This report provides helpful information on the current business environment in Brazil. It is designed to assist companies in doing business and establishing effective banking arrangements.
This is one of a series of reports on countries around the world.

Global Banking Service

Report on Brazil

Contents

RBC Royal Bank®

Important to Know

Official language

- Portuguese

Currency

- Real (BRL)

Bank holidays

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Source: www.goodbusinessday.com.

Types of Business Structure

Under Brazilian law, there are several business structures available. There are generally no minimum or maximum requirements for capital, but some require a minimum percentage of share capital to be paid up before the business can be established. A commercial bank must hold the paid share capital in a restricted account until the business is legally established.

Public limited liability company

SA (*Sociedade Anônima*). This is a joint stock company, which can be formed as an open or closely held company. In an open company, shares are not registered to their owners and are tradable on a public stock market, whereas shares of a closely held company are not available to the general public. An SA requires a minimum paid up share capital of 10% before the business can be established, though there are no minimum or maximum capital requirements for formation.

Private limited liability company

Ltda (*Sociedade Limitada*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires no minimum share capital to be paid up before the business can be established.

General partnership

SNC (*Sociedade em Nome Coletivo*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

SCS (*Sociedade em Comandita Simples*). In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Partnership limited by shares

SCA (*Sociedade em Comandita por Ações*). A partnership limited by shares allows some partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while general partners are fully liable. The shareholders can sell their shares to third parties.

Cooperatives

There are numerous cooperatives (*cooperativas*) in Brazil for various sectors.

Other organizational types

Special partnership (*sociedade em conta de participação* – SPC) is a type of unincorporated partnership formed to carry out one or more business ventures. In a special partnership, only the ostensible partner manages and conducts the businesses of the partnership and has unlimited liability. Other partners (secret partners) are not working partners and have no legal liability. This type of partnership is not organized as a firm and has no legal identity.

Regulated professional partnership (*sociedade simples*) is a type of entity formed by qualified professionals – such as lawyers, accountants, consultants, artists and doctors – to provide professional services. This entity may not engage in commerce.

Consortium (*consórcio*) is an association between two or more companies to pursue a specific project. Members preserve their corporate identity and only bind themselves under the terms of the agreement. If the members are public limited liability companies, the agreement must be approved by shareholders at general meetings. If they are not public limited liability companies, the agreement must be registered with the relevant authority. The agreement must be filed with the correct commercial registry and formally published in the Official Gazette and a large circulation newspaper.

Branches

Non-Brazilian companies are entitled to establish a branch in Brazil, but the process can be time-consuming and expensive, and is only recommended for special cases. A branch's activities are subject to Brazilian company law, although it is considered part of the company's head office and therefore not a separate legal entity. To open a branch a company must file a number of documents with the Brazilian Government which must be approved by presidential decree. The certificate of decree, together with other documents, must be formally published in the Official Gazette and filed with the correct commercial registry.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated in Brazil. In certain cases, non-residents may be considered as residents if their branches, local agents or representative offices operate in Brazil and are judged to be corporate taxpayers.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (BRL) and foreign currency accounts outside Brazil. Only Brazilian citizens abroad, the Brazilian Post Office Administration, credit card companies, companies involved in energy sector projects, tourist agencies that are not allowed to deal in foreign exchange, insurance companies, reinsurance companies and reinsurance brokers are permitted to hold foreign currency accounts within Brazil.

Non-residents are permitted to hold local currency accounts in Brazil. Only foreign citizens travelling through Brazil, international organizations, embassies, foreign delegations, foreign transportation companies and reinsurance companies are permitted to hold foreign currency accounts within Brazil.

Both resident and non-resident accounts are convertible into foreign currency. The use of non-resident accounts to conduct international transfers in BRL on behalf of third parties is not allowed.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder and controllers of accounts opened by legal entities.
- The identification requirement for insurance purposes at present only extends to third-party payments above BRL 10,000 or to guarantee insurance contracts regardless of the thresholds.
- Since 2005, banks are required to report to the *Conselho de Controle de Actividades Financieras* (COAF) identifying data on both parties for all foreign exchange transactions and money remittances, regardless of the amount of the transaction.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at July 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under Brazilian law, a Financial Transactions Tax (IOF) is levied on certain financial transactions, such as loans, foreign exchange, insurance, securities and gold transactions, at rates ranging from zero to 25% depending on the value of the transaction.

