individual states. While states determine the taxation rates, the Brazilian federal government may establish a minimum rate. ICMS is applicable to various transactions conducted in Brazil, irrespective of whether the transaction initiates abroad. These transactions include:

#### **The movement of goods (involving a transfer of ownership)**

- Importation of goods.
- Provision of transportation services between states and municipalities.
- Provision of communication services.
- Supply of electricity.

### **Federal VAT (IPI)**

National and imported goods in Brazil are subject to the federal VAT, known as IPI, imposed by the federal government. The taxable events for IPI include:

- The dispatch of goods from an industrial establishment in Brazil or those recognized as industrial by law.
- Customs clearance of goods.

## Municipal Service Tax (ISS)

ISS is a sales tax paid to municipalities in Brazil and is applicable to services not covered by state authorities (ICMS). The federal law (complementary law) delineates the general list of taxable services.

Typically, ISS is owed to the municipality where the service provider operates, except for construction services, where it is imposed in the city where the construction occurs.

## Federal Social Contributions (PIS-PASEP and COFINS)

PIS-PASEP and COFINS are turnover-based social contributions levied on companies' gross revenue monthly. Exports are exempt from PIS-PASEP and COFINS, but import operations (both goods and services) are subject to these contributions. The rates for PIS-PASEP and COFINS may vary based on the company's activities.

## VAT Standard rate

**ICMS:** 0% to 35% (for transactions within the same state), 4%, 7%, or 12% (for transactions to a taxable entity in a different state).

**IPI:** 0% to 300% (varies based on the goods' classification in the IPI tariff table).

**ISS:** 0% to 5% (depends on the municipality and the type of service provided).

**PIS-PASEP:** 0.65% (for taxable individuals taxed using the deemed corporate income tax method under the cumulative system), 1.65% (for taxable individuals taxed under the annual actual income tax method under the noncumulative system).

**COFINS:** 3% (for taxable individuals taxed using the deemed corporate income tax method under the cumulative system), 7.6% (for taxable individuals taxed under the annual actual income tax method under the noncumulative system).

# Thresholds

An **ICMS** taxable person refers to any individual or legal entity that regularly engages in the sale or importation of goods or provides communication, interstate, and intermunicipal transport services. There is no turnover threshold.

An **IPI** taxable person includes any individual or legal entity engaged in the regular industrial processing of goods or the importation of goods from abroad. No turnover threshold applies.

An **ISS** taxable person is defined as any individual or legal entity that regularly provides services listed in the ISS law. No turnover threshold applies.

A **PIS and COFINS** taxable person is any company involved in business activities. Contributions are imposed on companies' gross revenue on a monthly basis.

To fulfill tax obligations in Brazil, a company should be registered for VAT. However, depending on the transaction classification, taxes may be collected by local customers and/or agents in Brazil. In such cases, the foreign company is not required to register in Brazil. A non-established business is not permitted to register for VAT in Brazil.

## Registration procedure

Businesses planning to engage in commercial product sales are obligated to register with both federal and state tax authorities. Additionally, if the business aims to offer services, municipal registration becomes a necessity. The registration process is predominantly electronically at Brazilian tax portal. Alongside the request, supplementary information must be provided, including articles of association, business address, official entities-issued business license, taxable person ID, among other details.

## Tax representatives

Tax representatives are not allowed in Brazil.

## VAT filing and payment date

ICMS, IPI, ISS, PIS-PASEP and COFINS returns a filled and paid on monthly basis.

The due date is the final business day within the two-week period following the month under consideration.

## **Keeping records**

Records should be preserved for a period of five years.

## **Penalties**

There is a penalty from 1% to a 100% of the non-filled tax returns that was omitted in case of not registering or late registration.



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