

Global Tax Alert

News from EY Americas Tax

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

EY Tax News Update: Global Edition

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EY Americas Tax

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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 |

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