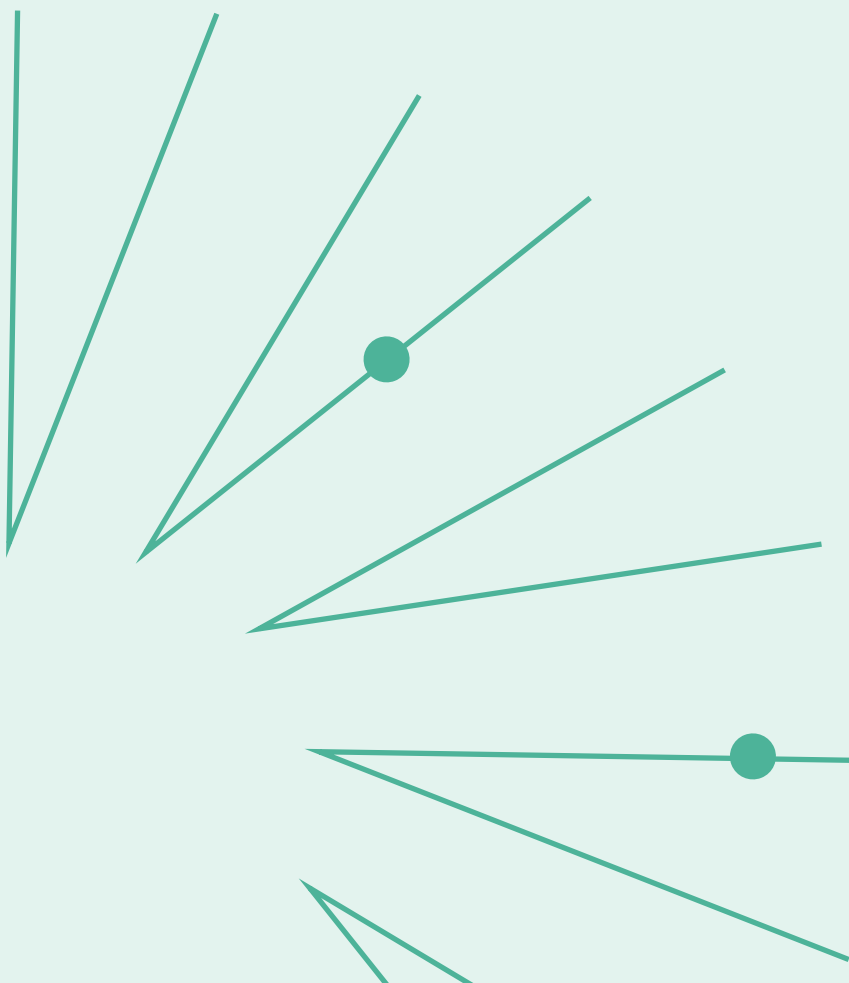


THOMSON REUTERS INSTITUTE

Brazil Tax Reform

Insights, challenges, and opportunities
for corporate tax professionals




Executive summary

Brazil is at the edge of a historic tax reform that has been under discussion for many years and was finally approved in December 2023 by the National Congress. The timeline for the transition to the new model is planned to happen over different stages or phases. The most significant period for taxpayers is expected to be from 2026 to 2032, or approximately seven years. Presently, Brazil is considered to be a country with a highly complex tax system, and its tax burden is characterized by being much higher compared to other countries with similar income levels.¹

The purpose of the tax reform in question is to simplify the tax system and combat the inefficiencies that currently exist as well as prevent fraud and tax evasion, all of which are said to be undermining the competitiveness and economic potential of the country. Among the most important features of the reform is the replacement of the current overlapping taxes at the federal, state, and local levels with a dual Value-Added Tax (VAT) composed of the Goods and Services Tax (IBS) and the Contribution on Goods and Services (CBS). In addition, the reform introduces a new excise tax (IS) aimed at regulating specific goods and services that are considered to have significant negative health and environmental impacts, as well as creating tax reductions on transactions with certain products.

The majority of respondents agree that investment in tax management solutions is projected to be the main spending category in corporate tax and fiscal departments over the next six months to two years.



Professionals in corporate tax departments will play a key role in the transition and adoption of the new tax regime in the business and corporate landscape in Brazil. This report aims to offer readers insight into the awareness, preparation, and perspectives that these professionals have about the progressive development. Further, it seeks to examine the main challenges and opportunities that the tax reform presents for the industry.

Research results revealed that, among the corporate tax professionals interviewed, more than half classified their organizations as being in an early stage of adaptation to the reform. Yet, a plurality of respondents said they estimate a high impact on their activities because of the new changes. This impact is expected to develop into a positive one, but they note there are also negative changes. Moreover, an analysis of professionals' satisfaction opinions identified certain areas of opportunity for corporate tax departments to make the transition smoother.

Technology systems and tools are anticipated to be of pivotal help for professionals in optimizing time and costs as well as minimizing risk in the transition to the new tax regime. Respondents' expectations around tax management systems highlighted the importance of conducting continuous updates to align with new regulations, as well as the need for increased automation and accuracy in tax calculations, generation of ancillary obligations, and tax assessments. The majority of respondents also agreed that investment in these solutions is projected to be the leading spending category in corporate tax departments over the next six months to two years.

¹ Orais, R. 2023. *The Brazilian Tax System: A Diagnostic Review and Reform Possibilities*. UNDP LAC (United Nations Development Programme Latin America and the Caribbean). Policy Documents Series No. 43. <https://www.undp.org/latin-america/publications/brazilian-tax-system-diagnostic-review-and-reform-possibilities>.

The tax reform will mark an unprecedented shift in the way businesses operate in Brazil. The complete adaptation to the new regime will require effort, time, and resources, especially from those who will be at the forefront of this change, like corporate tax professionals. Still, expectations around the tax reform and the potential benefits that it will bring to the Brazilian economy are positive in many cases. Organizations will be able to experience a smooth and successful transition if they leverage technology, engage in proper financial and time planning, and conduct proper due diligence.

