National Green Mobility and Innovation Program ("MOVER")

Provisional Measure No. 1,205/2023

OVERVIEW

DEMAREST

Measures provided for in the MOVER Program (MP 1.205/2023):

1. Mandatory requirements for the sale of new vehicles produced in Brazil and for the import of new vehicles
2. Specific taxation for sustainable vehicles
3. Incentives for research and development activities carried out by the mobility and logistics industries
4. Tax regime for auto parts not manufactured locally
5. National Fund for Industrial and Technological Development (“FNDIT”)

1.1 MANDATORY REQUIREMENTS FOR THE SALE AND IMPORT OF NEW VEHICLES

DEMAREST

MP 1,205 confers on the Executive Branch the power to establish mandatory requirements for the sale and import of new vehicles classified under codes 87.01 to 87.05 relating to:

- vehicle energy efficiency throughout the tank-to-wheel cycle, and carbon dioxide emissions (energy-environmental efficiency) throughout the well-to-wheel cycle;
- vehicle recyclability;
- integrated vehicle labeling; and
- structural performance and driver-assistance technologies.

As of 2027, in addition to the requirements mentioned above, the following requirements will be established:

- the product's carbon footprint throughout the cradle-to-grave cycle.

Proof of compliance with requirements: Compliance with the requirements must be proven to the Ministry of Development, Industry and Foreign Trade (“MDIC"), which will define the terms and deadlines for the submission of such proof of compliance.

Companies will be required to:

- Prove that they are authorized to:

  I. provide technical assistance services and organize a distribution network in Brazil;

  II. use the manufacturer's brands for imported vehicles, by providing a valid document in Brazil; and

- Submit to the MDIC by December 31, 2026:

  I. carbon inventory records of the plants of origin for vehicles sold in Brazil; and

  II. carbon footprint records for vehicles sold in Brazil, in accordance with the provisions of the regulation.

Fine: Selling or importing a vehicle without such proof of compliance will result in a **compensatory fine equivalent to 20%** of the sales revenue or the amount of the imported vehicles.

1.2 COMPENSATORY FINES PER VEHICLE

Failure to meet energy efficiency targets		
Subject	**Measurement**	**Compensatory fine**
Vehicle energy efficiency throughout the tank-to-wheel cycle	Up to and including the first hundredth greater than the energy consumption corresponding to the established energy efficiency target, expressed in megajoules per kilometer.	BRL 50.00
	From the first hundredth, exclusively, up to and including the second hundredth, greater than the energy consumption corresponding to the established energy efficiency target, expressed in megajoules per kilometer.	BRL 90.00
	From the second hundredth, exclusively, up to and including the third hundredth, greater than the energy consumption corresponding to the established energy efficiency target, expressed in megajoules per kilometer.	BRL 270.00
	From the third hundredth, exclusively, for every hundredth greater than the energy consumption corresponding to the established energy efficiency target, expressed in megajoules per kilometer.	BRL 360.00
Carbon dioxide emissions (energy-environmental efficiency) throughout the well-to-wheel cycle	Up to and including the first gram of carbon dioxide equivalent per kilometer higher than the established energy efficiency target..	BRL 70.00
	From the first gram of carbon dioxide equivalent per kilometer, exclusively, to the second gram of carbon dioxide equivalent per kilometer, including greater than the established energy efficiency target.	BRL 125.00
	From the second gram of carbon dioxide equivalent per kilometer, exclusively, to the third gram of carbon dioxide equivalent per kilometer, including greater than the established energy efficiency target.	BRL 375.00
	From the third gram of carbon dioxide equivalent per kilometer, exclusively, for each gram of carbon dioxide equivalent per kilometer greater than the established energy efficiency target.	BRL 500.00

Failure to meet the structural performance target associated with driver-assistance technologies	
Measurement	**Compensatory fine**
Up to and including five percent less than the established target.	BRL 50.00
From five percent, exclusively, to ten percent, including less than the established target.	BRL 90.00
From ten percent, exclusively, to fifteen percent, including less than the established target.	BRL 270.00
From fifteen percent, exclusively, to twenty percent, including less than the established target.	BRL 360.00
For percentages above twenty percent below the established target.	BRL 360.00 + an increase of this amount for every five percentage points

2. SPECIFIC TAXATION

MP 1,205 determines that the Executive Branch must assign different Tax on Industrialized Products ("IPI") rates to cars and light commercial vehicles that meet or do not meet the mandatory requirements mentioned above, subject to at least the following variations:

- **Two percentage points** regarding the energy efficiency requirement, using the tank-to-wheel cycle as a standard.
- **One percentage point** regarding the requirement for structural performance and driver-assistance technologies.
- **Two percentage points** regarding the recyclability requirement, as of January 01, 2025.
- The Executive Branch must also consider the following vehicle attributes when setting IPI rates:

I. energy source and propulsion technology;

II. vehicle power; and

III. the product's carbon footprint.

- By December 31, 2026, hybrid vehicles equipped with an engine that runs exclusively on ethanol, or an engine that runs alternatively or simultaneously on gasoline and ethanol (flexible fuel engine) will have a specific tax rate of up to three percentage points compared to conventional vehicles.
- Companies can request the MDIC for registration of sustainable versions of their vehicles, which must meet specific sustainability criteria and for which specific IPI rates can be set.

Progressive regime: Specific rates may be progressive over time.

Effectiveness: The MP's provisions relating to the IPI taxation system will be effective as of April 01, 2024.

