Brazil Tax Reform

Insights, challenges, and opportunities for tax & accounting professionals

Thomson Reuters Institute

Executive summary

Brazil is on the verge of a historic tax reform that has been discussed for many years and was finally approved in December 2023 by the country's National Congress. The schedule for the transition to the new model is planned to take place in several different phases, and the most significant period for taxpayers is expected to be between 2026 and 2032.

Brazil is considered a country with a highly complex tax system, and it levies a tax burden that is much higher compared to other countries with similar national income levels.[1]

The objective of the new tax reform is to simplify the nation's tax system and combat the inefficiencies that currently exist, as well as to prevent fraud and tax evasion, all of which are considered detrimental to 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 municipal levels with a dual Value-Added Tax (VAT), which is composed of the Goods & Services Tax (IBS) and the Contribution on Goods & Services Tax (CBS). Additionally, the reform introduces a new selective tax (IS) intended to regulate specific goods and services that are considered to have significant negative impacts on health and the environment, as well as to create tax reductions on transactions involving certain goods and services.

More than three-fifths of the tax & accounting professionals interviewed categorized their firms as being in the initial stages of adapting to the reform.

The country's tax & accounting professionals will be crucial in facilitating the transition and implementation of the new tax regime within Brazil's business landscape.[2] This report aims to provide readers with insights into the awareness, preparation, and perspectives of these professionals regarding the progressive changes. It also seeks to explore the main challenges and opportunities that the reform presents to the tax & accounting sector.

To facilitate this, we surveyed 179 tax & accounting industry professionals through an online survey conducted during April and May 2024. Additionally, an open survey link was made available on a Thomson Reuters website for respondents to more fully provide insight.

The research results indicated that more than three-fifths of the tax & accounting professionals interviewed categorized their firms as being in the initial stages of adapting to the reform. Despite this, a plurality of respondents said they anticipate that the new changes will have a significant impact on their activities, and that this impact is expected to bring both positive and negative changes. Additionally, an analysis of the professionals' satisfaction opinions highlighted areas for improvement in tax & accounting firms in order to facilitate a smoother transition.

Based on our research, it is expected that technology systems and tools will be essential in helping professionals optimize time and costs, and reducing risks during the transition between changing tax models. Expectations for accounting management systems highlight the need for greater automation and accuracy in tax calculations, the creation of ancillary obligations and tax

1 Orair, 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; available at https://www.undp.org/latin-america/publications/brazilian-tax-system-diagnostic-review-and-reform-possibilities.

2 This report is a companion piece to an earlier report, *Brazil Tax Reform: Insights, challenges & opportunities for corporate tax professionals*, from the Thomson Reuters Institute; available at https://www.thomsonreuters.com/en-us/posts/wp-content/uploads/sites/20/2024/08/2024-Brazil-Tax-Reform-Report.pdf.

assessments, as well as the need for continuous updates to best remain compliant with new regulations. Looking to the future, accounting firms are expected to prioritize investment not only in accounting management solutions but also in talent training and process updates.

The tax reform in Brazil will substantially change business operations, requiring effort, time, and resources, particularly from tax & accounting professionals and their firms. Despite these challenges, the reform is expected to bring benefits to the Brazilian economy. Further, we expect that firms in Brazil can achieve a much smoother transition by training their talent, leveraging technology, engaging in effective financial and time planning, and conducting thorough due diligence.

Key findings

- More than three-fifths (61%) of respondents from tax & accounting firms identified their firms as being in a beginner phase, in which their actions are primarily focused on following updates through the press and industry reports, and then evaluating information that could impact their organizations. However, almost nine-tenths (88%) of respondents said they anticipate a *medium* to *very high* impact on their operations.

- According to the expectations of tax & accounting professionals, the replacement of older tax models (ISS/ICMS and PIS/COFINS)[3] by IBS and CBS, respectively, is likely to have the greatest impact on organizations.

- The most expected positive impacts of the reform are a decrease in tax complexity and the simplification of ancillary obligations. However, among the projected negative effects of the changes are an overload during the transition period between the two models and an increase in the tax burden, survey results showed.

