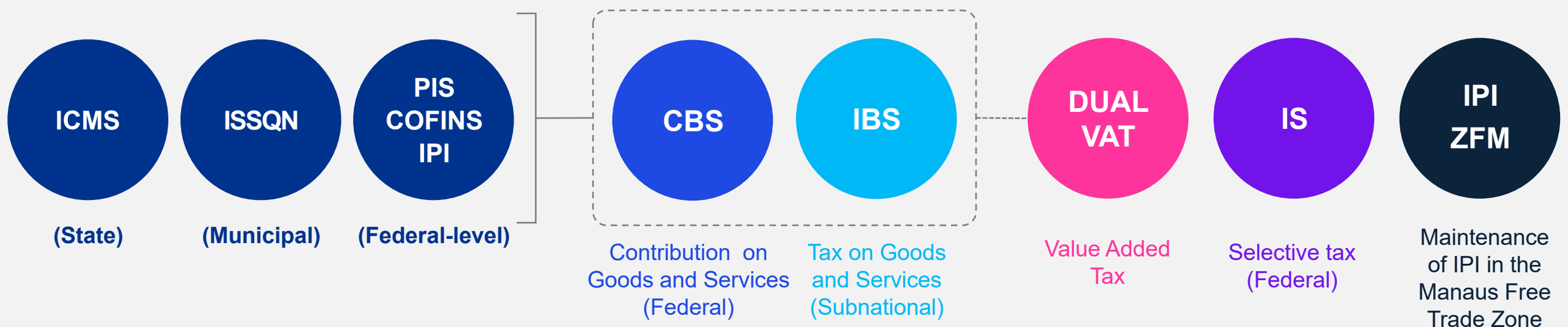


Tax Reform Approved

PEC 45/2019

The "IVA" puzzle finally had its design defined with the approval of the **Tax Reform** by the national congress. It is a moment to celebrate a historic event, where there is much to be done by all of us. Follow along with us for the main changes in consumption taxes, points of attention, and next steps, until the final assembly of this puzzle. **Count on KPMG in Brazil for this journey!**

Unified tax approved in PEC 45/2019



Characteristics of Dual VAT

- Single tax rate for goods and services
- Calculation on top
- Tax rate cap
- Cashback
- Broad-based incidence
- Full non-cumulativeness.
- Destination principle
- Uniform legislation
- Quick refund of accumulated credits

Characteristics of IS

- Extra-fiscal purpose to discourage the consumption of goods and services **harmful to health or the environment.**
- It will be part of the calculation bases of ICMS, ISS, IBS, and CBS.
- Shall be levied on guns and ammunition
- Cumulative tax
- Single-phase incidence.
- Maximum tax rate of 1% of the product's value for extraction.
- Tax rates will be set by ordinary law.

Exceptions to the single tax rate

Exemption or tax rate reduction by 100%



Food Parcel National



Horticultural products, fruits, and eggs.



Higher education services - PROUNI (only CBS)



Services provided by non-profit innovation, science, and technology entities - ICTs. (only CBS)



Urban rehabilitation activities of historical zones and critical areas of urban recovery and conversion (only CBS)



Passenger cars when purchased by people with disabilities or autism spectrum disorder, and when purchased by professional drivers for use as taxis

Reduced tax rate by 60%



Health services



Education services



Food for human consumption



Medicines¹



Basic menstrual health care products¹



Medical devices¹



Accessibility devices for people with disabilities¹



Agricultural and aquacultural inputs



Personal hygiene and cleaning products mostly consumed by low-income families



National artistic, cultural, event, journalistic, and audiovisual productions, sports activities, and institutional communication



Goods and services related to national sovereignty and security, information security, and cybersecurity



Public collective transportation services by road and subway, with urban, semi-urban, and metropolitan characteristics²



Fresh agricultural, aquacultural, fishery, forestry, and vegetable extractive products

Special regimes



Regional aviation



Travel agencies and tourism



Amusement and theme parks



Bars and restaurants



Hospitality services



Fuels and lubricants



Cooperative societies



Operations covered by treaty or international convention



Sports activity developed by a football corporation



Financial services, real estate operations, health plans, and prediction contests



Collective transportation services by intercity and interstate road, rail, and waterway

Reduced tax rate by 30%



Services of intellectual, scientific, literary, or artistic nature, provided that they are subject to supervision by a professional council

¹: For these services, there may be a 100% reduction in the tax rate.

²: For this service, there may be exemption.

