

A person in a white shirt is seated at a desk, holding a tablet. Another person's hand is visible, holding a pen and pointing at a financial chart on the desk. The chart includes a bar graph with blue and orange bars, a line graph with a red line, and a pie chart. A calculator and a pair of glasses are also on the desk. The scene is brightly lit, suggesting a sunny day.

DEMAREST

BRAZILIAN TAX REFORM

OPPORTUNITIES

WHAT IS THE TAX REFORM?

A reform of consumption taxation, with the replacement of taxes and based on the following principles:



simplicity



transparency



Tax justice



Balance and defense of the environment

PROCEDURE

**Brazilian
House of
Representatives**

**Federal
Senate**



Bill approved on
July 07, 2023, in
two rounds



Bill approved
on November
08, 2023, in two
rounds

**DECEMBER
20, 2023**



Constitutional
Amendment
No. 132/2023
enacted

**APRIL
25, 2024**



Supplementary
Bill to regulate
the IBS and CBS
- PLP 68/24 was
presented

**DECEMBER
20, 2024**



Supplementary Bill to
regulate administration
of IBS and CBS, as well as
the ITMCD of the Reform
- PLP 108/24 - presented

**CURRENT
STATUS**

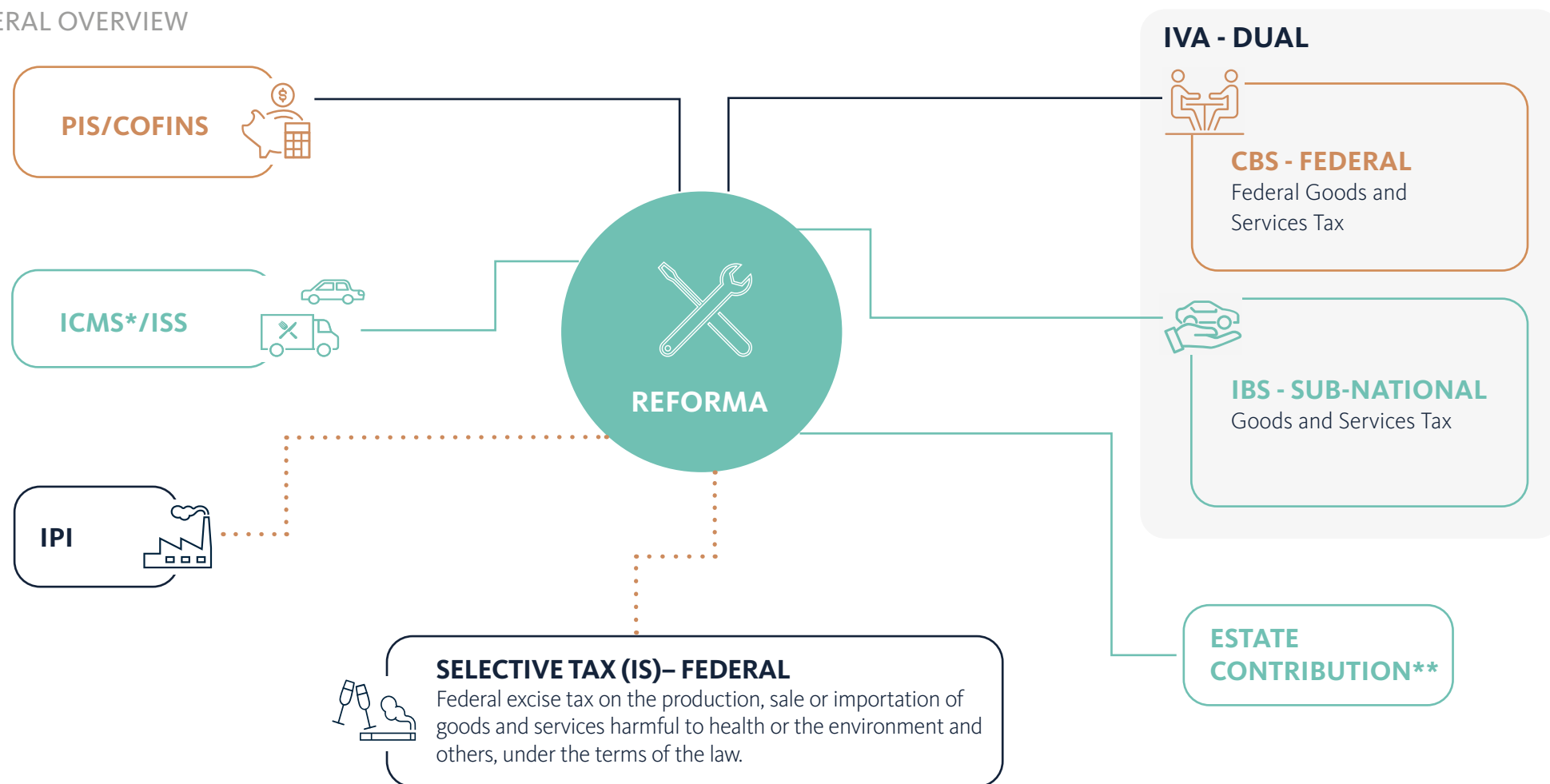


68/24 sanctioned by
the President of the
Republic, resulting in
Supplementary Law
No. 214/25.

PLP 108/24 is currently
to be voted.

