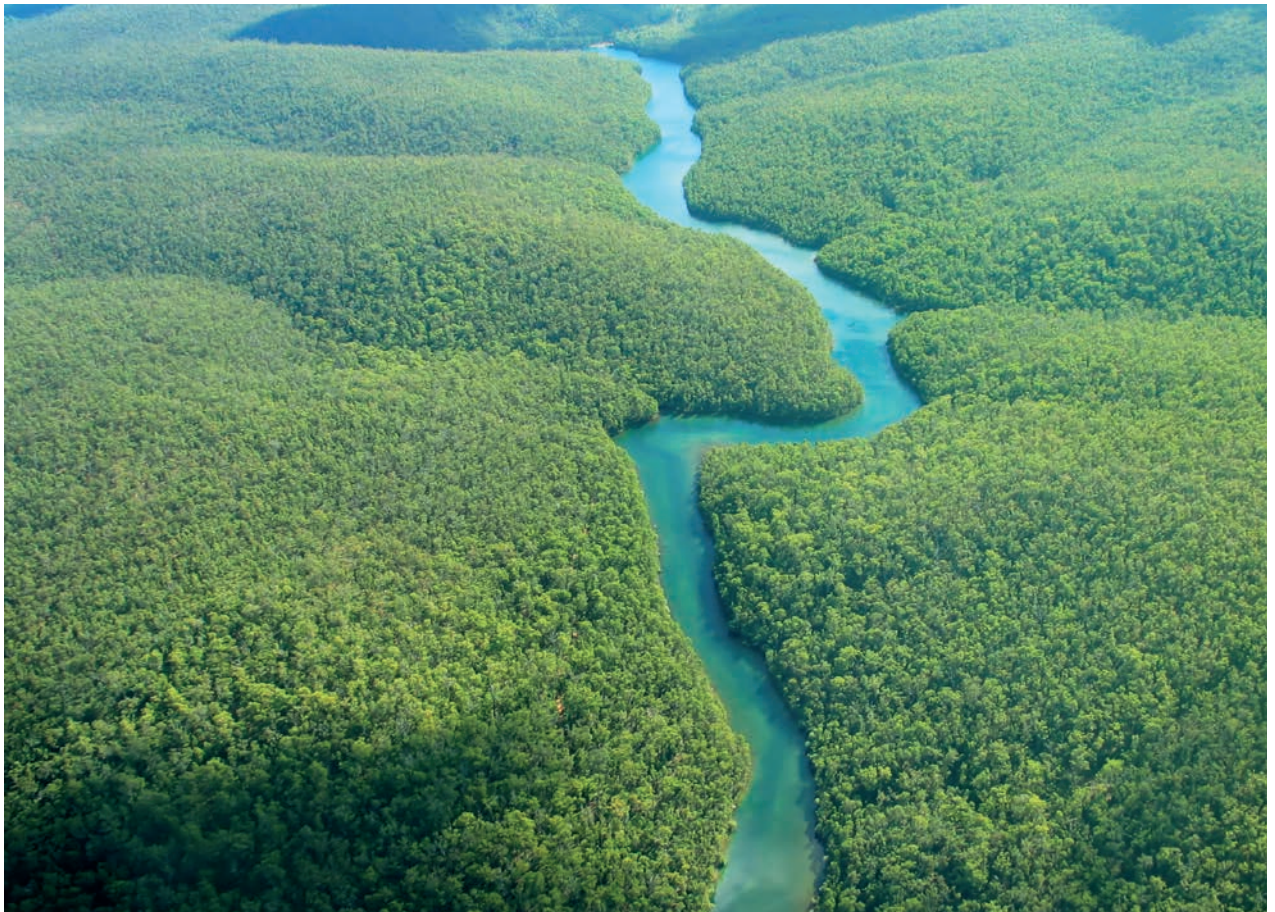


# DOING BUSINESS IN BRAZIL

2013/2014



# MAZARS IN BRAZIL

Present in Brazil since 1995, Mazars counts more than 500 employees in 4 offices in the country: São Paulo, Rio de Janeiro, Curitiba and Campinas. Our services include:

## Accounting & Outsourcing Services

- > Accounting & financial outsourcing
- > Direct & indirect tax outsourcing
  - > HR outsourcing
  - > Secretarial services
- > Accounting tax reconciliation

## Consulting

- > Risk management
- > Internal & fraud control
- > Information technology
- > Donors services

## Added value

## Audit

- > Independent audit of financial statements
- > Audit for consolidation purposes of multinational groups
- > Limited review of financial statements
- > Agreed upon procedures
- > Assurance services

## Tax

- > Tax & labor due diligence
- > Tax & labor consulting
- > Transfer pricing services
- > Tax planning
- > Implementation of electronic tax bookkeeping

## Financial Advisory Services

- > Buyer due diligence
- > Vendor due diligence
- > Independent business review
- > Valuation
- > Forensic, litigation & arbitration
- > Project finance & modelling

MAZARS IS AN INTERNATIONAL, INTEGRATED, TRANSPARENT AND INDEPENDENT ORGANIZATION, SPECIALIZING IN AUDIT, ACCOUNTANCY, TAX, LEGAL AND ADVISORY SERVICES.

MAZARS RELIES ON THE SKILLS OF 13.500 PROFESSIONALS IN THE 71 COUNTRIES WHICH MAKE UP ITS INTEGRATED PARTNERSHIP IN EUROPE, AFRICA, THE MIDDLE EAST, ASIA PACIFIC, NORTH AMERICA, LATIN AMERICA AND THE CARIBBEAN. MAZARS ALSO HAS CORRESPONDENTS AND JOINT VENTURES IN 14 ADDITIONAL COUNTRIES.



The discovery in 2007 of so-called pre-salt oil reserves enabled Brazil to become a top oil producer

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This guide has been prepared for the assistance of those interested in doing business in Brazil. It does not cover exhaustively the subjects it treats, but it is intended to answer some of the important and broad questions that may arise. When specific issues arise in practice, it is often necessary to consider relevant laws and regulations and to obtain appropriate professional advice.

# INVESTING AMID THE TURMOIL?

Upon the introduction of our 2012 edition, Brazil had just overtaken the United Kingdom as the sixth largest economy in the world. However, challenges existed such as regulatory instability, a complex tax environment and a significant need for infrastructural improvement.

One year later, limited growth and unfavorable exchange rates have returned the United Kingdom to its sixth place position. Brazil closed 2012 with a GDP increase of 0.9% and with an expected growth of just 2.5% in 2013. Inflation remains near the 6% threshold and interest rates are once again increasing after a short downturn. The sudden devaluation of the BRL against USD and EUR by almost 25% during a few weeks in mid-2013 confirmed that Brazil is indeed in the midst of the global economic crisis.

In June and July of 2013, protests against corruption and the increase of public transportation prices also created a feeling of political instability to which Brazil had been immune for many years.

Nevertheless, Brazil remains on the list of top strategic markets for most, if not all, worldwide corporations. Why?

- Infrastructure is still a significant bottleneck, but while the Rio de Janeiro – São Paulo high speed train project has been postponed once again, airport concessions are under way and the Federal government has promised a wave of R\$ 50 billion in road investments.
- The Brazilian government also plans to allocate 75% of national oil revenue to education, the country's other critical national issue. The education sector has experienced significant concentration, most notably, a recent merger between Brazil's two main private university groups.
- The Brazilian middle class is still growing and is made up of avid consumers, although some market analysts warn about the weaknesses of the consumer credit markets. A recent IMF report "raises concerns about the build-up of vulnerabilities."<sup>1</sup>
- Many of Brazil's industries and services are still fragmented and in an earlier organizational stage than many of the world's more advanced economies. This presents significant leverage opportunities.
- Last but not least, Brazil will soon benefit from unprecedented media attention as the organizer and host of various mainstream world sporting events.

This past year has shown that the challenges of South America's largest economy will not be solved in a few months. However, government and private sector actions still demonstrate strong confidence in the future of the Brazilian economy and the opportunities it represents for potential investors.

Eduardo Cabrera, Managing Partner of Mazars in Brazil

1. Brazil: Technical Note on Consumer Credit Growth and Household Financial Stress, International Monetary Fund, June 2013





Brazil is the world-leading coffee producer and exporter

# KEY FACTS AND FIGURES

# INSTITUTIONAL

Following a period marked by a military domination and dictatorship, Brazilian civilians returned to power in the mid-1980s, paving the road to political stability. Furthermore, the implementation of the Plano Real in 1994 created set of measures controlling inflation and equalizing the balance of payments, contributing to Brazil's economic growth.

Brazil is a federal republic whose political system is based on the union of three independent political entities (the Federation, the States and the Municipalities) and three branches of government (executive, legislative and judicial). The President, elected for a renewable term of 4 years, is both the head of State and head of government. Following the two-term presidency of the popular Luiz Inácio Lula da Silva's (known as 'Lula'), the current president, Dilma Rousseff, who was elected at the end of 2010, faces a re-election race in 2014 and a debate which has already begun.

<b>Constitutional Form</b>	<b>Federal Republic</b>
Area	8,515,692 km <sup>2</sup> - #5 in the world
Population	201 million - #5 in the world
GDP (US\$)	2,396 billion - #7 in the world
Capital	Brasília (3.8 million people)
Major urban areas (million people)	São Paulo (19.9), Rio de Janeiro (11.8), Belo Horizonte (5.7), Porto Alegre (4.1)
Official language	Brazilian Portuguese
National currency	Real (BRL)
President	Dilma Rousseff
Main International Organizations	UN, WTO, Mercosul, FAO, UNESCO, IBRD, IMF, G20, CPLP
Religions	Roman Catholics (65%), Evangelists (22%), None (8%), Spiritualists (2%), Others (3%)
Ethnic groups	White (47%), Mulatto (43%), Black (8%), Asian (1%), Amerindian/Arab (1%)

Source: CIA, IBGE, IMF

Brazil's population is a mosaic of ethnicities, mainly Portuguese but also Italian, Spaniards, German, Japanese, Middle-Eastern and African, who have immigrated and intermixed with indigenous populations over many centuries.

# POPULATION & EMPLOYMENT INDICATORS

Life expectancy in Brazil is the highest of the BRICS (Brazil, Russia, India, China and South Africa) and although it remains behind Western standards, the evolution of its Human Development Index shows that the country is benefitting from one of the highest improvement rates in this regard. The country consists of a young and relatively employed population ready to take on the future challenges that a fast developing country such as Brazil inevitably faces.

	Brazil	Russia	India	China	South Africa	USA
Life expectancy	<b>74</b>	69	65	74	53	79
Literacy rate (15 years old and above)	<b>90%</b>	99%	63%	95%	93%	99%
Median age	<b>30</b>	39	27	36	26	37
Urban population	<b>87%</b>	74%	31%	51%	62%	82%
Nb of cities with more than 1 million people	<b>16</b>	15	>50	>150	1	10
Human Development Index (HDI)	<b>0.73</b>	0.79	0.55	0.70	0.63	0.94
HDI evolution since 2000 (%)	<b>10%</b>	14%	20%	19%	1%	4%
Unemployment rate (%)	<b>6%</b>	6%	n/a	4%	26%	8%
Age structure						
0-14 years old	<b>24%</b>	16%	29%	17%	28%	20%
15-64	<b>69%</b>	71%	65%	73%	66%	66%
65-	<b>7%</b>	13%	6%	9%	6%	14%

Source: CIA, UNDP, World Bank

## Brazilian social classes

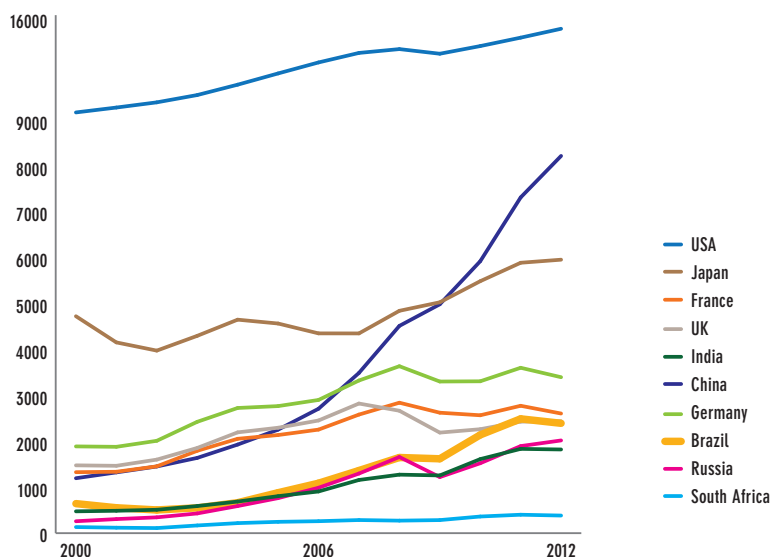
Brazilian society is moving fast. From 2010 to 2020, about 8.8 million people are expected to rise from the low income brackets - classes E and D - to the middle class (C).

Classes and monthly revenues per household	2010	2020
Class A & B (> R\$ 4,635)	10%	13%
Class C (R\$ 1,159 to 4,635)	52%	58%
Class D (R\$ 701 to 1,159)	19%	17%
Class E (< R\$ 701)	19%	12%

Source: IBGE, Bradesco

# ECONOMIC AND FINANCIAL INDICATORS

## Gross Domestic Product - current US\$ billion



Source: IMF

While the USA, China and Japan continue to dominate GDP rankings, Brazil became the sixth largest economy in 2011, surpassing the UK. However, in 2012, the South American giant faced economic difficulties as well as exchange rate fluctuations which returned the country to seventh place, while the UK regained its ranking as the sixth largest economy in the world.

According to most economists, European powers such as the UK, France and Germany should be overtaken by the four emerging giants (Brazil, China, Russia and India) by 2020, while South Africa remains smaller than the others.



