



Consumption Tax Reform in Brazil

Bernard Appy

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INTRODUCTION

Brazil has a **very complex indirect taxes system**

Five taxes in a Federation with three levels:

- States: non-cumulative tax on sale of goods and some services (ICMS)
- Municipalities: cumulative tax on services (ISS)
- Federal government:
 - ❑ Two taxes on turnover and other revenues (PIS/Cofins – cumulative and non-cumulative)
 - ❑ Non-cumulative tax on industrial products (IPI)

TODAY

ICMS

ISS

PIS

Cofins

IPI

OVERVIEW | CURRENT TAX SYSTEM

Problems of the current tax system:

- **Fragmented** tax base
- Partial taxation **on the origin**
- Flawed **non-cumulative** system
- **Complex** legislation

Consequences:

- High cost of tax compliance and high level of **litigation**
- Increase in investment cost and **loss of competitiveness**
- **Inefficient** allocation of resources
- Lack of transparency
- **Conflicts** between states, municipalities and the federal government
 - Strong “fiscal war”

“Brazil’s current tax system is complex and hampers economic efficiency” (OECD, 2023)

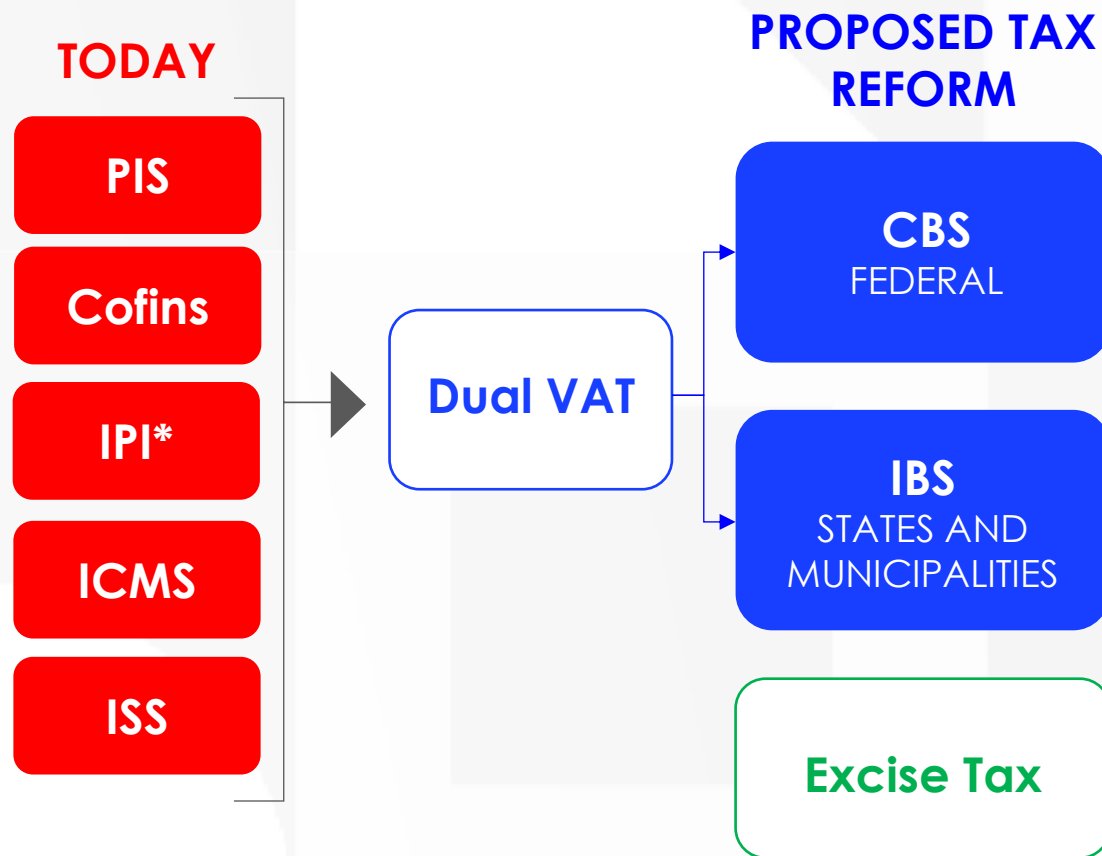
PROPOSED TAX REFORM

The **current five taxes** will be replaced by a **Dual VAT** and an **Excise Tax**:

- Federal Contribution on Good and Services (CBS)
- States and Municipalities Tax on Goods and Services (IBS)

The **Dual VAT** (IBS and CBS) will have:

- The same legislation;
- A broad tax base (tangible and intangible goods and services);
- Full taxation at the destination;
- Full input tax credits (almost...)



