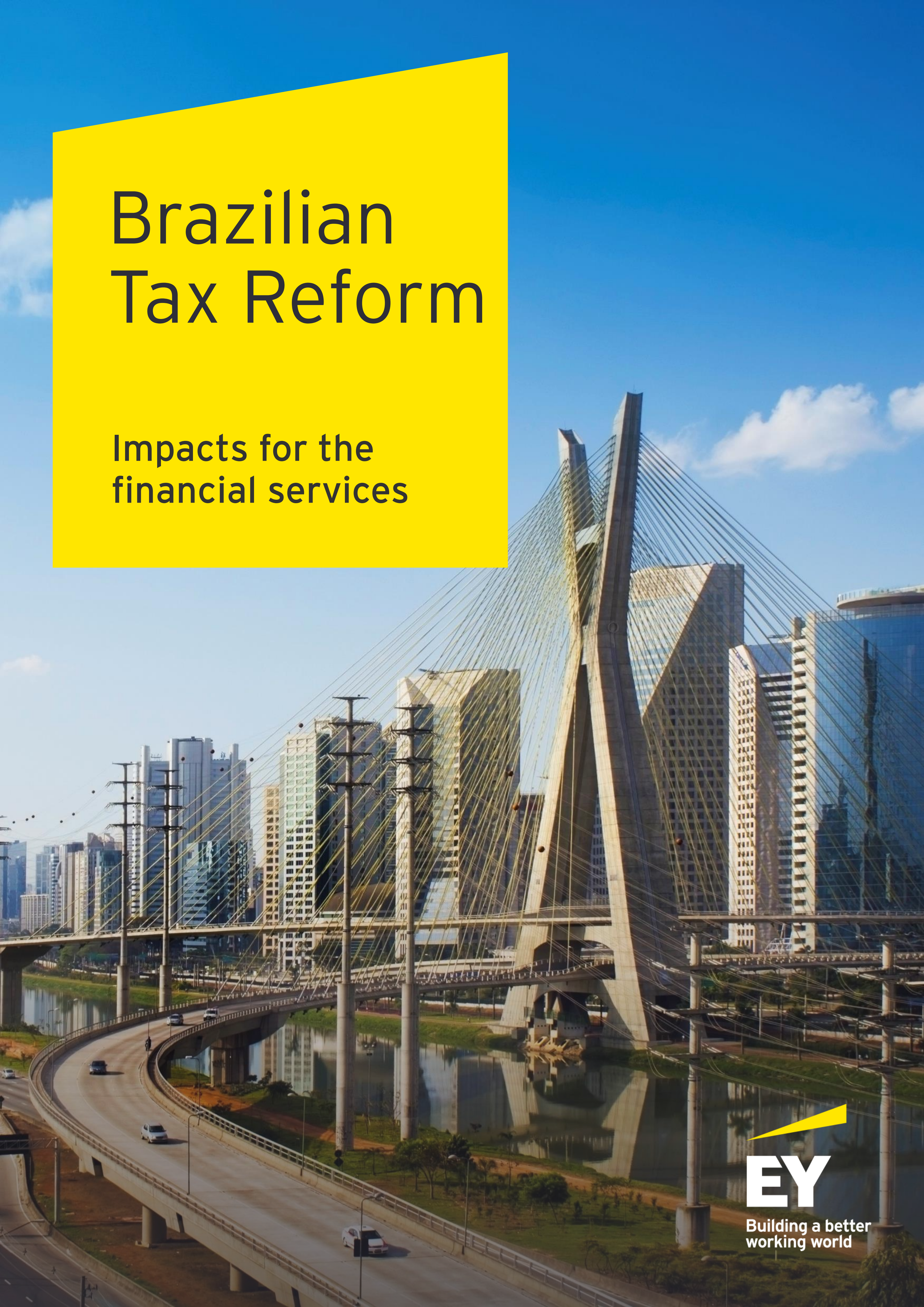
Brazilian Tax Reform

Impacts for the financial services



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Brazilian tax reform (1/2)

Overview of the impacts of the bill (PEC 45/19) for the financial services - July 2023

	General regime	Financial services differentiated regime
Application	▸ Taxpayers in general ▸ Regulated service fees charged by **banks**	▸ **Financial services** (credit transactions, foreign exchange, insurance, reinsurance, consortiums, leasing, factoring, securitization, pension plans, payments schemes, transactions with securities and other operations involving funding, intermediation, asset management, or administration of resources) ▸ Other services provided by organized markets infrastructure or institutions authorized to operate by the Brazilian Central Bank
Tax credits	▸ Non-cumulative ▸ Payments for the acquisition of goods, services, or rights should be creditable	▸ Will be defined by Complimentary Law ("CL"), being possible the **cumulative regime** ▸ Potential discussion on the necessity of banks start issuing invoices on the portion of regulated services fees subject to the general regime
Calculation basis	▸ Will be defined in CL	▸ Will be defined in CL, being possible to use the **gross revenue**
Tax rates	▸ Federal, state, and municipal tax authorities have autonomy to define their own tax rates	▸ CL may apply a **standard** rate for financial services

Legislative procedures - status

- On July 7th, 2023, the Chamber of Deputies approved the tax reform bill on goods, services and rights sales tax
- Currently, the bill is under assessment of the Brazilian Senate, and it can be fully or partially vetted, needing 3/5 of favorable votes in two voting sessions
- If the Senate proposes substantial changes in the text, it will return to the Chamber of Deputies. If the Senate approves the current text, it should be enacted in joint session of the Brazilian Congress

Brazilian tax reform (2/2)

Overview of the impacts of the bill (PEC 45/19) for the financial services - July 2023

	Current model	Tax reform
Application of the differentiated regime	‣ **Subjective criteria based on the** nature of the legal entity ‣ The legal entities subject to the differentiated regime are defined under domestic tax legislation	‣ **Objective criteria based on the type of activities** ‣ **Hybrid regime** for banks, in which financial services are subject to the differentiated regime, and regulated service fees to the general regime
Responsability of payment agents	‣ The Brazilian Tax Code requires a connection of the third-party agent with the taxable event to attribute to third-party the tax responsibility	‣ CL may define as tax-responsible third-party which concurs to the realization, execution, or **payment**, extending the alternatives to attribute responsibility to third-parties ‣ The change may impact payment intermediaries such as banks, payments players, and marketplaces
Place of taxation	‣ Taxes levy on the **location of the service provider** location (branches or headquarter) ‣ Key activities or insurers and pensions plans should not be subject to state or municipal taxes ‣ Payments players, funds service providers, leasing, healthcare providers, and consortiums preserved the municipal tax payment on the location of the service provider after judicial discussion of CLs 157/16 and 175/20	‣ As general rule the tax will levy on the **destination of service**, with a potential integrated collection by the state and municipal tax authorities via Federative Council to be defined by the CL ‣ Taxation by state and by municipal tax authorities of revenues previously taxed solely by the federal tax authorities (e.g., bank spread, insurance premiums) ‣ CL may change the location of taxation to the place where the service are **made available** or where the service are **provided**
Financial revenues for non-financial institutions	‣ Financial revenues of non-financial institutions on the actual profit method should be subject to PIS and Cofins at nominal combined rates of 4.65% ‣ Financial revenues of non-financial institutions under the presumed profit method may not be subject to the PIS and Cofins	‣ Potential non-application of the new taxes (IBS and CBS) on financial revenues of non-financial service providers

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