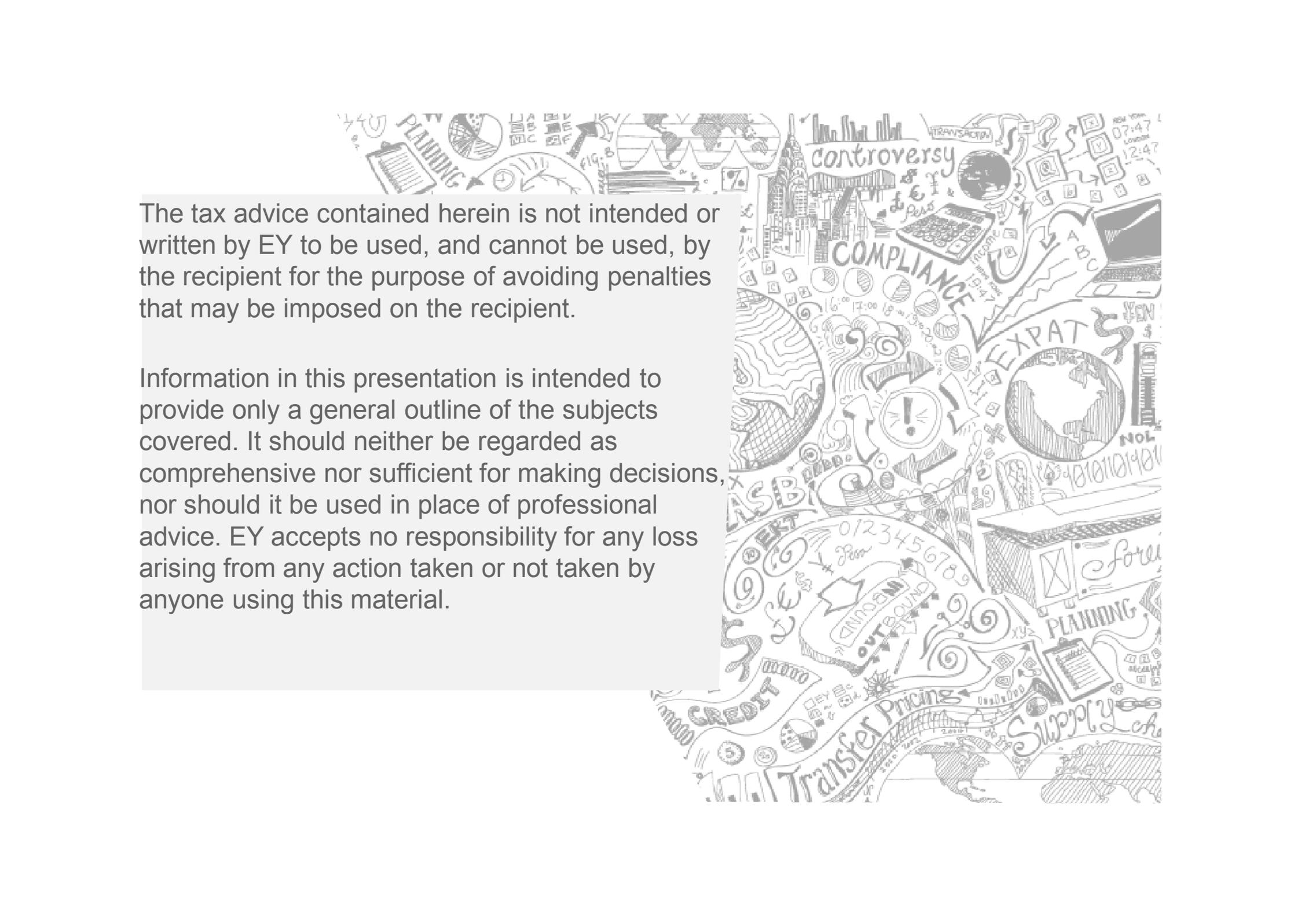


Architecture Services Trade Mission to Brazil

Brazilian Tax Overview

October 7, 2013





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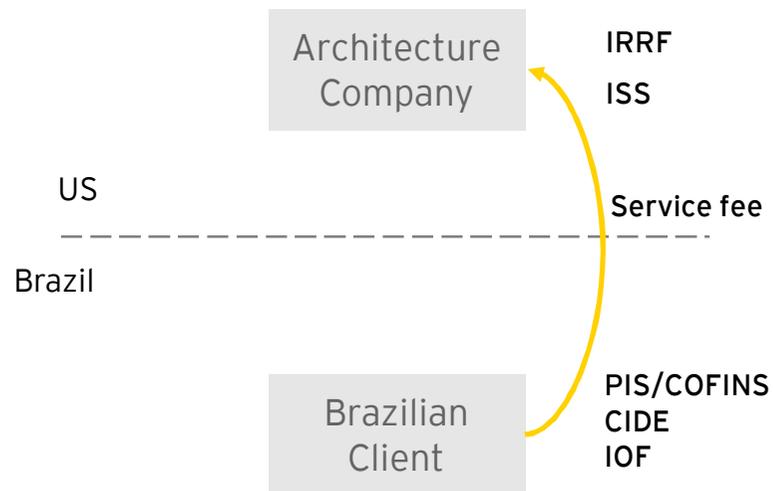
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Brazilian tax environment

Overview of tax system

Brazilian Tax System		
Federal taxes	State taxes	Municipal taxes
CIT - 34% (IRPJ + CSLL)	State VAT (ICMS) - average 4% to 19%	Tax on urban land and property (IPTU) - variable rates
PIS/COFINS - 3.65% to 9.25%	Tax on inheritance and gifts (ITMCD) - average 5%	Tax on real estate conveyance (ITBI) - average 5%
IPI (Federal VAT) - average 15%	Tax on motor vehicles (IPVA) - variable rates	Tax on services (ISS) - 2% to 5%
II (Import Duty) - average 14%		
WHT on remittances - 15% or 25%		
CIDE - 10%		
IOF tax - average 0.38%		
Taxation on Rural Property (ITR) - average 20%		
Social security contributions (INSS) - 26,8% to 28,8%		
Severance pay indemnity fund (FGTS) - 8%		

First Model American Company Provides Services to Brazil Without a Presence in the Country



- ▶ IRRF: technical assistance services, as well as administrative and similar services requiring specialized knowledge are generally subject to WHT at a rate of 15%. The rate increases to 25% for remittances made to tax havens.