* IPI will only be maintained for products manufactured at Zona Franca de Manaus

PHASES OF THE CONSUMPTION TAX REFORM

CONSTITUTIONAL AMENDMENT

The Constitutional Amendment n° 132 was approved by Congress in 2023

REGULATION

Two bills regarding Complementary Laws were sent by the Government:

- Complementary Law 214/25 (former PLP 68/24) – Approved in 2024
- PLP 108/24 – Approved in the Lower Chamber and in the Senate (Last voting in the Lower Chamber pending)

MAIN FEATURES OF THE NEW SYSTEM

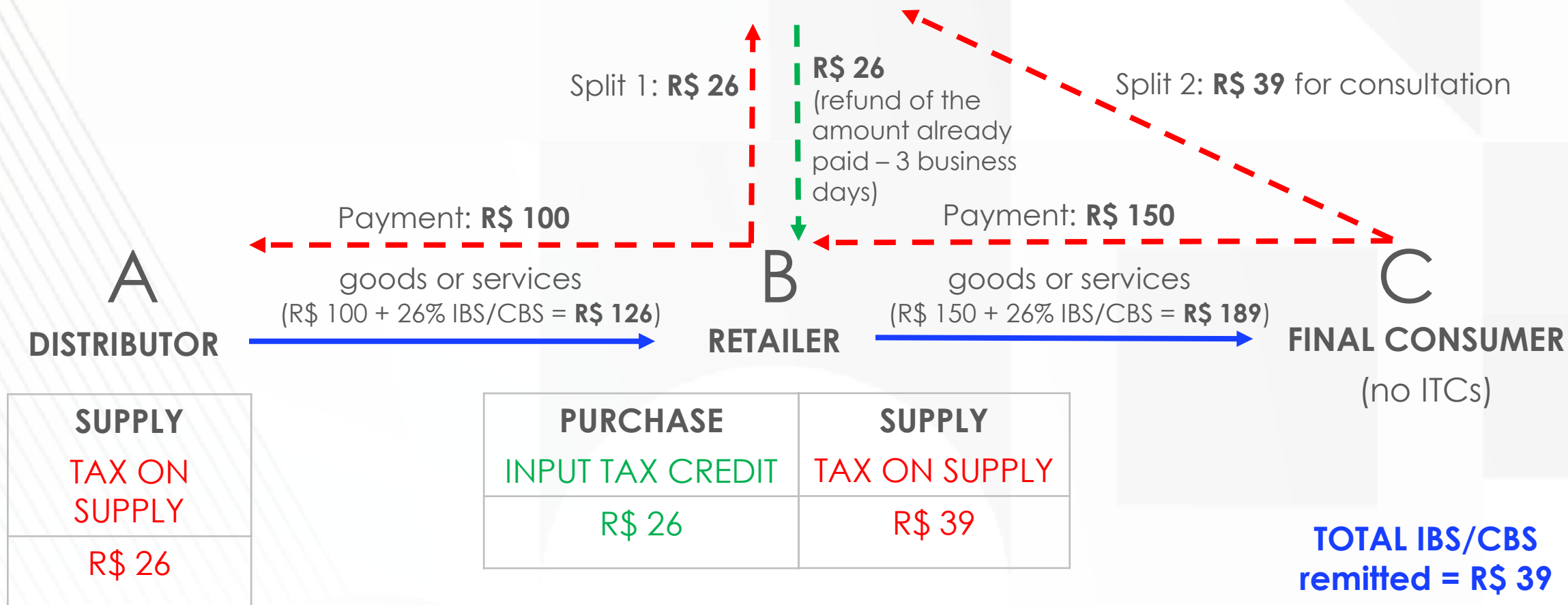
- **System based on an advanced electronic invoicing system**
- **Steering committee:**
 - Collection of IBS, tax refund and distribution of revenues
 - For suppliers: only one entity to register and collect IBS
 - Interpretation harmonization
 - Coordination of subnational tax administration responsibilities
 - Main governance body: 27 state representatives and 27 municipal representatives
- **Input tax credit linked to settlement (previous payment)**
 - Transaction-by-transaction control
 - **Means of settlement:**
 - ☐ Use of input tax credits
 - ☐ Remittance by the supplier
 - ☐ Split payment

