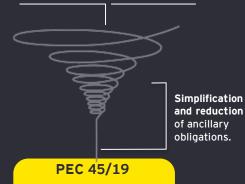
Brazilian Tax Reform: EY Overview

Notoriously ranked as one of the most complex tax systems in the world, Brazil's legislative framework of indirect taxes will undergo major changes.

Even though one of the goals of the Reform is to simplify the Brazilian tax system, the approved text contains issues that could perpetuate already known complexities.

ICMS | COFINS | PIS | ISS | IPI



(EC 132/23) Excise Tax + IBS e CBS + State contribution + IPI ZFM

IBS, CBS, IS, State Contrib. and IPI ZFM

The promise is that the two main taxes (IBS and CBS) will have the same base and combined with the IS. they will have the same rules. applicable throughout the country. More detail is needed on the State Contribution and the ZFM IPI to be defined by LC.

Possible maintenance of tax substitution and special regimes

The current text leaves room for the continuation of tax substitution for the new taxes. Also, many different and specific regimes have been introduced.

Prohibition of certain types of credits

There is the possibility of requiring proof of payment to enable credit and a possible ban on crediting in cases of specific taxation regimes (for example, for fuels).

Exceptions to the general regime

During the approval process, several instances of rate reductions were created. Moreover, the alternative route of regional development policy to tax incentives (FNDR) lacks greater detail and clarification.

Points of Concern

2

3

8

5

6

Refund period not defined

The Constitutional Amendment does not set a refund period for accumulated taxes.

Scope of IS

Although sectors like telecommunications and energy have been excluded from the incidence of IS, its broad wording casts doubt on the limit of its real reach to various goods and services, which could make it a purely revenue-raising tax.

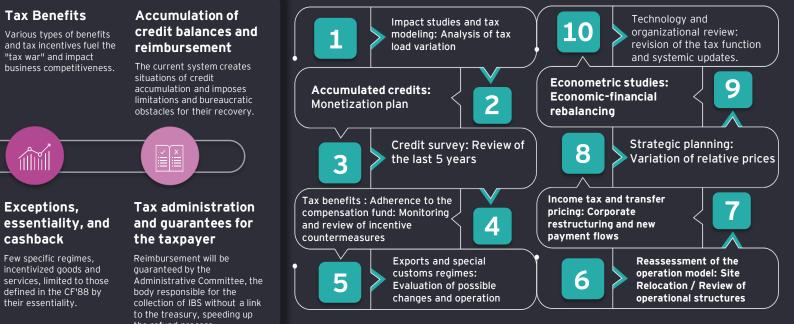
ZFM and IPI

The IPI will continue to be used as a tool to maintain the competitiveness of the ZFM, which represents uncertainty for affected companies, as it is impossible to gauge the impact of this measure in the post-reform scenario.

Transition Period

The transition period for taxpayers takes place between 2026 and 2033, with a gradual reduction of tax benefits related to ICMS. As the compensation of these benefits is limited, some taxpayers may face a temporary increase in their tax burden.

Anticipation of impacts, transition and business opportunities



Five taxes, multiple rules

Various rates, laws, and other regulations. High complexity of compliance and ancillary obligations.

Complexity of calculation

Various methodologies for calculating taxes, for example: cumulative vs. non-cumulative. ICMS-ST. "aross up". DIFAL. In addition to paying taxes at the place of operation as a rule.

Credit limitations and tax residues

costs to companies.

ال ٢

Various types of benefits and tax incentives fuel the Coexistence of different "tax war" and impact tax calculating regimes business competitiveness. and legal limitations to credit uptake generate tax

the refund process.

Expectations of the IVA

<mark>Current system</mark> Main issues

same rules rates.

Single legislation, with freedom for federal entities to define only their general incidence

Simplification and Fewer taxes, taxation at destination

The calculation method now becomes solely value-added to price ("outside"). The tax is now due at the destination of the operation.

-0-

Non-cumulativity without exceptions

General regime with a broad credit base, prohibited only for purchases of "personal use".