

Brazilian Tax System: How It Works

Enacted in 1988, the Brazilian Constitution provides the Union, states and municipalities the power to levy taxes, which may be imposed, improvement rates, social contributions and compulsory loans. The fees are related to specific public services provided or made available to the citizens (service fees) or regulatory. These fees are charged specifically by federal regulatory agencies to maintain public services.

The rates of improvement are charged to property owners benefited by public works. Compulsory loans may be collected only in case of urgent public investment or to meet extraordinary expenses resulting from public disasters, war or imminent war. Other fees may also be charged by the Federal Government. Among them, import and export taxes on income and capital gains on industrial goods, on credit, foreign exchange, insurance and securities, on farms and on large fortunes.

Income tax: How is charged

The Income Tax of Individuals is charged on income of individuals originating from domestic sources or foreign. The rates vary between 15% and 27.5%, depending on personal income. Regarding the tax levied on business income is called Income Tax of Legal Entity and focuses on profits and capital gains generated by operations in Brazil or abroad. The income tax is generally calculated on the net profit on transactions the company (other bases are applicable earnings and estimated earnings).

State taxes and Federal District: Learn how they are charged

The following fees are allocated to the states and the Federal District:

- Tax on transfer by death and donation of any property or right (ITD);
- Transactions Tax on Circulation of Goods and Services for Interstate and Intermunicipal Transportation and Communications (ICMS);
- Tax on Motor Vehicles (property taxes).

The ICMS is the principal and state tax levied on transactions concerning the circulation of goods, including imports, interstate transportation and on communications services. The rates vary between 7% and 25% (average rates are 18% for RJ, SP, MG and RS, and 17% for other states and the DF). In interstate operations, the applicable rates are 7% or 12%, depending on the destination. The tax is not levied on exports.

Municipal taxes: how they work

The following fees are allocated to municipalities and the Federal District:

- Tax on Urban Land and Property (property tax);
- Tax on the Transfer of Property, Rights Related to Them (ITBI);
- Tax on Services (ISS).

ISS is levied on the provision of certain services listed in federal law.

Social contributions

The federal government collects the following contributions to finance social programs:

- Social Contribution on Net Income - charged on profit before income tax calculated in accordance with commercial law.

The annual rate is 9%.

- Contribution to the Financing (Cofins) -charged monthly on the gross revenue from the sale of goods and services.

The rates are 3% (cumulative) and 7.6% (not cumulative).

- Contribution to Social Integration Program (PIS): charged monthly on the gross revenue from the sale of goods and services.

Fees are 0.65% (cumulative) and 1.65% (not cumulative).