Whitepaper

Brazilian Tax Reform

Preparing for the tax reform and eight years of drastic change

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Brazil: A Leading Light In Global Tax Innovation

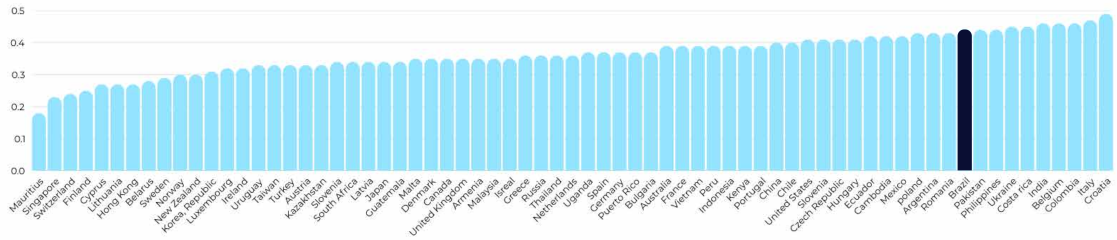
Brazil has one of the most complex tax regimes in the world. An overwhelming web of federal, state, municipal and city-level taxes has produced an inconsistent and inefficient system.

This complexity has been decades in the making, with Tax Reform being discussed in Brazil as far back as the 1988 constitution.

Despite cultivating such complexity, the government isn't shy about the need for radical reform, or the daily challenges companies face in meeting their tax obligations.

In recent years, the government has acknowledged that the existing system leads to high tax compliance costs, elevated litigation, poor competitiveness, inefficient resource allocation and opaqueness.

It also produces 'tax conflict' between states, municipalities and the federal government – an element of bureaucratic infighting that regularly causes confusion amongst those responsible for calculating a company's tax liabilities.



Brazil is often ranked as one of the most complex tax regimes in the world, beaten by only a handful of countries equally known for their complicated regimes.

Source: Taxcomplexity.org

Reforma Tributária Is Coming

The Brazilian Tax Reform, known locally as the Reforma Tributária, is a complete overhaul of the country's tax regime.

The Brazilian Tax Reform streamlines how goods and services are taxed through greater cooperation, simplicity and fairer tax justice. Economic development, redistributed income, streamlined collection, greater transparency and slashed bureaucracy are all on the agenda.

At its inception, every organisation will have eight years to gradually adjust to the reformed tax system. While this period may sound lengthy, the reform will be wrought with challenges.

This includes many years when companies must conform to the reformed system and simultaneously participate in the existing tax system. The available window for preparation is slim, so businesses must act now to avoid significant operational, fiscal and compliance challenges in the future.

Furthermore, with an expected tax rate of 28% once the new system is active – the highest of any major economy in the world – and 5,570 municipalities, a number that's always changing, it's critical that businesses can determine their tax liabilities accurately and report effectively.

This detailed exploration from our Latin America team is here to help.

We have canvassed our experts' extensive compliance knowledge to explain how Brazil's Tax Reform will function and what businesses must do to overcome its challenges. Our experienced regional experts have done the hard work deciphering what the reform entails and understanding what this means in everyday business.

This is your guide to the next eight years of dramatic change.

"This landmark decision comes with reams of legislation and obtuse specifics. In essence, though, the Reform sweeps away decades of tax complexity and consolidates the country's many taxes into a dual VAT system.

Somewhat ironically, the burden on businesses will get worse before things get better, but at the end of the implementation, Brazil should have a tax regime fit for the modern age."

Mauro Levin

Latin America Sales Vice President at Sovos

What is Reforma Tributária Changing?

Having been in governmental debate for numerous years, the Brazilian Tax Reform was approved in January 2025.

Before explaining what's changing, let's discuss the five taxes the new system will replace.

- **PIS** – A federal social contribution tax that businesses pay according to their revenue
- **COFINS** – A larger federal social assistance tax that is dependent on a company's revenue
- **IPI** – Another federal tax manufacturers pay on behalf of their customers when an item is sold
- **ICMS** – A state-level tax that covers the services required to sell something, including merchandise, transportation, communications services and electricity
- **ISS** – A municipal service tax that is defined by the service's type

PIS, COFINS, and each of the other taxes all have different rates as there is very little standardization in Brazil. Further complexity arises from the fact that these taxes can differ on a municipal or state level.