**2020 GDP Projections in US\$ billion****Position Change from 2012**

#1 USA	23,496	-
#2 China	19,516	-
#3 Japan	7,375	-
#4 India	4,935	+6
#5 Brazil	4,389	+2
#6 Germany	4,275	-2
#7 Russia	4,242	+2
#8 UK	4,061	-2
#9 France	3,185	-4
#30 South Africa	629	-1

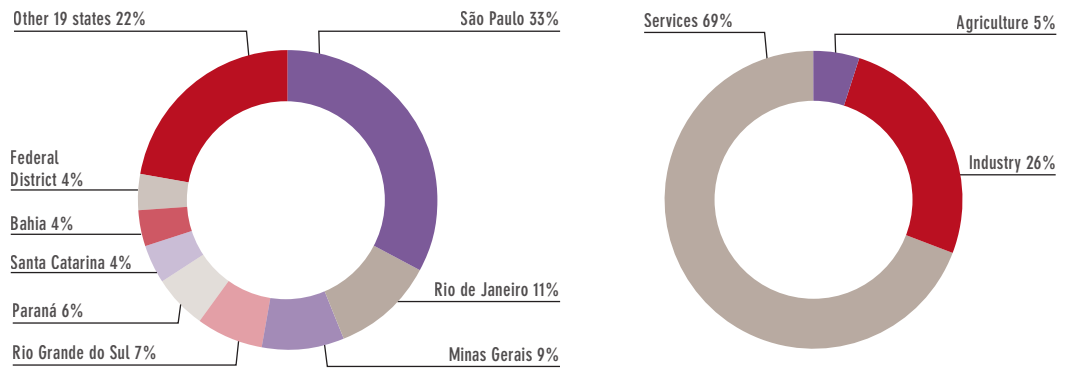
Source: CEBR

Following a 7.5% GDP growth rate in 2010, Brazil faced economic difficulties which led to a 2.7% growth rate in 2011 and just a 0.9% growth rate in 2012. In early 2013, the government announced an expected 3.0% growth rate, which was re-estimated down to 2.5% in September 2013. However, Brazil remains one of the most successful places in which to invest, behind China, but ahead of Russia and India.

	<b>Brazil</b>	<b>Russia</b>	<b>India</b>	<b>China</b>	<b>South Africa</b>	<b>USA</b>
GDP Growth rate 2011	<b>2.7%</b>	4.3%	7.7%	9.3%	3.5%	1.8%
GDP Growth rate 2012	<b>0.9%</b>	3.4%	4.0%	7.8%	2.5%	2.2%
GDP Growth rate 2013 (est.)	<b>2.5%</b>	3.4%	5.7%	8.0%	2.8%	1.9%
Per Capita GDP 2012 (US\$)	<b>12,079</b>	14,247	1,492	6,076	7,507	49,922
Inflation (Consumer Prices - 2013 est.)	<b>5.9%</b>	6.9%	10.8%	3.0%	5.8%	1.8%
FDI Net Inflows 2011 (US\$ billion)	<b>71</b>	55	32	280	6	258
FDI Net Inflows 2012 (US\$ billion)	<b>76</b>	51	n/a	253	n/a	206
Stock of FDI 2012						
At Home (US\$ billion)	<b>609</b>	503	229	1,344	140	2,723
World rank for FDI stock	<b>#12</b>	#14	#23	#2	#31	#1

Source: BCB, CIA, IMF, World Bank

## Gross Domestic Product by State and sector



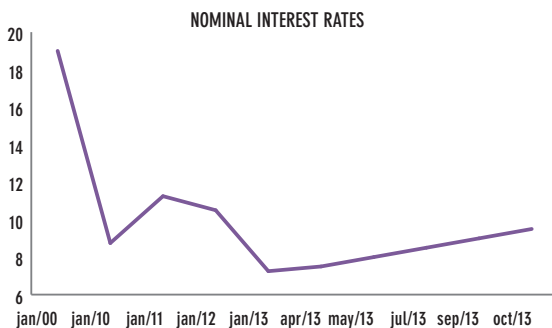
Source: CIA, IBGE

Geographical disparities are still strong among the 26 States and the Federal District of Brasília; Southern States remain the most populated and the drivers of an economy now led by services. The southern states of São Paulo, Rio de Janeiro and Minas Gerais represent more than 40% of the population and 50% of the GDP.

Brazil's economy is largely based on services (67%) and industry (27%) while the agricultural sector remains one of the most productive in the world. The country is a top producer, manufacturer and/or exporter of aircrafts, automobiles, electronics, textiles, footwear, sugar, ethanol, steel, coffee, orange juice, chicken, soybeans and beef, among others.

## Nominal interest rates (SELIC) evolution (%)

## Brazilian inflation 1995-2013 (%)



Source: BCB



The Brazilian Central Bank (BACEN or BCB) has taken measures to reduce its short term interest rate (SELIC) and lowered it several times between mid-2011 and early 2013, reaching 7.25%. The country's previously high rates had attracted substantial foreign capital flows which led to an overvalued currency unfavorable to exportations. The high rates also increased the risk of non-payment from borrowers and limited the level of lending to customers. However, since April 2013, the BACEN has been progressively raising the SELIC, most recently as high as 9.5% in October 2013. This measure aims to curb inflation, which has been fluctuating near 6% since 2010.

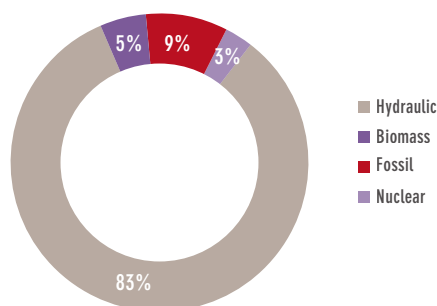
## INDUSTRY

Abundant natural resources are a main factor in Brazil's economic success. The country's total land area is the fifth largest in the world and its soil is rich in bauxite, iron ore, timber, tin, manganese, natural gas, aluminum, nickel and gold.

Brazil has also become a significant oil producer in recent years; the discovery of offshore oil fields offers optimistic perspectives even if the exploration of these resources becomes a serious challenge.

Furthermore, the country is a leader in renewable energy, and hydropower and biomass energy account for more than 88% of the country's total electricity output.

### Brazilian structure of electricity production



Source: EDF

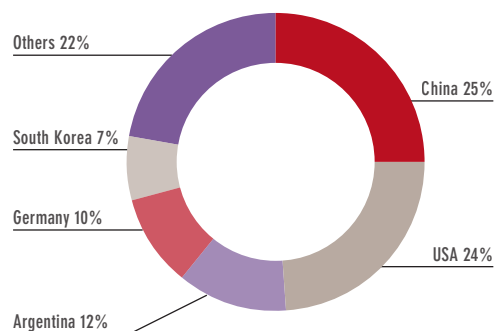
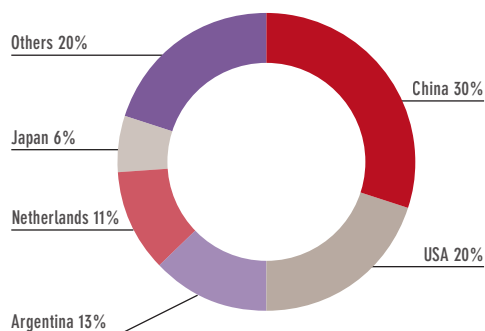
	Brazil	Russia	India	China	USA
Proven crude oil reserves (million of barrels)	<b>13,154</b>	80,000	5,571	25,584	23,267
Crude oil production - in barrels per day (million)	<b>2.1</b>	10.0	0.8	4.1	6.5
<i>Production world rank</i>	<b>#10</b>	#1	#24	#4	#3
Proven natural gas reserves (billion of cubic meters)	<b>434</b>	48,676	1,331	3,051	8,910
Natural gas production - in cubic meters (million)	<b>24.1</b>	653.0	46.1	107.7	651.3
<i>Production world rank</i>	<b>#30</b>	#1	#20	#6	#2
Production of energy (Mtoe)	<b>246</b>	1,293	519	2,209	1,725
Energetic dependance (% of imports in energy used)	<b>4%</b>	0%	26%	8%	22%
Electricity production - in kilowatt-hours (billion)	<b>530.7</b>	996.3	985.4	4,604.0	4,099.1
<i>Production world rank</i>	<b>#8</b>	#4	#5	#1	#2
Part of electricity production from renewable sources (%)	<b>88%</b>	16%	16%	17%	13%
Motor vehicle production (million)	<b>3.3</b>	2.2	4.1	19.3	10.3
<i>Production world rank</i>	<b>#7</b>	#12	#6	#1	#2

Source: CIA, EIA, IEA, OICA, OPEC

## INTERNATIONAL TRADE

### Brazilian Export (left) & Import (right): main partners

China, the USA and Argentina are Brazil's main trading partners; transactions with these three countries represent more than 60% of Brazil's exports and imports. During the first seven months of 2013, Brazil posted a US\$ 5 billion trade deficit due to record import levels and a slowdown in exports. The government reacted by devaluating the BRL against the USD in an attempt to boost exports and reduce imports; the effects of this policy should be felt until the end of 2013.



Source: Ministério das Relações Exteriores (MRE)

## Debt and credit ratings

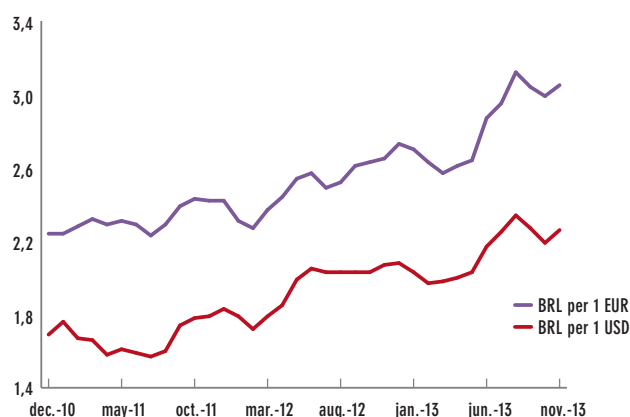
Brazilian public debt increased from 54.3% of GDP in 2011 to 58.8% in 2012 (compared to 85% in EU and 75% in the USA). Furthermore, in June 2013, S&P reclassified its outlook on Brazil's long-term debt from stable to negative, due to the country's limited growth, recent trade deficit and household spending uncertainty, which was a reaction to higher consumer indebtedness. Nevertheless, credit ratings agencies still trust Brazilian institutions and the commitment of the government to stabilize economy.

Long term debt Foreign currency	2010	2011	2012	2013	Outlook
Moody's	Baa3	Baa2	Baa2	Baa2	Positive
Fitch	BBB-	BBB	BBB	BBB	Stable
S&P	BBB-	BBB-	BBB	BBB	Negative

Source: Credit Rating agencies

## Exchange rates

Exchange rate fluctuation is still a major issue for both local companies, in their import and export operations, and for foreign investors, in their long term cash management strategies. Throughout 2012 and 2013, the government progressively devaluated the BRL in order to improve the competitiveness of Brazilian companies. From May 2013 to August 2013, this devaluation accelerated, partly due to distrust from foreign investors towards emerging countries and to the Fed's potential change in policy, which led to an outflow of capital.



Source: BCB

## MISCELLANEOUS INDICATORS

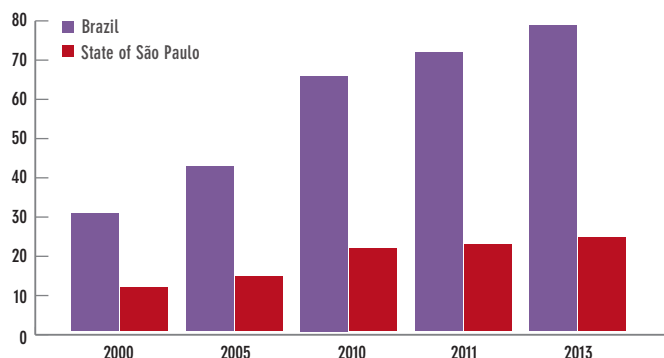
Brazil's transportation infrastructure is still in an early developmental stage compared to mature economies. Access to new technologies is widespread but at a high cost.

	Brazil	Russia	India	China	S. Africa	USA
Roadways (km)	<b>1,580,964</b>	982,000	3,320,410	4,106,387	362,099	6,506,204
paved (%)	<b>13%</b>	79%	n/a	84%	20%	67%
unpaved (%)	<b>87%</b>	21%	n/a	16%	80%	33%
Airports (number)	<b>4,072</b>	1,218	346	507	566	15,079
paved (%)	<b>18%</b>	49%	73%	91%	25%	34%
unpaved (%)	<b>82%</b>	51%	27%	9%	75%	66%
Nb of mobile phones lines (million)	<b>244</b>	237	894	986	64	290
% of population using the Internet	<b>50%</b>	53%	13%	42%	41%	81%

Source: CIA, World Bank

### Number of operating vehicles (million)

Almost 80 million vehicles operate in Brazil, a third of which are used in the State of São Paulo. Local vehicle production amounted to 3.3 million units in 2012 (-1.9% compared to 2011) and is expected to reach 3.5 million units in 2013 (+4.5%). Imports represented 20% of total licensing in the past three years.



Source: DENATRAN, ANFAVEA





Brazil is the world-leading orange juice producer and exporter

# HOW TO INVEST?

# ENTERING THE MARKET

## Legal Entities

The incorporation of a subsidiary is the most common way for foreign investors to enter the market and registration with the Social Security System and the Federal, State and Municipal Tax authorities is compulsory. All types of legal entities may be adopted. In particular, the two most common legal structures used in Brazil are the LLC (Limitada) and the Corporation (Sociedade Anônima), the main characteristics of which are briefly presented below:

	<b>Limitadas (Ltda) Limited Liability Companies</b>	<b>Sociedades Anônimas (SA) Corporations</b>
<b>Corporate Capital</b>	<b>No minimum capital requirement *</b> <b>Original full subscription and paying-up of 10% or more in cash</b> <b>Full paying-up within 5 years or sooner in case of capital increase</b>	
	Divided into quotas with fixed price or different unit prices	Divided into negotiable shares
<b>Partners</b>	At least 2 original quota/share-holders (resident or non-resident individual or entity), but the second can hold a minimal interest	
	Liability limited to contributions after full paying-up of the capital	Liability limited to contributions
<b>Management</b>	<b>Investors must empower a resident legal representative and get a taxpayer registration number (CPF for individuals and CNPJ for entities)</b> <b>Supervisory Board ("Conselho Fiscal") is optional</b>	
	Board of Directors ("Conselho de Administração") is optional	Board of Directors ("Conselho de Administração" - 3 members at least, resident individuals and shareholders) is mandatory for publicly held corporations only  Management Board ("Diretoria") with 2 members at least (resident individuals, not necessary shareholders)
<b>Dividends</b>	<b>Under the Brazilian Civil Code, non proportional distribution of profits is authorized</b>	
		According to specific disclosure in the bylaws, shareholders have the right to receive a compulsory minimum amount of dividends
<b>Others</b>	Common choice for firms with few owners and no intention to raise public funds  Fewer administrative processes are required than for a corporation	May be privately or publicly held  Supervised by the CVM (Securities and Exchange Commission) in case of a SA publicly held  SA is necessary for financial institutions

\* Except for specific sectors (financial sector) or situations (obtaining a permanent visa for an entity managed by a non resident person)

Source: CCBF

Furthermore, the Brazilian Civil Code establishes the following requirements:

**Limited Liability Company (Limitada – LTDA):**

- 1/ Appointment of an administrator or director who is not a quota-holder of the LTDA (when corporate capital has not been paid up) and conversion into a S.A. (corporation): unanimous;
- 2/ Amendment to the Articles of Association/Incorporation/Organization, incorporation and dissociation: 75% of corporate capital;
- 3/ Destitution of an administrator or director and appointment of an administrator or director (when corporate capital has been paid up): 60% of the corporate capital;
- 4/ Appointment by the Board of Directors of an administrator or director and his salary; Declaration of bankruptcy and exclusion of an administrator or director due to a breach of their contractual obligation or supervening disability: absolute majority (50% +1 of the voting capital);
- 5/ Approval of the financial statements of the Company and appointment of the liquidator of the Company: simple majority.

