

The **BRAZIL-CANADA CHAMBER OF COMMERCE** and **FCR LAW**
welcome you to the

BRAZIL

POST-ELECTION

An overview of the new administration

ORGANIZED BY

FCR Law / Fleury, Coimbra
& Rhomberg Advogados



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AGENDA

8:10 to 8:15 AM – Opening remarks

8:15 to 8:35 AM – Business and Tax Reform

8:35 to 8:55 AM – Business insights to 2023

8:55 to 9:10 AM – Tax Reform (Corporate)

9:10 to 9:40 AM – Q&A

9:40 to 9:50 AM – Closing Remarks

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SPEAKERS

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Peter Hawkins

Managing Director of MELLOHAWK Logistics
Co-Chair at BCCC



Wanja Campos da Nobrega
Consul General of Brazil in Toronto



Philippe Jeffrey

Head of the Canadian Desk at FCR Law / Fleury,
Coimbra & Rhomberg Advogados



Alessandra Ribeiro
Partner and Director of
Macroeconomic and Industry
Analysis at Tendências Consultoria



Eduardo Fleury

Founder and partner of FCR Law /
Fleury, Coimbra & Rhomberg
Advogados

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**BRAZIL POST-ELECTION:
AN OVERVIEW OF THE NEW ADMINISTRATION**

**EDUARDO FLEURY
PHILIPPE JEFFREY**

JANUARY 2023



Philippe Jeffrey is an international tax advisor originally from Quebec, Canada and former PwC Brazil Tax Partner. He has 20 years of combined tax and management experience in assisting foreign and Brazilian multinational companies with their domestic and cross border transactions in Brazil, Latin America, Europe and set-up of international tax structure (financing, IP, trading, holding).

In addition, Philippe has extensive experience with domestic transactions in Brazil, tax due diligence reviews, as well as tax compliance reviews, transfer pricing and local trade and customs issues.

Qualifications and memberships

- Law degree from the University of Ottawa (CAN)
- Master's program in tax at the University of Sherbrooke (CAN)
- Member of the Quebec Bar Association

Recent recognition

- ITR World Tax (2023): Highly Regarded Practitioner - General corporate tax
- ITR World Tax (2023): Highly Regarded Practitioner - Indirect tax
- Legal 500 (2023): Recommended Lawyer

Languages

- French
- English
- Portuguese



✓ **Team:** 40 Lawyers

✓ **Main Practice Areas**



✓ **International Expertise**

Canadian Desk – Philippe Jeffrey

US' Taxation Expertise – Eduardo Fleury

German Desk – Marcelo Coimbra and Lukas Rhomberg

Language Fluency: English, German, French, Spanish and Portuguese

✓ **International Recognition:**



Fleury, Coimbra & Rhomberg Advogados has experience dealing with inbound and outbound transactions for clients with multi-jurisdictional enterprises. Tax litigation is also a strength. **Eduardo Fleury** and **Philippe Jeffrey** are recommended.



Client feedback:

Excellent work. **FCR Law** has an in-house lawyer familiar with our jurisdiction's tax structures. This particular expertise facilitated the entire planning process.

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SPEAKER

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Eduardo Fleury

Founder and partner of FCR Law / Fleury, Coimbra & Rhomberg Advogados

FCR Law / Fleury, Coimbra
& Rhomberg Advogados

Business and Tax Reform



Eduardo Fleury is a founding partner of FCR Law and head of the firm's tax department. He has broad experience in both public and private sectors, being considered a tax expert not only by his clients, but also by Brazilian tax policy makers, the press and other organizations, which he constantly advises about tax matters.

Fleury has a solid practical experience in the Brazilian tax system. He is a former officer of the São Paulo State Revenue Service and of the Brazilian Federal Revenue Service. These positions allowed him to obtain a pragmatic and detailed approach on State and Federal tax matters. His expertise is not restricted to the Brazilian tax legislation, also comprising tax aspects related to cross-border transactions, as well as international tax and the U.S. tax system. Recently, Fleury was nominated as Tax Consultant for The World Bank, in order to support the assessment of the impacts of a potential tax reform on the Brazilian economy.