MAIN FEATURES OF THE NEW SYSTEM

- **Method of implementing destination-based taxation with the steering committee**
 - Transaction-by-transaction control
 - IBS collected on B2B transactions will not be distributed
 - Allow the IBS implementation at the Municipal level
- **Split payment**
 - Only the unsettled portion of the operation is collected
 - Basic regime (mainly for B2B transactions)
 - ☐ Real time (when possible)
 - ☐ Batch
 - Optional regime (mainly for B2C transactions)
 - ☐ Collection of a smaller percentage of the supply's value
 - ☐ Settlement of the operations for the reporting period

SPLIT PAYMENT | EXAMPLE

Steering Committee and RFB



IBS + CBS = 26%

Difference to charge on the split 2 = R\$ 13

MAIN FEATURES OF THE NEW SYSTEM

- **Tax rates**

- Reference rates set by the Senate
 - Default rates
 - Maintenance of the current tax burden
- Autonomy of the federal government, states and municipalities in setting their own standard rates
- Rates for favored regimes defined as a percentage of the standard rates

- **Government procurement**

- General rule: allocation of all revenue to the purchaser entity
- In some cases: zero rate

MAIN FEATURES OF THE NEW SYSTEM

- **Operationalization**
 - Registration with unique identification
 - Monthly return fillings and remittances
 - Optional pre-filled returns
 - Compensation and refund
 - Assessment within 30 or 60 days
 - Investments (goods and services incorporated as fixed assets)
 - Suppliers that are usually in a refund position
 - Assessment within 180 days in other cases
- **Coordination of IBS and CBS**
 - IBS and CBS regulation with the same common provisions
 - Harmonization of interpretation
 - System with a single interface for taxpayers

IMPORTS AND EXPORTS

IMPORTS

- Treatment similar to that of a domestic supply for:
 - Intangible goods and services
 - Small shipments
- Treatment as imports for other tangible goods

EXPORTS

- Complete exemption from the export chain
- Intangible goods and services
- Tangible goods

Mandatory registration for non-residents

Non-resident suppliers must register and collect IBS/CBS in respect of supplies made in the country.

Digital platforms, even if non-residents, are responsible for registering, collecting and remitting IBS/CBS on supplies made through them.

If the supplier is a non-resident, the platform is responsible to collect IBS/CBS on the supply. The non-resident supplier is exempt from registering for IBS/CBS if making supplies only through platforms.

If the supplier is a resident, the platform is jointly liable if the supplier is not registered IBS/CBS or does not issue an electronic invoice.