No wonder Brazilian businesses have been calling for reform.

So, what will the reform be?

From 2026, there will be a new Dual VAT system with two taxes:

- **CBS** – The Federal Contribution of Goods and Services
- **IBS** – The States and Municipalities Tax on Goods and Services

CBS and IBS will consist of:

- Consistent legislation
- A broad tax base of tangible and intangible goods and services
- Senate-set default rates
- Autonomy for federal, state and municipals to set their own rates
- Full destination-based taxation and input tax credits

There will also be a third Selective Tax – essentially a 'sin tax' – that applies to companies producing products or services considered harmful to the environment or society.

The prospect of positive change is exciting for finance, accounting and tax professionals throughout Brazil. Still, before we collectively reach that moment of celebration, companies must navigate a transitional period wrought with its own complexity and change, as the next eight years show.

A Use Case

"Until you encounter Brazil's current tax regime firsthand, it's impossible to convey just how complex the tax determination system is.

Picture a cellphone. How do you determine its tax?

First, is it domestically produced or imported? Where's the supplier's origin? What state is it moving through?

Where's the end customer? Is this being resold by a retailer?

All these considerations, and plenty more, affect tax determination. There are constant battles between a business and the many tax jurisdictions it deals with.

Change is long overdue, and businesses have been crying out for the reform for some time."

Giuliano Gioia
Regulatory Director at Sovos

The Years Ahead

Brazil's Tax Reform begins in earnest in 2026 and concludes in 2033. Some years contain significant upheaval, while others involve gradual implementation to ease the pressure on businesses.

All throughout this near decade of upheaval, the most pointed months are when businesses must conform to both systems simultaneously.

"Companies in Brazil are quickly coming to terms with the reality of the late 2020s and early 2030s.

This continuous change with little time to pause or reflect on how the business is performing financially without the specter of Reform casts a shadow across businesses of all sizes and scales.

2026 to 2030 will undoubtedly be tough.

It's vital that companies seek support for their entire journey and lean on those who understand the current tax regime and the new reformed system."

Leonardo Brussolo
Product Director at Sovos

2023

The Tax Reform is proposed as Constitutional Amendment No. 132 of the Tax Reform.

2024 - 2025

Complementary laws for IBS, CBS and the Excise Tax are approved and the associated regulatory framework is produced. A Dual VAT collection system is also developed.

2026

CBS and IBS are brought in with CBS at 0.9% and IBS at 0.1%, compensable with PIS/Confins. Taxpayers who comply with the ancillary obligations will see their CBS and IBS taxes waived.

2027

CBS comes into effect while PIS and Confins are retired. IOF Insurance, a tax insurers pay on their financial operations, is also retired.

IPI Rates – a specialist tax applied to the Manaus Free Trade Zone – is reduced to zero. This only affects 5% of Brazil's corporate taxpayers.

Selective Tax, also known as the 'sin tax,' comes into effect at the federal level. It applies to businesses producing goods and services considered harmful to the environment or public health.

2028

No proposed changes.