Key findings

- Evidence from survey results suggested that the reform is still at an initial stage in the corporate landscape. More than half of respondents (54%) identified their organizations as beginners in the context of the reform, meaning they are still collecting information about the changing rules and keeping up with new developments. Despite this, 90% said they anticipate a medium- to very high-impact on their operations.
- The replacement of the older tax regimes (ISS/ICMS and PIS/COFINS)² by IBS and CBS, respectively, are likely to have the greatest impact on organizations, our survey showed. These changes are expected to impact positively in the form of a decrease in tax complexity and a simplification of ancillary obligations, which have the potential to increase competitiveness and efficiency in the business environment in Brazil. However, corporate tax professionals also identified a potential increase in tax burdens and increased costs to learn, adapt, and change systems with the new rules as their top concerns about the reform.
- Regarding satisfaction levels with current and planned structures to deal with the reform, respondents suggested that the two biggest areas of opportunity in corporate tax departments will likely be team size and budget. Our findings also showed that the majority of respondents said they expect investment in talent training to increase over the next six months. From this, we can deduce that corporate tax professionals anticipate that their organizations will focus on enhancing training and improving the quality of the personnel who will manage the transition. Nevertheless, the upcoming overload of work is something that worries many professionals, so expanding their headcount may be a good strategy, too.
- The sentiment towards technology appears to be largely positive in tax corporate departments. At least 52% of respondents said they use or think it is necessary to use scenario-simulations tools for optimal pricing strategies under the new reality. In addition, continuous updates with new rules and increased automation and accuracy in updated tax calculations, generation of ancillary obligations, and tax assessment were regarded as the two most valuable changes in fiscal management solutions.
- Survey results also indicated that corporate tax professionals expect investment to peak within six months to two years and slow down over the next four to nine years. In the short term, more than half of respondents said they foresee increases in external consultancy and talent training investments. For the middle and long term, investment expectations primarily converge on tax management solutions, process updates, and external consultancy.

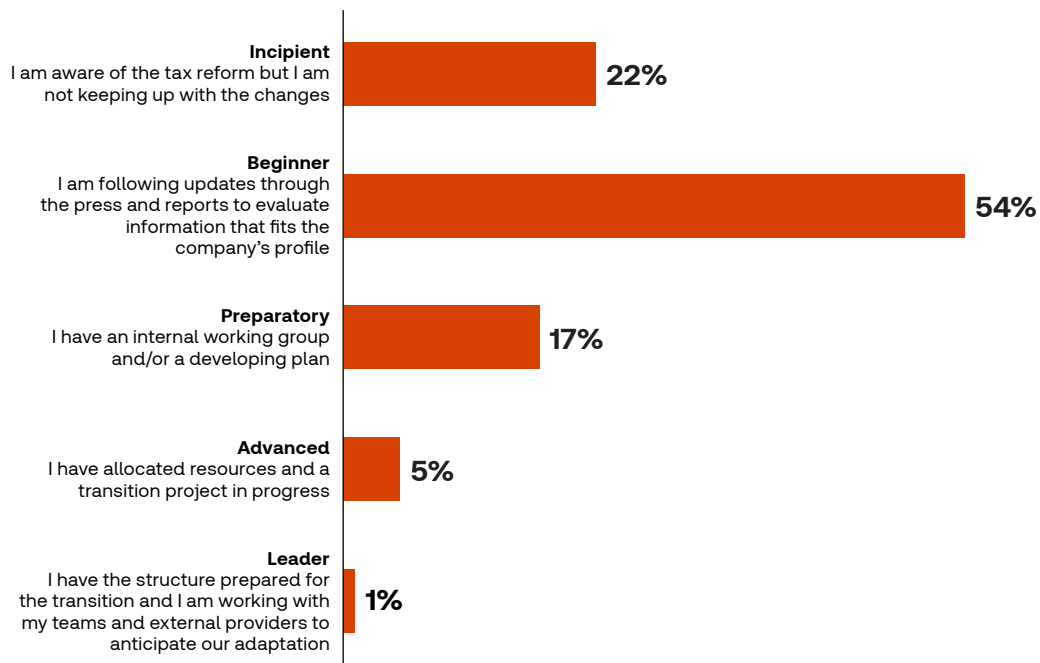
² Service Tax (ISS), Tax on the Circulation of Goods and Services (ICMS), Program of Social Integration (PIS) and Contribution for the Financing of Social Security (COFINS).

Awareness and expectations

The tax reform will have a substantial effect in the business and corporate framework in Brazil. The reform was finally approved in December 2023, and a transition period of seven years has been outlined, starting in 2026 and ending in 2032. Despite the early stage of the reform, it is valuable to understand the views and perceptions of corporate tax professionals, who will be at the forefront of this transformative change.

As mentioned earlier, more than half of respondents (54%) ranked their firms as *beginners* in terms of the level of preparation at the time the survey was held. This group acknowledged that their companies are still in the phase of evaluating information obtained mainly from the press and reports that has the potential to impact them. On the other hand, 23% of respondents reported that their departments are in a *preparatory* phase or higher and are actively allocating resources and developing an implementation plan for their organizations. The rest (22%) classified their companies as being at an *incipient* stage, meaning they were aware of the reform but were not keeping up with changes.

FIGURE 1:
Level of familiarity/preparedness

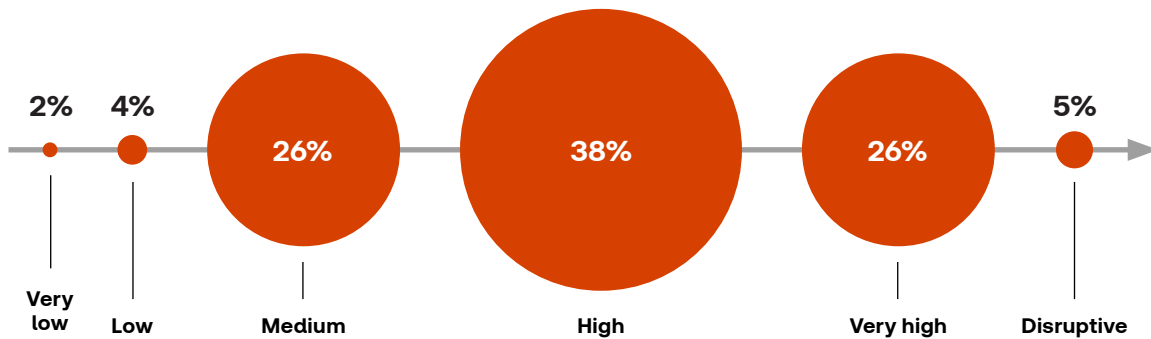


Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

Survey results also showed that corporate professionals expect the tax reform to affect their organization to different degrees, with the greatest proportion of them anticipating a high impact. Indeed, 90% of the respondents assume their businesses will experience a medium to very high impact. And while 6% consider that the impact will be low or very low, 5% project a completely disruptive effect in their organizations.