In January 2008, the 0.38% temporary tax on financial transactions (CPMF) which applied to debits between current accounts with different tax identification numbers was abolished.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for domestic payments (including both interbank and intrabank transactions). They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, and third-party payroll outsourcing is available. They are also the most common method of payment for business-to-business transactions, though cheques are also still common. Card payments, cheques and paper-based credit transfers are commonly used for consumer transactions. Pre-authorized direct debits are also commonly used by utility and insurance companies to collect domestic payments. *Bloquetos* are bar-coded collection orders (paper-based or electronic) that are issued by goods and services vendors and can be paid by purchasers at any bank. Cheque use has declined in recent years in favour of electronic alternatives.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)*		% change 2008/2007	Traffic (value) (USD billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques**	1,449	1,373	– 5.2	586.1	491.0	– 16.2
Credit transfers (interbank TEDs, DOCs and *bloquetos* only)†	1,509	1,718	13.9	2,638.1	2,467.0	– 6.5
Direct debits	853	846	– 0.8	101.6	105.3	3.6
Debit cards	1,700	2,100	23.5	46.9	44.1	– 6.0
Credit cards	2.160	2,481	14.9	102.8	90.8	– 11.7
Total	**7,671**	**8,518**	**11.0**	**3,475.5**	**3,198.2**	**– 8.0**

*Exchange rate: BRL 1.771 per USD 1 for 2007, BRL 2.336 per USD 1 for 2008.
**Includes only interbank transactions. †TEDs *transferências eletrônica disponível*, DOCs *documentos de transferência crédito*

Source: Banco Central do Brasil, April 2009.

International Payments

International payments are usually processed through same-bank networks or by using traditional correspondent banking techniques. Transfers to and from Brazil can also be conducted through the International Transfer of Reais (ITR). They are BRL-denominated transfers made via non-resident accounts and therefore do not entail foreign exchange. However, in order to minimize misappropriate use of these accounts, commercial banks do not initiate transfers on behalf of third parties.

Payment Processing Times

Transactions processed (BRL-denominated)	Value dating rules	Cut-off time(s) in local Brasilia Time (BRT)
High-value and urgent domestic transfers	Settlement in real time with immediate finality or net settlement on same-day basis	17:30 BRT
Non-urgent, low-value domestic consumer payments	Settlement times vary according to payment type. Payments are settled on a same-day (for *transferências especiais de crédito* – TEC) or next-day basis (for *documentos de transferência crédito* and *bloquetos*)	00:30 BRT

Central Bank Reporting

The Banco Central do Brasil collates balance of payments statistics from banks' records of external cash flows as well as from the responses to a voluntary survey covering domestic currency transactions between residents and non-residents.

Foreign currency transactions between residents and non-residents can only be conducted via an authorized financial institution, which must record these transactions via a dedicated electronic reporting system to the central bank.

From March 2007, residents have been required to report assets maintained abroad that total more than USD 100,000 to the central bank.

Exchange Arrangements and Controls

Brazil applies some currency exchange controls.

Repayment or interest inflows resulting from external loans with a minimum coverage maturity of up to 90 days are subject to a 5% exchange tax. Remittances relating to the obligations of credit card administration companies to pay for client purchases are subject to a 2% tax.

Authorized banks can deal in the foreign currency markets but must settle forward transactions within 750 days.

There are restrictions on foreign direct investment for certain economic activities and all foreign direct investments are required to be registered with the central bank.

The customs authorities should be notified for imports or exports of cash or cheques greater than BRL 10,000.

Cash and Liquidity Management

Because of exchange controls and other restrictions, it is not possible to include Brazilian resident bank accounts in a cross-border liquidity management structure.

Physical Cash Concentration

Physical cash concentration is available from Brazilian and international banks. Resident and non-resident companies can participate in the same domestic cash concentration structure, although central bank reporting requirements apply to any transfers between resident and non-resident accounts.

Resident companies must credit export receipts to an account held by a Brazilian bank abroad. Companies may set up a cross-border cash concentration structure by making this account a multi-currency master account, in which funds collected in other locations can be swept to the master account to concentrate export proceeds before repatriation. However, residents are not allowed to include accounts in domestic currency or domestic bank accounts in the structure, and the master account for the structure may not be located in Brazil.

Non-resident entities may not participate in cross-border sweeping structures based in Brazil because the master accounts cannot be located in Brazil.

Notional Cash Pooling

Notional cash pooling is not permitted in Brazil.

Short-term Investment

Bank instruments

Interest-bearing current accounts are not permitted. Banks offer time deposits in domestic currency for terms from one to four months, with deposits issued for terms of one, two or three months called *fundos de investimentos financeiros* (FIFs). Banks also issue fixed-rate or floating-rate certificates of deposit (CDs), usually for terms ranging from one month to 360 days.

Non-bank instruments

Commercial paper is widely available as a short-term investment instrument.

The National Treasury issues Treasury bills such as *letras do tesouro nacional* (LTNs), *letras financeiras do tesouro* (LFTs) and *notas do tesouro nacional* (NTN-C). The central bank also issues central bank bills (*letras do banco central* – LBCs).

Brazilian companies have access to money market funds, which are popular short-term investment vehicles.

Short-term Borrowing

Bank

Overdrafts are only used for financing for between one and two days. Bank lines of credit and bank loans are usually available in Brazil for periods between one and three months. The National Bank for Economic and Social Development also provides subsidized financing.

Non-bank

Domestic commercial paper is commonly used for financing purposes. Issuers must register with the Brazilian Securities Commission and issues must be placed through a bank or broker.

