

Understanding Brazil's Tax Reforms: Consumption and Income Taxes

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Brazil-Texas
Chamber of
Commerce

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Agenda

Consumption Tax Reform

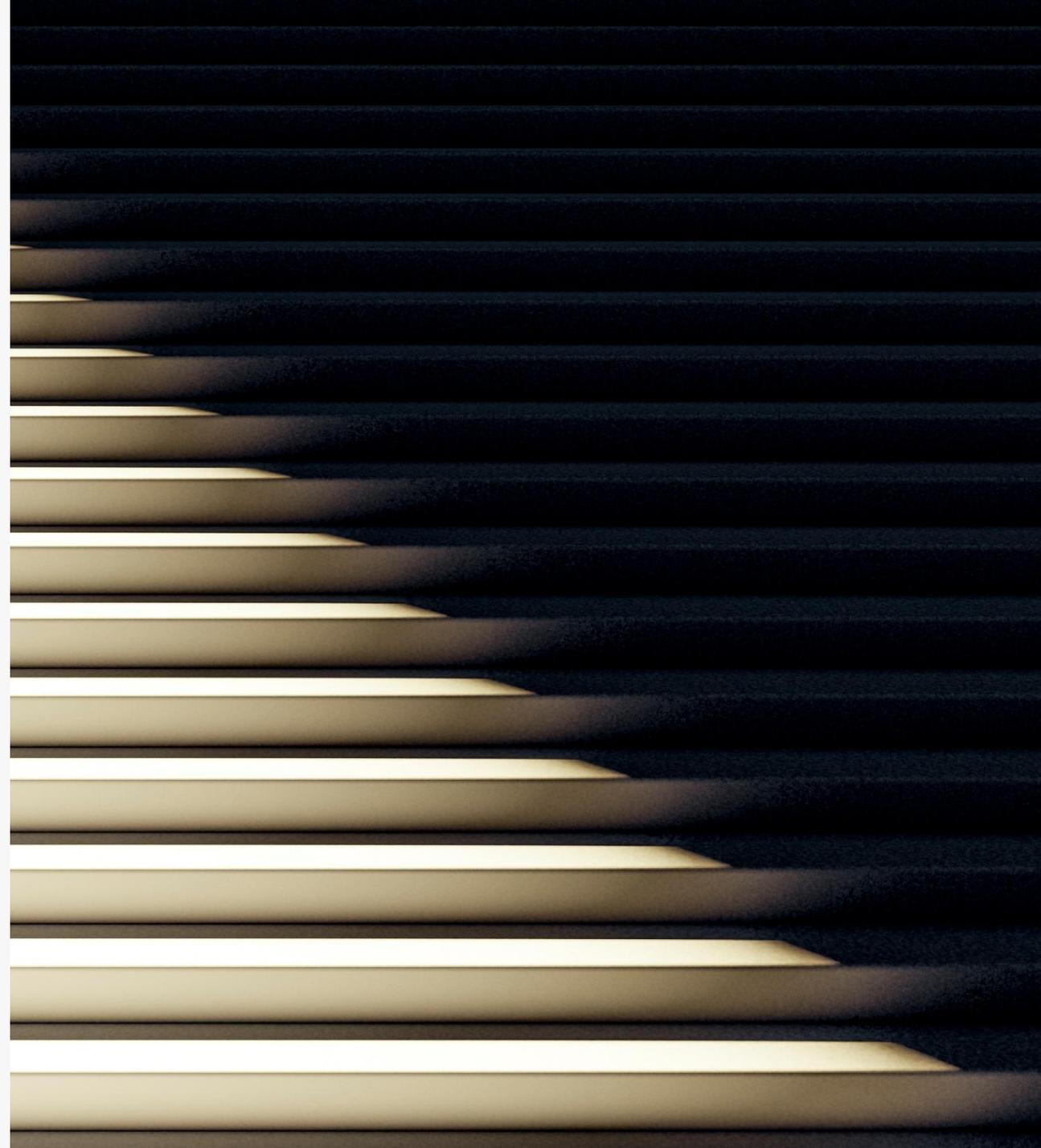
- Overview
- Financial Credit System
- Transition Regime
- Other Relevant Aspects
- Selective Tax

