

# Consumption Tax Reform in Brazil

**Bernard Appy**

**Sixth Meeting of the OECD Global Forum on VAT**

**Paris - January 2026**

# INTRODUCTION

Brazil has a **very complex indirect taxes system**

Five taxes in a Federation with three levels:

- States: non-cumulative tax on sale of goods and some services (ICMS)
- Municipalities: cumulative tax on services (ISS)
- Federal government:
  - ❑ Two taxes on turnover and other revenues (PIS/Cofins – cumulative and non-cumulative)
  - ❑ Non-cumulative tax on industrial products (IPI)

**TODAY**

ICMS

ISS

PIS

Cofins

IPI

# OVERVIEW | CURRENT TAX SYSTEM

Problems of the current tax system:

- **Fragmented** tax base
- Partial taxation **on the origin**
- Flawed **non-cumulative** system
- **Complex** legislation

Consequences:

- High cost of tax compliance and high level of **litigation**
- Increase in investment cost and **loss of competitiveness**
- **Inefficient** allocation of resources
- **Conflicts** between states, municipalities and the federal government
  - Strong “fiscal war”

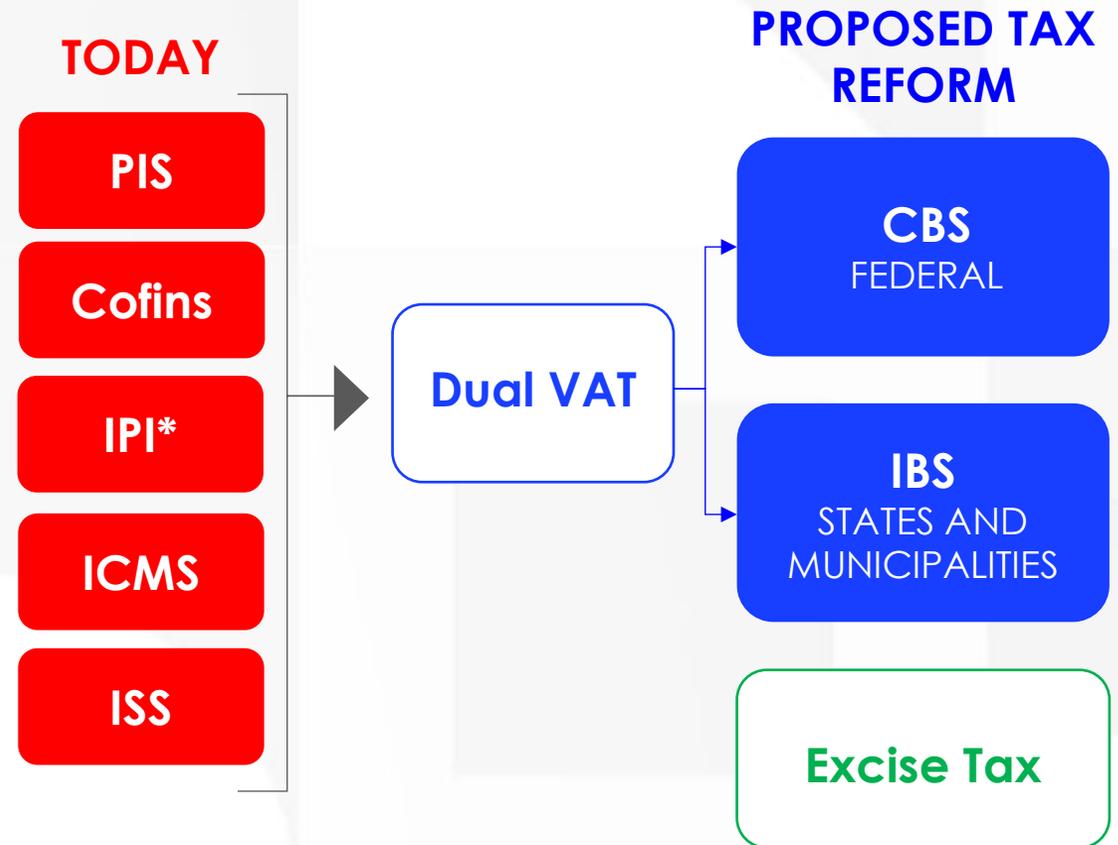
# PROPOSED TAX REFORM

The **current five taxes** will be replaced by a **Dual VAT** and an **Excise Tax**:

- Federal Contribution on Good and Services (CBS)
- States and Municipalities Tax on Goods and Services (IBS)

The **Dual VAT** (IBS and CBS) will have:

- The same legislation;
- A broad tax base;
- Full taxation at the destination;
- Full input tax credits (almost...)



