Brazil's indirect tax reforms

Global Indirect Tax Advisor webcast series

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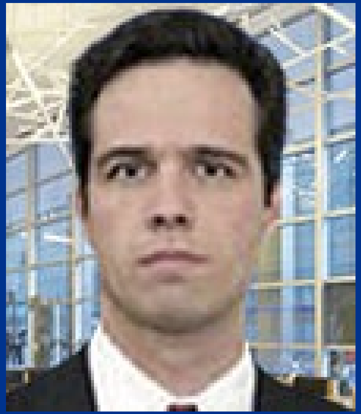
18 January 2021

Today's presenters



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Agenda

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1. Brazilian tax system
2. Supply chain impacts
3. Brazilian tax reform
4. Q&A

Administration

Polling questions

- Polling questions will appear as we proceed through the presentation.
- As mentioned, in order to receive the certificate of attendance, we require participants to take part in at least four of the five polling questions.
- If you qualify for the certificate of attendance, it will be sent to you following the webcast.

Attendee questions

- You may submit questions in the *Ask a question* button on the left. We will answer as many questions as we can during Q&A. If we are unable to answer your question during the webcast, someone from KPMG may reply via phone or email following the webcast.
- For technical issues, please use the *Question Mark* button in the upper-right hand corner of the media player.

Your feedback

- When the webcast is over, the webcast player will automatically refresh to display an exit survey. Feel free to complete the survey, as your comments are very valuable to us.

Brazilian tax system

Brazilian tax system "As is"

Brazilian Indirect Taxation (federal, state and municipal) and the non-cumulative system

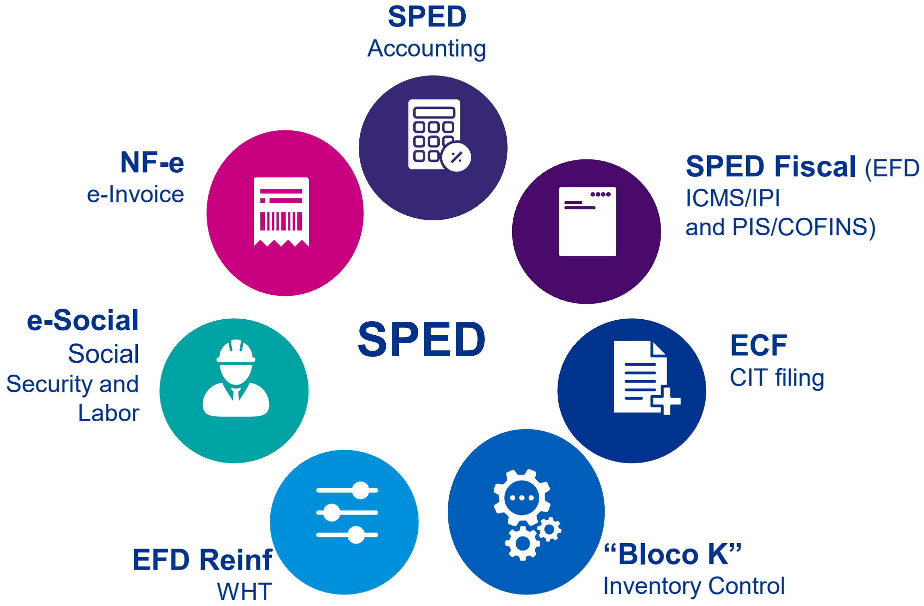
- **Federal:**
  II, IPI, PIS, COFINS
- **State:**
  ICMS
- **Municipal:**
  ISS
- **Non-cumulative System:**
  Real Profit Compensation possibility (offset) — Taxes paid x to pay
- **Cumulative System:**
  Presumed Profit

Brazilian tax system "As is"

Brazilian Digital System of Ancillary Obligations (SPED)

- Effective data control by Brazilian Tax Authorities
- Higher transparency / Real time information
- Relevant changes in tax and labor/payroll compliance
- Faster and more accurate tax assessments by tax authorities
- Reduction of informality level

Compliance: e-filings



Electronic Fiscal Invoice: from the file preparation up to the real time access (NF-e)

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Supply chain impacts

Supply chain impacts

— ICMS rates vary according to where the goods are shipped from and to.