Reduction of Tax Benefits

- Overview
- Impacted Regimes
- Reduction Methodology
- Interest on Net Equity

Income Tax Reform

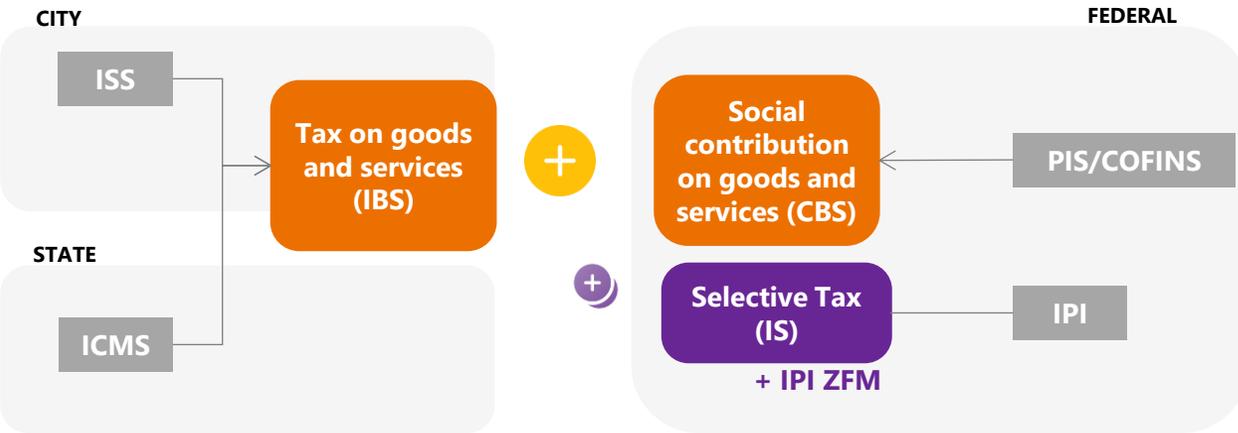
- Dividend Taxation
- Pillar Two



I. Consumption Tax Reform

Overview | Consumption Tax Reform

Reduction of the number of taxes and simplification of ancillary obligations



Debate on **whether IBS and CBS should be included in the ICMS/ISS tax bases**, given the absence of an express exclusion. There are diverging positions among the states concerning the implementation of this inclusion as of 2026.

Value Added Tax (“VAT”) Model

Broad tax base covering tangible and intangible goods (and any rights linked to them) and services.

Certain transactions not currently subject to ISS or ICMS (e.g., **charter arrangements**) will fall under the new taxes.

Tax rates – states and municipalities will establish their own IBS tax rate by means of a specific law, which will be the same for all transactions involving goods and services.

Financial credit system – allows any input used in the production process to be credited.

Not subject to tax incentives, except those provided in the Brazilian Constitution.

Tax calculation basis – **no cascading taxation.**

IBS will be due at the **location of consumption.**

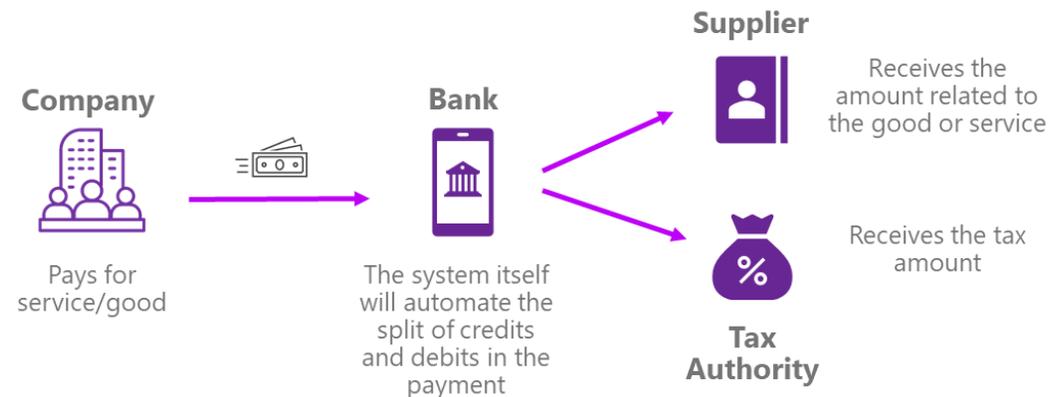
Financial Credit System | Consumption Tax Reform

All inputs are creditable, except those for personal use or consumption, provided the tax liability is settled by at least one of the following methods:



- Offset against IBS and CBS credits;
- Payment by the taxpayer or the legally responsible party;
- Split payment;
- Payment by the purchaser.