3. INCENTIVES FOR R&D ACTIVITIES AND TECHNOLOGICAL PRODUCTION

COMPANIES CAN QUALIFY IF THEY:

- Produce, in Brazil, automotive products covered by the Economic Complementation Agreement ("ACE-14") signed between Brazil and Argentina; systems and strategic solutions for mobility and logistics (according to the definition to be determined by the MDIC); and their inputs, raw materials and components.
- Have an approved technological development and production project for the production, in Brazil, of new products or new models of automotive and related products, in accordance with the provisions set by the MDIC.
- Develop research, development, innovation or engineering services in Brazil for the automotive chain, with integration into global value chains.

The following projects can also qualify for incentives:

- Relocation of industrial units, production lines or production cells, in accordance with the procedures for importing used goods, for the production of automotive products, including equipment and apparatus for controlling the quality of the manufacturing process and for carrying out research and development.
- Installation of units for recycling or for circular economy in the automotive chain.

REQUIREMENTS

Companies must:

- be taxed under the taxable income regime;
- own a research and development cost center;
- be in good standing regarding federal taxes;
- be qualified by MDIC;
- obtain prior approval for investment and technological production projects; and
- comply with the physical-financial and production schedule contained in the technological development and production project.

The MDIC must establish the minimum expenditure on R&D in Brazil for companies to qualify for incentives.

3. INCENTIVES FOR R&D ACTIVITIES AND TECHNOLOGICAL PRODUCTION

Incentives:

- Financial credit corresponding to 50% of expenditure on R&D and technological production carried out in Brazil, limited to 5% of monthly revenue from the sale of goods and services, excluding taxes levied on sales.
- Companies qualified as producers will be entitled to additional credits that will raise this limit to 7%, 13% or 16% of monthly revenue, according to criteria to be established by the MDIC.
- Companies with projects aimed at new products or models that involve "advanced and sustainable propulsion technologies" or autonomous driving systems will also be entitled to a credit of 12.5% of investment in the production of vehicles and 25% of investment in the production of auto parts, systems and strategic solutions.
- Projects to relocate industrial plants, in accordance with the procedures for importing used goods, will benefit from an additional credit corresponding to Import Tax, Corporate Income Tax ("IRPJ") and Social Contribution on Net Income ("CSLL") on the profit obtained from exports.
- These credits will correspond to CSLL credits and can be offset by tax debts managed by the Brazilian Internal Revenue Service ("RFB") or reimbursed in cash after 48 months from the date of the request.

The incentive will not be applied to the following percentages of expenditure on research and development:

- for cars and light commercial vehicles - 0.6% of sales revenue
- for trucks and buses – 0.3% of sales revenue
- for auto parts and automotive systems – 0.3% of sales revenue

The credits established by MP 1,205 cannot be accumulated with the benefits of the Rota 2030 program and the Manaus Free Trade Zone. On the other hand, these credits can be accumulated with incentives provided for in the Informatics Law, the *Lei do Bem* ("Law of Good"), the Support Program for the Technological Development of the Semiconductor Industry ("PADIS") and with incentives for the North, Northeast and Midwest regions of Brazil.

Global Credit Limits:

2024	BRL 3,500,000,000.00
2025	BRL 3,800,000,000.00
2026	BRL 3,900,000,000.00
2027	BRL 4,000,000,000.00
2028	BRL 4,100,000,000.00

4. TAX REGIME FOR AUTO PARTS NOT MANUFACTURED LOCALLY

DEMAREST

Tax regime provided for in article 6 of the Agreement on the Common Automotive Policy between Argentina and Brazil (ACE No. 14, 38th Additional Protocol)

- Importing companies are authorized to join the regime on an optional basis.
- Importing companies that decide not to join the regime will be required to pay the regular import tax on the goods.
- The Chamber of Foreign Trade ("CAMEX") will approve the list of auto parts not produced in Mercosur.
- Qualification requires that the interested company invests **2% of the customs value of the imported parts** in research, development and innovation projects in priority programs to support industrial and technological development for the automotive sector and its chain in Brazil.
- The company must provide annual proof that it has made the investment mentioned above, as provided for in a regulation by the Executive Branch.

Sanctioning fine:

- A **sanctioning fine of 30%** is applied to the difference between the amount of the contribution corresponding to two percent of the customs amounts and the actual amount.
- The fine will not be applied in the event of spontaneous payment, as long as it is carried out by the second month following the underpayment and in a single installment. This amount will be subject to interest and a late payment fine.
- Once the administrative inspection process is initiated, the amount of the fine will be reduced by fifty percent if the beneficiary pays the notified amount due, including interest and late payment fines, by the twentieth day following the date of receipt of the notice of inspection initiation, a possibility that expires on the twenty-first day following receipt of the notice of inspection initiation.

5. NATIONAL FUND FOR INDUSTRIAL AND TECHNOLOGICAL DEVELOPMENT

PURPOSE

Raising funds from industrial policies to be used in financial support for priority industrial, scientific and technological development programs and projects.

FUNDS

- from investment regarding the tax regime for unproduced auto parts;
- from expenditure on research and technological development;
- from cancellation or the need for residual supplementation of expenditure on research and technological development;
- from other sources provided for in specific legislation.

MANAGEMENT AND DESTINATION

- The FNDIT will be a private entity and will be created, administered, managed and represented in and out of court by the BNDES;
- The management and allocation of FNDIT funds must comply with the provisions of the MDIC.

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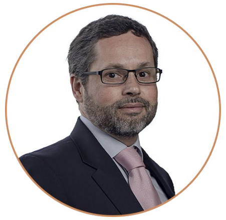

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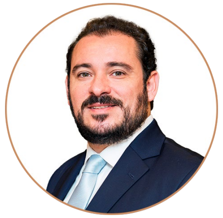

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