\* IPI will only be maintained for products manufactured at Zona Franca de Manaus

# MAIN FEATURES OF THE NEW SYSTEM

- **System based on an advanced electronic invoicing system**
  - Transaction-by-transaction control
- **Input tax credit linked to settlement (previous payment)**
- **Means of settlement:**
  - Use of input tax credits
  - Remittance by the supplier (on a monthly basis)
  - Split payment
  - Payment by the purchaser (optional)
- **Centralized collection of IBS through a Steering Committee**
- **Tax rates**
  - Reference (default) rates set by the Senate: maintain the tax burden
  - Autonomy of the federal government, states and municipalities in setting their own standard rates

# TRANSITION

## Transition for society

- **2027: transition for the federal taxes:** full collection of CBS and Excise Tax
  - IBS charged with a 0,1% tax rate
- **2029-2033: progressive transition for states and municipal taxes**

## Transition in the distribution of revenue to the states and municipalities

- **50-year transition**
  - Decreasing portion distributed according to the current share in the revenue
  - Increasing portion distributed according to the new system
  - Additional 20-year period for major losers

**Creation of a Regional Development Fund as an alternative to “fiscal war”**

# SPLIT PAYMENT

## Split payment

- **Only the unsettled portion of the operation is collected**
- **Basic regime (mainly for B2B transactions)**
  - Real time (payments initiated by the receiver - when possible)
    - Information transmitted to the payment institution before the settlement
  - Batch (refund in up to three days)
- **Optional regime (mainly for B2C transactions)**
  - Collection of a smaller percentage of the supply's value
  - Settlement of the operations for the reporting period

# STEERING COMMITTEE

## Steering Committee: main functions

- **Collection of IBS, tax refund and distribution of revenues**
  - IBS collected on B2B transactions will not be distributed
  - Distribution of IBS collected on B2C transactions to states and municipalities
    - Identification of the destination in the electronic invoice
- **Interpretation of the legislation harmonization**
- **Coordination of subnational tax administration responsibilities**
  - Tax audits: autonomy with coordination

**Main governance body: 27 state representatives and 27 municipal representatives**

# CASHBACK FOR LOW-INCOME FAMILIES

## Personalized VAT (cashback)

- Direct benefit for families with a monthly **income of up to half a minimum wage per capita**, integrated into the Unified Registry
- Refund of:
  - **100% of CBS and 20% of IBS** for the purchase of gas cylinders (13 kg) and for electricity, water and sewage and piped gas bills
  - **20% of CBS and IBS** on other products\*
- Determination of **refund limits** to ensure compatibility between the amounts refunded and the family's income
- **Federative autonomy preserved**: subnational entities may, by specific law, set higher percentages (up to 100%)

\* Except for products subject to the Excise Tax



# **SPECIFIC AND BENEFICIAL REGIMES**

# FINANCIAL SERVICES

## Specific regime for financial services

- **Taxation of most financial services**
  - Full input tax credit allowed for suppliers (financial institutions)
  - Reduced (nationally uniform) tax rate
- **Financial intermediation**
  - IBS/CBS charged on the whole margin in the financial institution
  - Presumed input tax credit for the clients, subject to certain criteria
- **Other financial services taxed in a non-cumulative way**
  - Ex: insurance
- **Some financial services taxed in a cumulative way**

**Similar system for other supplies taxed on the margin (ex: health care plans)**

# SUPPLIES OF REAL PROPERTY

## Specific regime for the supply of real property

- **Sale of real property: taxation of the value added**
  - Taxable amount reduced by the cost of acquisition of the real property from non-registered suppliers (mainly individuals)
  - Presumed cost of acquisition in the entry of the new system (Dec. 31, 2026)
  - Reduced tax rate (50% of standard rate)
  - National registry of the market value of real property
- **Rentals are subject to a reduced rate** (30% of standard rate)
- **Fixed (social) reduction of the tax base** (both sale and rentals)
- **Exemption for supplies made by not registered suppliers** (individuals making supplies up to a limit)

# OTHER SPECIFIC AND BENEFICIAL REGIMES

## Other specific regimes

- **Fuels:** single-phase regime with nationally uniform *ad rem* tax rates
- **Restaurants and hotels:** reduced rate with no input tax credit for the purchaser

## Beneficial regimes

- **Reduced rates**
  - 30%, 60% or 100% reduction of the standard rate
- **Constitutional immunities**
- **Pre-existing beneficial regimes:** SIMPLES and Manaus Free Trade Zone (ZFM)
- **Exemption with presumed input tax credit for the purchaser** (mainly small rural producers and self-employed transporters of cargo)
- **Some deferral regimes**

THANK YOU!