**Corporation (Sociedade Anônima – S.A.)**

- 1/ Conversion into a LTDA: unanimous;
- 2/ Amendment to the Bylaws due to the issuance, trading, amortizing and redemption of stocks (class or series); reduction of compulsory dividend; core business changes; liquidation and dissolution processes and merger or split processes: 60% of the voting capital.

These legal structures give the foreign investor an opportunity to more closely control its activities when compared to commercial agreements (see hereafter) and to limit shareholders' responsibility for Brazilian operations (which is not the case for a branch establishment, considered an entity dependent from the foreign parent company).

Furthermore, special authorization from the Ministry of Development, Industry and Commerce (MDIC) is necessary in order for a foreign firm to establish a branch in Brazil. As it involves many administrative processes, few companies opt for this direct but time-consuming solution.

## Commercial agreements

Under these legal structures, commercial agreement options such as distribution or sales representation save time and reduce initial investments, when compared to creating or acquiring a legal structure.

For legal purposes, distribution agreements, in which the distributor takes possession of the products, should disclose: a precise definition of the products, the delimited area and exclusivity conditions, the duration of the commercial relationship and the advertising and trademark license agreements. According to the Brazilian Civil Code, if no term has been agreed and disclosed initially, the agreement will be considered as having an indefinite duration and could only be terminated with a 90-day prior notice period.

In sales representation agreements (without transfer of ownership), foreign companies should protect any know-how, patent or trademark with the National Institute of Industrial Property (INPI).

In both situations, these agreements may present legal risks. Both parties should address these risks at the beginning of the commercial relationship, as well as any operational issues as the foreign entity may not have efficient control on the distribution policies applied locally by its distributor.

# FOREIGN DIRECT INVESTMENT

No nationality or minimum capital investment is required to start a business in Brazil. However, there are exceptions, such as respecting some liquidity and solvency ratios for public tender or when a foreign individual is appointed as a Brazilian entity's manager, administrator or executive director.

In the latter case, a minimum capital investment will be required (for both SAs and Limitadas in following with the Normative Resolution nº95 released on August 10, 2011: investment in foreign currency of an amount equal to or higher than R\$ 600,000 per foreign worker, or R\$ 150,000 per foreign worker as well as the commitment of creating at least ten new jobs (per foreign worker) over the following two years.

Foreign investments are authorized in many activities: mining, oil & gas, agriculture & forestry, light manufacturing, telecommunications, electricity, banking & financial institutions (with prior authorization from the Brazilian government), insurance (limited), tourism and retail. Foreign equity ownership is limited to 20% in air transportation and 30% in media industries (TV broadcasting & newspapers).

Some sectors are prohibited: nuclear energy, mail & telegraph services, public health services, aerospace and sanitation. However, such sectors remain accessible, in some cases, through local investment vehicles.

## FIP AND FMIEE

The Private Equity Fund (FIP) and Emerging Companies Investment Fund (FMIEE) are both regulated by the Securities and Exchange Commission (CVM) and are not legal entities but funds held by financial investors. They have become attractive venture capital and private equity investment vehicles, as they are not subject to corporate and gross revenue taxes (IRPJ, CSLL, PIS/COFINS).

Certain terms and conditions must be considered: any participant cannot hold 40% or more of the fund's quotas and income. Furthermore, the portfolio must not be composed with debt securities exceeding 5% of the fund's net equity. If a foreign investor resides in a low tax jurisdiction, he will not benefit from any exemption.

## ANTI-TRUST AUTHORITIES

If any party of a M&A contract files an annual gross revenue higher than R\$ 750 million in Brazil and another party an annual gross revenue above R\$ 75 million in Brazil, the case must be presented for approval or rejection by the Federal Antitrust Agency (Conselho Administrativo de Defesa Econômica or CADE), which will investigate for a maximum of 240 days. This period may be extended to 300 days upon request of the participants or to 330 days at the discretion of the CADE.

Through the end of 2011, contracts could be presented within 15 days following completion, but after a law change in 2012, all projects signed after May 31, 2012 must now be submitted prior to their execution (Lei nº 12.529/11). This has brought

about uncertainties in the business community regarding potential delays and the operational implication of this “on-hold” period (communication of the transaction, management during the interim period, business implications...). However, non-complex operations are expected to be cleared in a maximum of 60 days, according to the CADE. Furthermore, authorities eased the constraints on M&A deals by raising the threshold for prior analysis, which increased from R\$ 400 million and R\$ 30 million initially to R\$ 750 million and R\$ 75 million respectively (Interministerial Ordinance nº994 of May 30, 2012). This reduced the number of cases to be investigated and accelerated the approval process.

## REGULATORY AGENCIES

In order to control the potential transfer of public entities to the private sector, and to more effectively regulate and supervise the economy, the Brazilian State created various regulatory agencies.

Banking and insurance sectors are respectively regulated by the Brazilian Central Bank (BACEN) and the Superintendence of Private Insurance (SUSEP), while the Brazilian Stock Exchange is under the authority of the Securities and Exchange Commission (CVM).

### CONTROL OF INTERNATIONAL FINANCIAL OPERATIONS

The BACEN is responsible for controlling financial relations with other countries. Any inbound or outbound financial operation must be registered with the dedicated Electronic Declaratory Registry (Registro Declaratório Eletrônico or RDE): Foreign Direct Investments in the RDE-IED (Investimentos Estrangeiros Diretos), foreign investments in capital and financial markets in the RDE-Portfólio and debtor financial operations with other countries in the RDE-ROF (Operações Financeiras). Debtor financial operations include financial loans, rent of equipment, chartering of vessels, etc.

Individuals and legal entities intending to perform such operations must be registered with the BACEN themselves, in the Cademp (Cadastro de Pessoa Física/Jurídica, Residente/não Residente no País).



The Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) was created to deal with environmental issues, such as expanding standards to limit pollution, making decisions on the localization of industries and authorizing various types of projects (hydroelectric dams for instance).

The other main Brazilian agencies are ANEEL (Electricity), ANATEL (Telecommunications), ANP (Oil and Natural Gas), ANTT (Transport), ANAC (Civil Aviation), ANVISA (Sanitation), ANS (Health), ANA (Water resources) and ANCINE (Cinema industry).

## THE CONCESSION WAVE

ANTT and ANAC are in the front line of the concession process recently launched by Federal government as a way to boost the development of infrastructure in Brazil.

After the 20-year concession granted in 2012 over the São Paulo International Airport, ANAC currently opened the concession auctions for the Rio de Janeiro and Belo Horizonte international airports. The auctions are expected to close at the end of November 2013 and should generate a R\$ 10 billion investment in both airports.

Concurrently, ANTT launched nine federal highway concession projects which represent a global investment of R\$ 50 billion.

The high speed train concession project between Rio de Janeiro and São Paulo is also expected to reopen in 2014 after a failed attempt in 2013.

# 5 QUESTIONS TO CLOVIS MEURER

PRESIDENT OF THE BRAZILIAN ASSOCIATION OF PRIVATE EQUITY  
AND VENTURE CAPITAL (ABVCAP)

**1** Clovis, you were elected as President of the ABVCAP in March 2012. Since that date, what have been the most noticeable accomplishments of Brazil's PE industry and what other accomplishments do you expect to see before the end of your term in 2014?

Founded in 2000, ABVCAP is a young association, which currently consists of more than 200 members and is chaired, in two year term, by one of the managers of the Private Equity, Seed and Venture Capital Brazilian Industry, within a Board of 12 directors. During my term, my responsibility is to boost the association's previously launched projects and to initiate new actions such as:

- renewing and concluding partnerships with entities such as APEX Brazil, Bid/Fomin and ABDI in order to promote the country's PE/VC industry;
- training entrepreneurs and professionals;
- organizing Seed and Venture Forums in new Brazilian States;
- taking part in regular meetings and annual conferences to discuss relevant industry matters such as the CADE, the CVM, Human Resources issues, PE/VC guides and sectors, etc...;
- consolidating PE/VC statistical data in accordance with the ANBIMA/ABVCAP self-regulatory code;
- participating in international events to promote the country's investment opportunities;
- connecting fund managers, investors and service providers such as auditors, lawyers and consultants.

**2** According to the ABVCAP's own figures, PE investment in Brazil increased by 31% between 2011 and 2012 (R\$64 to R\$83 billions). How do you expect this trend to evolve in 2013 and 2014?

The PE/VC industry in Brazil has grown consistently over recent years, due to the numerous resources the country offers to both domestic and foreign investors. The country benefits from a vast territory and diversified climate, abundant natural resources, 200 million inhabitants, a differentiated entrepreneurial class, political stability and good diplomatic relations. These factors lead us to expect a growth trend of 20% to 30% annually in the PE/VC industry, regardless of less favorable economic phases, as PE/VC projects are characterized by mid and long-term investments.

**3** According to ABVCAP statistics, in 2012, almost half of Brazil's PE/VC investments came from national funds and investors. Domestic investments increased by 47% versus "only" 18% for international investments. However, the Brazilian economy's modest growth could be counterbalanced by a cheaper local currency that could further attract foreign investors. In this global context, how do you perceive international interest in Brazil?

The balance between domestic and foreign investors in Brazil's PE/VC industry varies from one year to another. National players have increased their investment volume over the past few years due to Brazil's

## 5 QUESTIONS TO CLOVIS MEURER PRESIDENT OF THE BRAZILIAN ASSOCIATION OF PRIVATE EQUITY AND VENTURE CAPITAL (ABVCAP)

decreasing interest rates. These rates have made investors consider PE/VC in Brazil as an alternative investment strategy that could yield better returns than traditional financial markets. Additionally, these national players invested in the real economy through companies that actually produce goods and services while generating jobs and profit. For the same reasons, foreign investors also saw Brazil as a valuable investment alternative when compared to other emerging countries.

**4** Two bottlenecks (and potential drivers) in the Brazilian economy are infrastructure and education. While recent transactions have shown that fund managers have a keen interest in the consumer market, how do you expect PE to contribute to Brazil's infrastructural and educational needs in the coming years?

Over the past few years, the education sector, as well as other sectors such as health, tourism, IT, etc. have been important investment targets of the PE/VC industry. This has frequently led to concentration movements and to the creation of skilled and profitable corporations. This trend should continue considering the existing demand.

Regarding infrastructure, there is still much to be improved. Every Brazilian individual or legal entity wishes to benefit from better conditions in their everyday business and leisure activities, in the areas of transport, logistics, ports, airports, roadways, energy, etc. New agreements which are currently being negotiated between authorities and investors should boost investment in infrastructure.

**5** Private investors still face high interest rates and limited leveraging opportunities. How do Brazilian PE funds overcome this capital intensive form of investment and do you see limited debt financing as a barrier to the growth of the PE market?

This diagnosis has already been made by the authorities and governmental bodies in charge of savings policies. They have dedicated increased resources to finance strategic projects, which has led to a better partnership between PE/VC investors and funding sources in the context of mid- and long-term leveraged operations. The PE/VC industry may also benefit from investing and divesting in the Stock Exchange, which would complement a good capital structure for the projects and the financial cycle of operations.

### ABOUT CLOVIS MEURER AND THE ABVCAP

Clovis Meurer is the Chairman of the ABVCAP Executive Board and the Managing Partner and CEO of CRP Companhia de Participações, a pioneer in the activity of Venture Capital and Private Equity in Brazil, having started its operations in 1981.

Founded in 2000, the ABVCAP is a non-profit organization that represents the Private Equity and Venture Capital Industry and promotes the development of long-term investments. In its 13 years of existence, ABVCAP has helped to improve industry conditions, advance understanding about the industry and promote best practices that are aligned with international industry standards.



Brazil is the world top soybean exporter and is expected to overtake the USA as the world top producer in 2013

# ACCOUNTING AND AUDITING STANDARDS

# BRAZILIAN GAAP VS. IFRS

For the last half decade, Brazilian accounting and auditing standards have been progressively converging with the International Financial Reporting Standards (IAS/ IFRS), although a few differences remain (disclosure required, options allowed...).

The Brazilian Committee of Accounting Pronouncements (CPC), in charge of the conversion plan, almost fully translated the international standards when creating the new Brazilian standards (Brazilian GAAP or CPCs).

In order to take effect, these standards are presented for approval or rejection to the Federal Board of Accountancy (CFC) and the main regulation agencies (CVM, SUSEP, ANEEL...). Depending on the decision of these entities, rules may or may not apply to a given sector. These standards cannot prevail against corporate law.

For example, in order to converge respectively with IAS 16 and 38, CPC 27 and 4 allow the revaluation of fixed assets to fair value to the extent permitted by law, whereas the Brazilian Corporate Law nº6.404, amended by Law nº11.638, excludes revaluation. The conversion plan is still in progress and continues to evolve. Thus far, the CPC have issued 46 standards (CPC 01 until CPC 46, mainly direct translation of the IFRS standards), 17 interpretations (ICPC 01 until ICPC 17) and 6 technical orientations (OCPC 01 until OCPC 06). The latest published or revised Brazilian standards are as follows:

Brazilian Standard	Object	Obrigatory coming into force according CFC	Equivalent International Standard	Obrigatory coming into force according IASB
CPC 35 R2	Separate Financial Statements	1-Jan-12	IAS 27R	1-Jan-14
CPC 18 R2	Investments in Associates	1-Jan-13	IAS 28R	1-Jan-14
CPC 36 R3	Consolidated Financial Statements	1-Jan-13	IFRS 10	1-Jan-14
CPC 19 R2	Joint arrangements	1-Jan-13	IFRS 11	1-Jan-14
CPC 45	Disclosure of interests in other entities	1-Jan-13	IFRS 12	1-Jan-14
CPC 46	Fair Value Measurement	1-Jan-13	IFRS 13	1-Jan-13
CPC 40 R1	Financial instruments: Disclosure	1-Jan-12	Amendments IFRS 7	1-Jan-13
CPC 33 R1	Employment benefits	1-Jan-13	Amendments IAS 19	1-Jan-13

Certain standards, interpretations and orientations of the Brazilian GAAP have no direct equivalent in IFRS (for examples, the standard CPC 09 'Statement of Added Value', CPC 12 'Adjustment to the Net Present Value' or the orientation OCPC 05 'Concession Contracts'). These standards were published to provide clarification or additional orientation on specific topics.