- ▶ PIS/COFINS: imported services are subject to these taxes at a combined rate of 9.25% (1.65% PIS and 7.6% COFINS).
- ▶ CIDE: applicable to certain types of services and royalties paid to non-residents at a 10% rate.
- ▶ ISS: levied on the rendering of services listed in a national Law. Tax rates varies from a minimum of 2% and a maximum of 5% .
- ▶ IOF: exchange transactions are subject to IOF. Imports of services are subject to a 0.38% rate.

First Model American Company Provides Services to Brazil Without a Presence in the Country

Withholding tax (WHT) Rate: 0%, 15% or 25% (LTJs)

- ▶ Tax borne by overseas service provider
- ▶ Technical discussion on the non-applicability of WHT due to double tax treaty provisions (art. 7 business profit vs art. 21 other income)

Service Tax (ISS) Rate: 2 to 5%

- ▶ Tax borne by overseas service provider
- ▶ Depending on the nature of the payment (e.g. certain licenses, patents) technical discussion over the judicial court could lead to the non-applicability of such tax

CIDE tax Rate: 10%

- ▶ Tax borne by the Brazilian payor
- ▶ Applicable on technical services, royalties and transfer of know-how into Brazil
- ▶ Certain software licenses payments do not trigger CIDE tax
- ▶ General services payments (non-technical services) do not trigger CIDE tax

