

Brazil's Social Contribution on Net Income for Brazilian banks increases 1 March 2020

EY Tax News Update: Global Edition

EY's Tax News Update: Global Edition is a free, personalized email subscription service that allows you to receive EY Global Tax Alerts, newsletters, events, and thought leadership published across all areas of tax. Access information about the tool and registration [here](#).

EY Americas Tax

EY Americas Tax brings together the experience and perspectives of over 10,000 tax professionals across the region to help clients address administrative, legislative and regulatory opportunities and challenges in the 33 countries that comprise the Americas region of the global EY organization. Access more information [here](#).

Through Constitutional Amendment (EC) No. 103, known as the Pension Reform, published on 13 November 2019, Brazil increased the Social Contribution on Net Income (CSLL) rate applicable to banks from 15% to 20% beginning 1 March 2020. After the increase, the total nominal tax rate on the income of Brazilian banks will go from 40% to 45% (income tax and CSLL).

The increase will not apply to other types of Brazilian financial institutions, such as securities distributors and broker dealers.

Brazilian banks should apply the CSLL 15% tax rate until 29 February 2020, and the 20% tax rate beginning 1 March 2020. The Brazilian tax authorities will issue regulations on the method for calculating the CSLL and the adjustments to be made in 2020. The regulations will provide much-needed guidance, as many Brazilian banks received assessment notices when the CSLL rate was previously increased in 2015.

Brazilian banks should revisit the deferred taxes recorded on their balance sheets, considering the realization period and the tax rate increase. The adjustment of deferred taxes may affect Brazilian banks' profits and losses in 2019 because of the recognition of income and expenses arising from this adjustment.

Additionally, to prepare for the new CSLL tax rate, Brazilian banks should consider:

- ▶ Reviewing 2020 revenue and expense projections
- ▶ Corporate restructuring
- ▶ Analyzing the effect of the increase on foreign tax credits (e.g., US)

For additional information with respect to this Alert, please contact the following:

Ernst & Young Assessoria Empresarial Ltda, São Paulo

- ▶ Ana Luiza Lourenco analuiza.lourenco@br.ey.com
- ▶ Diego Vargas diego.vargas@br.ey.com
- ▶ Rafael Amorim rafael.amorim@br.ey.com

Ernst & Young LLP (United States), Latin American Business Center, New York

- ▶ Gustavo Carmona Sanches gustavo.carmona1@ey.com
- ▶ Tiago Aguiar tiago.aguiar@ey.com
- ▶ Stefania Dalfre stefania.dalfre1@ey.com
- ▶ Marcus Segnini marcus.segnini1@ey.com
- ▶ Ana Mingramm ana.mingramm@ey.com
- ▶ Enrique Perez Grovas enrique.perezgrovas@ey.com
- ▶ Pablo Wejcman pablo.wejcman@ey.com

Ernst & Young LLP (United Kingdom), Latin American Business Center, London

- ▶ Luciana Rodarte luciana.rodarte@uk.ey.com
- ▶ Jose Padilla jpadilla@uk.ey.com

Ernst & Young Tax Co., Latin American Business Center, Japan & Asia Pacific

- ▶ Raul Moreno, *Tokyo* raul.moreno@jp.ey.com
- ▶ Luis Coronado, *Singapore* luis.coronado@sg.ey.com

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EY Americas Tax

© 2019 EYGM Limited.
All Rights Reserved.

EYG no. 001194-19Gbl

1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com