In the same way as CPC compared to IFRS, Brazilian standards on auditing are almost an integral translation of International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC). The current standards (NBC-TA) are applicable since 2010.

## THE EQUITY METHOD

The equity method should be used in individual financial statements, when the investor has a significant influence on investee's management or joint control and the investment is relevant, not only as a consolidation method.

Brazilian companies of all sizes must prepare financial statements in compliance with Brazilian GAAP, in order to provide an equitable representation and comparison of the companies.

More specifically, listed companies, financial institutions and insurance companies must prepare their consolidated financial statements in full compliance with IFRS and their statutory reports in accordance with Brazilian GAAP.

# AUDIT REQUIREMENTS

Financial statements of small and medium enterprises (SMEs) are not required to be audited by an independent auditor whenever the SME is not a listed company, insurance company, investment fund or financial institution under the jurisdiction of the Central Bank. A SME is a legal entity or a group of entities under common control whose total assets are below R\$ 240 million or who file an annual revenue below R\$ 300 million.



## BUSINESS VS. CONTROLLING CULTURE

The culture of financial control is frequently limited in SMEs which are generally business-focused family companies. Official financial statements are often prepared for tax purposes only and should be considered with caution in a transactional context. It is not unusual to find management information which differs from official information, and the risk of unrecorded transactions does exist.

Annual financial statements of “large companies” must be audited by an independent auditor. Publication is mandatory for corporations (SA) but not for limited liability companies (Ltda). A “large company” is a legal entity or a group of entities under common control whose total assets are over R\$ 240 million or who file an annual gross revenue over R\$ 300 million.

Audit and publication requirements are compulsory for all listed companies, insurance companies, investment funds and financial institutions under the jurisdiction of the Central Bank. Quarterly financial reports are required for listed companies, financial institutions and insurance companies and biannual audit reports are compulsory for both financial institutions and insurance companies.

It is important to note that tax authorities do not require audited financial statements, but some fiscal obligations must of course be respected, as detailed hereafter (cf. Fiscal obligations).

## MONEY LAUNDERING REGULATION

On July 26, 2013, the Federal Board of Accountancy (CFC) published the Resolution CFC 1445/2013 requiring accounting firms to communicate to the Board of Control of Financial Activities (COAF) any operation involving the payment of an amount higher than R\$ 30,000 in cash or bearer check, as well as any acquisition of assets, payment, incorporation or capital increase for an amount higher than R\$ 100,000 in cash. This procedure aims to identify companies violating the Money Laundering Law nº9613/1998.



Brazil is the second largest producer of sugar cane based ethanol fuel, which is used by 80% of the cars in the country

# TAX ENVIRONMENT

The Federal Tax Code of 1966 and the Federal Constitution of 1988 define the main principles of the Brazilian tax system, which is composed of three levels of jurisdiction: Federal, State and Municipal.

The Brazilian Federal Revenue Bureau (RFB) is an entity of the Ministry of Economy (Ministério da Fazenda) and supervises the Federal tax system. Smaller, similar agencies monitor the tax system in all states and main municipalities.

Brazilian legislation is quite complex regarding various collection levels, with many rules changing frequently and relatively high taxation. Accurate information, advisory and planning are essential in order to benefit from investment opportunities.

## GENERAL PRINCIPLES

The fiscal year always corresponds to the calendar year (January 1<sup>st</sup> through December 31<sup>st</sup>). This is enforced by tax law regardless of the corporate year chosen by the company for reporting purposes.

The statute of limitation for most taxes and social charges in Brazil is five years, apart from the cases of fraud in which this does not apply. Federal, State and Municipal tax authorities may perform inspections regardless of whether certain taxes or periods were already inspected.

Tax legislation and jurisprudence give the owner of the operating assets the responsibility to pay current and previous taxes, as long as he retains the capacity to generate earnings from these assets. Thus, entities resulting from transformation, merger or spin-off or maintaining a continuing business (under a different name or proprietorship) shall be liable for past tax obligations of the original entity or business.

### 5 YEARS, NO LESS, NO WAY OUT

The “tax clearance” concept does not exist in Brazil and the risk is only extinguished at the end of the five-year limitation period. Responsibility is generally transferred with the transfer of activity, irrespective of the legal form of an investment (asset deal vs. share deal).

Unpaid federal tax liabilities are subject to interest based on the SELIC rate (Special System for Settlement and Custody) defined by the Central Bank of Brazil (9.5% annually in November 2013). For state and municipal tax liabilities, interest is usually based on the Amplified Consumer Price Index (IPCA) defined by the Brazilian Institute of Geography and Statistics (IBGE – c. 5.9% annually in November 2013).

In the case of tax inspection, federal liabilities are also subject to penalties between 20% (voluntary payment before tax inspection) and 150% (in cases of fraud), with an intermediary rate of 75% in the case of an assessment in the absence of fraud. The 75% and 150% rates can be halved if the taxpayer pays without a challenge and within a 30-day period following the assessment notification. Penalties on state and municipal taxes depend on the domiciliation of the taxpayer and may vary from 10% (voluntary payment) to 150% per penalty.

## MAIN REGIMES & TAXES

### Corporate Income Taxes

Brazilian legal entities operating for profit are subject to corporate income taxes that include the corporate income tax, IRPJ, and the social contribution on net profit, CSLL, at the following rates:

Income tax rates	IRPJ	CSLL	Total
Applicable on the whole taxable income	15%	9%	24%
Applicable on taxable income above kR\$ 240	10%		10%
Total	25%	9%	<b>34%</b>

There are four corporate income taxation systems:

- Actual Profit tax regime (annually or quarterly based);
- Presumed Profit tax regime (quarterly based);
- Simplified tax regime (monthly based);
- Arbitrated Profit tax regime (quarterly based).

Brazilian legal entities may declare their income taxes following any of the four taxation systems. However the Arbitrated regime is more likely to be imposed by authorities

rather than deliberately chosen by companies, as it is designed for entities whose accounting registers are considered unreliable.

### **Actual Profit tax regime (*Lucro Real*)**

The Actual Profit tax regime is the general rule of profit taxation. It corresponds to the taxation of net profit after adjustments defined by the tax legislation (elimination of non-taxable revenues and reintegration of non-deductible expenses). Expenses must be related to the company's operations in order to be tax-deductible. Most provisions for expenses or losses are not deductible upon booking, with the exception of provisions for vacation pay or the 13<sup>th</sup> salary and, in more specific cases, technical provisions of financial institutions, insurance companies and private pension funds.

All accounting records and details of the tax calculation must be kept in the Taxable Income Control Register (LALUR). When income tax calculation is annually based, payments shall be done on monthly basis (estimate), excluding cases in which accumulated payments up to the prior month exceed the amount due in the current year.

## **UNLIMITED CARRY FORWARD**

The Actual Profit tax regime allows tax losses to be carried forward under no time restrictions, but with a limit of 30% of the year's taxable income. Carrybacks are not permitted in Brazilian tax legislation.

### **Presumed Profit tax regime (*Lucro Presumido*)**

Until 2013, companies with annual gross revenues below R\$ 48 million (among other terms and conditions), or R\$ 4 million multiplied by the number of months of activity in the previous calendar year, may choose to tax a "presumed" net profit determined as a percentage of the gross revenue earned. This percentage is dependent on the nature of the activity performed by the company, and independent if the company has registered a net profit or net loss in the financial statements.

In 2013, tax authorities increased access to Presumed Profit, which will be allowed for companies with annual gross revenues below R\$ 78 million or R\$ 6.5 million multiplied by the number of months of activity in the previous calendar year. This will take effect beginning in January 2014.

### Presumed Profit as a percentage of revenues

Revenues	Presumed Profit for IRPJ	Presumed Profit for CSLL
Sales of goods	8%	12%
Services rendered	32%	32%
Others revenues	100%	100%

For the resale of oil derived fuels, ethanol and natural gas destined directly for consumption, Presumed Profit percentages are 1.6% for IRPJ and 12% for CSLL. These percentages amount to 16% for IRPJ and 12% for CSLL on transport services, excluding cargo transportation.

After the application of the percentages on revenues, the corporate income tax rates are applied to the Presumed Profit amount (25% for IRPJ and 9% for CSLL).

### Simplified tax regime (*Simples*)

The *Simples* is a unified regime for the payment of Federal, State and Municipal tax and labor taxes, which replaces all other payment regimes, excluding taxes on imports and financial operations, and varies from 4.0% to 22.9% depending on activity and revenues. Only companies with annual gross revenues below R\$ 3.6 million and operating in specific industry sectors, such as small businesses, small service providers, small industries and family companies may opt for this simplified tax system.

Export companies that opt for *Simples* may have up to R\$ 7.2 million of gross revenues, as long as domestic revenues fall under the R\$ 3.6 million limit.

### Arbitrated Profit tax regime (*Lucro Arbitrado*)

If the accounting registers are not reliable, tax authorities may arbitrate the taxable income by applying the same revenue percentages as in the Presumed Profit method, increased by 20% for IRPJ, resulting in the following percentages:

#### Arbitrated Profit as a percentage of revenues

Revenues	Arbitrated profit for IRPJ	Arbitrated profit for CSLL
Sales	9.6%	12%
Services rendered	38.4%	32%
Others revenues	100%	100%



For the resale of oil derived fuels, ethanol and natural gas destined directly for consumption, Presumed Profit percentages are 1.92% for IRPJ and 12% for CSLL. These percentages amount to 19.2% for IRPJ and 12% for CSLL on transport services, excluding cargo transportation.

After the application of the percentages on revenues, the corporate income tax rates are applied to the arbitrated profit amount (25% for IRPJ and 9% for CSLL).

## GOODWILL AMORTIZATION

For Corporate Income Tax purposes, goodwill is the difference between the purchase price for the acquisition of an existing company and its net equity at the acquisition date. For tax purposes, goodwill should be allocated between (a) the market value of the assets, (b) the future profitability of the company and/or (c) intangible assets and other economic factors. While the goodwill related to the market value of fixed assets is amortizable during the period of depreciation of the related assets, the goodwill portion related to future profitability can be tax amortized between five and ten years after the merger or reverse merger between the acquirer and acquired company and, as a consequence, can reduce the taxable income of entities under the Actual Profit tax regime. Before the merger, goodwill is non-deductible. Goodwill deriving from intangible assets and other economic reasons is not amortizable, except when a specific analysis demonstrates the opposite.

For accounting reasons, goodwill is not amortizable under BR GAAP but subject only to impairment tests as is the case in international accounting standards. This divergence between tax and accounting rules has existed since 2008 when the Brazilian accounting standards converged to IFRS while tax rules stayed in accordance to old standards under what is called the Transitory Tax Regime (RTT), still in place until today.

Goodwill tax amortization rules were supposed to evolve in 2012 to restrict (but not cancel) this benefit in order to avoid abuses allowed under the current law, especially 'simulated' goodwill generated by transactions between related parties. However, this inevitable evolution has not yet occurred.

## Social Contributions on revenues (PIS /COFINS)

The PIS and COFINS are federal social contributions due on monthly gross revenues, excluding export revenues (among other benefits provided for by law). The PIS/COFINS rates and systems vary in accordance with:

- The corporate income tax regime to which the company is subject (Actual/Presumed/Simplified/Arbitrated Profit);
- The nature of trading operations and business performed by the company.

The PIS/COFINS system can be cumulative or non-cumulative:

- The cumulative system, generally applicable to companies that opted for the Presumed/Arbitrated profit, is based on a default tax rate of 3.65% (0.65% for PIS and 3.00% for COFINS) without the option of credits on purchases.
- The non-cumulative system, generally applicable to companies that adopt the Actual Profit regime, is based on a default tax rate of 9.25% (1.65% for PIS and 7.60% for COFINS), with the option of credits at the same rate on purchases, services acquired and some expenses defined by legislation.

Moreover, certain sectors have increased tax rates while others have reduced tax rates which are meant to incentivize certain sectors of the government's determination. PIS/COFINS are also due on imports of goods and services with a tax rate of 9.25%, independent of the income taxation regime adopted by the company.

Except in sectors with specific treatment, the application of PIS/COFINS to gross revenues by the Corporate Income Tax option can be summarized as follows:

Regime of taxation of income	Actual Profit (PIS/COFINS non-cumulative)	Presumed/Arbitrated Profit (PIS/COFINS cumulative)
Domestic gross revenues	9.25%	3.65%
Export gross revenues	0%	0%
Financial revenues	0%	0%
Interests on net equity	9.25%	0%
Other revenues (non-operational revenues)	9.25%	0%
Sale of fixed assets	0%	0%
Calculation of credits on acquisition of goods for resale or inputs	Allowed	Forbidden

## Illustrative impact of the tax regime on IRPJ/CSLL & PIS/COFINS

### P&L (services company)

KR\$	Actual Profit	Presumed Profit
Gross Sales (A)	1,000	1,000
Rates	9.25%	3.65%
PIS/COFINS	(93)	(37)
Operating Costs	(700)	(700)
PIS/COFINS credits	42	Forbidden
<b>EBIT</b>	<b>250</b>	<b>264</b>
Financial Income	20	20
<b>Income Tax</b>	<b>270</b>	<b>284</b>
Rates	34%	34% x 32% x (A)
IRPJ/CSLL	(92)	(109)
<b>Net income</b>	<b>178</b>	<b>175</b>
Tax Charge	142	145

## ACTUAL OR PRESUMED?

Regardless of gross sales thresholds or tax exemptions, the choice of the optimized tax regime can only be made while considering the differentiated rates of both PIS/COFINS and IRPJ/CSLL in each scenario.

Indeed, higher PIS/COFINS rates in the Actual Profit tax regime may be counterbalanced by tax credits and more beneficial income tax exposure depending on profitability perspectives.