Split Payment. Payment service providers must segregate and remit the IBS/CBS amounts upon financial settlement:



Payment by the purchaser. A purchaser that is an IBS/CBS taxpayer under the regular regime may pay IBS/CBS directly when the payment instrument does not support split-payment.

Transition Period | Consumption Tax Reform

Introduction of IBS and CBS

IBS - rate of **0.1%** (until 12/31/2028)

CBS - rate of **0.9%** (until 12/31/2026)

2026

- ✓ **Test period** – information recorded on tax invoices, but no actual charging or payment
- ✓ Maintenance of ISS and ICMS
- ✓ The amounts collected (as IBS and CBS) can be deducted from the amount due for PIS/COFINS
- ✓ If no deduction is available, offset against other federal taxes or claim reimbursement within 60 days
- ✓ If the taxpayer complies with the applicable ancillary obligation, the collection of the test rates will be waived

Senate establishes reference rates for IBS and CBS, which will be applied in the absence of an ordinary law by the public authority

2027

End of PIS/COFINS and zero IPI rate

- ✓ Full implementation of CBS and Selective Tax (rate to be defined)
- ✓ Extinction of PIS/COFINS
- ✓ IPI rate reduced to zero (except for products manufactured in the Manaus Free Trade Zone)

Gradual reduction of ISS and ICMS and increase of IBS

ISS/ICMS will gradually decrease as IBS proportionally increases (e.g., 90% of the ISS/ICMS original rates vs. 10% of the IBS rate)

2029-2032

Percentage of original rates (ISS and ICMS versus IBS)

2029	90% - 10%
2030	80% - 20%
2031	70% - 30%
2032	60% - 40%

2033

End of old taxes

- ✓ Extinction of ICMS and ISS and full implementation of IBS
- ✓ CBS/IBS reference rates calculated by TCU and set by Senate Resolution to offset federal, state, and municipal revenue losses

Other Relevant Aspects | Consumption Tax Reform



1. Service Export (New Concept)

A service or intangible export occurs when a Brazilian supplier provides a supply to a purchaser or recipient domiciled abroad for **consumption outside Brazil**.

The following shall also be deemed an exportation of services: **(i)** the provision of services related to real estate located abroad; **(ii)** the provision of services performed on movable property that enters the country for such purpose and is returned abroad upon completion; and **(iii)** the provision of cargo transportation services for export purposes.

LC No. 214/2025 defines "consumption outside Brazil" as a supply:

- Whose place of performance is outside Brazil (in the case of services that are essentially physical in nature); or
- In which both the purchaser and the recipient are resident or domiciled abroad (in all other cases).



2. Concept of supply

The concept of "supply" encompasses the **making available** of tangible and intangible property, rights, and services. This broad definition has significant implications for contracts involving continuous or successive obligations, such as take-or-pay and ship-or-pay arrangements.



3. Anticipations

Any prepayment – whether in full or in installments – triggers **advance tax collection** on each payment date.

Selective Tax | Consumption Tax Reform

The IS will be levied on:

CF, Art. 153, VIII - **production, extraction, commercialization, or importation** of goods and services harmful to health or the environment

General rules:

- ✓ Will be levied **once** on the good or service
- ✓ Administered and supervised by the Brazilian Federal Revenue Service ("RFB")
- ✓ **Rates** will be set by ordinary law and may be specific, **ad rem or ad valorem**



Selective Tax on oil

EC 132: The tax will be levied with a **maximum rate of 1%** of the market value of the product

LC 214/2025: **Maximum rate of 0.25%** for extracted mineral goods.