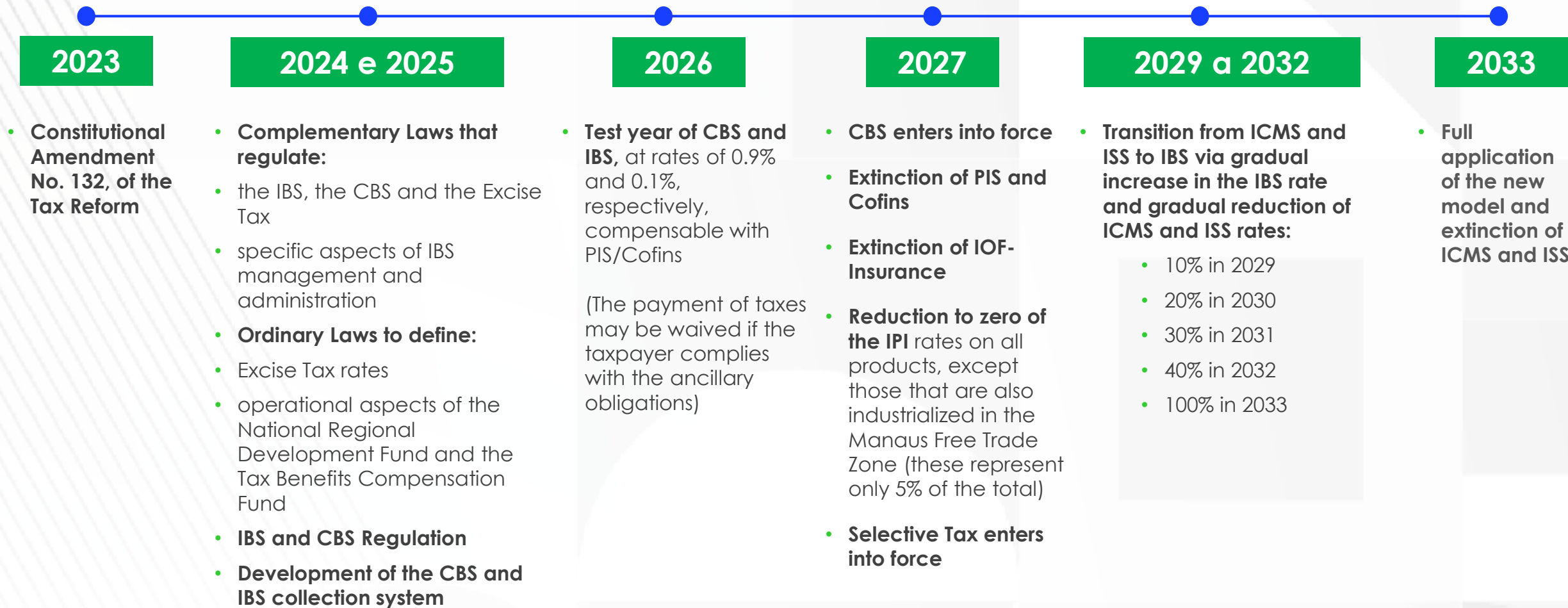
CASHBACK FOR LOW-INCOME FAMILIES

- Direct benefit for families with a monthly **income of up to half a minimum wage per capita**, integrated into the Unified Registry
- Refund of:
 - **100% of CBS and 20% of IBS** for the purchase of gas cylinders (13 kg) and for electricity, water and sewage and piped gas bills
 - **20% of CBS and IBS** on other products*
- Determination of **refund limits** to ensure compatibility between the amounts refunded and the family's income
- **Federative autonomy preserved**: subnational entities may, by specific law, set higher percentages (up to 100%)

Cashback is a mechanism that follows international best practices:
More effective, fair and efficient

* Except for products subject to the Excise Tax

TRANSITION TO THE NEW SYSTEM



STATES AND MUNICIPALITIES

- Transition in the distribution of revenue to the states and municipalities
 - 50-year transition
 - ❑ Decreasing portion distributed according to the current share in the revenue
 - ❑ Increasing portion distributed according to the new system
 - Additional 20-year period for major losers
- Creation of a Regional Development Fund as an alternative to the “fiscal war”
- Tax Audits: autonomy with coordination

EXCISE TAX (Imposto Seletivo – IS)

TAXABLE SUPPLIES

- Polluting emitting vehicles, vessels and aircraft (sustainable cars with different rate)
- Tobacco products (ad valorem rate + ad rem rate)
- Alcoholic beverages (ad valorem rate + ad rem rate)
- Sugary drinks
- Mineral goods (0.25% rate ceiling)
- Games of chance

• TAX RATES

- Definition of the rates will be made by ordinary legislation

The Excise Tax aims to discourage the consumption of products that are harmful to health and the environment.

The background features a series of overlapping light grey geometric shapes, including squares and circles. Two solid yellow horizontal bars are positioned at the top left and bottom right. On the left side, there are several thin, parallel grey lines that curve upwards.

BENEFICIAL AND SPECIFIC REGIMES

CONSTITUTIONAL IMMUNITY AND EXEMPTIONS

NOT TAXABLE, EXEMPT OR SUBJECT TO CONSTITUTIONAL IMMUNITY

- Communication services in the form of **sound and images broadcasting** that are freely received and for no consideration.
- **Books, newspapers, periodicals and the paper** used for their printing.
- Supplies made by **political parties; trade unions; non-profit education and social assistance institutions; religious entities and temples of any religion**, including their assistance and charitable organizations.
- Supplies with associates and between **cooperative societies**, as long as the supplies are associated to achieve their social objectives
- Public urban, semi-urban and metropolitan **passenger transportation services**: exempt.