Such options can be evaluated at the beginning of each fiscal year based on an assessment of the company's sales and profitability levels.

## Tax on Industrialized Products (IPI)

The IPI is a federal excise tax levied on sales of industrialized products in the country, or on the importation of raw material, semi-finished or finished goods meant for production or resale.

All types of products are classified in the IPI tax rates table (TIPI). Rates applied on IPI tax base go from 0% to 300% (tobacco for example). Considering that this tax has a regulatory characteristic, the rates can be reduced by the government with more flexibility (by decree) to incentivize determined industries.

The IPI tax payer can usually calculate IPI credits on expenses related to the production costs (raw material, intermediate material and packaging material).

### Contribution for Intervening in the Economic Domain (CIDE)

The CIDE is a federal contribution levied on the importation of services with technology transfer or specialized technical or administrative services. Usually CIDE is due from Brazilian entities that hold a license of use or that are acquirers of technological knowledge (including agreements related to patents, brand use, technology supplying and technical assistance services). The regular CIDE tax rate is 10% on the amounts paid or credited to beneficiaries abroad and is due from the Brazilian entity.

Moreover, the CIDE is charged on the import and commercialization of gasoline and its derivatives, diesel and its derivatives, jet fuel and other types of kerosene, fuel-oil, liquefied natural gas (LNG), including derivatives from natural gas and naphtha, and ethanol fuel ("CIDE-Combustíveis").

Tax rates of CIDE-Combustíveis vary from R\$ 37.20 up to R\$ 860.00 per m<sup>3</sup> and from R\$ 40.90 up to R\$ 250.00 per ton depending on the kind of fuel. However, in June 2012, the government decided to suspend temporarily the payment of CIDE-Combustíveis, aiming at controlling fuel prices; the measure is still in force as of November 2013.

### Tax on Financial Operations (IOF)

This federal tax applies to credit & securities transactions (0 to 1.5% a day), exchange & insurance transactions (0 to 25% but 7.38% on most insurance operations) and gold transactions (1%) performed through financial institutions. Domestic intercompany loans are subject to IOF up to 1.88% of the nominal amount for loans with fixed terms and 1.5% yearly on loans without fixed terms plus 0.38%.

International loans for a period up to 360 days are currently subject to 6% of IOF. In the case of loans exceeding 360 days, the tax rate is 0%. The exemption period for IOF has frequently changed over the last years as a way to control capital inflows and outflows. Foreign exchange operations for payment of dividends or interest on equity to foreign investors are also subject to a 0% IOF rate.

## Tax on Circulation of Goods and Services (ICMS)

The ICMS is a state tax levied on product imports and the circulation of goods, interstate and intermunicipal transportation and communication services. As a state tax, the rates and its rules may vary in each state of the federation (26 States and the Federal District of Brasília).

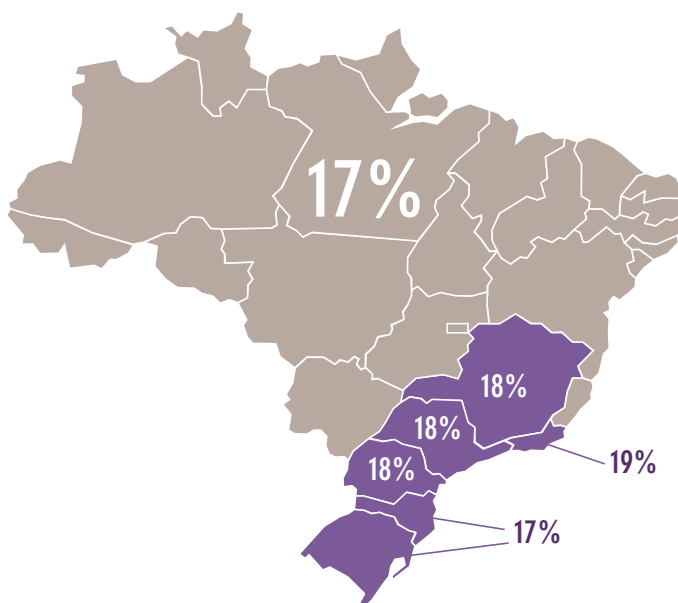
ICMS intrastate tax rates range from 7% to 19%, and can be increased to 25% in certain situations (communication services for instance), depending on, among other aspects, the type of good, its origin and destination and on regional tax incentives (see ICMS map below). Almost every situation is unique and has to be checked before the importation and/or circulation of goods and services in Brazil may begin.

Note that ICMS applies to intrastate as well as interstate operations (imported and non-imported) and that ICMS credits may be obtained by the company on raw materials and goods acquired for resale. It is possible to offset these credits against future amounts of ICMS to be paid. In the case that a company purchased goods including ICMS without being an ICMS taxpayer, it will not be eligible for corresponding tax credits.

## ICMS

Mainly applied intra and interstate rates

Mainly applied intrastate rates	
17% / 18% / 19%	
Interstate rates	
● → ●	12%
● → ●	12%
● → ●	7%
● → ●	12%
Interstate rates on importations	
4%	



## THE WAR OF HARBORS

In 2012, the Brazilian government unified the ICMS rate on interstate transactions of imported goods at 4%. The measure ('Resolution 72') has been effective since January 2013. This tax rate is also applicable to manufactured goods which have been produced with more than 40% of raw materials imported by the taxpayer. The ICMS rates in the transactions performed within the states and the other interstate rates applicable to non-imported goods remain unchanged.

This unification aims at ending the so-called "War of Harbors." Indeed, high ICMS rates led several states to create local benefits in order to grant tax reductions and boost imports performed through their airports and harbors. By imposing a unified interstate rate, the government aims to avoid such local incentives.

### Import Tax (II)

The Import Tax is due by the importer and is calculated based on the Cost, Insurance and Freight (CIF) value of the goods. The amount of Import Tax paid is non-reimbursable and represents a cost to the importer.

The tax rate applied to imported goods ranges in accordance with the Common External Tariff (TEC) defined by the Harmonized Tariff Schedule of Mercosul (NCM). There are more than 10,000 different items and II rates vary from 0% to 35%, the average being 10%.

Besides the Import Tax, the importation of goods is also subject to the other federal (IPI and PIS/COFINS) and state taxes (ICMS).

### Tax on Services of any nature (ISS)

The ISS is a municipal and cumulative non-deductible tax levied on gross revenues of services rendered (except for communication services and intermunicipal transportation).

The tax rate ranges from 2% to 5%, depending on the municipality in which the company is established and on the type of services rendered. Under certain conditions, ISS may be due to the municipality where the service is effectively performed (on site works, for instance). The rate applied by cities varies depending on the type of service, but will always remain between 2% to 5%. In the municipalities of São Paulo and Rio de Janeiro, for example, ISS is calculated at a standard rate of 5% for most services.

Revenues obtained from exported services are usually exempt from ISS, since the economic outcome or benefit of the services rendered should be observed abroad. Imported services are subject to the taxation of ISS with a rate that ranges from 2% to 5% in accordance with the municipality in which the company is established.

### The “gross-up” taxation system

Most taxes are computed on a tax base which includes the tax itself (the “gross” value including taxes). Therefore, as illustrated below, the effective tax rates, computed on net value, are higher than the officially announced rates. Moreover, the ICMS tax base may be dependent on the identity of the purchaser because the rate is applied based on the value including IPI, in case of sale to a final user.

#### Sale to an intermediary user

	Rate	Value
Total for the client		110
IPI	10%	10
Product value (invoice)		100
ICMS	18%	18
PIS	1.65%	1.65
COFINS	7.60%	7.6
<b>Net value</b>		<b>72.75</b>

ICMS rate compared to Net Value	24.7%
PIS rate compared to Net value	2.3%
COFINS rate compared to Net value	10.4%

#### Sale to final user / consumer

	Rate	Value
Total for the client		110
IPI	10%	10
Product value (invoice)		100
ICMS	18%	19.8
PIS	1.65%	1.65
COFINS	7.60%	7.6
<b>Net value</b>		<b>70.95</b>

ICMS rate compared to Net Value	27.9%
PIS rate compared to Net value	2.3%
COFINS rate compared to Net value	10.7%

# TRANSACTIONS WITH RELATED PARTIES

## Transfer pricing

Brazilian tax legislation related to transfer pricing (TP) requires a demonstration that the prices with foreign related parties are adequate for the following operations:

- Import of goods, services and rights;
- Export of goods, services and rights;
- Payment of interests on loan agreements whether or not registered with the Brazilian Central Bank.

TP rules are applicable to international transactions with related parties and to transactions with entities established in “privileged tax” jurisdictions (see list in appendix). A “privileged tax” jurisdiction is defined by (i) not taxing income and earnings from abroad (or taxing them at a rate below or equal to 20%), (ii) not permitting access to and limiting transparency on transactions, structure, ownership, and (iii) offering tax privileges to nonresident individuals or entities without any economic activity.

The Brazilian TP rules are substantially different than the OECD transfer pricing standards: instead of the arm’s length principle which is the TP standard adopted by the OECD, fixed profit margins should instead be used to determine the transfer price. The main methods used to demonstrate that the price is appropriate (or to calculate the amount of the adjustment fixed by law) are:

- Importation:
  - Compare with the acquisition price practiced with independent parties (PIC);
  - Demonstrate that the resale operation will lead to a minimum profit of 20%, 30% and 40% depending on the sector (PRL);
  - Demonstrate that the profit obtained by the related company in the good’s country of origin does not exceed 20% (CPL);
  - Comparison of the price of the good imported with the quoted price (PCI), applicable to the import of commodities.
- Exportation:
  - Demonstrate that the export price is equivalent to 90% or more of the price practiced in the internal market with non-related parties (forbidden for export of commodities);
  - Compare with exportation prices in operations with independent parties (PVEx);
  - Demonstrate that the price practiced in the wholesale market in the good’s country of destination includes a maximum profit of 15% (PVA);



- Demonstrate that the price practiced in the retail market in the country of destination of the goods includes a maximum profit of 30% (PVV);
- Demonstrate that, in Brazil, a markup of at least 15% is applied to the cost of production or acquisition (CAP);
- Comparison of the price of the good exported with the quoted price (PECEX), applicable to the export of commodities.

■ **Payment of interests:**

- The maximum deductible interest expense and the minimum taxable interest income on loans with related parties are defined by the following rules plus the average market spread determined by the Ministry of Finance:
  - a. Rate of Brazilian sovereign bonds issued abroad in USD, on prefixed rate contracts agreed upon in USD;
  - b. Rate of Brazilian sovereign bonds issued abroad in BRL, on prefixed rate contracts agreed upon in BRL;
  - c. In other cases, the LIBOR 6 months in the currency of reference will be applied.
- The Ministry of Finance published the Ordinance nº 427/2013 defining the spread rate to be considered on loans with related parties:
  - a. Any interest expense registered from January 1, 2013 must include a spread of 3.5%;
  - b. Any interest income registered from July 31, 2013 must include a spread of 2.5%

## Tax treaties

Brazil agreed on Double Taxation Treaties (DTT) with the following countries. Most of these agreements contain tax sparing clauses.

Argentina, Austria, Belgium, Canada, Chile, China, Czech Republic, Denmark, Ecuador, Finland, France, Hungary, India, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, Norway, Peru, Philippines, Portugal, Slovakia, South Africa, South Korea, Spain, Sweden, Ukraine.

## Consolidation or group taxation

There are no rules about tax consolidation. Federal, state and municipal authorities apply separate taxations to each company and branch/establishment of the same company.

## Dividends & Interests

Dividends are not currently subject to withholding taxation, while interests paid to non-residents are generally subject to a 15% withholding tax or 25% withholding tax if they are based in a tax haven jurisdiction.

## ONE MORE CONTROVERSIAL TAX LAW

On September 16, 2013, the Brazilian Federal Revenue Bureau (RFB) issued a "Regulatory Instruction" (Instrução Normativa RFB nº 1.397/2013) requiring two sets of financial statements from legal entities which opted for the Actual Profit tax regime: (i) an "accounting set" in accordance with the current Brazilian accounting rules (similar to the IFRS) and (ii) a "fiscal set" based on the Brazilian accounting rules as of December 31, 2007 (i.e. before the implementation of the IFRS).

One of the main impacts is the taxation of dividends: legal entities can pay tax free dividends up to the fiscal net profit, i.e. to the net profit recorded in accordance with the "old" Brazilian accounting rules and not up to the accounting net profit. Any dividend paid above the fiscal net profit is subject to taxation at the level of the entity receiving the dividends.

However, this controversial instruction is already being challenged by various professional bodies (including the Federal Board of Accountancy, CFC) due to its complexity and the backsliding it may bring in terms of the quality and consistency of the financial information produced by the companies, to a point that the RFB already announced that this instruction will be further amended.

### Thin capitalization

In June 2010, the Law nº12.249 initiated, among other provisions, new thin capitalization rules that can be summarized as follows:

- Interest paid or credited by a Brazilian entity to a related party (individual or legal entity), that is not resident or domiciled in a tax haven jurisdiction, may only be deducted for income tax purposes if (i) the interest expense is viewed as necessary for the activities of the local entity and (ii) the amount of debt granted by the related party does not exceed twice the amount of its participation in the net equity of the Brazilian entity.

A second test including the total amount of debts with any foreign related party also needs to be performed.

If in either "debt/equity" test a 2:1 ratio is exceeded, the portion of interest related to the excess debt amount is not deductible for Brazilian income tax purposes.

- Similar provisions are also applicable to the interest paid or credited by a Brazilian entity to an individual or legal entity (whether or not a related party) resident or domiciled in a tax haven or favorable tax regime jurisdiction. In these cases, the interest expense will only be deductible for Brazilian income tax purposes if (i) the expense is viewed as necessary and (ii) the amount of the debt does not exceed 30% of the Brazilian entity's net equity.

A second test including the total amount of debts with any foreign party resident or domiciled in a tax haven or favorable jurisdiction must also be performed.

If in either “debt/equity” test, the amount of debt exceeds 30% of the Brazilian entity’s net equity, the excess interest is not deductible for Brazilian income tax purposes.

All provisions apply to debt financing transactions, whether or not registered at the Brazilian Central Bank.

### Interests On Equity (IOE)

Brazilian tax legislation allows the calculation of interests on net equity, instead of dividends, to be paid to shareholders. The calculation of these interests is based on the Long Term Interest Rate (TJLP, issued by Brazilian tax authorities, 5% annually in November 2013) applied to the net equity.