MAIN AMENDMENTS

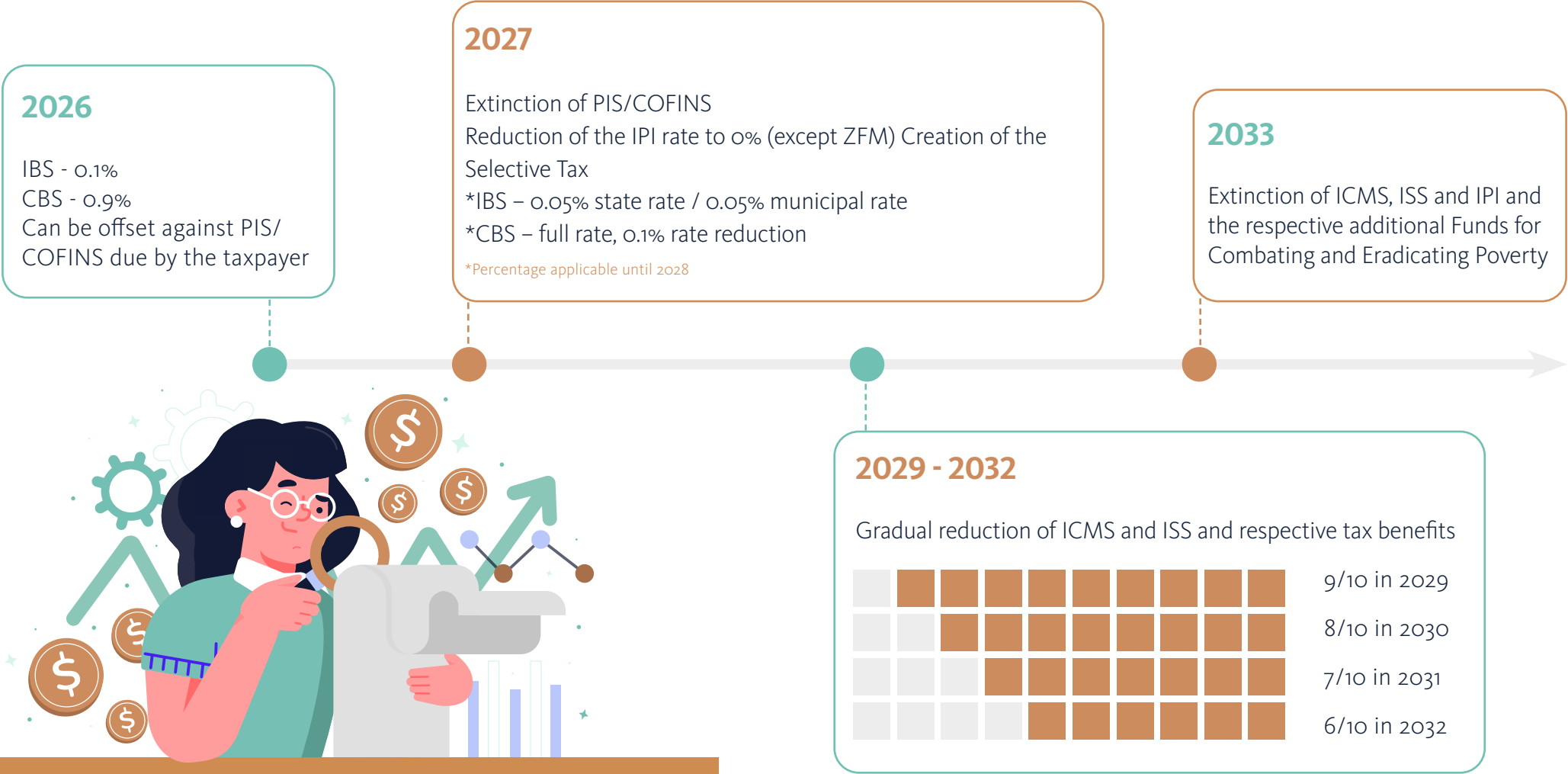
GENERAL OVERVIEW



* Extinction of additional ICMS allocated to State Funds for Combating Poverty.

** Levied on primary and semi-finished products.

TRANSITION REGIME



28% RATE ESTIMATE BY THE EXECUTIVE BRANCH

INSIGHTS



INSIGHTS



2025 is expected to be a landmark year for the Brazilian tax environment, bringing significant challenges regarding the implementation of the tax reform.

Therefore, taxpayers must be aware of the potential impacts that these changes could have on their operations and tax strategies.

The following are some of the points worth highlighting, focused on identifying risks and exploiting opportunities that may arise from the new guidelines.

Staying well-informed and prepared will be key to navigating this period of transformation.

TAX PLANNING REVIEW

Taxation is currently centralized at the point of origin and the tax war between states, marked by the widespread granting of tax benefits, encourages practices such as moving plants and distribution centers (DCs) between states, depending on the tax benefit offered in each location.

The tax reform will, therefore, profoundly change companies' logistics. By focusing taxation on the destination and extinction of **ICMS tax benefits** in 2033, the placement of plants and DCs motivated exclusively by these benefits will become meaningless.



FACTORY



DISTRIBUTION CENTERS



CLIENT



