

House of Representatives approves bill proposing changes to income tax: exemptions, minimum tax, and dividend taxation

OVERVIEW

On October 1, 2025, the Brazilian House of Representatives – one of the two houses of the Brazilian Congress – unanimously passed the report of Bill No. 1,087/2025.

With few changes from the original text submitted by the Federal Government, the Bill primarily aims to raise the exemption bracket for Individual Income Tax (IRPF) to BRL 5,000. To compensate for the anticipated loss of revenue, the bill introduces a “minimum high-income tax”, which establishes a minimum IRPF rate on annual income exceeding BRL 600,000, in addition to withholding tax on dividend payments.

The bill must be approved by the Federal Senate and sanctioned by the Brazilian President. The new rules will enter into force in 2026 if approved in 2025.

Demarest’s Tax team has summarized the key points under discussion.

KEY WORDING UPDATES

The version approved by the Brazilian House of Representatives largely retained the original wording proposed by the Federal Government, with most of the amendments rejected in representative Arthur Lira’s report. Key adjustments include:

- **Increase in the deduction range:** The IRPF deduction limit will increase from BRL 7,000 to BRL 7,350. No changes apply to earnings above this threshold.
- **Bracket updates:** The Executive Branch must submit, within one year, a bill establishing a national policy for updating IRPF progressive rates.
- **Dividends:** Dividends declared by December 31, 2025, based on profits accrued until 2025 and paid by 2028, will remain exempt.
- **ProUni:** Scholarships granted by educational institutions will be considered as tax paid in calculating the effective corporate income tax (IRPJ/CSLL) rate, reducing the impact of additional taxation on profit.
- **Revenue loss:** The revenue losses for states and municipalities due to the increased IRPF exemption must be compensated by the Federal Government through the new taxation.

CURRENT SCENARIO

Currently, the IRPF levied on income earned by individuals is calculated according to the following monthly progressive table:

Calculation Base	IRPF rate	Deduction
Up to BRL 2,428.80	-	-
BRL 2,428.81 - BRL 2,826.65	7.5%	BRL 182.16
BRL 2,826.66 - BRL 3,751.05	15.0%	BRL 394.16
BRL 3,751.06 - BRL 4,664.68	22.5%	BRL 675.49
Above 4,664.68	27.5%	BRL 908.73

PROPOSED AMENDMENT

Bill No. 1,087/2025 proposes to increase the IRPF monthly income exemption bracket to BRL 5,000 (BRL 60,000/year) starting in 2026.

Additionally, a partial reduction in the IRPF will be granted to individuals with taxable monthly income between BRL 5,000.01 and BRL 7,350.00.

Taxable income (monthly assessment)	Deduction of income tax
Up to BRL 5,000	Up to BRL 312.89 (so that the IRPF due is zero)
BRL 5,000.01 - BRL 7,350.00	BRL 978.62 – (0.133145 x taxable monthly income)
Taxable income (annual assessment)	Deduction of income tax
Up to BRL 60,000	Up to BRL 2.694,15 (so that the IRPF due is zero)
BRL 60,000.01 - BRL 88,200.00	BRL 8,429.73 – (0.095575 x taxable annual income)

Taxpayers whose monthly taxable income exceeds BRL 7,350.00 and annual taxable income exceeds BRL 88,200.00 will not receive any reduction and will remain subject to the regular progressive table.



MINIMUM INDIVIDUAL HIGH-INCOME TAX (IRPFM)

Starting January 2026:

- Individuals whose total annual income exceeds BRL 600,000 will be subject to the IRPFM.
- Payments, credits, or distributions of profits and dividends by the same legal entity to the same individual resident in Brazil exceeding BRL 50,000 per month will be subject to 10% withholding IRPFM.

Only distributions approved by December 31, 2025, based on profits accrued up to 2025 and paid or used by 2028, will be exempt from IRPFM.

HOW TO CALCULATE IRPFM?

For individuals, the IRPFM is levied at progressive rates, applicable only to annual income exceeding BRL 600,000. First, the total income earned throughout the year is calculated, including wages, rental income, dividends, and other earnings.

If the total amount is below BRL 600,000, no additional tax will be due. If it exceeds the threshold, a progressively increasing rate will be applied, reaching up to 10% for individuals earning BRL 1.2 million or more annually.

When calculating the tax due, certain types of income are excluded, such as: savings income, exempt securities, inheritance, retirement benefits, pensions due to serious illness, sale of assets, other exempt financial income, and indemnities.

Annual Income	Calculation of the minimum rate	Final rate	Minimum tax payable
BRL 600,000	$(600,000 / 60,000) - 10$	0%	BRL 0.00
BRL 750,000	$(750,000 / 60,000) - 10$	2.5%	BRL 18,750.00
BRL 900,000	$(900,000 / 60,000) - 10$	5%	BRL 45,000.00
BRL1,050,000	$(1,050,000 / 60,000) - 10$	7.5%	BRL 78,750.00
BRL 1,200,000	$(1,200,000 / 60,000) - 10$	10%	BRL 120,000.00



A 10% tax will also be levied on dividends distributed to individuals and non-resident taxpayers.

ATTENTION POINTS

- **IRPFM REDUCTION** - If the combined effective corporate income tax rate of the Brazilian entity paying the dividends and the effective IRPFM rate applicable to the individual beneficiary exceeds the nominal rates of the two corporate income taxes (IRPJ/CSLL) (45% for financial institutions, 40% for insurers, and 34% for other legal entities), a reduction mechanism will be granted. This reduction will be calculated on the profits and dividends paid by each legal entity to the individual subject to IRPFM.
- **CREDIT FOR NON-RESIDENTS** - If the combined effective corporate income tax rate of the Brazilian legal entity paying the dividends and the 10% withholding tax (IRRF) on the remittance exceeds the nominal rate of the two corporate income taxes (IRPJ/CSLL), the federal government will grant the non-resident beneficiary. The credit is calculated based on the amount of taxed profits and dividends. Non-resident beneficiaries must claim this credit within 365 days from the end of each fiscal year.

INCOME TAX REFORM

Bill No. 1,087/2025 aligns with other changes already implemented for individuals under the broader Income Tax Reform, such as the taxation of investments in closed-end funds and offshore income (Law No. 14,754/23).

CONTACT

Demarest's Tax team is monitoring the matter and remains available to provide further clarification.



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