Moreover, the interests on net equity are deductible expenses for IRPJ and CSLL purposes, reducing the income tax burden and consequently, the effective tax rate. The deductibility of these interests is limited to the highest of (i) 50% of the net income of the period (before the IRPJ and IOE itself) or (ii) 50% of the accumulated profits plus the reserves. Unlike the treatment of dividends, the Brazilian entity is obliged to collect 15% withholding tax at the time of payment of interest on capital.

However, if distributed to a Brazilian shareholder, the IOE shall be computed as revenue for the beneficiary of the IOE for tax purposes, and thus subject to PIS, COFINS, IRPJ and CSLL, which leads to a tax leakage.

For accounting purposes, IOE are considered a distribution of retained earnings and not a financial expense.

# 5 QUESTIONS TO ROBERTO SANCHEZ

CFO SPAIN AND SOUTH AMERICA OF RENTOKIL INITIAL

**1** Rentokil Initial entered the Brazilian market in 2012 by acquiring the country's third largest pest control brand. However, Brazil closed 2012 with a GDP growth of 0.9% and an expected growth of just 2.0% in 2013. In this global context, is Brazil still a strategic market for an international group such as Rentokil Initial?

Most South American markets are attractive; principally because both the GDP & middle classes in these countries are growing more than in the other markets where we operate. At the same time, Brazil is especially attractive due to the size of its population & high level of urbanization.

More specifically, the Pest Control Market in particular is very attractive. The Pest Control Market in Brazil is the largest in Latin America and one of the largest when compared to European markets. It has been growing rapidly in the last 5 years as the Brazilian population demands ever-higher hygiene levels in restaurants, hotels, offices, food areas, etc.

At the same time, it is a fragmented market and control services provided by pest control companies are still in their earliest stage: mainly oriented toward tackling existing pest problems rather than on-going control and monitoring. Integrated pest management services are not yet mainstream in Brazil. This is the perfect market for Rentokil, a worldwide leader recognized as "The Experts in Pest Control".

**2** Roberto, in addition to Brazil, you managed a number of transactions in Southern Europe. In your opinion, what are the main differences and difficulties in conducting a transaction in Brazil when compared to other countries?

There are not any major differences in Brazil compared to other markets, although we have faced some difficulties in understanding Brazil's complex tax system.

**3** In addition to having high price expectations, Brazilian sellers, especially in the case of family owned businesses, are not always knowledgeable of complex transaction structures implying price adjustments, earn-outs, etc. Did you experience this difficulty and how did you manage to implement minimum safeguards in your transactions?

Indeed, although this isn't different from other markets in our industry. Building a good relationship and trust with the owners of the business is important in any industry but even more so in Brazil where one might face these difficult points in negotiations.. I also believe it is key to use the right advisors (finance and legal) who have experience in both Brazil and European multinationals. This helped us overcome issues with simple and pragmatic solutions.

## 5 QUESTIONS TO **ROBERTO SANCHEZ** CFO SPAIN AND SOUTH AMERICA OF RENTOKIL INITIAL

**4** A complex tax system and low corporate governance are often cited as the key obstacles for foreign corporations developing business in Brazil. How did Rentokil Initial deal with these obstacles following the Brazilian acquisition?

Once again, you must look for the right advisors.

**5** What would be your recommendations to a foreign corporation seeking to enter the Brazilian market through an M&A transaction as Rentokil Initial did in 2012?

I would definitely recommend getting into the Brazilian market. However, things to consider:

- It will take longer than expected.
- Relationships are important and building trust is key.
- Choose the right advisors.

### ABOUT ROBERTO SANCHEZ AND RENTOKIL INITIAL

Roberto Sanchez is the Finance Director of Rentokil Initial in Spain, Portugal and South America. He assumed this position in 2008 following a banking position and a position in Rentokil's M&A department. He currently oversees external growth projects in Brazil and Latin America.

Rentokil Initial is one of the largest business services companies in the world, founded in 1925 in the United Kingdom and specializing in supply and laundering of textiles, disposal of hazardous and clinical waste, pest control, hygiene services, facility management and interior landscaping. The company, listed on the London Stock Exchange, has over 60,000 employees providing a range of support services in over 60 countries.

# TAX INCENTIVES

Foreign investors can benefit from all tax incentives, and there is no nationality restriction. Tax benefits may be granted by the states (a total number of 26 + Federal District of Brasília), the municipalities or by the federal organizations, for each sector. Note that it is mandatory to be established as a registered company in order to benefit from any kind of tax benefit. Tax authorities usually grant the tax benefit to the main Federal Tax Number (CNPJ), i.e. the parent company.

## Special Zones

Depending on various conditions (local components/production/consumption), investments may be performed in Free-Trade Zones (Manaus FTZ, North and Northeast regions among others) in order for companies to benefit from exemptions or a reduction of corporate income tax (IRPJ), import duties, excise tax (IPI), sales tax (ICMS) and taxes on gross revenues (PIS/COFINS).

Many governmental incentive programs also provide low cost financing, which is closely tied to Brazil's chronic inflation and high bank interest rates. The main governmental financing entity is the Brazilian Development Bank (BNDES).

- **Manaus Free-Trade Zone (MFTZ):** 75% of reduction of IRPJ during 10 years (currently limited through 2023), reduction up to 88% of Import Tax (II), exemption of IPI if locally consumed and/or produced, reduced ICMS tax rate, exemption of PIS/COFINS when importing in MFTZ, no PIS/COFINS on raw, intermediate and packing materials when buyer and supplier are located in MFTZ and acquired materials are used in a local manufacturing process, limited PIS/COFINS (mostly 3.65%) on sales of locally produced goods.
- **Superintendence for the Development of Amazônia (SUDAM) & Northeast (SUDENE):** Independent agencies affiliated with the federal government and which provide reduction or exemption of income taxes depending on their appreciation of projects in the North and Northeast regions, including the MFTZ. For example, they allow a 75% reduction of IRPJ on investments in their area for 10 years (currently limited through 2023).

## BETTER DOUBLE-CHECK YOUR TAX INCENTIVES

Regarding ICMS specifically, the National Council of Fiscal Policy (CONFAZ), representing all Brazilian states, agrees on set of measures called “Convênio ICMS” (ICMS agreement) which defines all ICMS tax incentives that may be granted by each state. However, most states have granted other ICMS tax incentives even if not approved by the CONFAZ. Therefore, investors should consider all the potential risks and impacts related to ICMS tax incentives granted only at state level.

### Special Customs Regimes

A few examples of special customs regimes in Brazil:

- The Temporary Admission program allows certain imported goods to stay for a determined time and purpose on Brazilian territory without paying import taxes (mostly useful for exhibitions, commercial, cultural and sports events, rental transactions).
- The Drawback regime involves various benefits. For instance, payment of import taxes such as II, IPI, ICMS, and AFRMM (Merchant Marine Renewal Tax) can be partially or totally suspended on goods which will be re-exported after being transformed, repaired or manufactured locally. The amount of exemption depends on the level of local manufacturing. Instead of being suspended, taxes may alternatively be paid first and then reimbursed after re-exportation. Imported items must be limited to 40% of exported goods. ICMS conditions may vary between states and must be checked.
- Imported raw materials and components, mainly parts for aircrafts, vehicles and electronics, may also be exempt from federal (II, IPI and PIS/COFINS) and state taxes (ICMS) thanks to the RECOF program, if these products are to be exported or sold in the domestic market. Specifically for vehicles, the RECOM regime allows the importation of materials and components destined for custom industrialization of products ranked from 8701 to 8705 in the IPI rates' Table (TIPI): chassis, car body, spare parts and subassemblies such as motors, components and accessories, without IPI and foreign exchange coverage.
- REPETRO is a custom regime dedicated to the import and export of goods involved in the prospecting and exploration of oil and natural gas deposits. The regime allows the importation of raw materials and the parts and pieces that are to be used in the production of goods which are to be re-exported (drawback) without IPI, PIS and COFINS. Another benefit is the exemption from IPI, PIS and COFINS on importation of foreign equipment for a temporary stay. Companies holding permits and authorization for exploring oil and natural gas deposits may benefit from REPETRO.

- Another regime that can suspend the payment of taxes is the REPEX, which allows the import of crude oil and its derivatives when they are exported or re-exported. This program is dedicated to firms that are allowed to import and export oil products by the National Petroleum Agency (ANP).
- REINTEGRA is a federal tax system dedicated to export companies which allows the reimbursement of up to 3% of the total amount of revenues derived from the export of goods. This amount shall be offset with federal taxes or reimbursed. This incentive is not applicable to trading companies and to goods which were previously imported. It will be enforced through December 2013 and could be extended by the government.
- The REIDI is related to the Growth Acceleration Program (PAC). This regime aims to foster investment and development of infrastructure by exempting the purchase of goods and services from PIS and COFINS. Entities involved in such projects must first be legally approved as part of the PAC (transports, harbors, energy, sanitation and irrigation sectors) and file project by project applications to benefit from the REIDI. The benefit is granted for 5 years, after which a new application project must be presented.
- A last example of special customs regime is the Blue Line (*Linha Azul*), which allows some companies to facilitate their international trade operations by accelerating the clearance process, reducing insurance charges and prioritizing the loading/unloading of merchandise, among other benefits. The company must comply with various requirements in order to be granted with this regime, including an audit report on its internal control procedures over taxes and customs.

## FOSTERING EXPORTS

The importing of goods which are not available in the Brazilian market may be subject to a reduction of import duties.

Exports are encouraged through the lack of taxation on sales and, upon request and depending on the activity, exemption, deferment or suspension of taxes paid on purchases. The support for export sales can also take the form of specific credit lines at beneficial rates.

## R&D and Green Technologies

Activities related to Research & Development may lead to incentives such as IPI reduction, accelerated depreciation for new equipment destined to R&D and accelerated amortization for capitalized R&D expenses and certain intangibles.



R&D expenses are entirely deductible for Brazilian income tax purposes. Additionally, the taxpayer might benefit from incentives granted by the Law 11.196/2005 (“Lei do Bem”), which result in additional exclusions from the corporate taxable basis ranging from 60% to 100% of the R&D expenses.

Concerning investments in green technologies, companies may benefit from tax exemptions or reductions (PIS/COFINS, IPI, ICMS) on industries, operations or processes involving biodiesel, ethanol, solar & wind energy.

Furthermore, land can be obtained as a capital grant from local governments.

## A BOOST FOR INFORMATION TECHNOLOGIES

According to the Laws nº 8.248, 10.176 and 11.077 (“Lei de Informática”), legal entities involved in the production of computer hardware may benefit from a tax incentive reducing the IPI of some goods by 80 or 95%, depending on the localization of the company. Indeed, the North, Northeast and Central-West regions offer higher reduction percentages. To keep this benefit, firms must invest between 4.00% and 4.35% of the annual revenues generated by eligible products in R&D.

# OTHER TAX ISSUES

## Asset deal vs. Share deal

- Main tax aspects of an asset deal:
  - Income tax and social contributions apply to both operational and non-operational gains resulting from the sale of assets (usually 34%).
  - PIS/COFINS may apply depending on the type of asset.
  - ICMS applies to the transfer of inventory and generates tax credits but does not generally apply to fixed assets.
  - IPI applies to both the transfer of inventory and fixed assets in the case of direct importation or manufacturing by the seller.
  - A real estate tax (ITBI) may also apply to property transfers.
- Share deals occur more frequently as they require less documents and are less taxed:
  - Income tax and social contributions apply on sales net profits for Brazilian entities.
  - PIS/COFINS, ICMS and IPI do not apply, nor do stamp duties or transfer taxes.
  - A 15% withholding tax applies if the seller is a nonresident individual (25% if a tax haven resident).
  - Gains from the sale of publicly traded shares have a 20% tax but are exempt to nonresidents, unless they are listed in a “privileged tax” jurisdiction.

## ICMS on e-commerce

The number of e-commerce transactions has increased in recent years, benefitting the Brazilian states located in the South and the Southeast, where most companies have chosen to settle. In such operations, ICMS used to be collected exclusively by the seller's state of domiciliation. However, since April 2011, 20 states, mainly from the North and Northeast decided an agreement called "Protocolo ICMS nº21" which regulates the situation and shares the taxation of e-commerce transactions between states. Seven states (São Paulo, Rio de Janeiro, Minas Gerais, Santa Catarina, Rio Grande do Sul, Paraná and Amazonas) did not sign the agreement and contest its legitimacy. In April 2012, the State of Espírito Santo renounced the agreement as did the Federal District of Brasília in September 2013. The issue is currently being discussed at the Brazilian Federal Supreme Court (STF):

- Without this agreement and in the case of an interstate sale to a final consumer, the ICMS would be collected by the state of domiciliation of the seller. In such an operation, the ICMS rate usually ranges from 17% to 25% (intrastate rate). No ICMS would be due to the state of domiciliation of the consumer.
- With the agreement, the ICMS tax rate collected by the state of domiciliation of the seller would correspond to the interstate rate, i.e. 7% or 12% depending on the origin and destination. The difference between this interstate rate (7% or 12%) and the intrastate rate (17% to 25%) would be collected by the state of domiciliation of the consumer.

## Royalties & Copyrights

A 15% withholding tax as well as the 10% CIDE generally apply to royalties and copyrights paid to non-residents. If the beneficiary resides under tax haven jurisdiction, the rate raises to 25%.

## Importation of services

The taxation of services rendered by a foreign company (importation of services) depends on their nature. Technical services (involving special knowledge and performed by independent professionals or artists) lead to a 15% withholding tax and a 10% CIDE tax, whereas non-technical services have a 25% withholding tax. PIS/COFINS at the entire rate (9.25%) and ISS are applied on all types of services.

## DO YOU REALLY NEED YOUR IMPORTED SERVICE?

For a US\$ 1,000 technical service fee invoice issued by a foreign company and under the assumption of a 5% ISS rate, 15% of IRRF would be withheld by the Brazilian client. Therefore, only US\$ 850 will be paid to the foreign entity and the Brazilian entity will pay US\$ 257 in ISS, PIS/COFINS and CIDE.

NB: For both royalties and service fees involving the transfer of technology, specific conditions of remittance and deductibility may be respected.

### CFC Rules

Controlled Foreign Company (CFC) rules differ from those applicable in other countries as they are relatively new in Brazil.

A foreign subsidiary's financial statements must be translated into Brazilian currency and profits generated must be included in the December 31 financial statements of the Brazilian mother company. These profits may be subject to taxation under certain circumstances, such as liquidation.