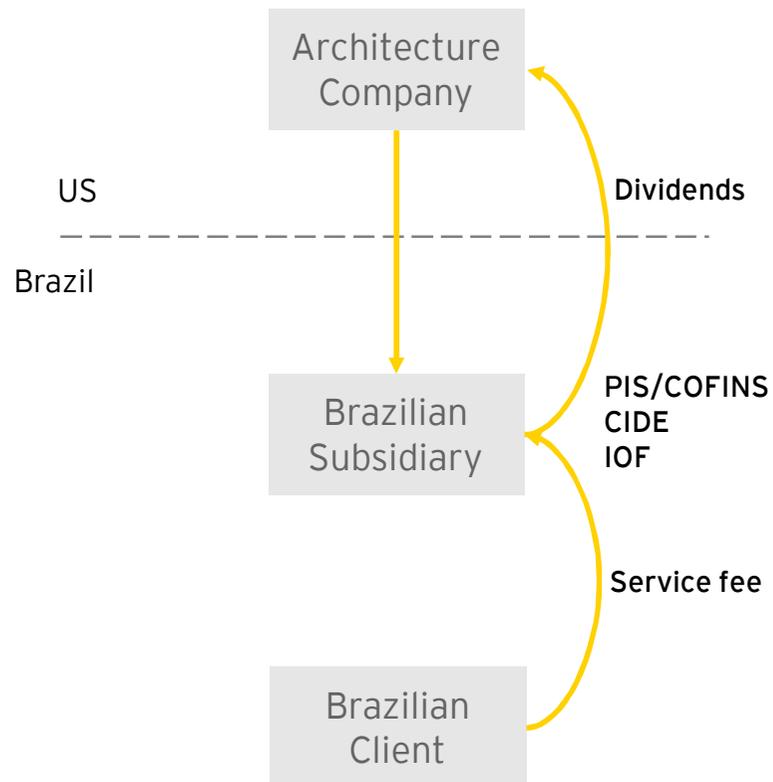
PIS/Cofins tax Rate: 9.25%

- ▶ Tax borne by the Brazilian payor
- ▶ Applicable on importation of any type of services
- ▶ To the extent that such tax is applicable on service import, there are technical grounds to sustain the non-applicability on license, royalties, etc (non-service payments)
- ▶ Potential discussion on the non-applicability if the services are only benefiting overseas client

IOF tax Rate: 0.38%

- ▶ Tax borne by the Brazilian payor
- ▶ Applicable on the wire transfer and due to the foreign exchange agreement

Second Model American Company Incorporates a Brazilian Entity



- ▶ Payment of dividends to the US are tax exempt in Brazil.
- ▶ Service revenues earned by the Brazilian subsidiary will be subject to the following taxes:
 - ▶ Corporate Income Tax (IRPJ + CSLL)
 - ▶ Service Tax (ISS)
 - ▶ PIS and COFINS contributions

Second Model

American Company Incorporates a Brazilian Entity

- ▶ Corporate income tax (“IRPJ”) and Social Contribution Tax (“CSLL”)
 - ▶ Taxation on worldwide basis, at a combined tax rate of 34% (IRPJ + CSLL)
 - ▶ Two methods for the calculation of the taxable basis (annual election):
 - ▶ Actual profit method: taxes calculated over the net book income, reduced by non-taxable income and added by non-deductible expenses/costs (mandatory for entities exceeding R\$48 million of annual revenue - changes for FY14)
 - ▶ Presumed profit method: pre-determined profit margin depending on business activity (32% for services and 8% for goods) - only a few activities and entities under the R\$ 48 million annual revenue threshold may opt to be taxed under this method)
 - ▶ Tax losses carry forward is allowed, though offsetting is limited to up to 30% of a company's taxable income in a tax period. No carry back is allowed
 - ▶ Capital gains are subject to the same taxation applicable to ordinary income (taxed at standard CIT rates)
 - ▶ There is no tax consolidation mechanism available in Brazil

Second Model American Company Incorporates a Brazilian Entity

- ▶ PIS and COFINS
 - ▶ Identical federal social contribution taxes that are charged monthly on gross revenues and upon importation of goods and services
 - ▶ Exported goods and services are not taxed in both methods
 - ▶ Imported goods and services are subject to these taxes at a combined rate of 9.25% (1.65% PIS and 7.6% COFINS)
 - ▶ There are two methods for calculation:
 - ▶ Noncumulative method: combined rate of 9.25% on gross revenues, applicable to companies taxed under the Actual Profit method. Tax credits, as defined by law, may be used to offset PIS/COFINS liabilities.
 - ▶ Cumulative method: combined rate of 3.65% on revenues. No tax credits available.