Favored regimes

- Manaus Free Trade Zone (ZFM) / Free Trade Areas (ALC's)
- Unified Special Regime for Payment of Taxes and Contributions due by Micro and Small Companies

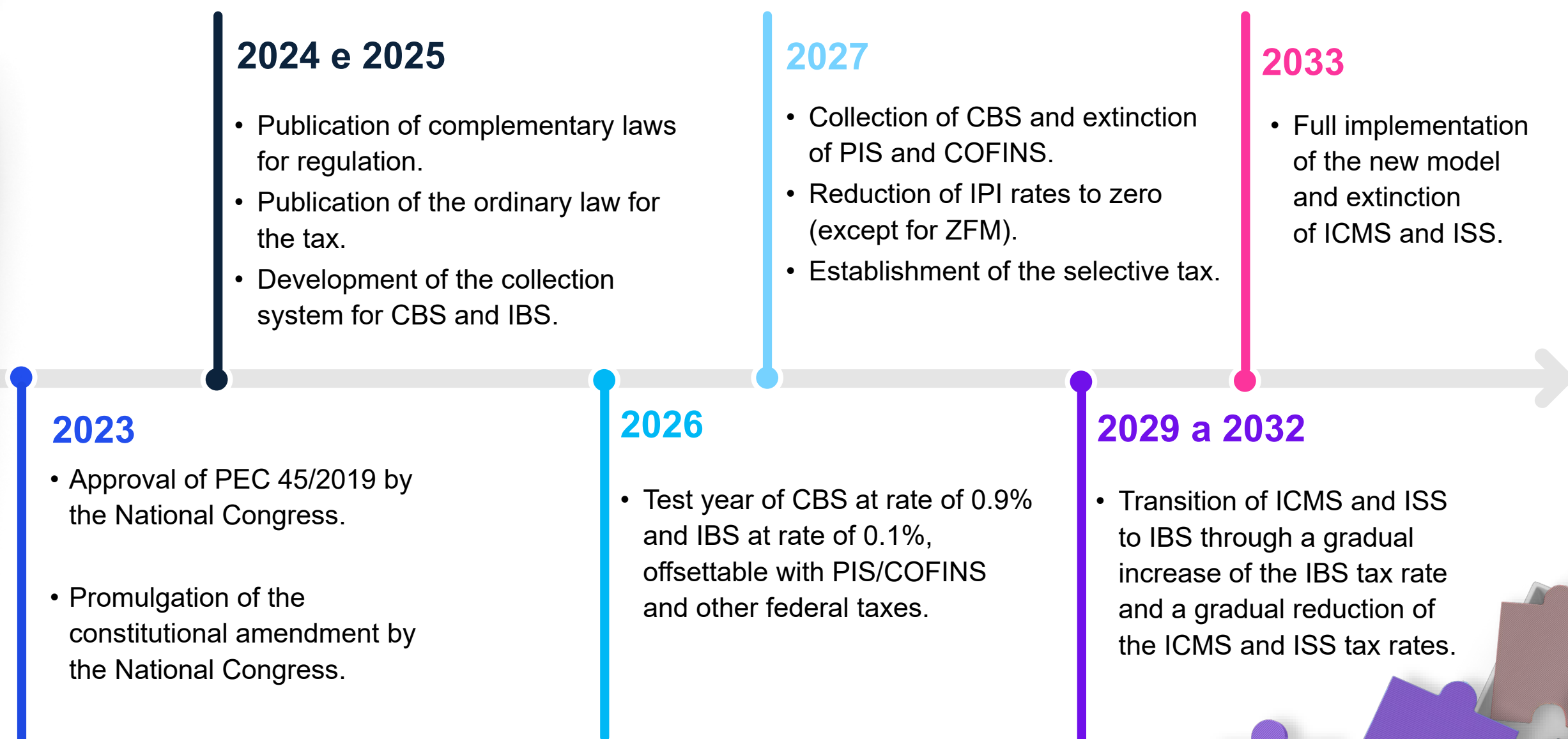
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SIMPLES NACIONAL