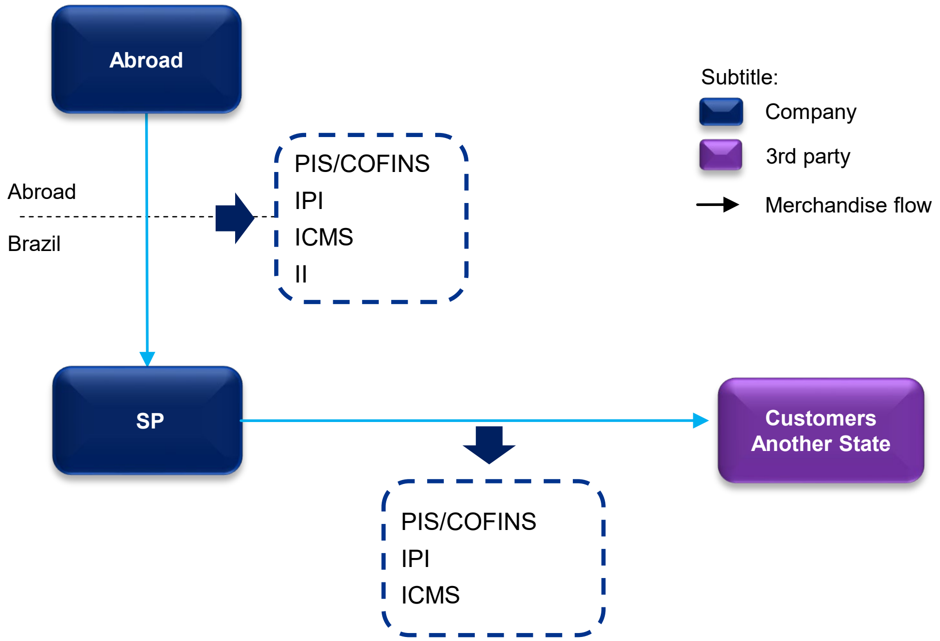
— Each state can create their own rules regarding ICMS and grant tax incentives for specific economic activities and/or companies.

— ICMS incentive can be used to reduce the price of goods to the final customer, as well as to capitalize the Brazilian entity (i.e., positive P&L impact).

— Given that Brazil is a vast country, logistics cost must also be considered when studying changes in the supply chain since it can kill the taxation gain.

Scenario #1 – Imports and Resale

Finished goods imported through São Paulo State ("SP") and resold to other Brazilian States

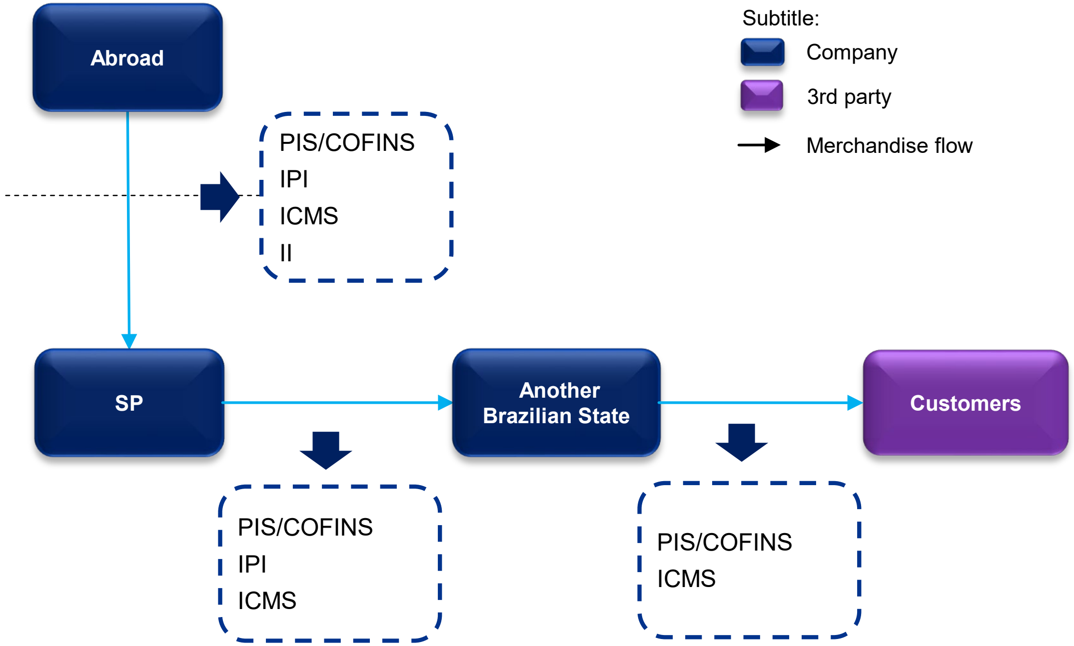


- Potential risk for ICMS tax credits accumulation, due to interstate tax rates
- Difficulty to monetize ICMS tax credits
- No ICMS tax incentives applied on the structure

Scenario #2 – ICMS tax incentive with "distribution lane" strategy

Finished goods imported through SP

Imported products transferred to a branch to be incorporated in another Brazilian State ("distribution center").