FIGURE 2:
Expected overall level of impact from the Tax Reform



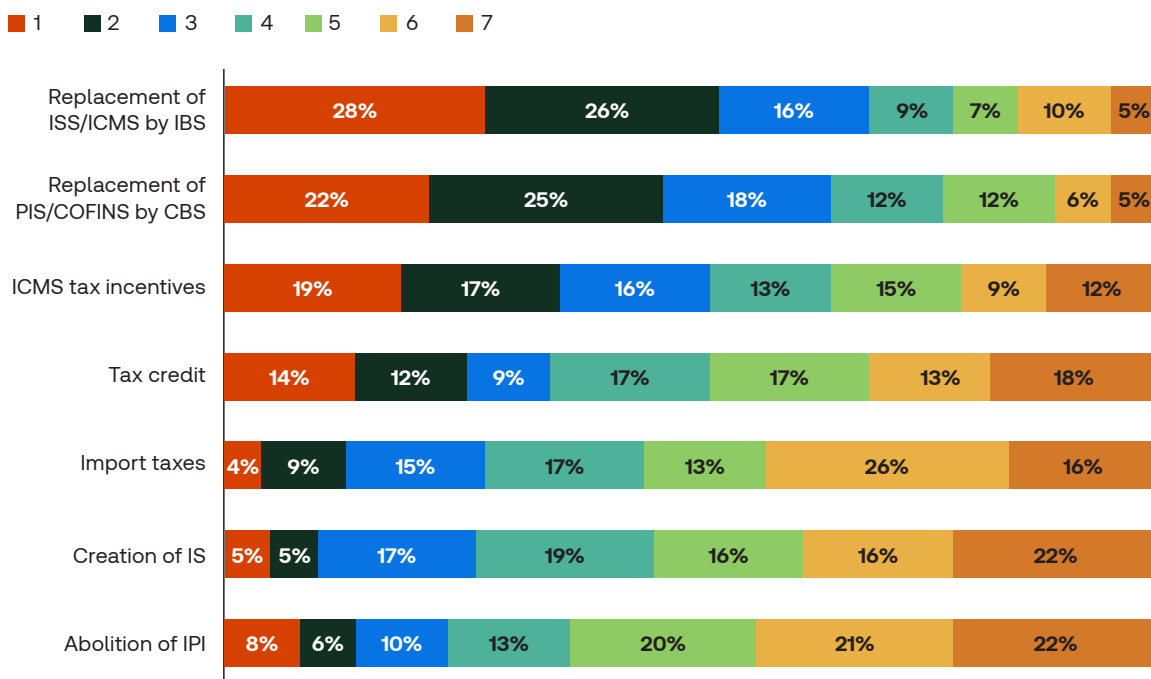
Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

To analyze where the impact of the reform is most anticipated to come from, corporate tax professionals were asked to select and rank several options according to their expected level of impact. The replacement of the current taxes ISS/ICMS by IBS was most cited by respondents to be the most impactful, followed by the replacement of the taxes PIS/COFINS by CBS. The creation of IS as well as the abolition of IPI³ were regarded by most as the least impactful.

FIGURE 3:
Expected level of impact from specific changes

Ranked topics according to expected level of impact (1 - most impactful; 7 - least impactful)



