

SUPPLEMENTARY LAW NO. 224/2025

REDUCTION OF TAX BENEFITS AND TAXATION OF INTEREST ON EQUITY, FINTECHS, AND BETTING OPERATORS**OVERVIEW**

On December 26, 2025, Brazil's Federal Government published **Supplementary Law ("LC") No. 224**, which established a linear 10% reduction in tax benefits, in addition to increasing the taxation applicable to financial technology companies (fintechs), interest on equity ("IOE"), and fixed-odds betting.

The amendments came into force on January 01, 2026, except for measures regulating the reduction of benefits and the increase in taxes subject to the 90-day entry into force period (that is, 90 days from the publication of the law).

KEY CHANGES**Tax benefits**

- **Reduction of benefits:** A uniform 10% cut in federal tax benefits (with exceptions provided in the law) and the establishment of a 2% cap on the Gross Domestic Product (GDP) for the granting/extension of incentives unless the expense is fully offset by the Government through other measures.
- The benefits must now observe new rules of governance, including a fixed term (typically, five years) and transparency measures. The law has also authorized the publication of the names of the beneficiaries and the corresponding tax savings.

Increased taxation

- **IOE:** Withholding Income Tax ("WHT") increased from 15% to 17.5% (regular jurisdictions) on IOE distributed by Brazilian companies to their shareholders.
- **Fintechs:** Gradual increase of the tax rate of one of the two corporate income taxes (CSLL) on specific financial institutions until 2028.
- **Betting operators:** Increased taxation of the Gross Gaming Revenue from 12% to 13% in 2026, 14% in 2027, and 15% in 2028.
 - **Joint and several liability:** (i) financial and payment institutions that continue to operate with unauthorized legal entities in the fixed-odds betting market; and (ii) individuals or legal entities advertising bets of unauthorized operators.

REDUCED TAX BENEFITS

TAX BENEFITS SUBJECT TO THE REDUCTION

The reduction covers incentives related to the following taxes: the two contributions levied on gross revenue (“PIS/COFINS”) – including on imports (“PIS/COFINS-Import”) –, the two corporate income taxes (“IRPJ/CSLL”), the Excise Tax on Industrialized Products (“IPI”), the Import Tax (“II”), and social security contributions. IRRF (withholding income tax) and IOF (Tax on Financial Transactions) are not within the scope of the reduction.

The benefits affected by the reduction are listed in Supplementary Law No. 224/2025 and in the Tax Expenditure Statement of the 2026 Annual Budget Law.

In practice, the tax burden increases, in certain cases with **a prohibition on claiming credits** generated by the new levy, which results in a real increase in operating costs. It is therefore advisable to review the tax planning of sectors that had benefited from these incentives.

TAX BENEFITS EXCLUDED FROM THE REDUCTION

The reduction **will not** affect:

- Constitutional non-taxable events and taxpayers (immunities)
- Benefits granted to companies in the Manaus Free Trade Zone and in Free Trade Areas;
- Products of the national basic food basket, in compliance with the guidelines of the Tax Reform
- Time-limited incentives granted until 31.12.25 subject to specific conditions, if the taxpayer has already complied with the applicable requirements
- Benefits granted to specific non-profit organizations
- Simples Nacional (that is, Brazil’s simplified tax regime for micro and small businesses)
- Benefits with a capped value of concession, subject to prior qualification for enjoying said benefit
- Benefits granted in Minha Casa, Minha Vida and Universidade para Todos (“PROUNI”) programs
- Incentives linked to charging rates expressed in reais per unit of measurement
- Tax compensation for the transfer of free electoral advertising time
- Payroll tax relief (Social Security Contribution on Gross Revenue – “CPRB”)
- Industrial policy benefits for the IT and communications sectors, including the semiconductor industry
- Tax regimes and frameworks whose rules do not characterize tax expenditures. In this case, they are not included in the annex to the Statement of Tax Expenditures in the 2026 Annual Budget Law (“LOA”).

PRESUMED PROFIT

Supplementary Law No. 224/2025 also increased by 10% the presumed profit coefficients used to calculate the IRPJ/CSLL tax base on the portion of annual gross revenue that exceeds BRL 5 million in the calendar year, with **proportional quarterly testing at BRL 1.25 million**, while preserving segregation by activity.

ASSUMPTIONS FOR THE ILLUSTRATIVE EXAMPLE

Taxable income: BRL 5 million

Taxable period: 2027 - 1st Quarter

Same rates: IRPJ 15% + a 10% surcharge on the annual excess over BRL 240,000 + CSLL 9%

BEFORE SUPPLEMENTARY LAW NO. 224/2025

Presumed profit percentage (services, rental income, and assignment/licensing of rights): **32%**

Presumed profit base: BRL 5,000,000.00 x 32% = **BRL 1,600,000.00**

IRPJ (15%)	IRPJ surcharge
BRL 1,600,000 x 15% = BRL 240,000.00	Surplus: BRL 1,600,000.00 - BRL 60,000.00 = BRL 1,540,000.00
	Surcharge: BRL 1,540,000 x 10% = BRL 154,000.00
Total IRPJ: BRL 394,000.00	
CSLL (9%): BRL 144,000.00	
Total (IRPJ + CSLL): BRL 538,000.00	

AFTER SUPPLEMENTARY LAW NO. 224/2025

Presumed profit percentage for quarterly revenue above BRL 1.25 million (services, rental income and assignments of rights): **35.2%**

Tax base:

Up to BRL 1.250.000,00	Surplus:
BRL 1,250,000.00 x 32% = BRL 400,000.00	BRL 3,750,000.00 x 35.2% = BRL 1,320,000.00
TOTAL BASE: BRL 1,720,000.00	
IRPJ (15%)	IRPJ surcharge
BRL 1,720,000.00 x 15% = BRL 258,000.00	Surplus: BRL 1,720,000.00 - BRL 60,000.00 = BRL 1,660,000.00
	Surcharge: BRL 1,660,000.00 x 10% = BRL 166,000.00
Total IRPJ: BRL 424,000.00	
CSLL (9%): BRL 154,800.00	
Total (IRPJ + CSLL): BRL 578,800.00	

The 10% surcharge applies from Q1 2026 for IRPJ and only from Q2 2026 for CSLL due to the anteriority rule. Consequently, the annual cap applicable to CSLL in 2026 would be BRL 3.75 million.