Following the **extinction of ICMS tax benefits and the migration to taxation at destination**, the new tax environment will require companies to review their logistics operations. This will create opportunities to optimize and increase efficiency in the supply chain by reviewing existing tax planning.

ACQUISITION COST AND PRICING



Currently, the cost of acquiring and pricing goods and services includes all taxes (ICMS/ISS/IPI + PIS and Cofins) in its final value, which may or may not give rise to a right to credit in a more restrictive non-cumulative scenario.



Under the tax reform, taxes will no longer be embedded in prices, i.e. calculated “from within”, making up the final price. Under the new system, taxes will be calculated “from the outside”. Therefore, goods will include



the actual price of the service or product



the amount of tax to be paid at the end. As a rule, these taxes must generate the right to credit in a less restrictive



In this context, suppliers and vendors will have to remove the taxes being extinguished (ICMS/ISS/IPI + PIS and Cofins) from the price they pay today and set new prices.

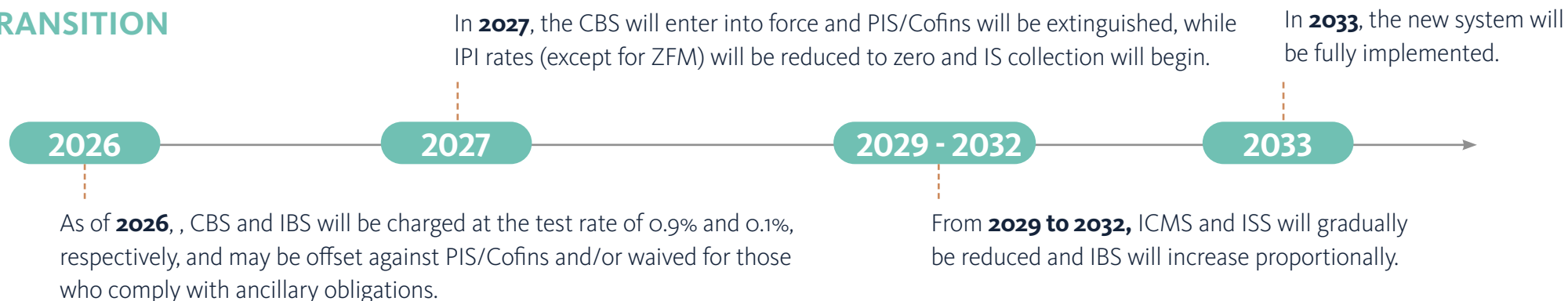


Reviewing the pricing of products and services and the contracts signed as a result of this new logic will be fundamental, as well as reviewing acquisition costs within the context of broad non-cumulative taxation with a new range of goods and services eligible for credit.



