

MATTOS FILHO >

Mattos Filho, Veiga Filho,
Marrey Jr e Quiroga Advogados

Corporate Taxation: New Rules for Brazilian Entities



What is new?

▶ **Introduction of IFRS**

- ▶ Brazil changed its corporate legislation as of 2008 to introduce IFRS accounting standards to Brazilian companies
- ▶ New accounting rules apply for public traded corporations as well for other Brazilian companies
- ▶ IFRS standards are completely different from old accounting regime and require sophisticated knowledge and professional support
- ▶ Main concern: inappropriate accounting records and tax liabilities

Difference on Accounting Drivers

	Old Accounting Regime: (2007 Accounting Rules)	New Accounting Regime: (IFRS Accounting Rules)
Main Valuation Criteria	Acquisition cost reference	Fair value concept
Guidance	Formal approach	Substance approach
Main Users	Tax authorities	Investors and creditors

Corporate Taxation Impacts

▶ Tax Transitory Period

- ▶ Brazilian companies were authorized to follow the 2007 Accounting Rules for tax purposes even after IFRS Accounting Rules
 - Dual accounting systems
 - Parallel controls

▶ New Corporate Taxation: Law no. 12,973/14

- ▶ Mandatory migration as of 2015 (voluntary anticipation for 2014)



New Corporate Taxation

▶ **General Tax Guide**

- ▶ Exemption of dividends
 - Future distributions made based on corporate accounting profits are tax free
 - Concerns on 2014 profits

- ▶ Deferral on unrealized gain, revenue and income
 - In general terms, fair value adjustments are taxable upon realization and disposals
 - Concerns on certain corporate reorganization
 - Deferral requires controls and discipline

- ▶ Tax neutrality for holdings
 - Exemptions on net equity pick-up adjustments
 - Concerns on the impacts derived from fair value adjustments

New Corporate Taxation

▶ **General Tax Guide**

- ▶ Goodwill
 - Conversion on the accounting and tax approach
 - Third parties deals
 - Concerns on non-trivial deals and accounting records

- ▶ Substance over form
 - Accounting rational prevails for tax
 - Exceptions for rules and adjustments specifically provided by law

Practical Suggestions

- ▶ **Permanent Review of Corporate Chain and Accounting Procedures**
 - ▶ Are holdings needed?
 - ▶ How many holdings are needed?
 - ▶ Should the business activities be segregated or consolidated?
 - ▶ Are the fair value adjustments really required or are they optional?
 - ▶ What are the accounting impacts on corporate reorganizations?

- ▶ **Final Remark**
 - ▶ Reserve time and cost for accounting and legal advice!
 - ▶ Do not take unnecessary tax liabilities!



MATTOS FILHO > Mattos Filho, Veiga Filho, Marrey Jr e Quiroga Advogados



SÃO PAULO

Al Joaquim Eugênio de Lima 447
01403 001 São Paulo SP Brasil
T 55 11 3147 7600

BRASÍLIA

SHS Q6 Bloco C Cj A sala 1901
70322 915 Brasília DF Brasil
T 55 61 3218 6000

RIO DE JANEIRO

Praia do Flamengo 200 11º andar
22210 901 Rio de Janeiro RJ Brasil
T 55 21 3231 8200

NEW YORK

135 East 57th Street 12th Floor
New York NY USA 10022
T 1 646 695 1100