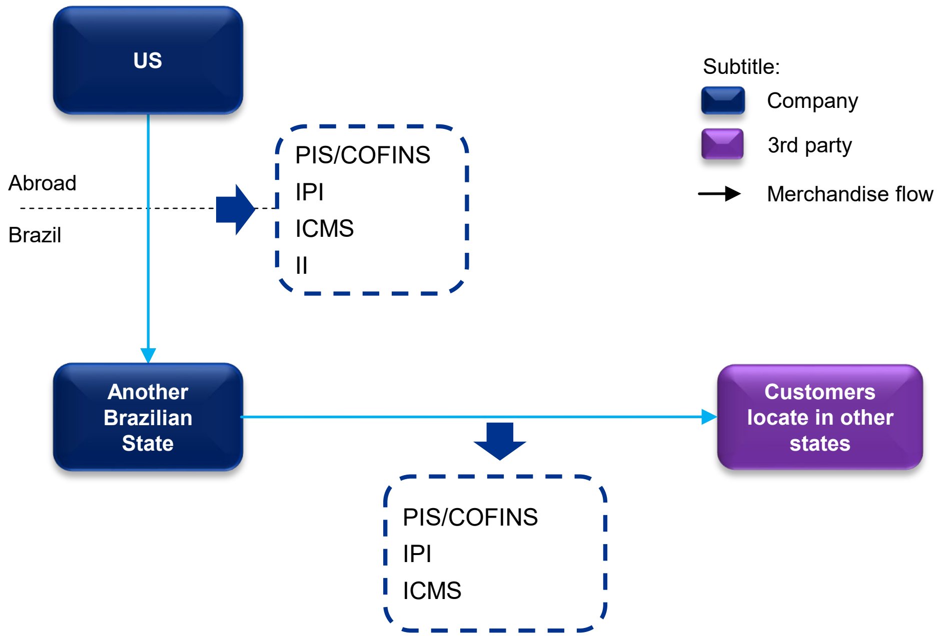
— ICMS tax incentives could potentially reduce the risks for ICMS tax credits accumulation

— IPI minimum taxable value should be observed

— More in-depth ICMS incentives and operational-logistics analysis are needed.

Scenario #3 — Rethinking the supply chain structure

Finished goods and raw materials are imported through another Brazilian State with tax incentives



- New site location — ICMS tax incentives and assembling/manufacturing benefits (e.g. Manaus Free Trade Zone)
- ICMS tax incentives and new supply chain structure may avoid ICMS-PIS-COFINS-IPI issues
- Further operational analysis would be needed