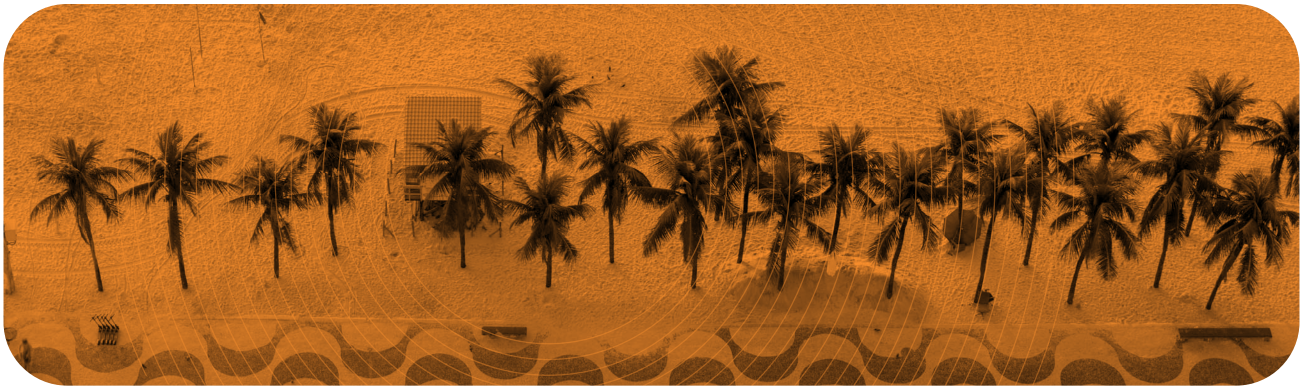
2029 - 2033

IBS, which replaces ICMS and ISS, is implemented over a five-year period. IBS rates gradually increase while ICMS and ISS rates decrease in tandem.

- **2029** – 10% is IBS (90% ICMS / ISS)
- **2030** – 20% is IBS (80% ICMS / ISS)
- **2031** – 30% is IBS (30% ICMS / ISS)
- **2033** – 40% is IBS (60% ICMS / ISS)
- **2033** – 100% is IBS (0% ICMS / ISS)

2033

ICMS and ISS are retired, and the new tax regime is active in its entirety.



Simultaneous Tax Systems: Double the Complexity

As the timeline shows, all businesses must balance compliance with ‘the now’ while effectively preparing for each phase of the reformed system’s introduction.

Senior decision-makers in companies operating in Brazil must also galvanize their people and stakeholders to ensure their companies have the workflows, technology and financial processes to adhere to the outgoing system and the new framework.

As a starting point, businesses should prepare an action plan by:

- Briefing the entire company on the reform, as this affects a business from top to bottom
- Understanding their current tax liabilities and exposure
- Untangling and mapping how goods or services flow from state to state, city to city
- Reviewing existing processes and designing new workflows
- Ensuring e-invoicing systems are prepared for upcoming formatting change
- Considering what external expertise is required to overcome legal hurdles
- Investing in future-proofed technology that simplifies compliance

Those responsible for tax compliance must have the necessary visibility to competently adapt existing processes and communication flows to the government’s expectations. A fragmented approach towards technology and operations will only cause problems.

“I expect we will look back on 2026 and 2029 as the years that were particularly complex for businesses.

Executives certainly appreciate a soft transitional period, but having two tax systems active at one time is asking a lot of those responsible for compliance in an organisation.

We can see the pain bubbling to the surface already and are hyper-focused on preparing our customers long before these trickier phases start.

The complexity and pressure will only increase as the deadlines get closer and closer.”

Thaisa Tribst
Product Manager at Sovos

People are naturally nervous.

- Will they be able to understand the changes?
- How will they source the expertise required?
- What happens if a company cannot afford to bring specialist skills in-house?

