

Taxation of Individuals: What to be expected in 2017?

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Overview || Tax Burden Composition

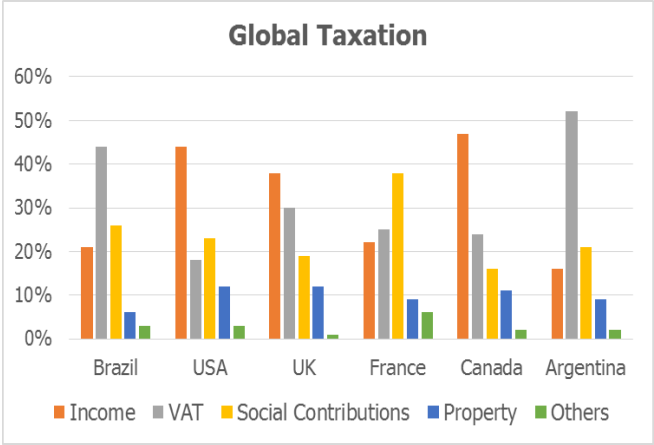
Income, VAT or Property

When it comes to composition, Brazil's tax burden is similar to developing countries, in opposition to developed countries' standards

Developed countries tend to finance it's economy by primarily taxing individuals income and property

Brazil and others developing countries tend to prioritize VAT

Income and Property are than taxed with lower rates → Populist practice



Source: OECD

Overview || Tax Burden x Return to Society

Aside from the numerous taxes, studies have proved that Brazil is among the countries with less social benefits returned to society

➤ Poor tax resources management

“IRBES” – Social benefits indicator

30 Countries with High Tax Burden	Tax Burden vs. Gross Domestic Product	IRBES
(1º) Australia	27,30%	162,9
(2º) South Korea	24,30%	162,8
(3º) USA	26,40%	162,3
(4º) Switzerland	27,10%	161,8
...
(30º) Brazil	35,04%	137,9

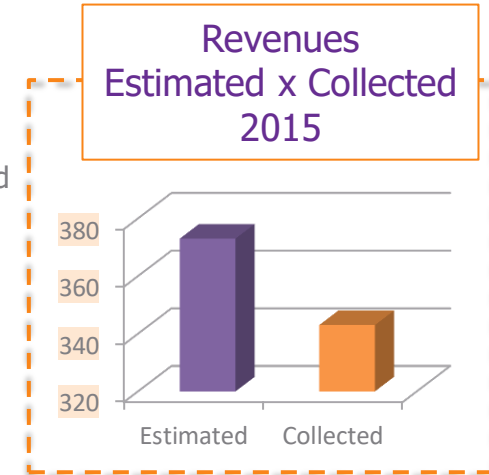
Sources: OECD and IBPT (*Instituto Brasileiro de Planejamento Tributário*)

Brazil's Political and Economic Context

Brazil's Political and Economic Context

Economic indicators

- 2016 estimated deficit → U\$ 51 bi
- Brazil's rating cut further into junk by S&P, Fitch and Moody's
- 2015 Tax Revenue:
Estimated → U\$ 373 bi
Collected → U\$ 343 bi
- 2016 Tax revenues collected until September → U\$ 276 bi
- 2015 Tax revenues collected until September → U\$ 273 bi

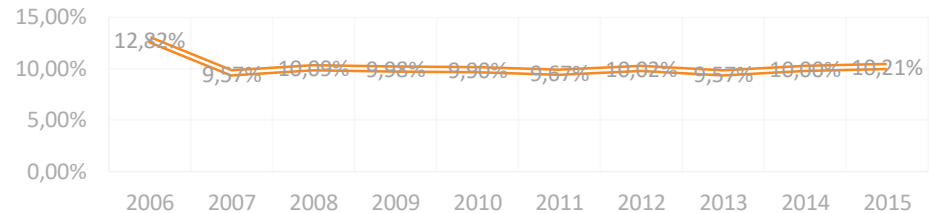


Tax Collection in the past 10 Years



- Over the past 10 years, tax collection has not met expectations

Individuals contribution to the amount of tax collected by Brazilian IRS (Income Tax and WHT only)



- 2006 x 2015

2006	Total Tax Collected U\$ 112.8 bi	Supported by Individuals U\$ 14.4 bi → 12,82%
2015	Total Tax Collected U\$ 363.6 bi	Supported by Individuals U\$ 36.8 bi → 10,21%

What to be expected in 2017?



