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Global Tax Alert

News from Americas Tax

Brazil's Minister of Finance announces intention to levy tax on payments and financial transactions at a rate that may be between 0.2% and 1%

As part of the tax reform discussions in Brazil, the Minister of Finance, Paulo Guedes, confirmed that President Jair Bolsonaro's Administration intends to create a new tax that would be levied on payments and financial transactions. The tax could be similar to the previous provisional contribution on financial transactions (CPMF – *Contribuição Provisória sobre Movimentação Financeira*), but potentially with a broader scope.

According to the Minister, the tax on financial transactions (*Imposto sobre Transacoes Financeiras* – ITF) would be imposed on any payments and financial transactions, regardless of whether they have an economic purpose, and it could generate revenue of up to BRL150 billion (approx. US$36 billion) a year. Members of the Ministry of Finance indicated that tax collection would be focused on banks and other financial system agents.

The Administration will propose an ITF rate, which will depend on the taxes it is intended to (partially) replace, as follows:

- If a 0.2% ITF rate is imposed, the employer's contribution rate to Social Security (INSS contribution) could be reduced from the current 20% to 13%.
- If the ITF rate is 0.4%, the social contribution on net profits, currently levied at 9% on the adjusted profits of legal entities, could be eliminated, on top of the INSS rate reduction.
- A rate of 1% could then also replace indirect taxes currently in place in Brazil.

Regardless of the Administration's proposed rate and taxes to be replaced, Congress will ultimately determine the ITF rate, as well as what taxes may be replaced by it.

The fact that the ITF resembles the CPMF, a tax that was levied on certain financial transactions for 10 years and eliminated in 2007, has elicited many negative reactions. Many economists note that the ITF – which applies even to simple bank deposits -- is cumulative, taxing Brazilian reals at every stage, thereby imposing a heavier burden on the less wealthy. It may also drive transactions to a cash basis to avoid the tax, as opposed to completing transactions through the financial system. Thus, the ITF could affect compliance in several areas. The effects for businesses must still be assessed.

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