PRE-EXISTING BENEFICIAL REGIMES

- **Simples** (simplified regime for small businesses):
 - Option to maintain under the current system or collecting/remitting IBS and CBS under the regular regime
 - In both cases, when Simples businesses provide goods or services to other companies, the **purchasers will be able to claim input tax credits** in the same amount as the tax that was charged
- **Manaus Free Trade Zone (ZFM) and Free Trade Areas (ALC):** maintenance of tax incentives and tax benefits for IPI for a list of products currently industrialized in the ZFM, in order to maintain the current competitive advantage in relation to other regions

FAVORED REGIMES

ZERO-RATED GOODS AND SERVICES

- **Food for human consumption:** basic groceries (including vegetables, fruits, eggs, meat, fish, cheese, and salt)- list
- **Medicines, medical devices and accessibility devices** for people with disabilities (list)
- **Basic menstrual health care products**
- **Passenger vehicles** purchased by people with disabilities or autism spectrum disorders, or taxi drivers
- Services provided by a **non-profit Scientific, Technological and Innovation Institutions**
- **Higher education services** (Prouni) – for CBS only
- Supplies of goods and services made under an **international treaty or convention**

FAVORED REGIMES

REDUCED RATE (40% of the standard rate)

- **Educational services** (list)
- **Health services, medical devices and accessibility** for people with disabilities (list)
- **Medicines** not subject to zero-rate
- **In natura** agricultural, aquaculture, fishing, forestry and plant extractive products
- Typical agricultural and aquaculture **inputs** (list)
- **Food for human consumption:** extended basic groceries (list)
- Personal **hygiene and cleaning** products mostly consumed by low-income families (list)
- **National artistic, cultural, event, journalistic and audiovisual productions** (list)

FAVORED REGIMES

REDUCED RATE OF (40% of the standard rate)

- Certain **sporting activities**
- Supplies related to **urban rehabilitation projects** in historic areas and critical areas for urban recovery and conversion
- Goods and services related to **sovereignty and national security**, information security and cybersecurity (list)
- Certain **Institutional communications**

REDUCED RATE OF (70% of the standard rate)

- Supplies made by **intellectual professionals** of scientific, literary or artistic services, subject to regulation by a professional council

DEFERRAL REGIMES

PRESUMED INPUT TAX CREDIT

- **Rural producers** with annual revenue of less than R\$3.6 million and integrated rural producer, who chooses not to be a registered supplier: purchasers will receive a presumed input tax credit
- Self-employed **transporters of cargo**: purchasers will receive a presumed input tax credit
- **Supplier of waste and other materials destined for recycling**, reuse or reverse logistics, who is an individual, cooperative or other form of popular organization: purchasers will receive a presumed input tax credit
- Purchasers of **used goods intended for resale** will receive a presumed input tax credit.
- **Members of cooperative societies or supplies between cooperatives**, as long as they are associated to achieve social objectives.

SPECIFIC REGIMES

- **Services remunerated by margin:** financial services (credit, financial intermediation and foreign exchange; securities; leasing; consortium administration; insurance, etc.), health care plans and games of chance:
 - **special calculation of taxable amount;**
 - input tax credits allowed for suppliers;
 - input tax credit for purchasers subject to certain criteria;
 - IBS/CBS rate will be calculated based on the actual tax burden for the sector.
- **Fuels:** single-phase regime with uniform rates (*ad rem*) throughout the national territory
 - Differentiation by product;
 - Input tax credit allowed for the purchaser (except distributors or resellers).

SPECIFIC REGIMES

- **Supplies of real property:**
 - **taxable amount will be reduced:**
 - i) by the value of the real property as of Dec 31, 2026 on sales made after this date; or
 - ii) by the purchase amount, for properties purchased after Jan 1st, 2027 from non-registered suppliers
 - Supplies of real property will be subject to a **reduced rate of 50%** of standard rate and rentals will be subject to a **30% of standard rate**
 - **Deduction of R\$100.000,00** on the taxable amount for new residential properties
 - **Supplies made by suppliers not subject to the regular regime are not taxable** (e.g. individuals making supplies of real property not in the course of commercial activities)

SPECIFIC REGIMES

- Supplies of **food and certain beverage made by bars and restaurants**: input tax credits allowed for suppliers but not allowed for purchasers. Reduced rate **(60% of the standard rate)**.
- Services related to **leisure and tourism activities**: Hotels, Amusement and theme parks and Travel and tourism agencies: input tax credits allowed for suppliers but not allowed for purchasers. Reduced rate **(60% of the standard rate)**.
- **Public passenger transportation services**:
 - **Intercity/interstate**: input tax credits allowed for suppliers but not allowed for purchasers. Reduced rate **(60% of the standard rate)**
 - **Regional air transportation**: reduced rate **(60% of the standard rate)**
- **Football Corporation**
- **Tax Free for foreign tourists**: IBS and CBS paid will be refunded



THANK YOU!