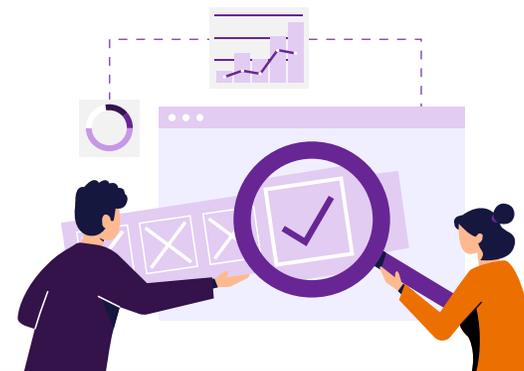
Natural Gas

- The tax rate for **natural gas used as an input** is set at zero.
- If the product is given a different destination, the purchaser or importer must pay the difference in the IS, plus fines and late-payment interest.
- The **implementation** of this rule involves logistical and tax challenges, especially concerning the identification of the destination of natural gas at the source.
- The application of the zero rate requires strict control and traceability, which may create **operational difficulties**, particularly in cases of natural gas reinjection, where the origin and destination of the input are not clearly defined.

II. Reduction of Tax Benefits

Overview | Reduction of Tax Benefits

- Reducing tax benefits was a key driver of the Consumption Tax Reform.
- In line with this principle, **LC No. 224/2025**, published on December 26, 2025, applies a **10% reduction** to certain federal tax benefits.
- The reduction is applicable to the following taxes:
 - PIS/Cofins (Gross-Revenue Taxes);
 - IRPJ/CSLL (Corporate Income Taxes - "CIT");
 - II (Import Tax);
 - IPI (Tax on Manufactured Goods);
 - Social Security Contributions.



The RFB has expressly confirmed that the reduction does not apply to the Withholding Income Tax ("IRRF"), including where the beneficiary is domiciled abroad, or the Tax on Financial Transactions ("IOF").

- The reduction extends to regimes identified in the Tax Expenditure Report of 2026 and to certain regimes expressly listed in the LC, such as the presumed profit regime.
- Regimes not included in either of the lists are exempt from the reduction (e.g., **Repetro**).

Reduction Methodology | *Reduction of Tax Benefits*

- The 10% reduction must be implemented in accordance with the tax benefit:

Tax Benefit	Systematic
Exemption and zero tax rate	A rate equal to 10% of the standard rate applies.
Reduced rate	The applicable rate equals 90% of the reduced rate plus 10% of the standard rate.
Reduction of tax base	Tax base reduction limited to 90% of the original benefit rate.
Financial or tax credit, including presumed or fictitious credit	Credit limited to 90% of the original amount; the unused portion is canceled.
Reduction of tax due	Tax reduction limited to 90% of the original benefit rate
Optional special or preferential regimes in which taxes are levied as a percentage of gross revenue	Increase of 10% in the gross revenue percentage.
Tax regimes in which the tax base is presumed	Increase of 10% in the presumption percentages.

RFB example – presumed profit regime: a commercial company taxed under the presumed profit method earns gross revenue of R\$ 1,500,000.00 in the first quarter of 2026.

The increase must be calculated as follows:

- 8% on R\$ 1,250,000.00, plus
- **8.8% on the exceeding portion of R\$ 250,000.00.**

Impacted Regimes | *Reduction of Tax Benefits*

SUDAM/SUDENE

IRPJ

Potential application of the exemption applicable to tax incentives subject to "onerous conditions", provided that the underlying investment project has been duly **approved** and is already **under execution by December 31, 2025**.

Liquefied Natural Gas

PIS/COFINS

Zero rate on imports.

Vessels and Aircrafts

PIS/COFINS, IPI and II

Zero rate and exemptions.

REIDI

PIS/COFINS

The shift from suspension to a substitute rate directly affects input costs and may trigger supplier rebalancing clauses. Potential application of the exemption applicable to tax incentives subject to "onerous conditions", provided that the underlying investment project has been duly **approved** and is already **under execution by December 31, 2025**.

Presumed Profit

IRPJ/CSLL

The 10% increase applies only to the presumption percentages on gross revenue exceeding **R\$ 5 million** per calendar year.



Could the LC have classified the Presumed Profit Regime as a **tax benefit**?