IMPACT MODELING AND CALCULATION REVIEW

TRANSITION



Thus, there are a number of variables to be discussed within the context of the tax reform on consumption and what its economic effects would be in terms of results and financial statements, compared to the current environment, as well as the impact on customers and suppliers, considering, among other aspects:



costs arising from the collection of IBS, CBS and IS compared to PIS/Cofins and ICMS/ISS, analyzing the main taxation settings for the productive sector;



differences depending on whether there is a reduction in the calculation basis and rate, exemptions, non-cumulativeness and presumed credit, and considering the situation of imports and local acquisition of goods and services, as well as the income and spread recognized as a result of its domestic and international operations;



possible impairment of book-entry credits recorded under the current tax system, depending on the tax regime, including the calculation of IRPJ/CSLL; and



an increase or decrease in the price of imported services from abroad.



Modeling and reviewing calculations, including those reflected in the financial statements, will be essential for taxpayers to anticipate impacts and necessary adjustments. DEMAREST's consumption tax team is equipped with specific tools to assist with this matter.

ACCRUED ICMS CREDITS

ICMS CREDIT BALANCES

As for existing ICMS* credit balances in 2032, whose use or reimbursement is permitted by law and has been approved by the respective federal entities:



they will be used during the remaining period regarding credits for incoming goods destined for permanent assets; and/or



the ICMS will be offset against the IBS in up to 240 installments, with monetary adjustment, as of 2033.



The form of compensation, transfer and reimbursement of ICMS credit balances is still pending approval by the Federal Senate, since the matter is addressed in Supplementary Bill No. 108/2024.



The **assessment of all ICMS credits by the deadline stipulated in the transition regime is mandatory for ratification purposes**, which indicates the need to review procedures and identify potential credit opportunities that have not been mapped.

ACCRUED PIS AND COFINS CREDITS

PIS and Cofins credits, including presumed credits, which have not been recorded or used by the date of their extinction (2027):



will remain valid and usable, and the period for using them will continue to run;



must be duly registered in the bookkeeping environment;



may be used to offset the CBS amount due; and



may be reimbursed in cash or offset against other federal taxes, provided they meet the requirements for use.



PIS/Cofins credits which, up to the date of their extinction, are recorded on the basis of depreciation, amortization or monthly value quota, must continue to be recorded as presumed CBS credits.

The **right to use** the credits will be extinguished after 5 years, counting from the last day of the calculation period in which the credit was recorded.



The **assessment of all PIS/Cofins credits until they are extinguished is mandatory**, which indicates the need to review procedures and identify potential credit opportunities that have not been mapped.

*From 2033, credit balances will be adjusted according to the IPCA-E inflation index or another index that replaces it.