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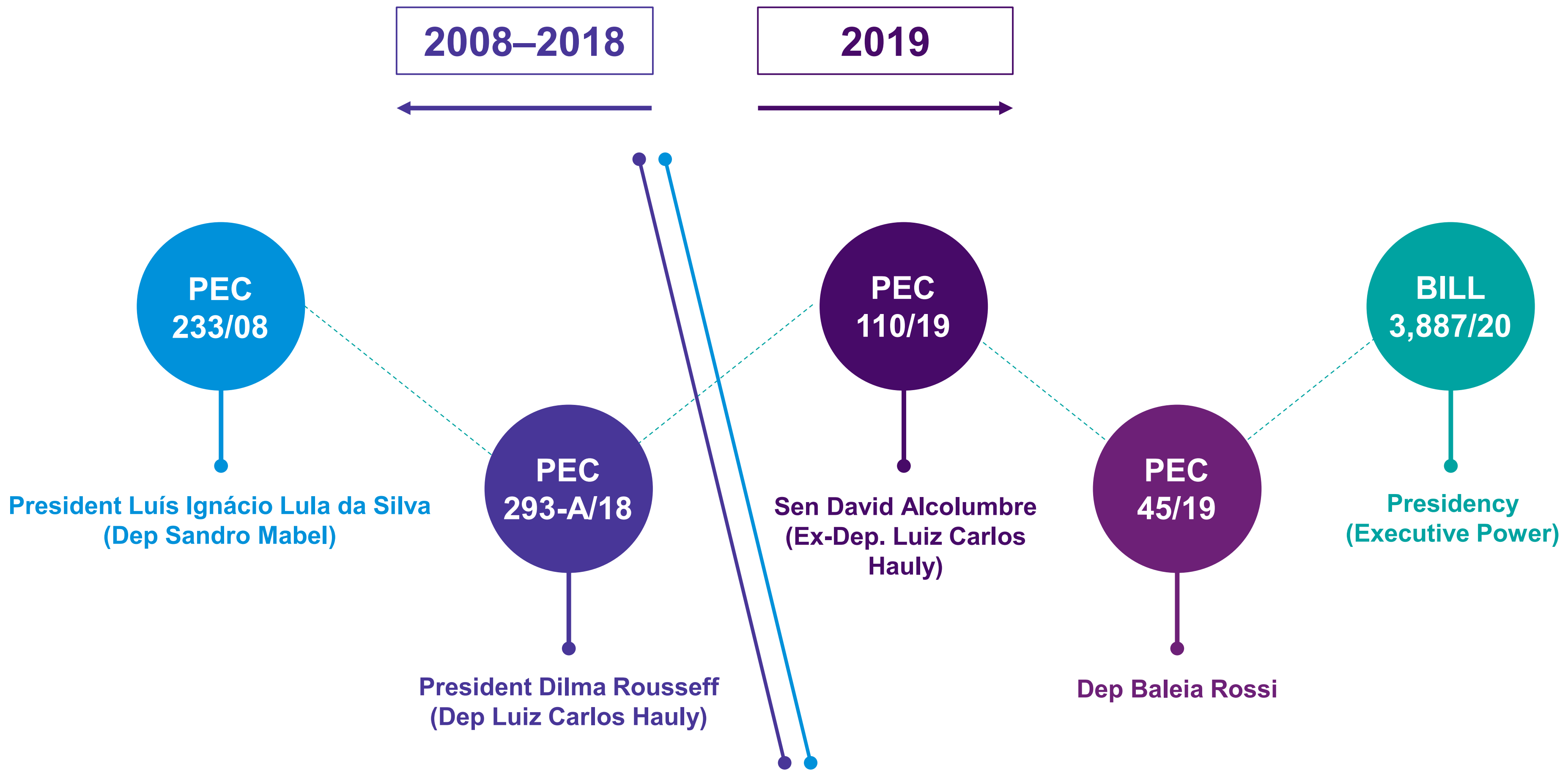
Brazilian tax reform

Tax Reform – Timeline



PEC: Constitutional Amendment Bills

Tax reform milestones

1. Accountability
2. Transparency
3. Simplification and cost reduction
4. Reduce tax evasion
5. Maintenance of Tax Burden
6. Absence of privileges
7. More investments and employment
8. Neutrality in economic decisions

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Tax reform proposals

Indirect Taxes

Social Contributions on Gross Revenues ("PIS/COFINS")

↓

Federal GST ("CBS")

Tax on Production of Goods ("IPI")

↓

Excise Tax

Corporate Income Tax

Dual Model: reduction of the CIT rates and taxation on dividends

Payroll

Reduction of payroll taxation and discussion about new revenue sources for social security and social benefits

CBS (Bill 3,887/2020)

— PIS and COFINS are one of the main sources of litigation between the tax administration and taxpayers:

— CBS would be levied at a single tax rate — 12 percent, on the sale of goods and services, on the import of goods and services, on royalty payments and transactions with intangible assets.

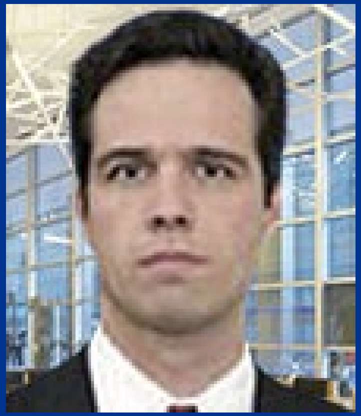
— With few exceptions (e.g. financial institutions, agribusiness, real state industry, Manaus Free Trade Zone), all taxpayers will be subject to the same regime and rate.

— By allowing tax credit on inputs used for production of goods and services, it is expected that the extensive litigation involving PIS and COFINS credits will cease to exist.

— CBS also aims at taxing digital transactions that currently fall out of the scope of taxation. The digital platforms will be responsible for collecting CBS.

Questions?

Q&A



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Thank you

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