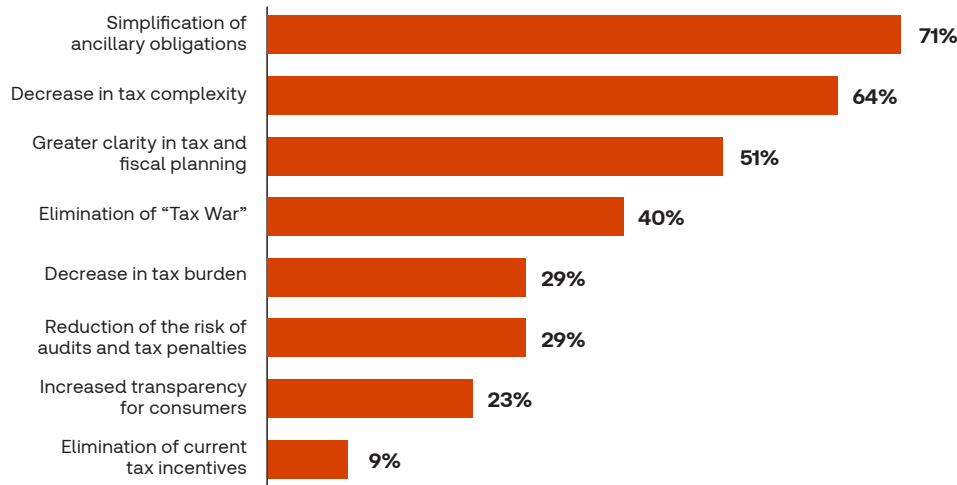
Source: Thomson Reuters 2024

3 Tax on Industrialized Products (IPI).

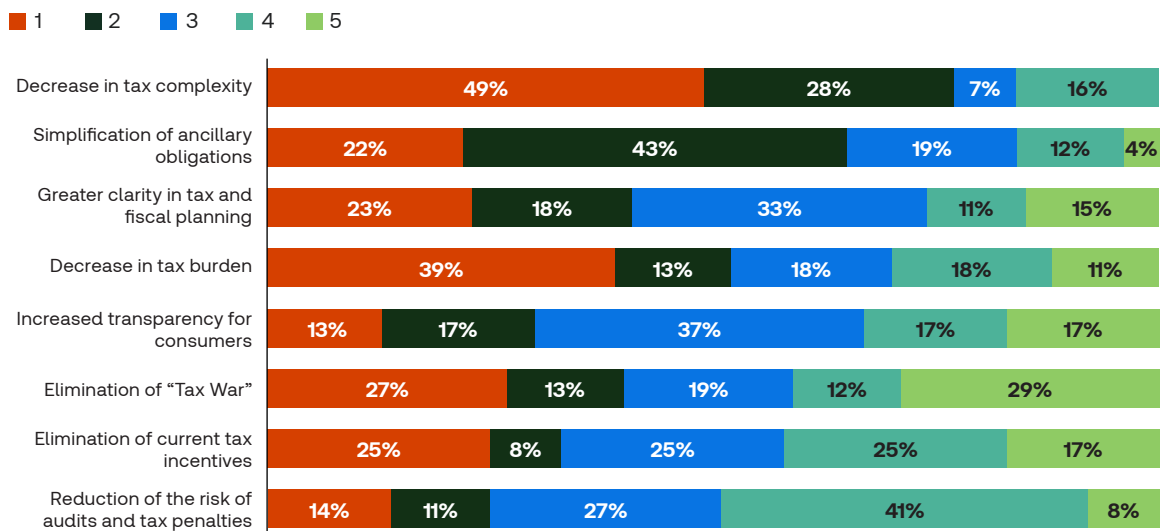
The underlying goal of the tax reform in Brazil is to address inefficiencies and complexities within the existing system. Naturally, changes like this come with both opportunities and difficulties. For corporate tax professionals, the three most popular expected *positive* changes from the tax reform are the simplification of ancillary obligations, a decrease in tax complexity, and greater clarity in tax and fiscal planning.

FIGURE 4:
Expected positive changes

Most popular expected positive changes



Ranked topics according to most positive impact (1 - most positive; 5 - least positive)



Source: Thomson Reuters 2024

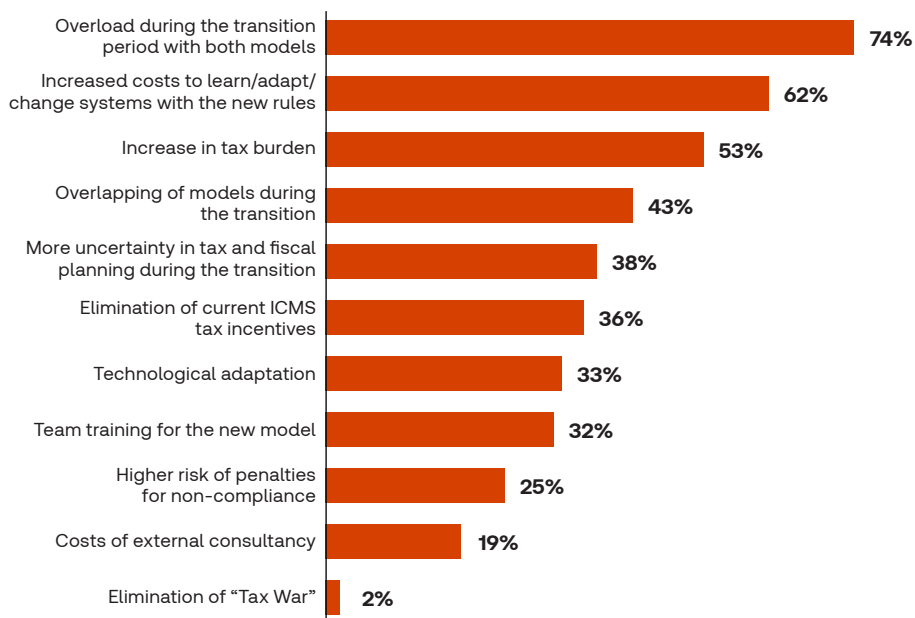
Corporate tax professionals were also asked about the biggest challenges they expect to face because of the reform. The top three most-cited *negative* changes were work overload due to operating both models, increased costs associated with learning and adapting systems to the new rules, and a rise in the tax burden. Regarding the degree of impact, respondents highlighted an increase in the tax burden as the most negative change. This is a surprising result given that one of the main initiatives of the reform is to simplify and make the tax system more efficient in

order to prevent issues like cascading taxation, as well as reduce taxes on transactions involving specific goods or services. However, an increase in the tax burden of the dual-VAT may be related to the fixed reference tax rate (the current government estimate is 26.5%), elimination of tax incentives, and low volume of credits for some specific segments, especially the service sector, which is a large component of Brazil's GDP.

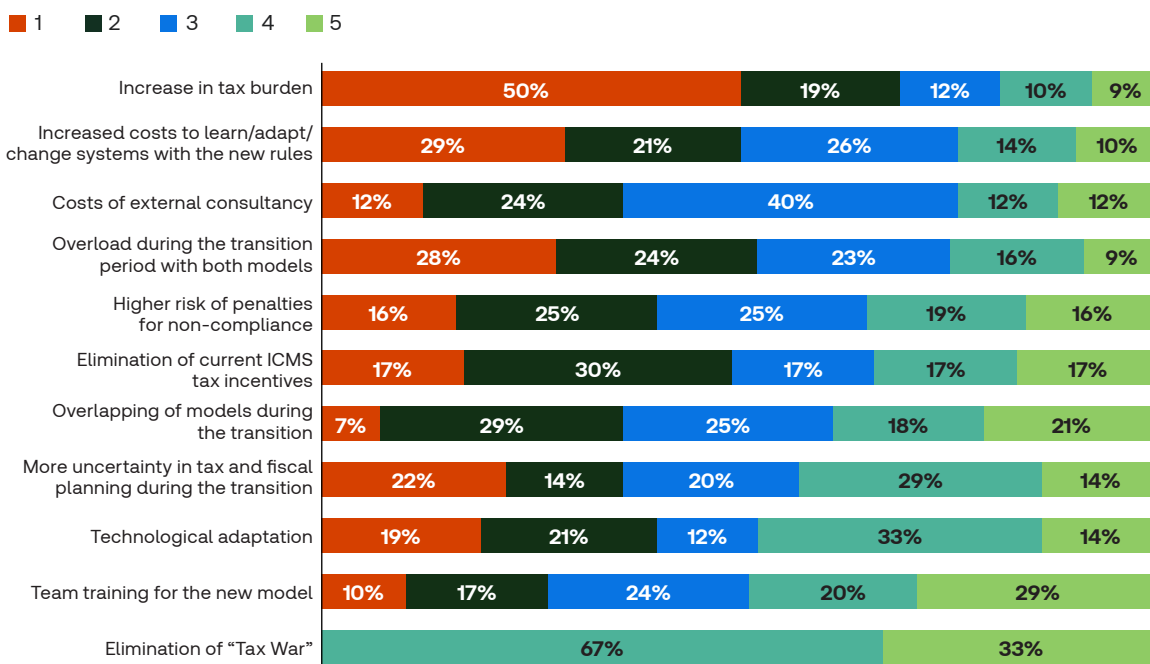
FIGURE 5:

Expected negative changes

Most popular expected negative changes



Ranked topics according to most negative impact (1 - most negative; 5 - least negative)



Source: Thomson Reuters 2024

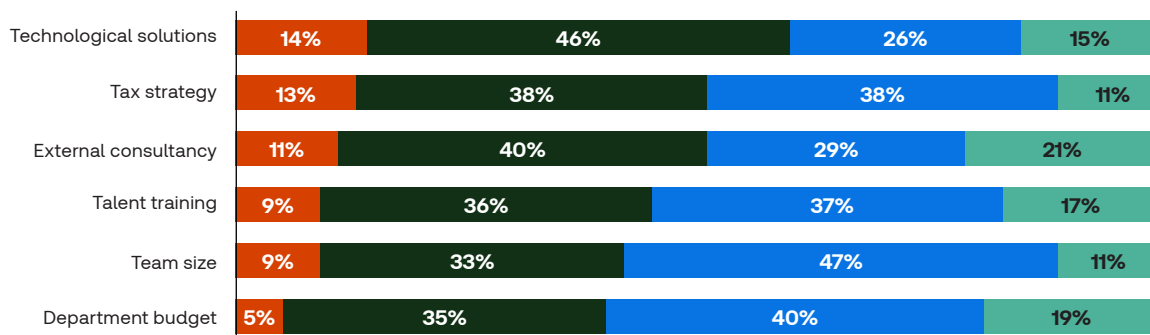
As corporate tax professionals will be leading players in the process, it is important to understand whether they feel comfortable with the support they are receiving from their organizations to face the upcoming challenges. Therefore, we asked respondents about their satisfaction levels around their organization's current plan to handle the reform. The results reveal that team size and department budget are the areas in which satisfaction is lowest, presenting a key opportunity for improvement in corporate tax.

Indeed, given these satisfaction levels, it would be wise for companies take several key steps to improve this, including: deepening the knowledge about the impact of the reform; planning for the adoption of the new tax regime; involving the technology, accounting, and finance areas in that process; and raising awareness among top management about the need for investment to support the migration to the new tax model.

FIGURE 6:

Satisfaction with the organization's transition planning

■ High ■ Medium ■ Low ■ None



Source: Thomson Reuters 2024

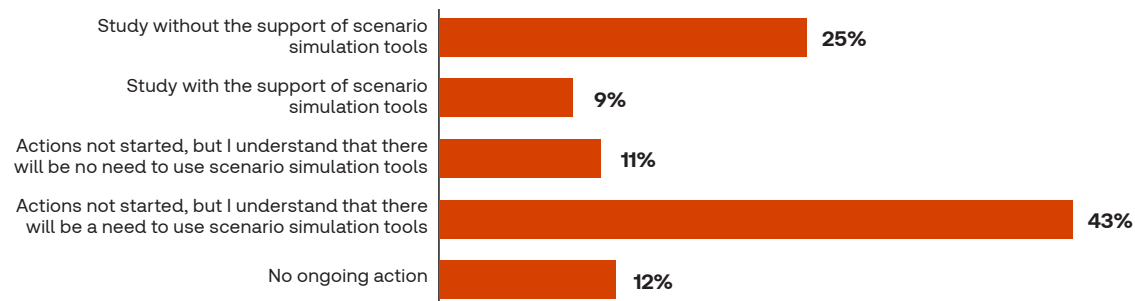
Ongoing actions

When asked about the actions that their companies are currently performing to factor the impact of the reform into the prices of their products and services, respondents offered mixed replies. While 34% of respondents said their companies are already engaging on this matter, the majority reported that their organizations did not have any ongoing activity at the moment.

Interestingly, more than half (52%) of respondents said they consider it important to use scenario-simulation tools to assess the impact of the new tax model on their prices. Contrarily, 36% said they are not using such tools nor do they think these tools are necessary.

FIGURE 7:

New model impact assessment



Percentages may not total 100% due to rounding.

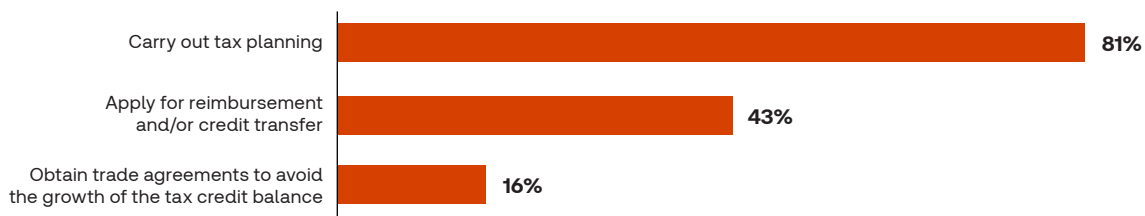
Source: Thomson Reuters 2024

Tax credit balance

During the transition period of the tax reform, the previous taxes are set to gradually disappear until becoming extinct by the beginning of 2033. By this time, if organizations hold ICMS credits, they will be able to use them to reduce IBS liabilities in a period of 240 installments, equal to 20 years. We asked professionals to identify all the actions that their companies intend to do to offset these credits. A large majority (81%) of respondents said they plan to engage in tax planning, 43% aim to apply for reimbursement and/or credit transfers, and 16% intend to secure trade agreements to prevent increases in their tax credit balances.