Qualifications and memberships

- Degree in Economics, Universidade de São Paulo – Brazil
- Bachelor of Law, Instituição Toledo de Ensino em Bauru – Brazil
- Doctor of Juridical Science and LL.M. in International Taxation, University of Florida – USA
- Specialist in Corporate International Tax Planning, Leiden University – Netherlands
- Specialist in Business Law, Harvard Extension School – USA

Recent recognition

- ITR World Tax (2023): Highly Regarded Practitioner – Tax controversy
- ITR World Tax (2023): Highly Regarded Practitioner - Indirect tax
- Legal 500 (2023): Recommended Lawyer

Languages

- English
- Portuguese



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 Eduardo Fleury

✓ The last government in numbers:

YEAR	GDP (%)
2019	1.14
2020	-3.88
2021	4.60
2022*	2.90

YEAR	INFLATION (%)
2019	4.19
2020	4.56
2021	10.38
2022	5.79

* 2022 the taxes on gas prices were substantially reduced.

YEAR	UNEMPLOYMENT (%)
DEC 2018	12.2
DEC 2019	11.10
DEC 2020	14.20
DEC 2021	11.10
OCT 2022	8.30%

✓ **The last government in reforms:**

- Pension Reform – 2019
- Central Bank Independence – 2021
- New Set of Rules for the Sanitation Sector - 2020
- New Set of Rules for the Natural Gas - 2021

- ✓ **Lula's rule - What can we expect in terms of reforms? (What we know so far)**
 - New Fiscal Policy Rule – Replacing the Expenditure Limit Rule (Teto dos Gastos)
 - Tax Reform – Implementing a VAT
 - Tax Reform – Income and Corporate Tax and Payroll Contributions

✓ Tax Reform – Current Brazilian Indirect Tax System

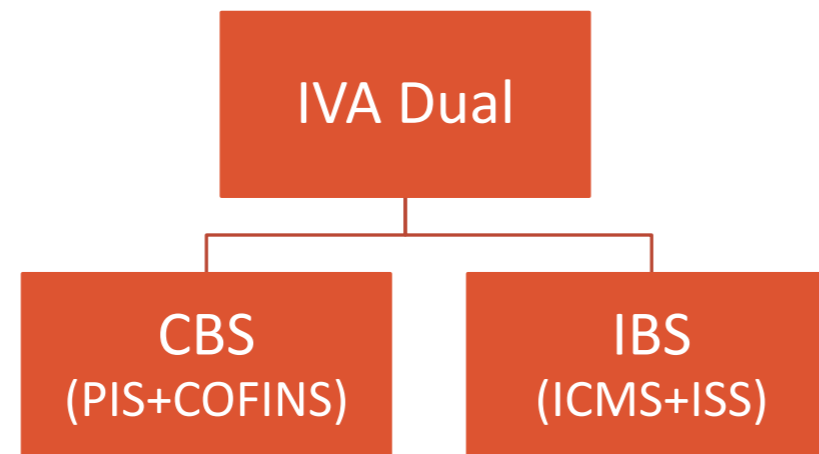
- PIS/COFINS – Federal Tax on Revenues with two tax regimes
- IPI – Federal Tax on Industrialized Products and an Excise Tax (ex.: cigarette, alcohol, cars)
- ICMS – State Tax on Goods, Communication and Transportation
 - A “fake” VAT with many credit restrictions
 - 27 States – Laws and Regulations, different rates, many exceptions
- ISS – Municipal Tax on Services

✓ **Current Brazilian Indirect Tax System - Consequences**

- Tax Costs Spread all over the economic system
- Compliance cost – 1500 hs/year
- Volume of Lawsuits – one of the biggest of the world
- Uncertainty
- Less Investment and Exports
- Low GDP Growth

- ✓ **Tax Reform – Implementing a VAT - PEC 45**
 - PIS/COFINS+IPI+ICMS+ISS → IBS (VAT/GST)
 - Destination Principle – the final consumer will bear the tax
 - Legislation – Federal Law (the same set of rules for all transactions)
 - Flat rate – Some sectors may have special tax regimes (ex.: financial, real estate, public sector, fuels)
 - Food – Personalized Exemption
 - Tax rate will be fixed by Municipalities, States and Federal Government
 - Administration and Collection – Independent Tax Agency
 - Transition Period – 6 years

✓ **Tax Reform – Implementing a VAT - PEC 110**



- Destination Principle – the final consumer will bear the tax
- Legislation – Two Federal Laws (CBS and IBS) – but the general rules are the same
- Flat Rate – Special Treatment (reduced rates) - Education, Health, Food, Public Transportation and Gas; Personal Exemption
- Tax rate will be fixed by Municipalities, States and Federal Government
- Administration and Collection – Receita Federal (CBS) and Independent Tax Agency (Conselho Federativo)(IBS)
- Transition Period – 7 years