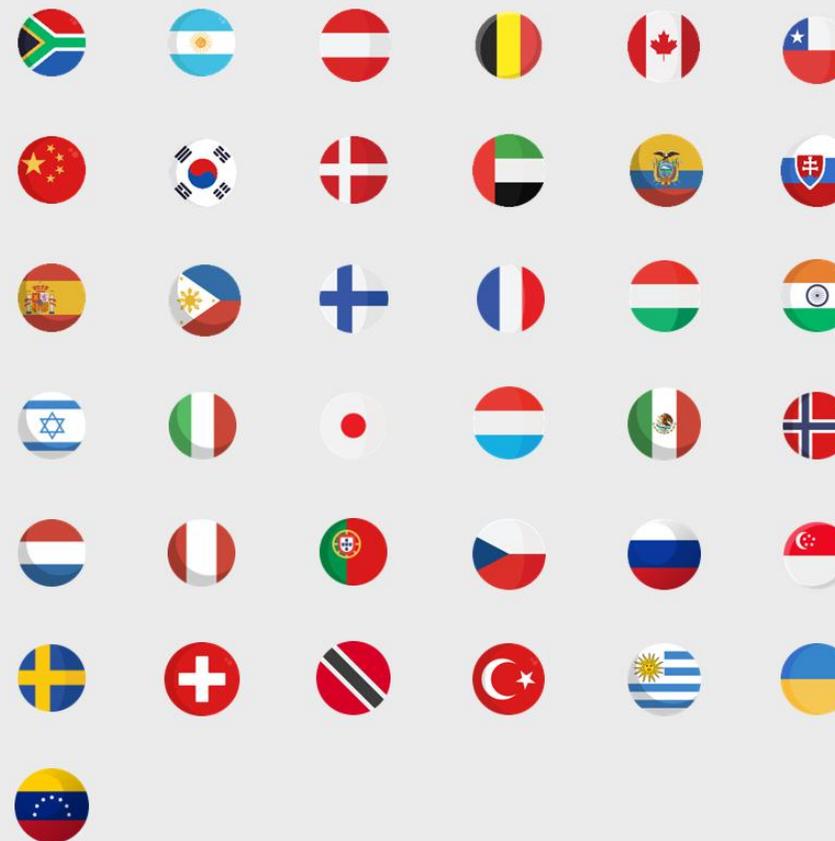
Interest on Net Equity ("JCP") | *Reduction of Tax Benefits*

- LC 224/2025 also increases the IRRF rate on JCP from **15%** to **17.5%**.
- **Opportunity to apply a lower rate on JCP payments to beneficiaries in DTT (Double Taxation Treaty) jurisdictions.**
- Certain DTTs expressly provide that JCP shall be treated as "interest". The RFB's interpretation in Consultation 125/2018 may extend to DTTs lacking an equivalence provision..



There is still no DTT between Brazil and the United States.

Countries that have signed DTTs with Brazil

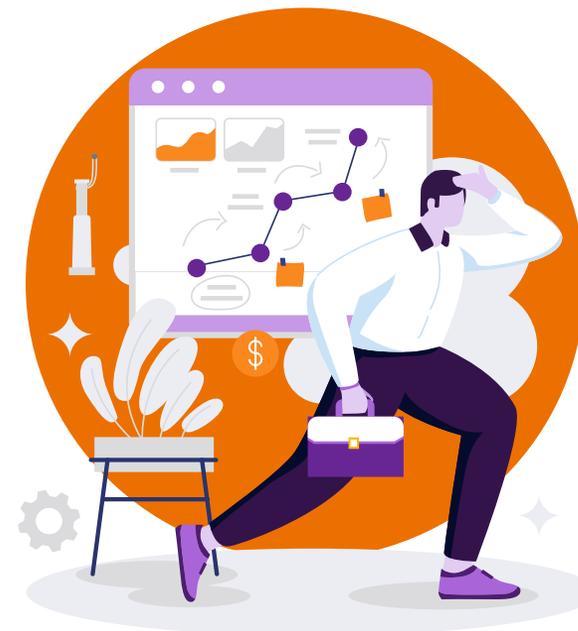


III. Income Tax Reform

Dividend Taxation | *Income Tax Reform*

- **Law 15,270/2025** (enacted November 26, 2025) reintroduced dividend taxation in Brazil, imposing a **10% WHT** on dividends *paid, credited, delivered, or remitted abroad*, as well as dividends distributed to individuals domiciled in Brazil. Distributions to Brazilian legal entities will not be subject to the WHT.
- These rules took effect on **January 1st, 2026**.
- Dividends from profits earned up to December 31, 2025, are exempt from WHT if:

1. Their distribution is formally approved by December 31, 2025;
2. They are legally enforceable under civil or corporate law, with payment, credit, or delivery occurring as per the terms originally approved in corporate documentation.