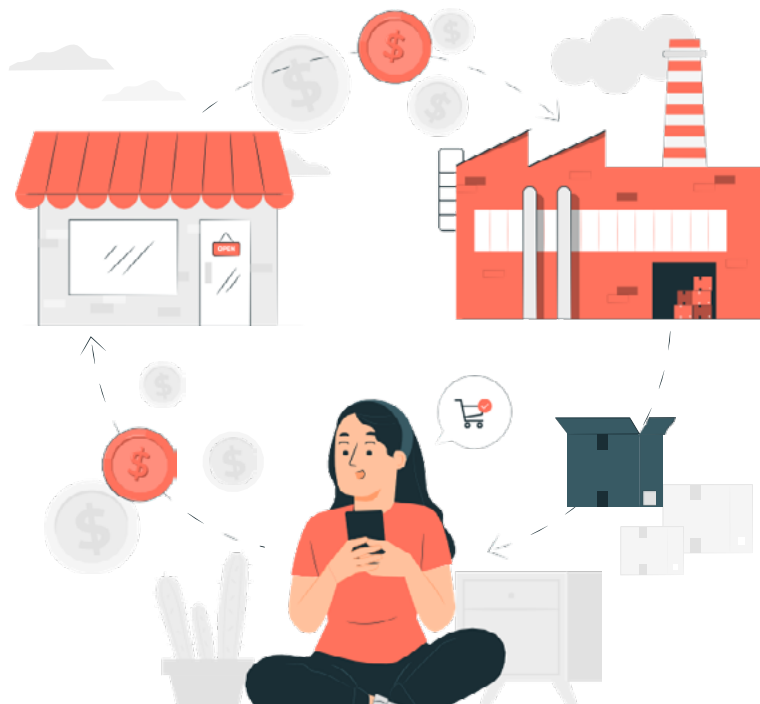
ECONOMIC REBALANCING IN LONG-TERM CONTRACTS



The changes brought about by the tax system reform will directly impact long-term contracts previously signed. As a result, there is an imminent risk of economic imbalance in existing agreements with suppliers, clients and partners.



The legal mechanisms established in the PLP/68 for the economic and financial rebalancing of administrative contracts do not apply to private contracts, which must follow specific rules for this type of legal relationship.



TAX PLANNING



Simulation of the new tax burden to measure financial impacts.



Adoption of strategies to offset increases or redistribute charges.

STRATEGIC SOLUTIONS



Identifying clauses sensitive to tax variations (price, cost pass-through, indexing).



Proposing renegotiations based on the impacts identified.



Agreeing temporary terms for the transition period.

BENEFITS



Mitigation of economic risks in commercial relations. Financial predictability during the transition.



Strengthening strategic partnerships and maintaining competitiveness.

TAX WAR AND TAX REFORM



The tax reform also poses important challenges, especially within the context of the tax war, for interstate operations and for imports and exports, with emphasis on instruments such as presumed credit and discounts.



During the transition period (estimated at up to 8 years), two tax systems will coexist, adding complexity for companies operating in multiple states.

CHALLENGES



States that currently grant tax benefits may resist the new model, creating a situation of legal uncertainty.



The implementation of the IBS could limit or hinder the use of presumed credits, especially those granted under special regimes.



There is a risk of conflicts in the calculation of credits for goods acquired before the reform and



Given that there will no longer be separate interstate rates - and lower than domestic rates - there will be an increase in the tax burden on these transactions.



TECHNOLOGY IN THE TAX SYSTEM



The tax reform will directly impact Enterprise Resource Planning (ERP) systems, requiring updates to ensure compliance with the new tax rules. Standardization should therefore take place as soon as possible to avoid surprises and ensure a smooth transition.



It is important to remember that the change will be gradual, meaning that the two tax systems will coexist from 2026 to 2033.

SOLUTIONS



Updating the ERP's tax and accounting modules, including unifying taxes and standardizing the new rates.



Integrating ERPs with government systems so that they can communicate efficiently and guarantee the correct and timely delivery of information.



Reviewing accounting and tax practices to ensure they comply with the new tax rules.



Investing in training to get teams ready to operate according to the new rules.



Hiring consultancy services to assist in adapting to the new rules.



INTERCOMPANY TRANSACTIONS



The new taxation system eliminates regimes such as single-phase taxation (PIS/Cofins) and tax substitution (ICMS-ST), and reduces the role of IPI, creating a unified model based on IBS and CBS. This transformation significantly impacts intercompany transactions, requiring special attention to transfer pricing and its impact on the gross margin.

CHALLENGES



The new tax model eliminates the predictability guaranteed by the single-phase and tax substitution regimes, altering the tax cost of intercompany transactions.



The lack of differentiated regimes could lead to inconsistencies in price calculations, increasing the risk of tax assessments in interstate transactions.



The tax burden could be redistributed along the production chain, requiring price adjustments to avoid reducing margins.



Companies with large intercompany operations will face the challenge of balancing the allocation of tax costs with maintaining competitiveness.



During the transition period between regimes, companies must manage different tax rules, increasing administrative complexity.



SOLUTIONS



Updating transfer pricing policies to reflect the absence of the single-phase and substitution tax regimes, ensuring alignment with the new tax guidelines.



Implementing pricing models based on adjusted net margins to incorporate the new taxes in a transparent manner.



Carrying out financial simulations to identify critical points of margin reduction and redefining prices to maintain profitability.



Reviewing intercompany contracts in the light of the reform, ensuring that tax flexibility clauses are included.

COMPETITION IN THE MANAUS FREE TRADE ZONE



The tax reform creates significant tax incentives for the Manaus Free Trade Zone, but imposes significant challenges for adapting and maintaining tax compliance, requiring careful tax planning by local companies.