FIGURE 8:

Actions to reduce or eliminate ICMS credit



Source: Thomson Reuters 2024

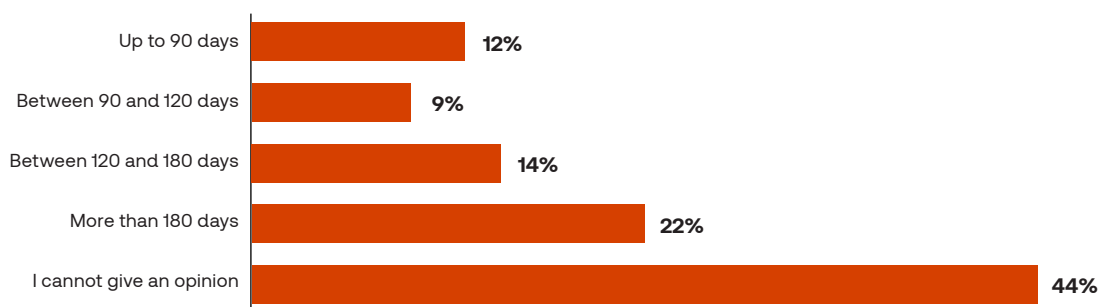
Tax management systems

Tax management systems are software solutions created to help individuals or businesses manage their tax processes more efficiently and to better comply with legal tax obligations. These systems are particularly useful in ensuring accuracy, saving time, and reducing the risk of human error or non-compliance. These tools will undoubtedly play an important role in assisting corporate tax departments to optimize time and reduce costs involved in the transition between the two tax models.

We asked corporate tax professionals to estimate the time their organizations would need to adapt their tax management systems to the new rules, after the publication of the Complementary Laws and other regulatory norms related to the new tax obligations brought by the reform. Interestingly, respondents were quite inconsistent regarding their expected timeline to adjust their tax management systems to the new regulations. Responses ranged from more than 180 days (with 22% saying this) to just up to 90 days (12%). And nearly half of respondents (44%) said they were unsure about what the timeline may look like for their organization.

FIGURE 9:

Timeline expectations to adapt tax management systems



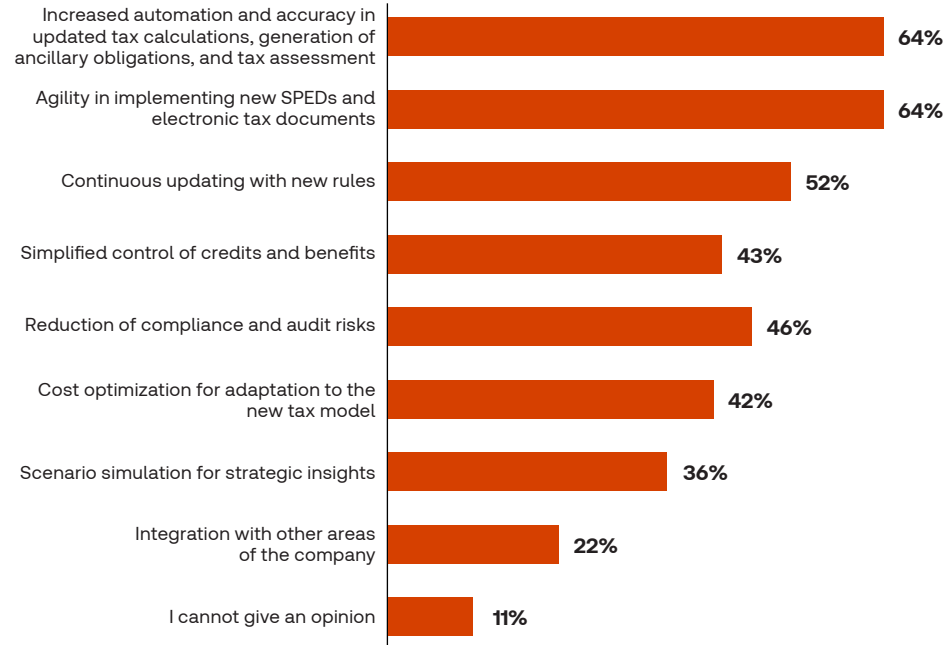
Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

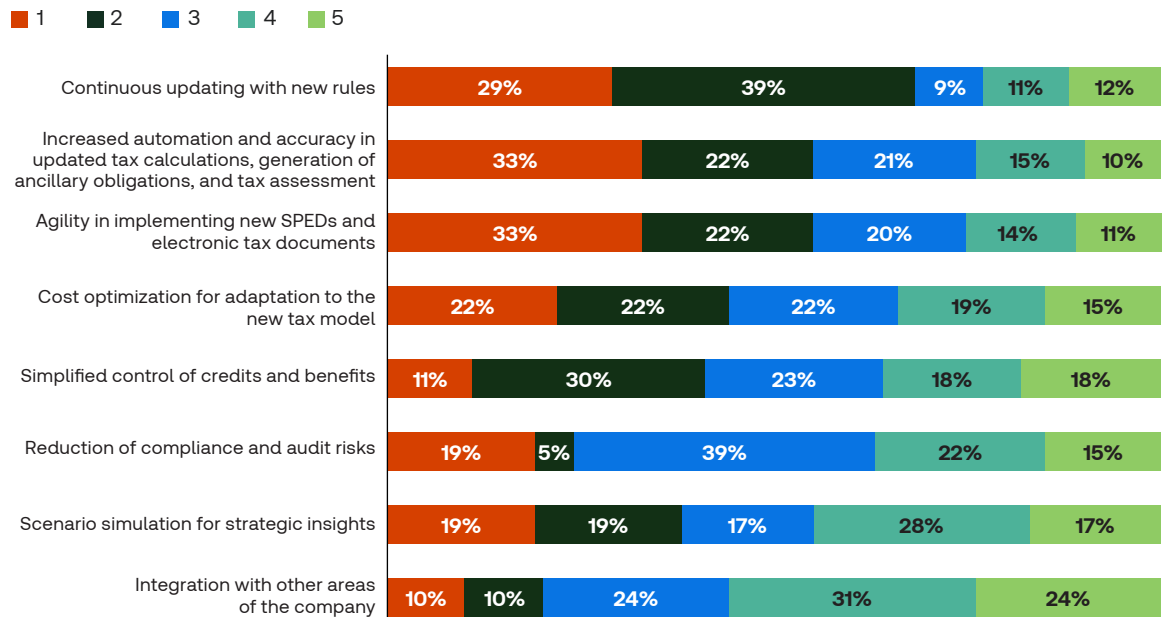
When asked to select and rank their expectations around tax management solutions given the impact of the reform, almost two-thirds of respondents (64%) cited both *increased automation and accuracy in updated tax calculations, generation of ancillary obligations, and tax assessment* and *agility in implementing new SPEDs and electronic tax documents* as the two most popular expectations. Yet, respondents considered the ability to continuously update the new rules within their tax management solutions as the most important task they face.