Potential Tax Legislation Amendments

Main discussions

- 
- Inheritance and Gift Tax
 - Income Tax on Gift and Inheritance
 - Wealth Tax
 - Tax on Wealthy Inheritance and Gift
 - CPMF
 - CFC Rules for Individuals
 - Capital Gains

Potential Tax Legislation Amendments

Inheritance and Gift Tax

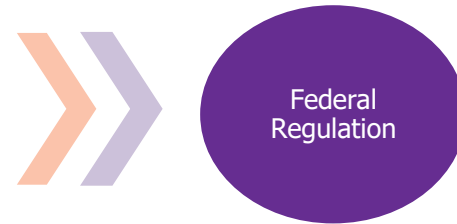
Bill nº 60/2015

- Goal → Amendments to Gift and Inheritance taxation
- Bill status → subject to special regime and waiting to be voted in plenary session since June 2015



→ Progressive rates
up to 8%

→ Rates are determined by
each State's legislation



- Higher rates are expected
- Possible exemptions by federal legislation
- Global trends to tax gift and inheritance events at higher rates

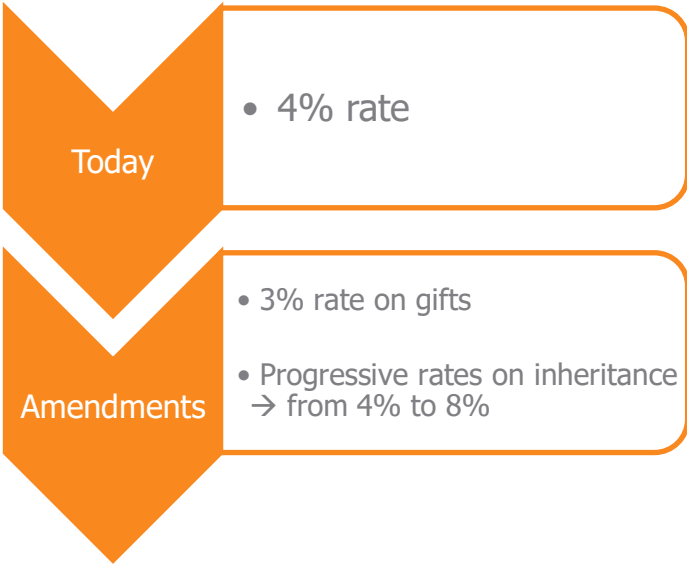
Potential Tax Legislation Amendments

Bill n.º 1.408/2015

- As of today, the exemption limit is set at US\$ 18k per year
- Bill status → subject to ordinary regime, with opposing opinion from Constitutional and Justice Commission on December 2015

Inheritance and Gift Tax

State of São Paulo



Calculation Basis US\$	Gift	Inheritance
Up to 60.530	Exempt	Exempt
from 60.530 to 302.650	3%	4%
from 302.650 to 454.600	3%	5%
from 454.600 to 605.300	3%	6%
from 605.300 to 908.000	3%	7%
over 908.000	3%	8%

Potential Tax Legislation Amendments

Inheritance and Gift Tax

Other States

State	2015	2016
Ceará	2% to 8% Inheritance / 2% to 4% Gift	2% to 8% Inheritance and Gift
Distrito Federal	4% Inheritance and Gift	4% to 6% Inheritance and Gift
Goiás	4% Inheritance and Gift	2% to 8% Inheritance and Gift
Maranhão	2% Inheritance and Gift	1% to 2% Gift / 3% to 7% Inheritance
Mato Grosso do Sul	4% Inheritance / 2% Gift	6% Inheritance / 3% Gift
Paraíba	4% Inheritance and Gift	2% to 8% Inheritance and Gift
Pernambuco	5% Inheritance / 2% Gift	2 to 8% Inheritance and Gift
Piauí	4% Inheritance and Gift	2% to 6% Inheritance / 4% Gift
Rio de Janeiro	4% Inheritance and Gift	4,5% to 5% Inheritance and Gift
Rio Grande do Norte	3% Inheritance and Gift	3% to 6% Inheritance and Gift
Rio Grande do Sul	4% Inheritance / 3% Gift	Up to 6% Inheritance / 3% to 4% Gift
Sergipe	4% Inheritance and Gift	2% to 8% Inheritance / 4% Gift