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Business insights to 2023

Alessandra Ribeiro

Partner and Director of Macroeconomic and Industry Analysis at Tendências Consultoria



Prospects on the brazilian economy

January 2023

Alessandra Ribeiro

Government coalition

- Lula's government will have to agree with the right-wing parties, which should lead to more centered policies. **Risk is instability in the coalition.**



Political scenario and the agenda

- Appointments of Haddad, Tebet and Alckmin show **heterogeneity of economic orientation**. The referee will be **President Lula**.
- The main uncertainties about the conduction of the economic policy are especially **on the fiscal side, with higher spending and a new fiscal framework to replace the spending cap rule**.
- **Baseline scenario**: pragmatic economic policy, with **negative agendas being limited** by the need for a broad coalition and the financial market's reactions. **Risk**: The institutional tension may delay the economic agenda.
- **Opportunities**: improved relations with the international community; focus on the environmental agenda which should have positive impacts on investments and even on the EU-Mercosul trade agreement; effects of nearshoring/friendshoring for the Brazilian industry

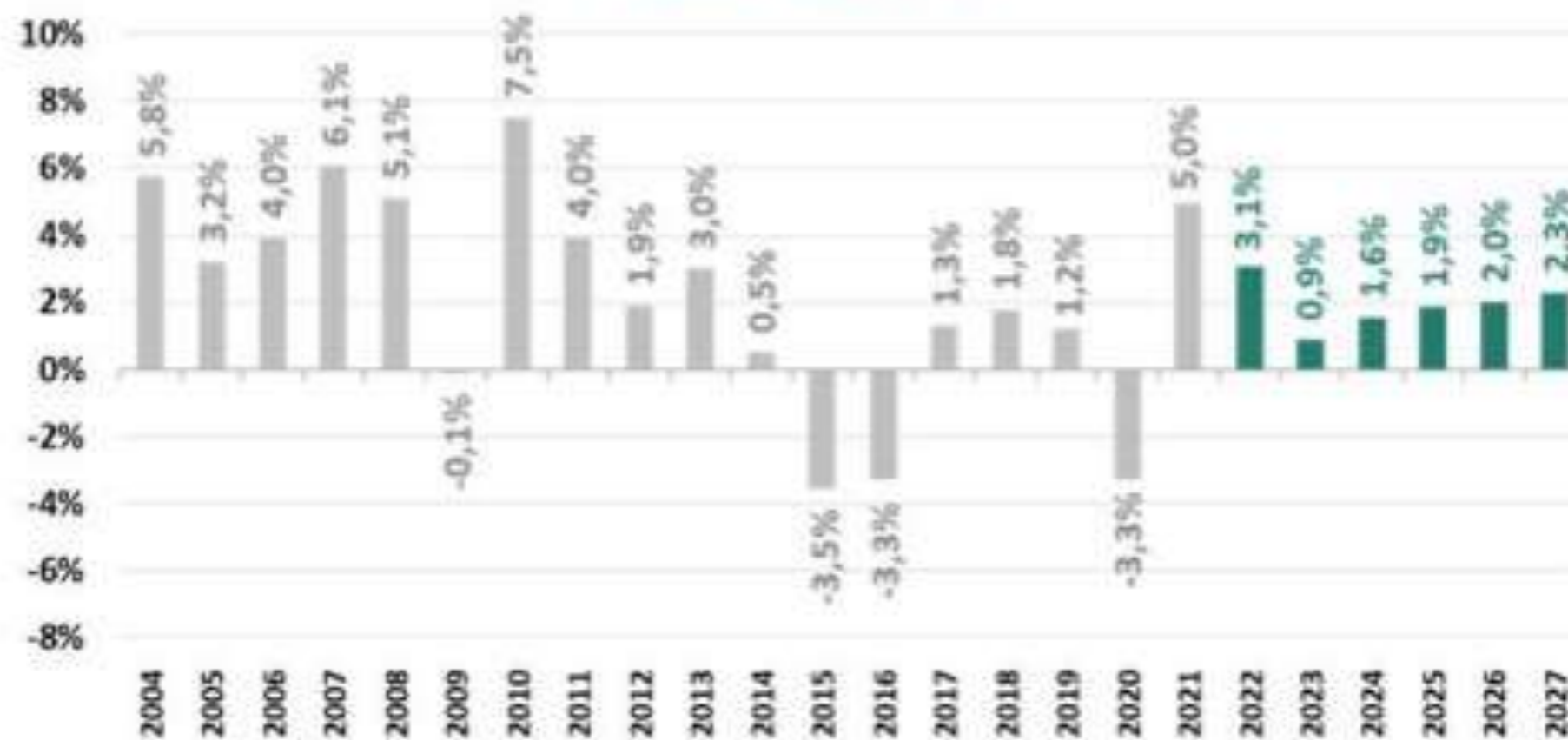


GDP

The economy should slowdown this year

- Impacts of the weaker global growth, tighter monetary policy and higher uncertainties should weigh on economic activity