IOE, FINTECHS, AND BETTING OPERATORS

INTEREST ON EQUITY (IOE)

Increase in the WHT rate to 17,5%.

FINTECHS

Gradual increase in the CSLL rate, as follows:

- i. Payment institutions; organized over-the-counter market administrators; stock, commodities, and futures exchanges; settlement and clearing entities: **12% by the end of 2027, and 15% as of 2028.**
- ii. Credit, financing, and investment companies: **17.5% by the end of 2027, and 20% as of 2028.**
- iii. Securities distributors (foreign exchange and securities brokers, real estate credit companies, credit card administrators, leasing companies, credit cooperatives, and savings and loan associations): **15% as of 2026.**
- iv. Banks: **20% as of 2026.**

BETTING OPERATORS

- The GGR taxation will rise from **12% to 13% in 2026, 14% as of 2027, and 15% as of 2028.** Half of the amount collected is expected to be allocated to social security, and the other half to health-related initiatives.
- The following institutions will be jointly and severally liable for paying such taxes:
 - i. Financial and payment institutions that, after formal notification by the competent authority, do not apply restrictive measures and allow transactions intended for fixed-odds betting with unauthorized operators;
 - ii. Individuals and legal entities that advertise or disclose commercial propaganda of unauthorized fixed-odds betting operators.

NORMATIVE INSTRUCTION NO. 2,305/2025**EFFECTIVENESS:**

- The reduction in tax incentives and benefits will be implemented as of:
 - i. January 01, 2026, for IRPJ and II benefits; and
 - ii. April 01, 2026, for all other taxes.

PRESUMED PROFIT

- Normative Instruction RFB No. 2,306/26 amended Normative Instruction RFB No. 2,305/25 to **clarify how to calculate** the 10% increase in the presumed profit percentages used to determine the IRPJ and CSLL tax bases.
- It reiterates that the increase applies only to the portion of gross revenue that exceeds **BRL 5 million** in the calendar year, and specifies that **this annual threshold must be allocated proportionally across the quarters (BRL 1.25 million per period)**, based on the revenue of the respective quarter, with adjustments allowed in subsequent quarters.
- In the quarter in which revenue **exceeds** the proportional limit, the **10% increase applies only to the excess portion**. If the revenue is **below** the limit, **the unused difference may be carried forward to expand** the limit for subsequent quarters of the same calendar year.
- In **the last quarter**, the legal entity must verify the annual limit based on accumulated gross revenue. **If the cumulative amount is below BRL 5 million, the taxpayer may deduct, from the tax due in the 4th quarter, any overpaid amount during the year**. If there is still credit remaining, the surplus may be subject to **refund or compensation**, adjusted by the SELIC rate.
- For companies with **diversified activities**, the proportional quarterly limit must be **allocated** according to each activity's share of revenue in the period. The increase will then apply only to the excess portion for each activity.

ANNEX TO NORMATIVE INSTRUCTION NO. 2.305/2025

- Details the tax expenditures that are not subject to the reduction, even though included in the Tax Expenditure Statement attached to the Annual Budget Law for 2026.
- Among other benefits, the Annex to Normative Instruction No. 2,305/2025 highlights the following situations, which had not been addressed previously in the law:
 - i. Qualified legal entities manufacturing goods of the IT and communications sectors that invest in R&D and innovation activities;
 - ii. Exports from the rural sector;
 - iii. Imports of machinery, equipment, devices, and instruments, as well as their parts and spare parts, intended for scientific and technological research; and
 - iv. Legal entities located in the Manaus Free Trade Zone and in Free Trade Areas.

OTHER SIGNIFICANT CHANGES



Fiscal governance and transparency: The new law amends the Tax Responsibility Law (LC No. 101/2000) to require, in the budgeting process, a global estimate of incentives and benefits. As for proposals involving the waiver of revenue, the effective term (typically up to 5 years), as well as the purpose and measurable performance targets, must be addressed. Monitoring/evaluation mechanisms and prohibitions on term extensions are also required if targets are not evaluated or achieved. In addition, the law requires disclosure of beneficiaries and amounts received, reinforcing the advertising and social control of these policies.

NEXT STEPS

DECREE NO. 12,808/2025

Decree No. 12,808/2025 reproduced the provisions of LC No. 224/25, without specifying which benefits will be reduced or how. It further delegated this task to the Ministry of Finance.

- However, the Decree ensured that the reduction in tax benefits does not affect tax suspension regimes in which there is only a temporary deferral in the payment of the tax (Art. 13). The decree also ensured that the reduction in tax benefits does not affect credits already recorded or whose right to recording has been acquired by December 31, 2025.

Presidential veto

Brazil's President vetoed the provision establishing that any legislative proposal granting, extending, or postponing tax benefits must meet the requirements of a prior estimate of the beneficiaries, performance targets, and reduction of inequalities. The National Congress will further analyze the veto.

CONTACT

[Demarest's Tax](#) team is monitoring this topic and is available to provide any further clarification that may be necessary.