- ▶ Services tax (“ISS”)
 - ▶ Applicable on the rendering of services listed within a national Law
 - ▶ Tax rates varies from a minimum of 2%, and a maximum of 5% (depending on the service and/or Municipality)
 - ▶ Cumulative tax (not recoverable)

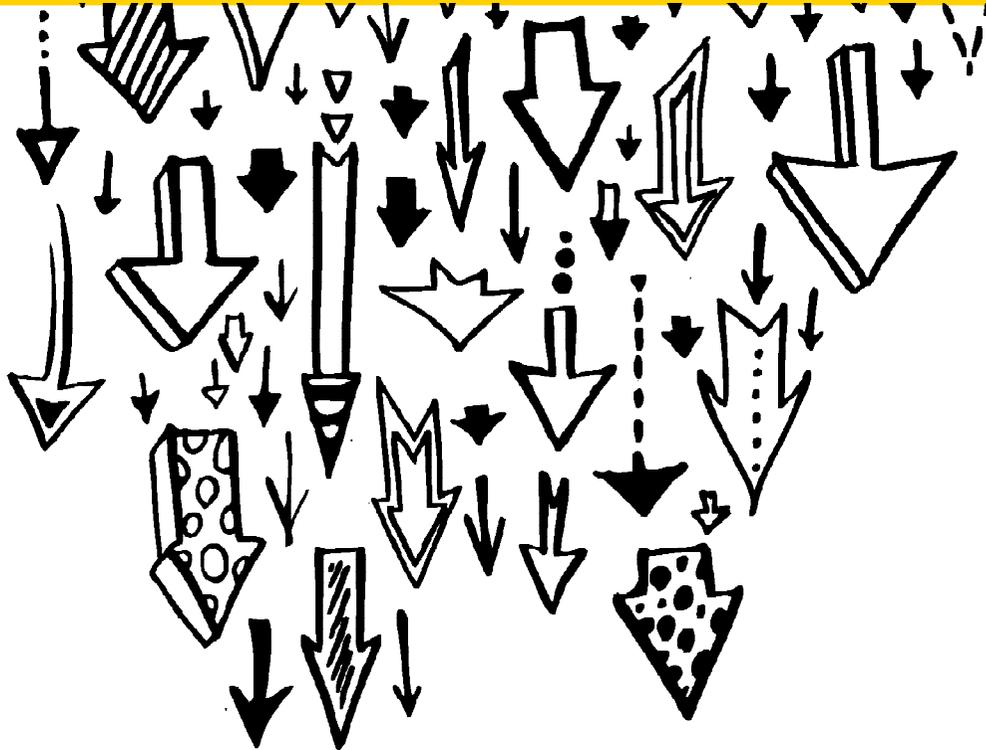
Second Model American Company Incorporates a Brazilian Entity

- ▶ Social Security Contribution (“INSS”)
 - ▶ As a general rule, the Social Security charges (INSS) are:
 - ▶ Employer contribution - 20% of the total payroll (monthly remuneration paid to all workers, including autonomous);
 - ▶ RAT (insurance against labor accidents) - vary as from 0,5% to 6% of the total remuneration paid to employees, depending on the “level of risk” presented by the type of activity of the company;
 - ▶ Education allowance - 2.5% of the total remuneration paid to employees;
 - ▶ Contribution for governmental entities - vary as from 0% to 5,2% levied on the total payroll amount.
 - ▶ Severance Pay Indemnity Fund (“FGTS”)
 - ▶ Under the FGTS system, employers must deposit monthly, on the employees’ behalf, into a blocked bank account an amount equivalent to 8% of the remuneration of each employee, without any discount on the employee’s salary. In case of employee’s dismissal, the company shall pay an indemnification equivalent to 50% of the employee’s FGTS balance.

Second Model American Company Incorporates a Brazilian Entity

	Equity	Debt
Deductibility	Dividends : No Interest on Net Equity (INE) : Yes, subject to limits : <ul style="list-style-type: none"> • Equity x TJLP interest rate (currently 5.5%) • 50% of retained earnings, or 50% of current earnings 	Deductibility subject to limits: Transfer Pricing: <ul style="list-style-type: none"> • Intercompany loans and loans granted by residents in LTJ and PTR: Libor + spread to be determined by Ministry of Finance (market average) Thin -cap (debt-to-equity ratio): <ul style="list-style-type: none"> • General rule: 2-to-1 • LTJ or PTR: 0.3-to-1
Withholding Tax	Dividends : 0% INE: 15% (25% to LTJ)	15% (25% to LTJ) 12.5% (Japan Tax Treaty)
Foreign Exchange	In principle, no	Taxed/deducted on a cash or accrual basis (annual election)
IOF on Exchange Currency Transaction (inflow)	0.38% upon inflow of funds	0% : repayment term greater than 360 days 6% : repayment term up to 360 days
IOF on Exchange Currency Transaction (outflow)	Dividends : 0% INE : 0%	0% or 0.38%