Potential Tax Legislation Amendments

Income Tax on Gift and Inheritance

Bill nº 5.205/2016

- Goal → Extinguish the Income Tax exemption on gifts and inheritance
- Bill status → under analysis of Justice and Tax Commission since August 2016

Inheritance	Gift	Income Tax Rates
Up to US\$ 1,4mi	Up to US\$ 280k	Exempt
From US\$ 1,4mi to US\$ 2,8mi	From US\$ 280k to US\$ 563k	15%
From US\$ 2,8mi to US\$ 5,6mi	From US\$ 563k to US\$ 845k	20%
Over US\$ 5,6mi	Over US\$ 845k	25%

Potential Tax Legislation Amendments

Wealth Tax

Bill nº 130/2012

- Goal → Taxation of individual’s net wealth
- Bill status → Still pending of approval at the House of Representatives, since September 2012

Calculation Basis	Rates
Up to US\$ 4,3 mi	Exempt
From US\$ 4,3 mi to U\$ 13,4 mi	0,5%
From US\$ 13,4 mi to U\$ 40,2 mi	0,75%
Over US\$ 40,2 mi	1,00%



Potential Tax Legislation Amendments

Tax on Wealthy Inheritance and Gift

Bill n.º 96/2015

- Bill status → under analysis of Constitutional and Justice Commission since October 2016

Today
<ul style="list-style-type: none">• In Brazil, wealth transmission is taxed by lower rates when compared to 1st World countries• Examples:<ul style="list-style-type: none">• UK - 0 to 40%• USA - 0 a 60%• France - 5% to 60%• Italy - 3% to 27%• Germany - 0 a 70%

Proposed Taxation
<ul style="list-style-type: none">• Federal taxation of Wealthy Inheritance and Gift• Progressive rates up to 27,5%• No definition of "wealthy" so far

Possible Tax Legislation Amendments

CPMF

Bill n.º 140/2015

- Aims to reinstate the Contribution on Financial Transactions (“CPMF”)
- 0,20% rate
- Federal government expects to collect up to U\$ 10 bi with CPMF
- Bill status → subject to special regime, under analysis of Constitutional and Justice Commission



Potential Tax Legislation Amendments

CFC for Individuals

Provisional Measure nº 627/2013

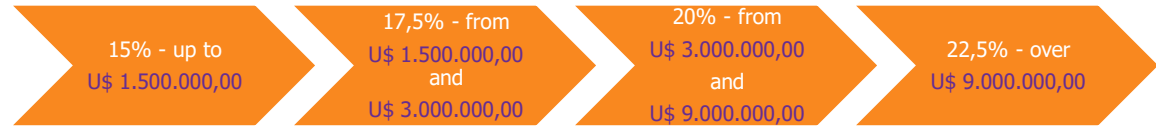
- MP 627/2013, already revoked, established CFC rules both for companies and individuals who are deemed to have “control” over a foreign legal entity
- Goal → Switch the moment of income recognition for individuals from the general rule of cash accounting to accrual accounting
 - The deferral of taxation granted to individuals in respect of income earned at the CFC’s level would have been overruled
- Profits of a CFC would be deemed available to the Brazilian resident individual on the date of the balance sheet in which they are registered
- Future perspectives → given the strong opposition that these rules suffered in Congress, which led to their rejection, the political environment is not favorable for the reenactment of the CFC rules for individuals in the short term. In any case, it is possible from a strictly legal perspective

Tax Legislation Amendments

Capital Gains

Law nº 13.259/2016

- Established a progressive taxation method effective as of January 1st, 2017, replacing the current 15% flat rate
- The 15% flat rate gives place to progressive rates up to 22,5%



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