

# Indirect Tax Alert

News from EY Americas Tax

## Brazil's proposed federal VAT would increase tax rates for Brazilian banks and other financial institutions

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Bill 3,887/20 proposed by the Brazilian Government on 21 July 2020 would replace the PIS and COFINS (Social Security Contributions on Sales) with a new tax, the Contribution on Goods and Services (CBS for its Portuguese acronym). The CBS is intended to work as a federal value-added tax (VAT). If enacted, the CBS would be effective the first day of the sixth month following enactment of the law, and the PIS and COFINS would cease to exist.

### Impact on banks and other financial institutions

Under the bill, Brazilian banks and other financial institutions, such as insurance and reinsurance companies, securities brokers and leasing companies, among others, would be subject to the CBS tax rate of 5.8% (an increase of 1.15 percentage points compared to the current 4.65% PIS and COFINS combined rates). See EY Global Tax Alert, [Brazilian Government proposes new federal VAT as first phase of comprehensive tax reform](#), dated 22 July 2020 for further details on the tax reform and its impact on other taxpayers.

The bill generally would retain the current methodology under which banks and financial institutions determine their PIS and COFINS basis, the cumulative PIS and COFINS regime. The CBS calculation basis refers to the gross-revenue concept, which, like under PIS and COFINS, encompasses proceeds from the sale of products and services, such as interest income, trading gains, and any other revenues directly related to the taxpayer's key activities.

For non-taxable items and deductions for financial institutions, the bill introduces a few changes to the existing rules – these changes require further discussion and evaluation to determine how they would impact the overall tax burden for financial institutions. For example, it is unclear whether the CBS would apply to equity investments proceeds (e.g., dividends, interest on net equity, and equity pickup) received by financial institutions. Notably, under the CBS, financial institutions will not be allowed to offset input tax credits on the purchase of goods and services from vendors.

The bill would expand the list of financial institutions by adding, for CBS purposes, other financial industry players such as the direct credit companies (SCDs). SCDs are not included in the list of financial institutions under the current PIS and COFINS regime.

Under the bill, taxpayers under the non-cumulative tax regime, i.e., customers, would not be able to take tax credits for services retained from banks and financial institutions. This would be a similar result as currently exists under the PIS and COFINS regime.

## Next steps

Both chambers of the National Congress (i.e., Chamber of Deputies and Senate) still need to discuss and approve the bill, in different voting rounds. The legislative process usually takes time in Brazil, and the current wording of the bill may be changed during this process.

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