APPENDIX



Our team to serve



Our team to serve

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- ▶ Carolyn is a partner in Ernst & Young's tax practice. She has over 21 years of experience in international and corporate tax services, building and leading global tax teams primarily for Fortune 50, CAC 40 and FTSE 100 clients.
- ▶ Carolyn has a broad range of experience in international tax planning, including operational and legal restructurings, tax-efficient cash redeployment and repatriation, as well as global tax policy and controversy matters.
- ▶ She also has significant experience leading tax teams across the globe in the design and implementation of tax strategies, especially in the areas of post-merger integration, intellectual property location, finance transformations, co-sourcing and outsourcing opportunities and shared service center migrations.
- ▶ Carolyn is a lawyer and also holds a Masters in Business Administration, and was a participant in EY's Harvard Business Program, designed especially for the most senior partners in the firm.

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- ▶ Sérgio André is a tax of International Tax services and Tax policy at EY's office in Rio de Janeiro. He has more than 16 years of experience as a tax advisor, working primarily with direct taxes, M&A and corporate restructuring, cross-border taxation, and tax litigation.
- ▶ Sérgio André is a board member of the Brazilian Association of Finance Law (Brazil's IFA Branch) and the Brazilian Institute of Tax Law in São Paulo. He is also a member of the Brazilian Bar Association.
- ▶ Sérgio André was nominated by the International Tax Review as one of the tax controversy leaders in Brazil in 2011, 2012 and 2013.
- ▶ He has a PhD on Law and Economics (2007) and is a Professor of Tax Law at the prestigious Rio de Janeiro State University. He also teaches international taxation and tax planning at several postgraduate and professional courses. Sérgio André has experience as a speaker in seminars in Brazil and abroad.
- ▶ Sérgio André has five books published, including his theses on Interpretation of Double Taxation Conventions, which was published in Kluwer's Series on International Taxation. He has edited several books on tax law and published dozens of articles in the most relevant Brazilian tax journals.

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- ▶ Serge is a tax partner of International Tax Services in Rio de Janeiro, Brazil who joined as expatriate from the US in 2011. Serge focuses on advising multinational companies with cross-border investments into and from Brazil. Based in Rio, Serge focuses on advising the Oil & Gas industry.
- ▶ Prior to joining the Brazilian ITS team, Serge has over 16 years of experience in Europe and the US working on a variety of international tax matters, including merger and acquisition structuring, cross-border investment and reorganizations, real estate transactions and cross-border financial instruments. He frequently advises multinationals on the tax aspects cross-border transactions including holding companies, financing and licensing activities, as well as on cross-border investments, acquisitions/divestments, mergers and joint ventures.
- ▶ He is a frequent speaker on Pan-European tax matters. He is also an active member of Ernst & Young's Think Tank that meets on a regular basis to discuss cross-border tax issues.
- ▶ Serge holds a Belgian law degree (Université Catholique de Louvain) and a master's in Belgian taxes (Ecole de commerce Solvay).

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- ▶ Marcio is a Partner for the Transfer Pricing Practice of the Rio de Janeiro office, serving particularly in the oil and gas sector. He has more than thirteen years of professional experience providing tax services to different industries and has a wide range of experience including international tax planning, supply chain restructuring, tax compliance and corporate reorganizations.
- ▶ Specialized in advising multinational companies in business and transfer pricing issues.
- ▶ He has led several audit defense projects in Brazil as well as regional supply chain management projects.
- ▶ Marcio has degree in Economics from UFRJ - Universidade Federal do Rio de Janeiro.
- ▶ Actually, Marcio is carrying out a MBA in Oil & Gas Industry at FGV (Fundação Getúlio Vargas).
- ▶ He was Professor of tax accounting and transfer pricing at the Faculty of Accounting of the for seven years at UFRJ and actually he is Transfer Pricing and Tax Planning Professor at MBA in
- ▶ Law at UFF (Universidade Federal Fluminense), PUC (Pontifícia Universidade Católica) in Rio de Janeiro as well as at Petrobras Corporate University.
- ▶ Marcio has written articles on Brazilian tax and transfer pricing issues he is a frequent speaker at transfer pricing seminars inside Brazil.

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