Brazilian Tax Reform Highlights:

Consumer Products & Retail

Overview & **Future** Perspectives

Building a better working world

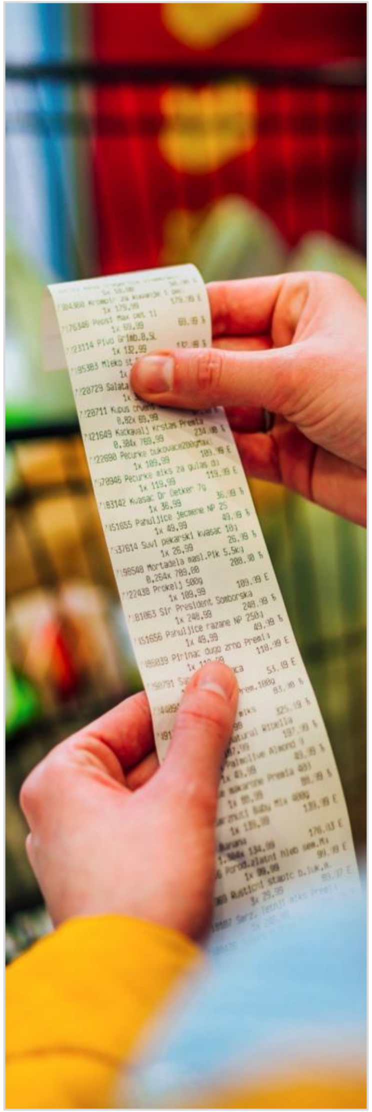
Consumer Products & Retail
Considerations and potential impacts of EC 132/23

Overview of current taxation:

- ICMS, IPI, PIS and COFINS with multiple regimes and calculation possibilities;
- Taxation concentrated in the industry (IPI, ICMS-ST,
- PIS/COFINS monophasic and ST);
- Differentiation in the taxation of products under certain conditions (example: basic food of large consumption "cesta básica");
- Wide use of ICMS incentives.

Particularities among taxpayers in this segment:

- Supply chain impacted by tax factors, leading to frequent tax studies and planning;
- Some Companies have distinguished operational models in Brazil, such as having one tax registration for manufacturing companies and another one for distribution;
- Restricted credit possibilities, specially for retailers;
- Tax residues, especially for retailers;
- Accumulation of ICMS and ICMS-ST credit balances with difficult monetization;
- Reimbursement of ICMS and ICMS-ST subject to the discretion of the states and specific ancillary obligations;
- Tax benefits through terms of agreement with states;
- SIMPLES regime (designed for small companies) is relevant, specially for Retail.



Points of Attention: New Taxation Model

Taxes applicable: ✓ **IBS** ✓ **CBS** ✓ **IS *(for some products)***
Taxes whose incidence is still not clear: State Contribution

✓ Zero or reduced rate by 100% - basic food, vegetables, fruits and eggs.
✓ Reduced rate by 60% - food products and personal hygiene items.

- **Reduction of IBS and CBS rates** will be defined by complementary law and may not be applicable to certain types of products;
- **Uncertainty regarding the breadth of the IS (excise tax)** for items that aim to discourage consumption, for example: beverages, cigarettes, and items with high salt and sugar content, as well as, **regarding the applicability of the State Contribution on primary and semi-finished products**, that may represent an increase in the tax burden for some products;
- Absence of a guarantee to the maintenance of credits for potential incentivized operations;
- Impact on **cash flow** due to the time frame for monetization of accumulated credits in the chain of products subject to CBS and IBS reduced rates;
- **Brazilian operational model**, distribution centers and manufacturing plant's location must be reassessed, possibly considering the demand location;
- Customs regimes (such as RECOF and Drawback) will also be regulated by the Complementary Law;
- **Commercial incentives** (such as free of charge goods and discounts) format must be reassessed;
- Possible impact on **price formation and consumer choices**, especially in retail;
- **Pricing methodology** and consumer's demand can be impacted by the new tax model;
- **Increase in cost for SIMPLES optants,** however, there is the option for non-cumulativity of IBS/CBS;
- Possibility of **paying tax by liability** (Marketplace and others);
- Tax payment obligation can be based on responsibility criteria (which can affect marketplace and other operations);
- End of the **tax substitution** can impact the **cash flow of states**, moving the indicators of **tax evasion** in trade and, consequently, the supervisory response of the public treasury;
- Absence of specific treatment for **door-to-door sales operations**.

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