- The exemption rules raise **practical challenges regarding approval by December 2025** (Actions of Unconstitutionality No. 7912 and No. 7914 in Brazil's Supreme Federal Court).
- **Bill of Law No. 5,473/2025** proposes an amendment allowing the approval of dividend distributions until April 30, 2026, in accordance with Section 132 of the Brazilian Corporations Law.

Dividend Taxation | *Income Tax Reform*

- If the combined effective tax rate on corporate profits (at the level of the Brazilian entity distributing dividends) plus the 10% WHT on dividends paid to non-residents exceeds the applicable nominal CIT rates (34% for most legal entities), non-resident beneficiaries may opt to claim a **tax credit relief** calculated on the amount of dividends distributed and subject to WHT.
- The credit will correspond to the difference between: **(i)** the combined effective tax rate; and **(ii)** the applicable nominal CIT rate.
- The Executive Branch will regulate how non-residents may claim the credit within 360 days of each fiscal year-end.

Effective Tax Rate

Accounting Standard "IAS 12" and its Brazilian equivalent (CPC 32) define the effective tax rate as the **tax expense** divided by accounting profit.

Law No. 15,270/2025 defines ETR as the ratio – computed in the year to which the distributed profits relate – between the **tax due** and the accounting profit, not including deferred tax assets or liabilities. This may significantly impact sectors with material temporary differences (e.g., O&G industry - accelerated depletion).

Law No. 15,270/2025 provides that the calculation of the effective tax rate and the tax due may be based on the **consolidated financial statements of the paying entity**, as defined in forthcoming regulations. This rule is **particularly relevant for holding companies** (equity pick-up income is not taxable).

(!) Uncertainty regarding non-consolidated entities.

Dividend Taxation | *Income Tax Reform*



Discussion: should dividends paid to shareholders in favorable tax jurisdictions (“FTJ”) be subject to the general **10%** WHT rate or to the **25%** WHT rate generally applicable to payments to FTJs (Section 8 of Law No. 9,249/1999)?

- **RFB’s Q&A:** expressly confirms dividends to FTJ shareholders are subject to the **10% WHT rate**. While not formally binding, it provides significant legal comfort to taxpayers.
- Supporting legal arguments:
 - ✓ Brazil's corporate-shareholder integration treats dividends as distributions of profits already taxed at ~34%. A 25% WHT would break this framework and create duplicative taxation.
 - ✓ The FTJ concept targets income taxed below 17% abroad – inapplicable to dividends from profits already taxed at up to 34% in Brazil.
 - ✓ During legislative proceedings (Bill 2,337/2021), a proposed 30% aggravated FTJ rate was expressly removed as "misaligned" with the system's approach of neutralizing – not penalizing – FTJ beneficiaries.
 - ✓ Under the prior exemption regime, FTJ dividends were never subject to the 25% rate.
 - ✓ A higher rate would violate constitutional principles of equality and non-discrimination of foreign capital.



Pillar 2 | Income Tax Reform

- **Law No. 15,079/2024** and **Normative Instruction No. 2,228/2024** introduced Pillar Two in Brazil, establishing a minimum effective tax rate of 15% on income generated in the country.
- Brazil adopted only the Qualified Domestic Minimum Top-up Tax ("QDMTT"), implemented through the Additional of CSLL.
- The OECD qualified the Additional of CSLL as a QDMTT, giving it precedence over the Income Inclusion Rule ("IIR") and the Undertaxed Payment Rule ("UTPR").

In calculating the covered taxes, temporary differences shall be addressed by adjusting the Constituent Entity's current tax expense for the fiscal year by the total amount of the **deferred taxes**.

Additional of CSLL – Steps for Analysis

- 1 Identify **(i)** the multinational group within scope and the jurisdictions; **(ii)** whether revenues exceeds **€750 million** (in at least 2 of the last 4 years); and **(iii)** any potential application of a Safe Harbour.
- 2 Calculate the **GloBE Income** of each Constituent Entity in Brazil.
- 3 Identify the **covered taxes** for each Constituent Entity in Brazil.
- 4 Compute the **effective tax rate** for all Constituent Entities in Brazil and compare it to the 15% minimum.
- 5 If applicable, apply the top-up rate to the Excess Profit, thereby determining the **Additional CSLL**.

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Thank you!

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