Brazil GDP (%)



GDP – Breakdown






- HIGHLIGHTS FOR 2023**

(+) Agricultural: after adverse climate shock in 2022;

(+) Consumption: moderate expansion in line with the resilience of the job market and advance of the real income;

(-) Investment and Industry: with effects of monetary tightening, global slowdown and uncertainties about politics and economy.

	2019	2020	2021	2022	2023
GDP	1,2%	-3,3%	5,0%	3,1%	0,9%
 Agricultural	0,4%	3,8%	-0,2%	-1,1%	3,3%
 Industry	-0,7%	-3,4%	4,5%	1,5%	-0,5%
 Services	1,5%	-4,3%	4,7%	4,1%	1,2%

	2019	2020	2021	2022	2023
GDP	1,2%	-3,3%	5,0%	3,1%	0,9%
 Household	2,6%	-5,4%	3,6%	4,2%	1,8%
 Government	-0,5%	-4,5%	2,0%	1,7%	1,2%
 GFCF	4,0%	-0,5%	17,2%	0,3%	-0,4%
 Exports	-2,6%	-1,8%	5,8%	3,7%	2,2%
 Imports	1,3%	-9,8%	12,4%	-0,5%	0,0%

Industry investment insights

- **Energy**

- ✓ Solar and windpower projects in Northeast → highly favorable conditions → must increase above GDP.
- ✓ Biofuels → good productivity conditions in the country but, even so, expensive compared to fossil fuels (specially biodiesel).

- **Infrastructure**

- ✓ Sanitation → new regulatory framework favorable for private capital → BNDES is coordinating/structuring concessions and PPPs
- ✓ Railroads → new regulatory framework introduced the “authorization regime” (in contrast to the “concession regime”). Ferrogrão railroad might be granted this year.
- ✓ Roads, airports and Ports

- **Extractive**

- ✓ Iron ore: production should increase 4.6% in 2023
- ✓ Oil and gas: production should increase 5.3% in 2023



Take-away points

Economic environment: the main risk is on the fiscal side

The need of broad coalition should limit negative agendas

In the current global scenario there are opportunities for Brazil: nearshoring/friendshoring; attraction of investments related to the environmental agenda and the advancement of the EU-Mercosul agreement



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Tax Reform - Corporate

Philippe Jeffrey

Head of the Canadian Desk at FCR Law / Fleury, Coimbra & Rhomberg Advogados

✓ Tax Reform – Corporate Income Tax

- Reduction of the corporate income tax rate from 34% to 25%
- Taxation of dividends from 0 to 22.5% for shareholders residing in Brazil and 15% for non-residents shareholders
- Non-taxation on local intragroup distributions, for immune entities and for investment funds
- Revocation of the possibility of paying interest on own net equity (JCP)
- Allowance for Corporate Equity: interest rate on net equity with a deduction limited to 50% of the taxable basis of the year and not linked to distributions to shareholders

✓ **Tax Reform – Corporate Income Tax (cont.)**

- Creation of new limits for the deduction of interest on debt based on a percentage of EBITDA
- Consolidated taxation options for local economic groups
- Expansion of the rules for the use of tax losses
- Modernization of the goodwill regulations generated on acquisition of share participation (with the intention to reduce litigation)
- Creation of a 15% “floor” for corporate taxation (OECD GloBE Pillar 2)
- Adaptation of the CFC taxation rules for subsidiaries abroad, applying only 15% (Pillar 2) on active income
- Taxation on Payroll - rate reductions
- Transfer Pricing Rules – Migration to the OECD model

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Q&A

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Q&A

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- ❓ What's the main change in the business environment with the new Government?
- ❓ How will the new Government impact the companies in Brazil? Compliance, ESG, Regulations...
- ❓ Which sectors will be improved in this new administration?
- ❓ What is the Brazilian Market expectation for Canada and International Affairs?

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CLOSING REMARKS

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THANK YOU!