Consolidation of profits and losses of foreign subsidiaries is generally not permitted for Brazilian tax purposes.

### Capital gains taxation

Following the sale of an asset located in Brazil, capital gains of residents get the usual corporate income tax rate of 34% (15% when the seller is an individual), while capital gains of non-residents are subject to a 15% withholding tax (25% if a tax haven resident).

### Nonresidents investing in financial & capital markets

Nonresidents face various withholding income tax rates on their revenues from investments in financial and capital markets:

- 10% when investing in swap operations, stock funds and future market operations carried out apart from stock or mercantile exchange markets;
- 15% in other cases including fixed income investments;
- 0% in the case of capital gains (earnings linked to stocks, commodities and other similar transactions) or gold traded apart from commodity exchange markets;

- 0% for income obtained through Brazilian government bonds since February 2006 and for mutual funds whose portfolio is constituted of 98% or more of these bonds;
- 0% for investment in Private Equity Funds (FIP) and Emerging Companies Investment Funds (FMIEEs) or funds investing in these funds' quotas.

### Declaration of Brazilian Capital Abroad for residents (DCBE)

All individuals and entities based, domiciled or residing in Brazil must declare all values (currency assets, investments, property, rights...) equal or greater than US\$ 100,000 owned out of the national territory to the Brazilian Central Bank. This requirement is met by annually filling out the DCBE form.

### Declarative obligations

Brazilian companies are required to file various fiscal and labor documents. Failure to comply with these obligations will incur penalties:

- SPED: public system of digital bookkeeping, which aims to replace paper copies of invoices and tax records for electronic files. SPED can be defined as an instrument that unifies reception, validation, storage and legalization of records and documents which are part of the accounting and tax bookkeeping of companies, through a single computerized flow of data.
- Such documentation is comprised of several accounting and tax books, including the general ledger, the general journal, balances and trial balances, inflow and outflow books, inventory book, ICMS and IPI calculation registers, DIPJ, DACON, GIA, etc. The general ledger, the general journal, balances and trial balances referred to above must be annually, generally by June 30<sup>th</sup>, – transmitted by taxpayers to the SPED system by means of Digital Bookkeeping (ECD). SPED Fiscal (known as SPED ICMS/ IPI), in São Paulo State, must be transmitted monthly until the 25<sup>th</sup> day of the following month. EFD-Contribuições (known as SPED PIS/COFINS) must be monthly transmitted until the 10<sup>th</sup> business day of the second following month.
- Brazilian legal entities must file an annual corporate income tax return (DIPJ), generally by June 30<sup>th</sup>, of the following calendar year (which includes information about the IRPJ, CSLL, IPI and social security). If the IRPJ and the CSLL are calculated monthly, prepayments must be paid by the last working day of the following month. Any amount of IRPJ and

CSLL due for the year (exceeding the prepayments performed) must be paid by the last business day of January of the following year. Note that the income tax return (DIPJ) will be replaced by the EFD-IRPJ as of calendar year 2014.

- The DCTF (Declaration of Federal Tax Credits and Debits) must be filed monthly by the taxpayer until the 15<sup>th</sup> business day of the second month following the month of reference. This obligation provides information about tax debits and credits of IRPJ, IRRF, IPI, IOF, CSLL, PIS, COFINS, CIDE, PSS and CPRB.
- GIA (ICMS Calculation Information Form) and SINTEGRA (Integrated Goods and Services Interstate Operations Information System) must be filed monthly by the taxpayer. In the State of São Paulo, the GIA is due between the 16<sup>th</sup> and 19<sup>th</sup> day of the following month, depending on the final number of State registration (“inscrição estadual”). The SINTEGRA must be remitted to the State tax authorities up to the 15<sup>th</sup> day of the following month.
- The DACON (Demonstration of Calculation of Social Contributions – PIS/COFINS) must be filed monthly and is due by the 5<sup>th</sup> business day of the second month following the month of reference. Note that, since 2013, taxpayers that opted for the Presumed Profit regime are exempted from transmitting the DACON.
- Annually, the taxpayer must also file the DIRF (Declaration of Withholding Income Tax - Declaração do Imposto de Renda Retido na Fonte). For the 2012 calendar-year, the DIRF had until February 28<sup>th</sup>, 2013 to be delivered.

## FUTURE CHANGE IN LABOR AND SOCIAL SECURITY RETURNS

All labor, social security and tax information relating to the hiring and employment of workforce, regardless of the employment relationship, will be transmitted electronically through the Digital Social and Tax Bookkeeping system ('Escrituração Fiscal Digital Social' or 'eSocial'). This electronic file will eventually replace all other current electronic files related to employees (such as Manad, GFIP...).

This measure aims to strengthen the labor inspection capacity of public authorities and will apply to companies under the Actual Profit regime from April 30<sup>th</sup>, 2014 and to companies under the Presumed Profit and SIMPLES regimes from September 30<sup>th</sup>, 2014.



More than 80% of electricity production comes from hydraulic sources. Itaipu dam is the 2<sup>nd</sup> hydroelectric power plant in the world

# LABOR ENVIRONMENT

The main principles of the Brazilian labor system are defined (i) by the Consolidation of Labor Laws (CLT decree), governing the employees' rights and obligations and supervised by the Ministry of Labor, and (ii) by various laws and decrees governing the employers' rights and obligations and supervised by the Brazilian Federal Revenue Bureau (RFB).

Brazilian labor legislation, as well as the tax system, is complex and frequently changing.

## APPLICABLE LEGISLATION

The rights and obligations of workers and employers are governed by the Brazilian Labor and Social Security legislation which consists of the following laws and decrees:

Legislation	Comments
CLT, Normative Instruction MTB 03/1997, and Enunciado 331, from TST (Labor Court)	Direct and Indirect (outsourced) employees' labor rights
Law 8212/1991, Decree 3.048/1999 and Normative Instrucion RFB 971/2009	Social Security
Law 8036/1990	Government Severance Indemnity Fund for Employees (FGTS)
Law 12.546/2011	Social Security contribution over gross revenue

# HIRING, DISMISSAL AND LITIGATION

In Brazil, a worker's trial period cannot exceed 90 days. Most contracts are based on 44 hours per week.

In the case of dismissal, the employer must respect a prior notice of 30 days. If not, the employer faces a penalty of one month's salary. This indemnity may increase to a three-month salary if the employee has worked for the company for 20 years or more. The employer must also pay the eventual cumulated value of holidays and the 13<sup>th</sup> salary to the employee.

As explained below, the employee gets the totality of his Severance Indemnity Fund account ("FGTS account") plus an additional 40% if he gets dismissed without good reason ("justa causa"). In the case of justified dismissal or resignation, the employee does not receive this amount.

Note that in any case, there is no obligation for the employer to reclassify dismissed employees.

In order to hire a foreign employee as a manager or director, a permanent visa is required in addition to capital investment requirements. For a foreign employee, a renewable work visa of two years must be obtained. Foreign workers may be hired as expatriates or with local contracts.

## LABOR COST "OPTIMIZATION", AN UNFORTUNATE DRIFT

Payment of salaries and bonuses out of payroll and use of full-time service providers (PJ: Pessoa Jurídica) with employment characteristics are common. In the case of tax or labor inspections, these operations may be reclassified as labor contracts (CLT) and authorities may request the payment of unpaid charges (up to the previous five years) and interest in addition to penalties reaching 150%.

In the case of labor claims brought by the employee, the latter may request the payment of employment benefits (extra hours, holiday, Christmas bonus...) for two years following the employment relationship.



## REMUNERATION AND BONUSES

In 2013, the federal minimum wage was increased from R\$ 622 to R\$ 678 (+9%). However, States may also decide higher minimum wages per branch (for example, the 2013 minimum wage in the States of São Paulo and Rio de Janeiro respectively amounts to R\$ 755 and R\$ 763 per month).

Each year, employees must receive one additional salary (the 13<sup>th</sup> salary or Christmas bonus) at the end of the year (half before the end of November and half before Christmas day).

Overtime hours are paid at an hourly increase of 50% to 100% over normal hours. Night shift work gets an increase of 20% to 40%.

In terms of profit sharing, a law exists but no precise instruction is given. As a consequence, not all companies distribute this kind of benefit. They may be forced to do so if profit sharing agreements are negotiated by branch.

Note that salary is often completed by benefits granted to the employees by the employer, such as transport vouchers (obligatory if requested by the employee), meal vouchers and medical care.

## VACATION

Every employee has a vacation period of 30 calendar days per year. During holiday, salary is increased by a third.

## LABOR AND SOCIAL SECURITY CONTRIBUTION

To finance the Brazilian Social Security system (INSS), companies pay a monthly fee equivalent to 20% of employees' gross salaries. This percentage may be heightened by other rates: 0.5% to 6% for work accident insurance (RAT) and up to 5.8% for other public entities and funds (Education allowance, INCRA, SENAI, SESI, etc.). Employees' contribution (8% to 11% of the gross salary) is directly withheld by the employer (limited to R\$ 457.49 per month in 2013).

Furthermore, employers must make a monthly deposit equivalent to 8% of the employees' gross salaries to finance the Government Severance Indemnity Fund for Employees (FGTS). The money is collected in a personal account at the Caixa Econômica Federal, and an employee may withdraw the funds if s/he retires, intends to buy a real estate property or suffers a serious disease. S/he also gains access to these funds in the case of an unjustified dismissal made by the company. In this last case, the employer will also pay the employee an additional 40% penalty of the corresponding FGTS account and an additional 10% penalty to the government.

Main charges and taxes on payroll are:

Description	Rate (%)
INSS	20.0
Other entities and funds (SESI, SENAI, SENAC, INCRA, ETC)	5.8
RAT	0.5 to 6.0
FGTS	8.0

Depending on the sector and activity, some taxes may not apply except for the compulsory INSS and FGTS.

Alternatively, if the employee is a director or manager who receives a "pró-labore" and not a standard salary, the company has to pay the INSS only (20%).

In the case of illness, salary is paid by the company for up to 15 days and then by the social security. Furthermore, there are two systems of health insurance: public and private. The public system is mandatory; it is financed through INSS and each employee has access to the system. In the private system, which is usually established by collective labor agreements or granted by employers, the payment is made by the

company and may be partially financed by the employees, depending on the policy adopted by the employer.

## INSS ON REVENUES, IS IT REALLY AN INCENTIVE?

The INSS is due on payroll with rates that depend on the company's activities. In 2011, an amendment to the calculation of the INSS (called "Desoneração da folha de pagamento") was enacted: the 20% basic contribution on payroll was replaced by a contribution of 1% to 2% based on gross revenues (excluding export revenue, discounts and IPI tax).

Initially, this agreement only affected labor intensive sectors including IT, call centers, hostelling or transportation. It was then progressively extended to various other products and sectors:

- The change in calculation of the INSS is not necessarily applied to all gross revenues recognized by the company. Rather, the calculation depends on the tax classification of each of the company's products/services;
- If only a portion of the revenue is subject to this new rule, a mixed calculation should be made where part of the INSS is based on revenue and other part on payroll;
- The calculation is based on the monthly revenues and must be performed each month. Depending on the revenue mix and on the wage bill of the company, the change in the calculation of the INSS may turn out to be a gain or a loss.

The amendment is temporary, its term expiring at the end of 2014. As the law may be extended to other sectors or products before 2014 or extended after 2014, it should be followed with attention.

## LABOR UNIONS & COLLECTIVE AGREEMENTS

Collective Labor Agreements generally exist for each branch and category of employee. Labor Unions are more important and powerful in industries (transport, automobile, steel...) and, currently, the main unions are the CGT (Central Geral dos Trabalhadores), CUT (Central Única dos Trabalhadores) and Força Sindical.

Employees are free to choose whether or not they join a union, but regardless of their choice, employees must pay an annual contribution which is directly withheld by the company once a year (equivalent to one day's salary).

# WITHHOLDING TAXES

The monthly withholding individual income tax (IRRF) is based on the salary and advances paid over the course of the month. It is calculated on the gross salary minus the INSS with some deductions fixed by law (see the illustrative labor cost calculation below).

Note once again that dividends are not subject to withholding taxation.

## Withholding Tax (IRRF) 2013

Salary Base (R\$)	Rate (%)	Deduction (R\$)
Up to 1,710.78	-	-
1,710.79 to 2,563.91	7.50	128.31
2,563.92 to 3,418.59	15.00	320.60
3,418.60 to 4,271.59	22.50	577.00
from 4,271.59	27.50	790.58
Deduction per dependent		171.97

## INSS 2013 - Employee's contribution

Salary Base (R\$)	Rate (%)
Up to 1,247.70	8
1,247.71 to 2,079.50	9
2,079.51 to 4,159.00	11
INSS maximum base: R\$ 4,159.00	

Source: Receita Federal do Brasil

# ILLUSTRATIVE LABOR COST CALCULATION

## In case of a classic employee remuneration (CLT contract) - R\$

(a) Monthly gross salary	13,029.68
Base INSS	13,029.68
(b) INSS Employee (11% on maximum base INSS)	457.49
INSS Company (20% on gross salary)	2,605.94
RAT (3%)	390.89
Other entities and funds (5.8%)	755.72
FGTS (8%)	1,042.37
(c) Total payroll charges (36.8%)	4,794.92
Number of dependents	2
Deduction per dependent	171.97
(d) Total dependents deduction	343.94
(e) Base IRRF (a - b - d)	12,228.25
(f) IRRF (e * 27.5% - 790.58)	2,572.19
<b>Net Salary (a - b - f)</b>	<b>10,000.00</b>
(g) Christmas bonus cost (a / 12 * (1+36.8%) )	1,485.38
(h) Holiday additional cost (a / 12/3 * (1+36.8%) )	495.13
<b>Total cost for the company (a + c + g + h)</b>	<b>19,805.11</b>

**In case of a Pró-labore remuneration (Managerial functions) - R\$**

(a) Monthly gross salary	12,529.12
Base INSS	12,529.12
(b) INSS Manager (11% on maximum base INSS)	457.49
(c) INSS Company (20% on gross salary)	2,505.82
Number of dependents	2
Deduction per dependent	171.97
(d) Total dependents deduction	343.94
(e) Base IRRF (a - b - d)	12,228.25
(f) IRRF (e * 27.5% - 790.58)	2,529.12
<b>Net Salary / Pró-labore (a - b - f)</b>	<b>10,000.00</b>
<b>Total cost for the company (a + c)</b>	<b>15,034.94</b>



Brazil is among the world's top producers and exporters of iron, bauxite, copper, tin and gold

# APPENDICES

# PRIVILEGED TAX REGIMES

Denmark	Holding companies without economic activity
Hungary	Offshore KFT companies
Iceland	International Trading Companies (ITC)
Malta	International Trading Companies (ITC) and International Holding Companies (IHC)
Uruguay	Sociedad Anonima Financiera de Inversión (SAFI) incorporated until December 31 <sup>st</sup> , 2010
USA	Limited Liability Companies (LLC) with participation of non-resident investors and not subject to Federal Income Tax in the USA

NB: Holding Companies from Luxembourg and the Netherlands were removed from the list, as well as the Entidad de Tenencia de Valores Extranjeros (ETVE) from Spain.



