Brazilian Tax Reform Highlights:

Overview & Future Perspectives



AM&M Considerations and potential impacts of EC 132/23

IPI and PIS/COFINS - Benefit for economy

Lease contracts without ISS incidence.

Tax burden is mainly on the automakers

Benefit on the acquisition of semi-new

Vehicle lease contracts without ISS.

and auto parts manufacturers;

cars;

Dealerships

vehicles;

Overview of current taxation:

Autoparts

- Taxation of ICMS, ICMS-ST, IPI, and PIS and COFINS, both cumulative and noncumulative (multiplicity of possible situations);
- High volume of benefits for inputs;
- IPI suspended on sales to assembly plants; Non-incidence of IPI;
- Benefited taxation on auto parts resale.

Automakers

- Taxation of ICMS, ICMS-ST, IPI, and PIS and COFINS, both cumulative and noncumulative (many possible situations);
- Benefits for importation of products and inputs;
- Particularities among taxpayers in this segment:
- Segment highly dependent on tax benefits (Federal and State):
- The location of production plants is more tied to tax benefits than to the logistic chain, supplies, and distribution;

 High volume of credit balances of indirect taxes:

- Diverse taxation for manufactured products. depending on engine capacity; - motorcycles.
- Tax benefits on sales to fleet owners, public entities, PCDs, etc;
- Recent benefit granted on sale of economy cars;
- Draft law under discussion about exemption of IPI and IOF



Points of Attention: New Taxation Model

Taxes applicable: < IBS < CBS ? IS

Preservation of the ZFM (Manaus Free Trade Zone) Continuation of the presumed credit benefit (Law 9440/97 and 9826/99) only for projects with electric motors or that utilize biofuels (including flex fuel).



Tax benefits will no longer dictate the rules for the establishment of operations, the supply chain should guide the allocation of production plants;

• The approval of credit balances for the transition period should be regulated by a supplementary law;

Tax benefits applicable to the sale, resale of new vehicles and acquisition and resale of semi-new vehicles by dealerships are expected to be phased out;

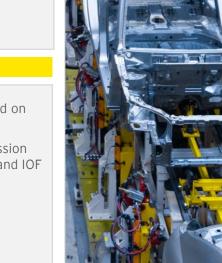
Reduction of credits and increase in cost for those that opted for the SIMPLES National, although there is an option for the standard scheme:

Potential increase in the tax burden for the entire chain;

 Joint impact of the adoption of OECD rules for transfer pricing purposes, in conjunction with Tax Reform, on customs clearance;

End of benefits applicable to imports and presumed credits, causing impacts also for IRPJ and CSLL;

 Regionalization and segregation of production tends to be reduced.



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