Trade bills are commonly discounted (*desconto de duplicates*). Companies can also borrow against foreign exchange contracts (*adiantamentos de contratos de câmbio* – ACC) on a discounted basis, which provides funding at USD interest rates, normally lower than BRL currency borrowing. Factoring is also available.

Taxation

Corporate Taxation

- Resident companies are subject to taxation on their worldwide income. Non-resident companies are taxed on income from activities carried on in Brazil and on income originating in Brazil.
- The federal corporate income tax (IRPJ) rate is 15%. There is also a surtax, assessed in a single bracket at a 10% rate, for taxable income exceeding BRL 240,000 per year. In general, a 9% social contribution (CSLL) is also imposed on net income. The social contribution should qualify as an income tax. Financial institutions and insurance companies have been subject to a CSLL at 15% (rather than at 9%) since May 2008. Income Tax and Social Contribution Tax are paid on a quarterly basis under Lucro Presumido and Quarter Lucro Real and on monthly advance payments with a final adjustment by the year-end under the Annual Lucro Real system. Tax losses can be carried forward indefinitely, but may not be carried back. Minimum tax rules limit the use of losses to 30% of the taxable net income for each tax period. Profits generated by foreign subsidiaries or branches are taxable in Brazil. If such profits are subject to income tax in the sourcing country, this tax may be offset against Brazilian tax if certain conditions are met.

Advance Tax Ruling Availability

- Brazilian taxpayers may consult the tax authorities regarding the tax consequences of a specific transaction.

Withholding Tax (subject to tax treaties and other exemptions)

- Payments from Brazil made to non-resident persons for services should be subject to a withholding taxation of 25%. For other types of income the general rate is 15%. Outbound dividend payments are subject to a 0% withholding tax if paid out of profits earned on or after January 1, 1996.

Capital Gains Tax

- Capital gains are treated as ordinary income for tax purposes in Brazil. Capital gains realized by non-resident entities may be subject to withholding taxation at a rate of 15% (25% if the recipient is located in a low tax jurisdiction that does not impose income tax or imposes it at a rate lower than 20%).
- In the year in which a capital loss is realized, the loss may be relieved against ordinary income as well as capital gains. Capital losses may be carried forward indefinitely, but may only be offset against capital gains.

Thin Capitalization

- There are no thin capitalization rules in Brazil.

Transfer Pricing

- Brazilian transfer pricing rules apply to import and export transactions between related parties, payments to companies resident in tax havens or parties under exclusive arrangements. The Brazilian transfer pricing rules deviate fromthe Organisation for Economic Co-Operation and Development's (OECD) transfer pricing guidelines and require fixed profit margins rather than applying the arm's length principle.
- Brazilian transfer pricing methods allow the tax authorities to determine an acceptable profit margin on imports to or exports from Brazil between related parties. Safe harbour provisions may be applicable to export transactions and are usually based either on the volume of transactions with related parties, or on a minimum 5% profitability (before tax).

Sales Taxes / VAT

- Two different value-added taxes are imposed in Brazil on the importation and supply of goods and certain services. The IPI is a federal VAT usually imposed on importation and at the manufacturing level of the economic chain. The IPI standard rate varies generally from 5% to 25%. The rate can reach 360% in special cases such as cigarettes. The ICMS is a state VAT imposed on the importation and supply of goods and on communication and certain transport services. The ICMS standard rate is 18%, although it may vary from one state to another. Interstate supplies are subject to ICMS at rates of 7–25%.
- Brazilian municipalities also impose a service tax (ISS) on the supply of services not subject to the ICMS. The ISS standard rate is 5%, although it may vary from 2% to 5%. The importation of services is subject to PIS/COFINS taxes (see below) at a combined rate of 9.25%.

Payroll and Social Security Taxes

- COFINS is a federal social security contribution levied monthly at 7.6% on gross revenues. Input credits may be available to offset COFINS liabilities. COFINS is deductible for income tax purposes.
- PIS (Social Integration Program) is a similar federal social contribution. It is imposed on monthly gross revenue at 1.65%. Input credits may be available to offset PIS liabilities, and are deductible for income tax purposes.
- Special PIS and COFINS rules may apply to specific industries such as pharmaceuticals, automotives, telecommunications and financial institutions. A different set of rules applies in relation to PIS and COFINS for companies under the Lucro Presumido system, and the combined tax rate for these taxes under this system is 3.65%.

Financial Transactions Tax

- IOF (Financial Transactions Tax) is levied on financial transactions such as loans, foreign exchange, insurance, securities and gold transactions. IOF standard rates range from zero to 25% depending on the value of the transaction.

Royalty and Technological Services Taxation

- CIDE (Contribution for Intervention in the Economic Domain) is a federal tax levied at 10% on the payment or credit of certain royalty (except on software) and technical services associated with a transfer of technology to non-residents. The burden of CIDE falls on the Brazilian payee, as CIDE is not a withholding tax and does not generally qualify for foreign tax credit.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at March 1, 2009.

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