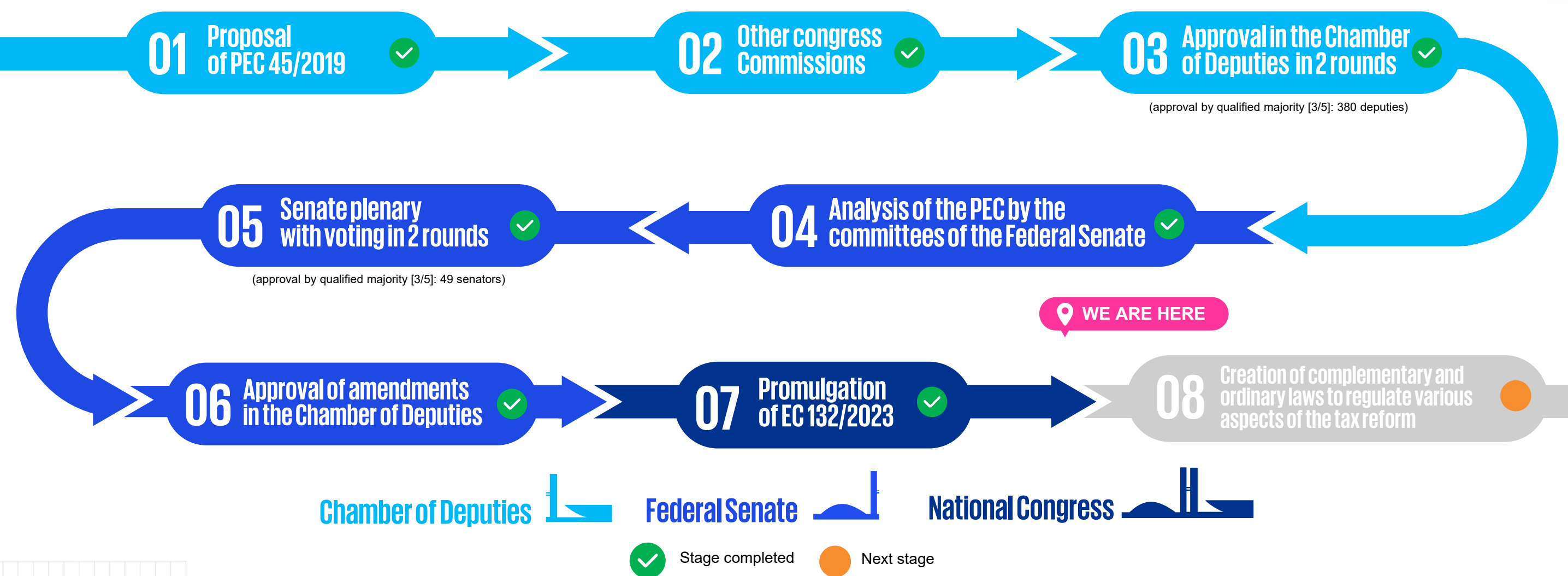
Points of attention

- + **Increase in tax burden:** with the establishment of IS in 2027, the amounts to be paid for ICMS and ISS will be higher than current, as the IS will be added to the calculation base of these taxes.
- + **Dual VAT tax rate:** despite official studies indicating a rate around 27%, there is much anticipation regarding its definition. The impact on sectors will vary depending on their activity.
- + **Restriction to full non-cumulativeness:** the limitation on the crediting of items for personal use and consumption is interpretive and may lead to disputes.
- + **Accumulated ICMS credits:** companies with accumulated ICMS credits will need to expedite the homologation of these values to ensure their recoverability. In case the homologated credits are not offset until the end of the transition, the recovery will be staggered over 20 years.
- + **IPI, PIS, and COFINS credits:** as there is still no defined rule for the refund of federal taxes, taxpayers with credit balances are advised to seek to use them up before the transition period.
- + **Regulation:** the various sensitive points of PEC 45/2019 will only be clarified with the regulation of complementary laws in 2024. Therefore, taxpayers must be aware of the rules that will come and their impact on business.
- + **ERP:** due to the two concurrent tax systems from 2026 onwards, there will be a need to use more than one ERP, or taxpayers will have the possibility of having both parameterizations in a single system. Alternatively, taxpayers may need to consider outsourcing (outsourcing/cosourcing).
- + **Ancillary obligations:** taxpayers must prepare for a new format of ancillary obligations, which will require improvement of people, processes, and systems.
- + **Training of people:** tax professionals will have to learn the rules of a completely new tax system, along with their day-to-day activities. Professionals from other departments, such as purchasing, sales, FP&A, and supply, will need to be trained to understand the impacts of the tax reform on their area of expertise.
- + **Contracts:** companies will need to review contractual clauses that impact taxes in their contracts with suppliers and customers, due to issues of price pass-through, maintaining competitiveness, maintaining prices, etc.

Transition period



Next steps of the Tax Reform



Are you ready for these changes?

We want to help you!

KPMG, through its Tax Reform Engine (TRE), is prepared to support companies in building tax and financial scenarios based on real data extracted from ECD, ECF, EFD Fiscal and Contributions.

With expertise and technology, it is possible to anticipate the upcoming changes.

KPMG's Tax Reform Calculator