# TAX HAVEN JURISDICTIONS

Alderney	Madeira Islands
American Samoa	Maldives
Andorra	Marshall Islands
Anguilla	Mauritius
Antigua and Barbuda	Monaco
Aruba	Montserrat
Ascension Island	Nauru
Bahamas	Netherlands Antilles
Bahrain	Niue
Barbados	Norfolk Island
Belize	Oman
Bermuda	Panama
British Virgin Islands	Pitcairn Island
Brunei	Qeshm Island
Campione d'Italia	Saint Helen Island
Cayman Islands	Saint Kitts and Nevis
Cook Island	Saint Lucia
Costa Rica	Saint Pierre and Miquelon
Cyprus	Saint Vincent and The Grenadines
Djibouti	San Marino
French Polynesia	Sark
Gibraltar	Seychelles
Grenada	Singapore
Guernsey	Solomon Islands
Hong Kong	Swaziland
Isle of Man	Switzerland
Jersey	Tonga
Kiribati	Tristan da Cunha
Labuan	Turks and Caicos Islands
Lebanon	United Arab Emirates
Liberia	U.S. Virgin Islands
Lichtenstein	Vanuatu
Macau	Western Samoa

# GLOSSARY

AFRMM	Adicional ao Frete para Renovação da Marinha Mercante	Merchant Marine Renewal Tax
ANA	Agência Nacional de Águas	National Water Agency
ANAC	Agência Nacional de Aviação Civil	National Civil Aviation Agency
ANATEL	Agência Nacional de Telecomunicações	National Telecommunications Agency
ANCINE	Agência Nacional do Cinema	National Cinema Agency
ANEEL	Agência Nacional de Energia Elétrica	National Electric Power Agency
ANP	Agência Nacional do Petróleo, Gás Natural e Biocombustíveis	National Agency of Petroleum, Natural Gas and Biofuels
ANS	Agência Nacional de Saúde Suplementar	National Supplementary Health Agency
ANTT	Agência Nacional de Transportes Terrestres	National Ground Transportation Agency
ANVISA	Agência Nacional de Vigilância Sanitária	National Health Surveillance Agency
BACEN / BCB	Banco Central do Brasil	Central Bank of Brazil
BNDES	Banco Nacional de Desenvolvimento	Brazilian Development Bank
BR GAAP	Princípios Contábeis Brasileiros Geralmente Aceitos	Brazilian Generally Accepted Accounting Principles
CADE	Conselho Administrativo de Defesa Econômica	Federal Antitrust Agency
CFC	Conselho Federal de Contabilidade	Federal Board of Accountancy
CFC	Sociedade Estrangeira Controlada	Controlled Foreign Company
CIDE	Contribuição de Intervenção no Domínio Econômico	Contribution for Intervention in the Economy
CIF	Custo, Seguro e Frete	Cost, Insurance and Freight
CLT	Consolidação das Leis do Trabalho	Consolidation of Labor Laws
CNPJ	Cadastro Nacional de Pessoa Jurídica	National Registry of Legal Entities
COAF	Conselho de Controle de Atividades Financeiras	Board of Control of Financial Activities
COFINS	Contribuição para o Financiamento da Seguridade Social	Social Security Contribution
CONFAZ	Conselho Nacional de Política Fazendária	National Council of Fiscal Policy
CPC	Comitê de Pronunciamentos Contábeis	Committee of Accounting Pronouncements
CPF	Cadastro de Pessoa Física	Individual Taxpayer's Registry
CPRB	Contribuição Previdenciária sobre a Receita Bruta	Social Security Contribution on Gross Revenues

CSLL	Contribuição Social sobre o Lucro Líquido	Social Contribution Tax on Profits
CVM	Comissão de Valores Mobiliários	Securities Exchange Commission
DACON	Demonstrativo de Apuração de Contribuições Sociais	PIS and COFINS Return
DCBE	Declaração de Capitais Brasileiros no Exterior	Brazilian Capital Abroad Return
DCTF	Declaração de Débitos e Créditos Tributários Federais	Federal Tax Settlement Return
DIPJ	Declaração de Informações Econômico-Fiscais da Pessoa Jurídica	Corporate Income Tax Return
DIRF	Declaração do Imposto de Renda Retido na Fonte	Declaration of Withholding Income Tax
DTT	Acordos de Bitributação	Double Taxation Treaties
FDI	Investimento Direto Estrangeiro	Foreign Direct Investment
FGTS	Fundo de Garantia por Tempo de Serviço	Government Severance Indemnity Fund
FIP	Fundo de Investimento em Participações	Private Equity Fund
FMIEE	Fundo Mútuo de Investimento em Empresas Emergentes	Emerging Companies Investment Fund
GDP	Produto Interno Bruto	Gross Domestic Product
IBAMA	Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis	Brazilian Institute of Environment and Renewable Natural Resources
IBGE	Instituto Brasileiro de Geografia e Estatística	Brazilian Institute of Geography and Statistics
ICMS	Imposto sobre Circulação de Mercadorias e Serviços	Tax on Circulation of Goods and Services
IFRS	Normas Internacionais de Informação Financeira	International Financial Reporting Standards
IHC	Empresa Controladora Internacional	International Holding Company
II	Imposto de Importação	Import Tax
INCRA	Instituto Nacional de Colonização e Reforma Agrária	National Institute of Land Colonization and Reform
INPI	Instituto Nacional da Propriedade Industrial	National Institute of Industrial Property
INSS	Instituto Nacional do Seguro Social	National Institute of Social Security / Social Security Contributions
IOE	Juros Sobre o Capital Próprio	Interests On Equity
IOF	Imposto sobre Operações Financeiras	Tax on Financial Operations
IPCA	Índice nacional de Preços ao Consumidor Amplo	Amplified Consumer Price Index
IPI	Imposto Sobre Produtos Industrializados	Tax on Industrialized Products
IRPJ	Imposto de Renda Pessoa Jurídica	Corporate Income Tax
IRRF	Imposto de Renda Retido na Fonte	Withholding Tax

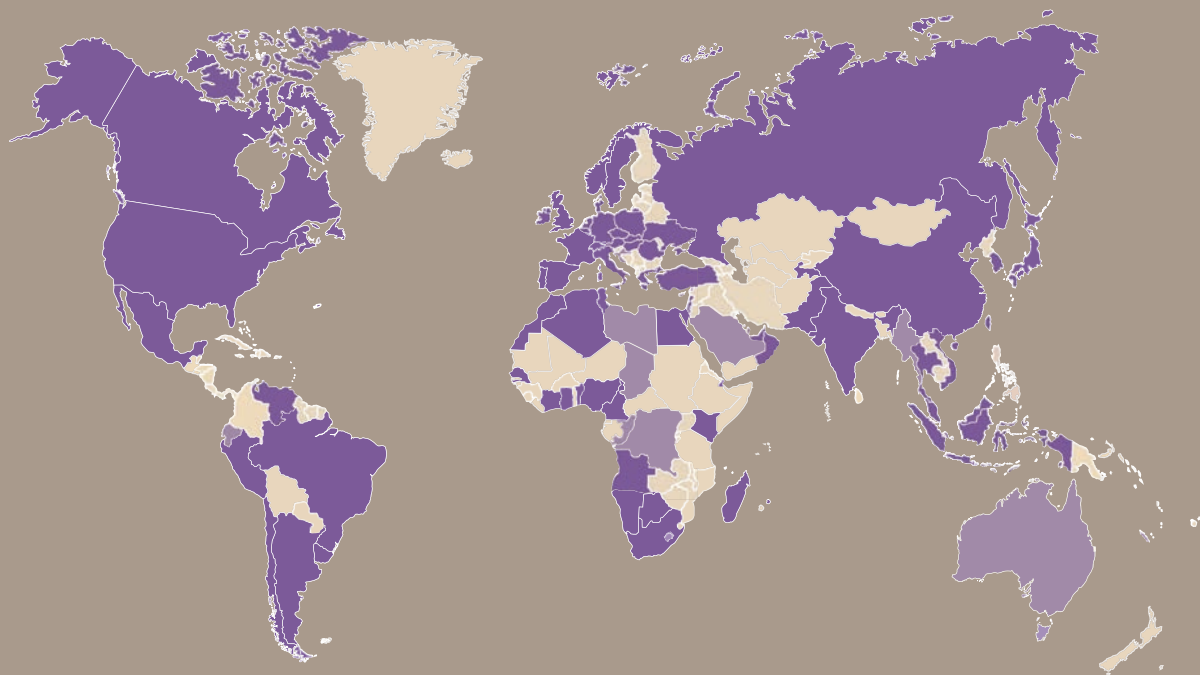
ISS	Imposto Sobre Serviços	Tax on Services
IT	Tecnologia da Informação	Information Technology
ITBI	Imposto sobre a Transmissão de Bens Imóveis	Property Transfer Tax
ITC	Empresa Exportadora Internacional	International Trading Company
LALUR	Livro de Apuração do Lucro Real	Taxable Income Control Register
LIBOR	Taxa Interbancária do Mercado de Londres	London Interbank Offered Rate
LTDA	Sociedade Limitada	Limited Liability Company (LLC)
MDIC	Ministério do Desenvolvimento, Indústria e Comércio	Ministry of Development, Industry and Commerce
MFTZ	Zona Franca de Manaus	Manaus Free Trade Zone
NBC-TA	Normas Brasileiras de Contabilidade - Técnicas de Auditoria	Brazilian Standards on Auditing
NCM	Nomenclatura Comum do Mercosul	Harmonized Tariff Schedule of Mercosul
OECD	Organização de Cooperação e de Desenvolvimento Econômico	Organization for Economic Cooperation and Development
PAC	Programa de Aceleração do Crescimento	Growth Acceleration Program
PIS	Programa de Integração Social	Social Integration Program
PJ	Pessoa Jurídica	Legal entity / Full-time service provider with employment characteristics
PSS	Contribuição para o Plano de Seguridade Social do Servidor Público Civil da União	Social Security Contribution of Civil Servants
PVEx	Preços de Vendas na Exportação	Export Sales Price
R&D	Pesquisa e Desenvolvimento	Research and Development
RDE-IED	Registro Declaratório Eletrônico de Investimentos Externos Diretos	Electronic Declaratory Registration of Foreign Direct Investments
RDE-ROF	Registro Declaratório Eletrônico de Operações Financeiras	Electronic Declaratory Registration of Financial Operations
RECOF	Regime Aduaneiro de Entrepósito Industrial sob Controle Informatizado	Industrial Warehouse Regime under the Customs Computerized Control
RECOM	Regime Aduaneiro Especial de Importação de Insumos	Special Customs Regime for Imports of Inputs
REIDI	Regime Especial de Incentivos para o Desenvolvimento da Infraestrutura	Special Incentive Regime for Infrastructure Development
REINTEGRA	Regime Especial de Reintegração de Valores Tributários para as Empresas Exportadoras	Special System of Reinstatement of Tax Amounts for Exporting Companies

REPETRO	Regime Aduaneiro Especial de Exportação e Importação de Bens Destinados à Exploração e à Produção de Petróleo e Gás Natural	Special Custom Regime for Exports and Imports of Goods Destined to Exploration and Production of Oil and Natural Gas
REPEX	Regime Aduaneiro Especial de Importação de Petróleo Bruto e seus Derivados	Special Custom Regime for Imports of Crude Oil and its Derivatives
RFB	Receita Federal do Brasil	Brazilian Federal Revenue Bureau
RTT	Regime Tributário de Transição	Transitory Tax Regime
SA	Sociedade Anônima	Corporation
SEBRAE	Serviço de Apoio às Micro e Pequenas Empresas	Service of Support to Micro and Small Companies
SELIC	Sistema Especial de Liquidação e de Custódia	Special System of Settlement and Custody
SENAI	Serviço Nacional de Aprendizagem da Indústria	National Service of Industry Apprenticeship
SESI	Serviço Social da Indústria	Industry Social Service
SMEs	Pequenas e Médias Empresas	Small and Medium Enterprises
SPED	Sistema Público de Escrituração Digital	Electronically Commercial and Fiscal Bookkeeping
STF	Supremo Tribunal Federal	Brazilian Federal Supreme Court
SUDAM	Superintendência de Desenvolvimento da Amazônia	Superintendence for the Development of Amazônia
SUDENE	Superintendência de Desenvolvimento do Nordeste	Superintendence for the Development of Northeast
SUSEP	Superintendência de Seguros Privados	Superintendence of Private Insurance
TEC	Tarifa Externa Comum do Mercosul	Mercosul Common External Tariff
TIPI	Tabela de IPI	IPI Tax Rates Table
TJLP	Taxa de Juros de Longo Prazo	Long Term Interest Rate
TP	Preços de Transferência	Transfer Pricing

## SOURCES

Associação Nacional dos Fabricantes de Veículos Automotores (ANFAVEA)  
Banco Central do Brasil (BCB)  
Bradesco  
Câmara de Comércio França Brasil (CCFB)  
Chambre de Commerce du Brésil en France (CCBF)  
Central Intelligence Agency (CIA)  
Centre for Economics and Business Research (CEBR)  
Departamento Nacional de Trânsito (DENATRAN)  
Electricité de France (EDF)  
Energy Information Administration (EIA)  
Instituto Brasileiro de Geografia e Estatística (IBGE)  
International Energy Agency (IEA)  
International Monetary Fund (IMF)  
International Organization of Motor Vehicle Manufacturers (OICA)  
Ministério da Fazenda  
Ministério da Previdência Social  
Ministério das Relações Exteriores (MRE)  
Organization of the Petroleum Exporting Countries (OPEC)  
Receita Federal do Brasil  
United Nations Conference on Trade and Development (UNCTAD)  
United Nations Development Programme (UNDP)  
World Bank

## Mazars' worldwide presence



Integrated countries



Non-integrated countries: Mazars correspondents, country local correspondents, joint ventures and representative offices

Mazars is present in 5 continents.

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