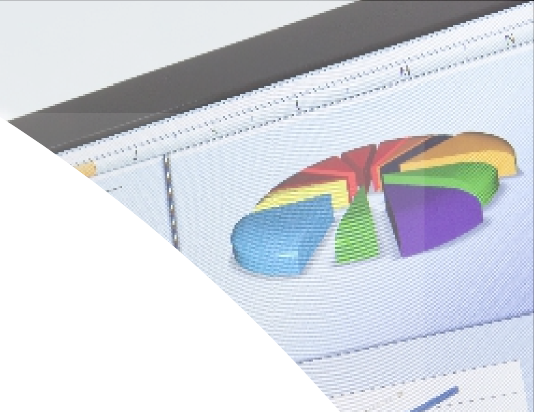

## How companies profits are taxed in Brazil?

Corporate Profits in Brazil are subject to the payment of Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL). There are three ways to calculate the tax base: real profit, presumed profit and arbitrated profit.

Companies with earned income superior to R$ 78,000,000.00 (approx. US$ 22,300,000) in the previous year and financial institutions, factoring and securitization, regardless the amount of income earned, should use the real profit. In real profit, the tax base is based on the profit on corporate accounting that is adjusted accordingly to tax legislation. The tax loss can be carried forward up to a limit of 30% of the taxable income.

If the company is not obliged to use the real profit, it can adopt the income taxation based on estimated profit, a simplified method of taxation. The taxpayer that chose to adopt the estimated profit is not obliged to present the corporate accounting for tax purposes. The tax base in the presumed profit consist in applying a fixed percentage over the company earnings. The fixed percentage varies according to the activities carried out by the taxpayer, from 8% for commercial and industrial operations and up to 32% in the case of services. The arbitrated profit systematic is applied only in exceptional cases where, for example, a company that adopts real profit, but does not have accounting to present to the tax administration (for example: in the case of fire, or lost of books and tax documents), or refuses to present it.

Finally, to calculate the tax, the rates are 15%, plus 10% if the income exceeds R$ 20,000.00 (approx. US$ 5,700) per month, for the IRPJ. The CSLL is 9% (20% for financial institutions).

## How are profits distributed in Brazil or remitted abroad taxed?

Dividends and profits distributed to investors in Brazil, even when remitted abroad, are exempt from Income Tax.

## How are the transfer pricing rules in Brazil?

The Brazilians transfer pricing rules applies to companies domiciled in Brazil that: a) engage in transactions with related persons domiciled abroad, b) carry out transactions with any individual or company resident or domiciled in a low tax jurisdiction; c) carry out transactions with any individual or company beneficiary of a privileged tax regime.

The Brazilian transfer pricing rules differs from the OECD rules in some aspects: (i) the adoption of fixed margins provided for by law, and (ii) the possibility of choosing the best method by the company, except in commodities transactions, in which it is mandatory to use the commodity public price.

# FOREIGN INVESTMENT

The methods adopted in Brazil and its equivalent to the OECD methods:

| | Brazilian Method | Profit Margin | Equivalent OECD Method |
|---|---|---|---|
| Import | PIC – Compared Independent Prices | N/A | CUP – Comparable Uncontrolled Price method |
| | PRL – Resale Prices minus Margin | 40% (farmachemicals, tobacco, optical, photographic and cinematographic instruments, dental, medical and hospital equipments, oil) | RPM – Resale Price method |
| | | 30% (chemicals, glass, cellulose, paper, metallurgy) | |
| | | 20% (other sectors) | |
| | CPL – Production Cost plus Margin | 20% | CP – Cost Plus method |
| | PCI – Price under Quotation in Imports (Commodities) | N/A | CUP – Comparable Uncontrolled Price method |
| Export | PVEx – Export Sale Prices | N/A | CUP – Comparable Uncontrolled Price method |
| | PVA – Wholesale Price at Destiny, minus Margin | 15% | RPM – Resale Price method |
| | PVV – Retailer Price at Destiny, minus Margin | 30% | |
| | CAP – Acquisition or Production Cost plus Taxes and Margin | 15% | CP – Cost Plus method |
| | PECEX – Price Under Quotation in Exports | N/A | CUP – Comparable Uncontrolled Price method |

**How are capital gains earned by non-residents taxed?**

Capital gains earned by non-residents are subject to the income tax withheld at source at the rate of:
I) 15% applied to the capital gains up to R$ 5,000,000 (approx. US$ 1,400,000);
II) 17.5% applied to the portion of capital gains that exceeds R$ 5,000,000 (approx. US$ 1,400,000) and does not exceed R$ 10,000,000 (approx. US$ 2,800,000);
III) 20% applied to the portion of the gains that exceeds R$ 10,000,000 (approx. US$ 2,800,000) and does not exceed R$ 30,000,000 (approx. US$ 8,500,000); and
IV) 22.5% applied to the portion of the gains that exceed R$ 30,000,000 (approx. US$ 8,500,000).
If the beneficiary is resident or domiciled in low tax jurisdiction the rate will be 25% applied to the total capital gains.

**Does Brazil have bilateral treaties to avoid double taxation?**

Brazil has 33 bilateral treaties to avoid double taxation and prevent tax evasion with the following countries: South Africa, Argentina; Austria; Belgium; Canada; Chile; China; South Korea; Denmark; Ecuador; Slovakia; Spain; Philippines; Finland; France; Hungary; India; Israel; Italy; Japan; Luxembourg; Mexico; Norway; Netherlands; Peru; Portugal; Czech Republic; Sweden; Trinidad and Tobago; Turkey; Ukraine, Venezuela, and Russia.

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**For further information, please check the Federal Revenue of Brazil's website at: www.rfb.gov.br**