As of January 01, 2027, IPI rates will be reduced to zero, except for products that are also produced in the Manaus Free Trade Zone ("ZFM").

CHALLENGES AND OBLIGATIONS



Specific controls monitor the entry of goods into the ZFM; non-compliance results in the collection of taxes previously reduced to zero.



If imported goods with suspended taxes are shipped outside the ZFM before exemption, they will be charged taxes with legal increases.



The presumed credit can be reversed if the goods do not enter the ZFM or are transferred outside the area.



The reduction in the collection of IBS and CBS due to the ZFM benefits will be considered when setting the reference rates.



For goods with no domestic equivalent produced in the ZFM, the presumed CBS credit will be calculated using a specific percentage.



IMPLICATIONS



ZFM companies must adapt to a complex tax system with varied rules on suspension, exemption, credits and reversals.



Strict controls and tax compliance are required to prove the entry of goods into the ZFM and avoid undue shipments.



The reduction in the collection of IBS and CBS may lead to adjustments in reference rates, which will impact the final cost of production and consumption.



Companies must adapt to the new rules for suspension, exemption, and presumed credits and maintain strict operations control to avoid paying additional taxes.

A photograph of a business meeting scene, overlaid with a semi-transparent blue filter. In the foreground, a person's hand in a dark suit jacket and checkered shirt cuff holds a black pen, pointing at a bar chart on a document. To the left, another person in a light blue shirt holds a white pen and a tablet. On the desk are a large black calculator, a pair of black-rimmed glasses, and several documents featuring various charts, including a pie chart and a line graph. A stack of books is visible in the background.

HOW WE CAN HELP

HOW WE CAN HELP

Our team of experts is fully prepared to provide support in the face of the various challenges posed by these changes and to clarify the impacts of the reform on businesses and companies in different sectors of the economy.

Our main areas of expertise include:



Extensive review of tax planning considering the transition and the new system.



Analysis of impacts on acquisition costs and pricing under the new taxation system.



Impact modeling, review of calculations and simulation of the new tax burden to measure financial impacts.



Assessment and mapping of credits.



Review of contractual impacts and identification of clauses sensitive to tax variations (price, passing on of costs, indexing).



Assistance in reviewing tax practices to ensure compliance with the new tax rules.



Team guidance and training.

DEMAREST's consumer tax partners are available to advise you during this period.



DOUGLAS MOTA

PARTNER

dmota@demarest.com.br | +55 11 3356 1888



FABIO FLORENTINO

PARTNER

fflorentino@demarest.com.br | +55 11 3356 1848



JERRY LEVERS DE ABREU

PARTNER

jabreu@demarest.com.br | +55 11 3356 2037



THIAGO AMARAL

PARTNER

tamaral@demarest.com.br | +55 11 3356 1571

TAX TEAM - OTHER PARTNERS



ANDRÉ NOVASKI
PARTNER
anovaski@demarest.com.br
+55 11 3356 2003



ANGELA CIGNACHI
PARTNER
acignachi@demarest.com.br
+55 61 3243 1161



CARLOS EDUARDO ORSOLON
PARTNER
ceorsolon@demarest.com.br
+55 11 3356 2186



CHRISTIANO CHAGAS
PARTNER
cchagas@demarest.com.br
+55 11 3356 2004



GISELE BOSSA
PARTNER
gbossa@demarest.com.br
+55 11 3356 1809



KATIA ZAMBRANO
PARTNER
kzambrano@demarest.com.br
55 11 3356 1545



MARCELLO PEDROSO
PARTNER
mppedroso@demarest.com.br
+55 11 3356 1818



MARCELO ANNUNZIATA
PARTNER
mannunziata@demarest.com.br
+55 11 3356 2187



PRISCILA FARICELLI
PARTNER
pfaricelli@demarest.com.br
+55 11 3356 1716



ROBERTO CASARINI
PARTNER
rcasarini@demarest.com.br
+55 11 3356 2002



VICTOR LOPES
PARTNER
vlopes@demarest.com.br
+55 11 3356 1692

DEMAREST

A hand holding a gold pen points at a calculator. A line graph with orange dots is overlaid on the calculator. The background is a warm, orange-toned image of a desk with a calculator, a pen, and a notebook. A bar chart is visible in the bottom right corner.

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