FIGURE 10:
Expectations regarding tax management systems

Most popular expectations



Ranked topics according to level of importance (1 - most important; 5 - least important)



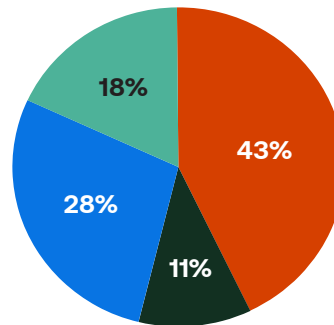
Source: Thomson Reuters 2024

Finally, we asked about corporate tax professionals' perceptions on how the introduction of new taxes like IBS, CBS, and IS will affect existing electronic tax documents. The most common response, cited by 43% of respondents, was that current tax documents will be replaced by a new model that incorporates both old and new taxes. This was followed by 28% of respondents saying that current tax documents will be maintained, and new ones will be created.

FIGURE 11:

Expected impact on current electronic tax documents

- Current tax documents will be replaced by a new model that includes both old and new taxes
- Current tax documents will be maintained with addition of new fields
- Current tax documents will be maintained, and new documents will be created
- I cannot give an opinion



Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

Investment and budget to support changes

With a new tax framework on the horizon, organizations should start planning financially for optimal implementation. We asked corporate professionals how their departments are adjusting investment to ensure compliance, minimize risk, remain competitive, and adapt to the forthcoming changes. Specifically, we inquired whether respondents expected investment in different categories to increase, decrease, or remain constant in four different time periods: the next 6 months; between 6 months and 2 years; between 2 and 4 years; and between 4 and 9 years.

According to respondents, corporate tax departments' overall investment expectations reach their highest point in the 6-months-to-2-years period, and slowdown in the 4-to-9-year period. More than half of the respondents said they expect only external consultancy (53%) and talent training (51%) investments to rise over the next 6 months. About two-thirds of respondents (66%) said that investment in tax management solutions is the leading category projected to increase over the next 6 months to 2 years, followed by process updates and external consultancy with equal expectations (62%).

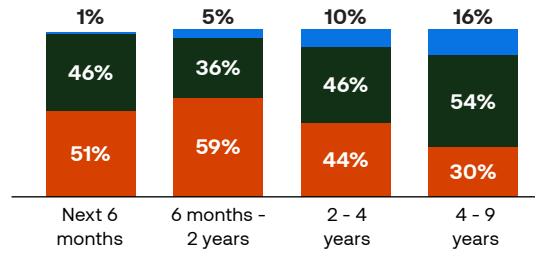
And at least half of respondents said they estimate that only tax management solution investment will continue expanding in 2 to 4 years. Finally, a plurality of respondents in all categories — except for talent training, which had a majority — anticipate investment over the next 4 to 9 years to stay unchanged.

These results could suggest that corporate tax departments might initially focus on developing a well-structured action plan with the support of external consultancy services, that will include training the professionals who will lead the organization's transition. Following that, investing in areas such as process updates and tax management solutions will enable these prepared professionals to effectively execute the defined transition plan.

