

## Brazilian Tax Reform and the Challenges for the Importer of Goods and Services

The approval of Constitutional Amendment No. 132/2023 and of Supplementary Law No. 214/2025 completely changed the tax structure of commercial operations in Brazil, including operations involving importing products and services from abroad.

The current system is cumulative, with several restrictions on tax credits, highly complex, and full of exceptions with countless laws and normative acts defining conflicting tax treatments and disputes over competencies between political entities, creating significant insecurity for companies.

In addition, the Brazilian system encourages a tax war among States and Municipalities, given by the tax benefits freely granted by state and municipal tax authorities.

The new tax system intends to reduce the conflicts by establishing a broad tax base and well-defined competencies, with broad rights to credits. It also searches for the end of the tax war by imposing a comprehensive rule governing all the tax benefits and a sole Government body regulating the calculation and collection of the taxes and the use of the credits owned by the taxpayers.

The new regime will also apply to imports, changing the tax structure and tax costs for customs clearance of imported products completely.

Nowadays, importing goods triggers the following main taxes: (i) Import Duty (II); (ii) Excise Tax (IPI); (iii) Social Contributions on Gross Income (PIS/COFINS Import) - 11.75% (general rate); (iv) State VAT (ICMS) - 0% to 25%; and (v) Merchant Marine Renewal Tax (AFRMM) - 0.25% on the ocean freight plus all port handling charges. II and IPI rates vary depending on the fiscal classification of the good.

Importation of general services triggers (i) Withholding income tax (WHT) - 25% (except when a Double Tax Treaty - DTT applies); (ii) PIS/COFINS Import - 9.25%; (iv) Municipal Service Tax (ISS) - 2% to 5%; and (v) Tax on Foreign Exchange Transactions (IOF/FX) - 0.38%.

Importation of technical services triggers (i) WHT - 15% (except when a DTT applies); (ii) Contribution of Intervention in the Economic Domain (CIDE) - 10%; (iii) PIS/COFINS Import - 9.25%; (iv) ISS - 2% to 5%; and (v) IOF/FX - 0.38%.

The changes will be made gradually, beginning in January 2026. Based on that, it is very important that companies already start preparing for the changes. The new system is expected to be fully in force by 2033.

According to the new rules, PIS/COFINS, including PIS/COFINS - Import, ICMS, IPI and ISS on sales of goods and services will be replaced by two main taxes: the Contribution on Goods and Services - CBS and the Tax on Goods and Services - IBS. It is called Dual VAT, as CBS will be a federal tax, and IBS will be divided into States and Municipalities. The other taxes mentioned above will remain valid.

IPI will remain valid only for a restricted list of products manufactured under the tax benefits of the Manaus

Free Trade Zone (ZFM). This is because one of the most important tax incentives granted to companies located in the ZFM is related to the exemption of IPI. In the event of IPI becoming extinct, these companies will lose this competitive advantage over importers and manufacturers located outside the ZFM.

CBS and IBS will be levied either on transactions and imports of tangible or intangible goods including rights, or of services. The aggregate tax rate is not defined yet, but the Government's idea is something between 26.5% to 28%.

Besides CBS and IBS, the Tax Reform creates a tax applied to selected items.

The so-called Selective Tax (IS) will be charged in the production, extraction, sale, or import of goods and services harmful to health or the environment, under the terms of a complementary law to be enacted. IS can be levied on vehicles, including electric and hybrid vehicles, vessels, and aircraft (except spacecraft), smoking products, alcoholic and sugary drinks, mineral goods, such as iron ore, crude oil, and petroleum gas, and game shows and fantasy games.

IS will not be levied on exports (except mineral goods), electricity and telecommunications operations.

In 2026, CBS and IBS will be charged at test rates of 0.9% and 0.1%, respectively. Actually, taxpayers will not be submitted to the test rates in 2026, if they comply with accessory obligations. In this first stage, collecting data is more relevant than collecting the taxes themselves.

In 2027, CBS collection will be fully applicable and PIS and COFINS and PIS/COFINS – Import will be discontinued. IS will start to be collected, and IBS will continue at the test rate of 0.1%. Finally, IPI will be reduced to a 0% rate, except for products manufactured in the Manaus Free Trade Zone - ZFM, which will continue to be taxed by IPI and not by IS.

Between 2029 and 2032, ICMS and ISS will be reduced, and IBS will be increased on an annual basis. During this period the two systems will co-exist. From 2033 onwards, ICMS and ISS will disappear, and IBS will be fully applicable.

The changes introduced by the Tax Reform will broadly and profoundly alter the taxation of imported goods and services, and should be considered in the planning of importers and exporters, including for pricing and for the assessment of the economic viability of commercial transactions.

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