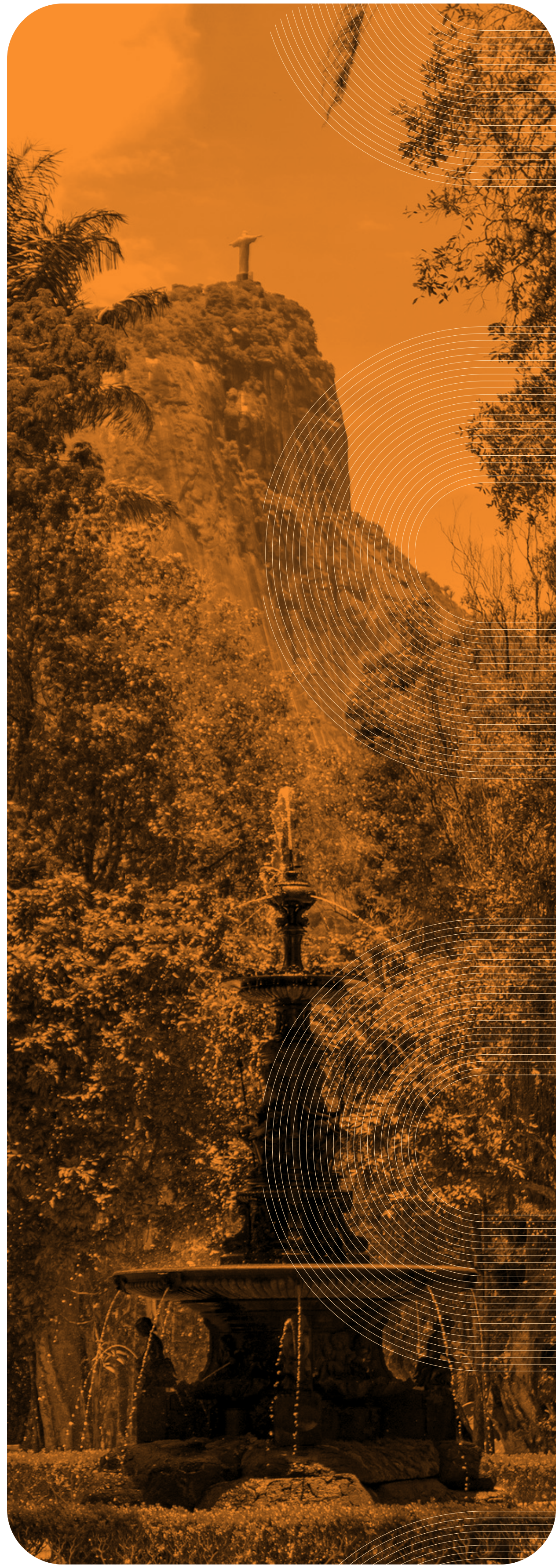
Long-term success is less about the practicalities of the reform but more about ensuring people have the skills, legal comprehension and technology to steer their company through such seismic change.

The cost of hiring tax specialists in Brazil is reaching unaffordable levels and the pool of experts has shrunk considerably as businesses battle each other for available expertise.

There is widespread apprehension about the transitional period when both tax systems are active. We have seen this among our customers, and it surfaces regularly in our close conversations with Brazil's tax authorities.

People are not machines and do not have limitless capacity. This transitional period will squeeze resources and budgets.

Companies and their teams need a plan and suitable experts to successfully advance through the reform.



The Moment to Act is Now

Wherever you are in your journey, we can all agree on one universal truth: Tax in Brazil is fiendishly complex and will become more challenging in the immediate future.

Burying your head in the sand is not the solution, especially when businesses reach peak complexity during the crossing-over point of both tax systems.

Sophisticated end-to-end technology is the only way to overcome such monumental change, both during the transitional period and long after the reform's initial disruption has faded into memory.

In a recent survey conducted by StudioID on behalf of Sovos, 95% of respondents believe that accurate real-time data reporting within and outside of a company is important or extremely important to improving tax and compliance operations.

Furthermore, 94% of the same respondents stated that they strongly agreed or agreed that tax compliance systems and business processes make it possible to get insightful data about their business.

Effective business intelligence is critical to overcoming Brazil's tax reform, but that alone isn't enough. Specialist local knowledge, on-the-ground experience and technical capabilities for tax determination, e-invoicing and reporting are all vital in the face of change.

Throwing people at the problem isn't a possibility, especially because any additional team resources will need to be reallocated once the reform has passed. Tis costs money, takes precious time and comes with a host of other challenges.

Working with a technology-augmented partner already familiar with Brazil's retiring tax system as well as the exciting new tax era that is on the horizon is the only way to effectively prepare and overcome the change.

Contact our Brazilian tax experts to start your preparation today. We are here to help.

"Brazil's tax system could be described as having the bureaucracy of Portugal's and the complexity of France's system.

Every municipality has different reporting characteristics and while standardization is on the horizon, the rules aren't in place yet and it's idealistic to think that there won't be differences across the country.

Doing this manually without technology is impossible."

Rafael Cavalcanti
Sales Senior Director at Sovos

About Sovos

Sovos is transforming tax compliance from a business requirement to a force for growth. Our flagship product, the Sovos Compliance Cloud platform, enables businesses to identify, determine, and report on every tax obligation across the globe. Sovos processes 16 billion+ transactions per year, helping companies scale their compliance strategy in almost 200 countries.

More than 100,000 customers – including half the Fortune 500 – trust Sovos' tax and regulatory expertise and unparalleled integration with their business applications. Learn more at sovos.com.

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