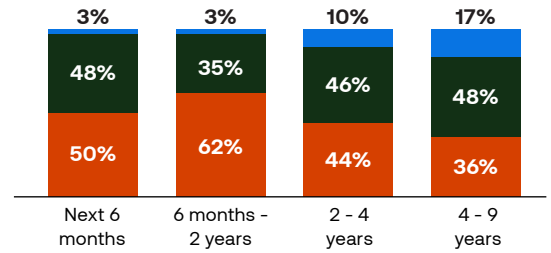
FIGURE 12:
Investment expectations

■ Increase ■ Remain the same ■ Decrease

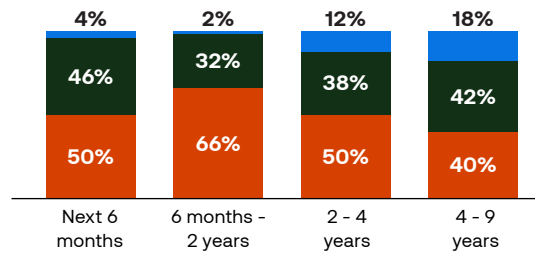
Talent training



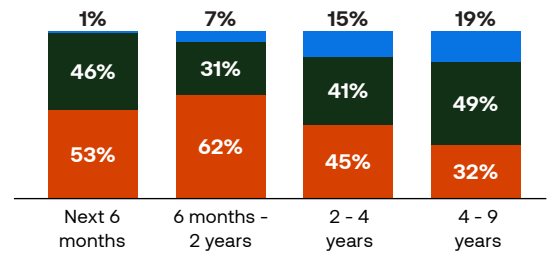
Process update



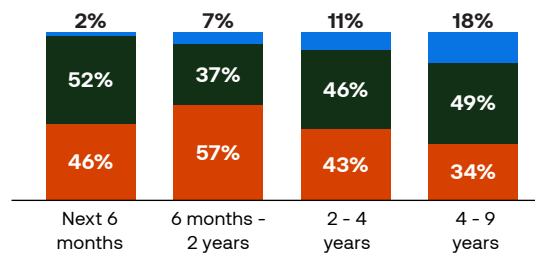
Tax management solution



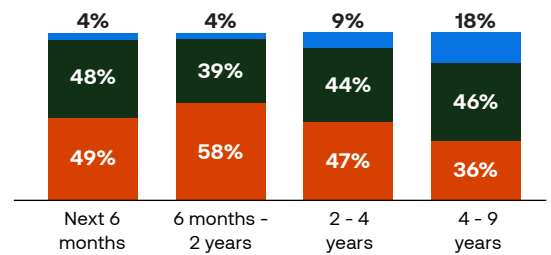
External consultancy



Audit and compliance



ERP (Enterprise resource planning)



Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

Conclusion

Professionals from corporate tax departments will be pivotal in guiding organizations in Brazil through the transition and adoption of the new tax regime as the reform is expected to significantly impact companies' operational and administrative systems.

The impact of the tax reform in Brazil will most likely be high in corporate tax departments, according to survey results from professionals in the industry. Based on their expectations, the main objectives of the tax reform will materialize and affect them in varying forms. Indeed, professionals are optimistic about the simplification and reduced complexity in their tax processes that the reform will bring. Nevertheless, many respondents also acknowledge that the transition to the new regime will require additional effort, work, and increased costs to learn and adopt the new regulations.

The majority of respondents are still in the early preparation phase of reading and studying the changes introduced in Brazil's tax regime by the reform and the impact they will have on their businesses. Yet, at least half of our sample respondents project that their organizations will expand their investment in certain areas as a plan to prepare for the changes at specific time periods. In the first 6 months, they anticipate an increased investment in talent training and external consultancy. In the subsequent 6 months to 2 years, they project investment growth in process updates and tax management systems, and they expect investment in this latter category to continue increasing in 2 to 4 years.

Survey findings also suggest that many corporate tax professionals plan to rely on and leverage tech tools and systems in the coming months to help them minimize risk and error, as well as optimize time and work. The importance of these tools and systems for the transition will lie in their ability to continuously update with the new rules and accurately automate calculations and tax assessments, respondents' expectations revealed.

Professionals in Brazil are aware of the challenges that the tax reform will pose. By adopting a structured plan of action, corporate tax professionals can position their organizations to not only navigate through these challenges but also capitalize on new opportunities that may arise from the changes.

Corporate tax professionals in Brazil can optimize their organizations' transition and adoption of the new tax framework through strategic talent training, budget planning, and support of tax management systems.



Strategic recommendations to keep in mind

- **Establishing tax management systems:** Understand how the solutions will be adapted to incorporate the new rules introduced by the tax reform, mainly regarding *Split payment*⁴ controls.
- **Staying informed and educated:** Continuously monitor information related to the tax reform through the press and other reports, as well as the progress of new complementary laws under discussion in the Brazilian National Congress. Understanding the proposed changes and their implications will be crucial for carrying out planning and ensuring compliance with all the new rules.
- **Enacting scenario planning and impact analysis:** Develop scenarios based on potential outcomes to create flexible strategies that can be adjusted with the changing tax regulation and conduct impact analysis to understand how different areas of the business will be affected.
- **Leveraging technology and automation:** Invest in and leverage technology tools and software to assist professionals in adopting the new system, optimizing time and costs, ensuring compliance, and minimizing risk and human error.
- **Training and developing talent:** Ensure that the organization's teams are well-trained and up to date with the latest regulations. Encourage colleagues and other professionals to be open to change and ready to implement new strategies as the tax reform evolves.
- **Engaging with experts in different areas:** Collaborate with external advisors and legal experts to gain deeper insights and specialized knowledge. This can guarantee comprehensive analyses and risk mitigation strategies that address all aspects of the organization affected by the reform, including legal, compliance, and financial considerations.

Methodology

The data for this report was gathered from professionals in corporate tax departments in Brazil about their awareness, expectations, and readiness for the upcoming tax reform. A total of 129 industry professionals responded to the survey. In an effort to gather the data for this report, a seven-minute online survey was conducted over the course of April and May 2024. Additionally, an open survey link was also made available to participants on a Thomson Reuters website.

⁴ Under the new model, the tax credits will be conditional upon the confirmation of the actual payment of VAT (cash basis) as evidenced in the electronic invoicing documents. The most common form of payment will be through the Split Payment method, in which financial institutions, when settling the financial transactions of the invoices, will transfer the tax amounts directly to the tax authorities. These authorities, in turn, will provide taxpayers with confirmation of the tax payment for each transacted invoice.

Credits

Edinilson Apolinario

Director of Product and Corporate Content, LatAm
Thomson Reuters
São Paulo, Brazil
Edinilson.Apolinario@thomsonreuters.com

Regina Lopez

Industry Data Analyst, Financial Insights & Thought Leadership
Thomson Reuters Institute
Mexico City, Mexico
Regina.Lopez@thomsonreuters.com

Thomson Reuters

Thomson Reuters is a leading provider of business information services. Our products include highly specialized information-enabled software and tools for legal, tax, accounting and compliance professionals combined with the world's most global news service – Reuters.

For more information on Thomson Reuters, visit tr.com and for the latest world news, reuters.com.

Thomson Reuters Institute

The Thomson Reuters Institute brings together people from across the legal, corporate, tax & accounting and government communities to ignite conversation and debate, make sense of the latest events and trends and provide essential guidance on the opportunities and challenges facing their world today. As the dedicated thought leadership arm of Thomson Reuters, our content spans blog commentaries, industry-leading data sets, informed analyses, interviews with industry leaders, videos, podcasts and world-class events that deliver keen insight into a dynamic business landscape.

Visit thomsonreuters.com/institute for more details.