- The survey also suggests that, in terms of satisfaction with the current and planned structures to handle the reform, the two largest areas of opportunity for accounting firms are likely to be team size and budget.

- Expectations around technology are generally optimistic. More than two-fifths (45%) of respondents said they use or find it necessary to use scenario simulation tools for optimal pricing strategies. Additionally, 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.

- The survey results indicated that most tax & accounting professionals expect investment to expand within 6 months to 2 years in their organizations. In the short- to medium-term, most respondents said they foresee increases in talent training, process updates, and tax management solutions. As for longer-term investment prospects, respondents do not anticipate significant changes.

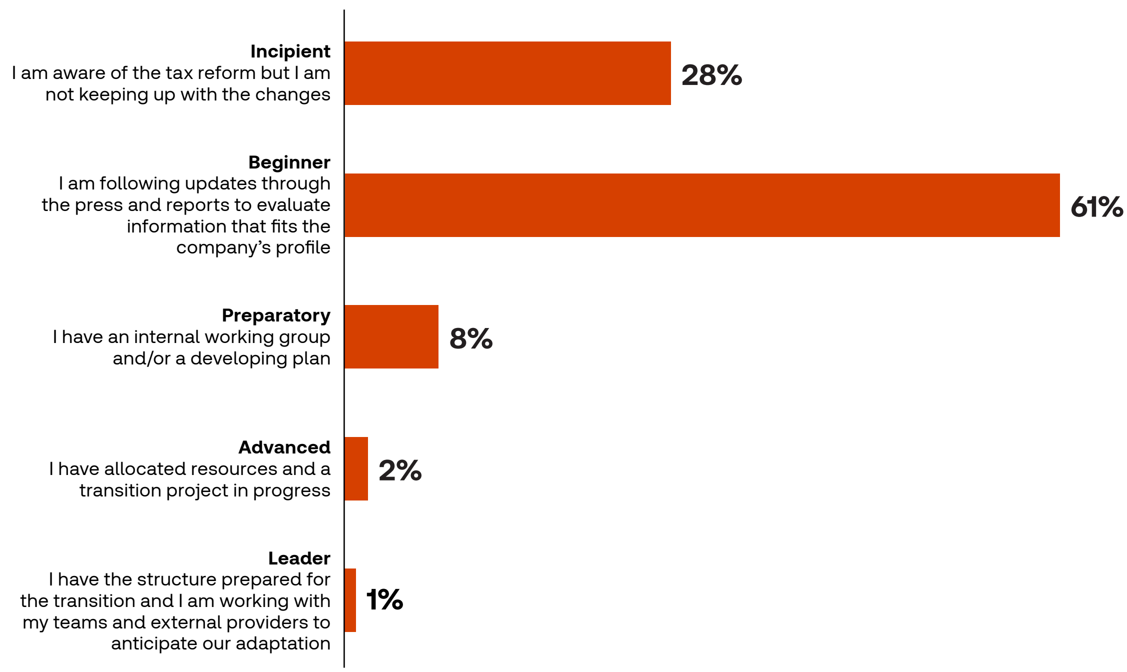
3 Service Tax (ISS), Tax on the Circulation of Goods and Services (ICMS), Program of Social Integration (PIS) and Contribution for the Financing of Social Security (COFINS).

Awareness and expectations

The planned tax reform will have a substantial effect on the midsize to smaller business landscape which makes up a substantial portion of the clientele of tax & accounting professionals in Brazil. The reform was finally approved in December 2023, and a seven-year transition period was set, starting in 2026 and ending in 2032. Despite the initial stage of the reform, it is valuable to understand the opinions and perceptions of tax & accounting professionals, who will be at the forefront of this profound change.

Almost two-thirds of these professionals (61%) classified their firms as *beginners* in terms of preparation at the time they were surveyed. This group admitted that their organizations are still in the phase of evaluating information primarily from the press and industry reports that may impact them. Meanwhile, 28% of respondents said they considered themselves *nascent*, meaning they are aware of the reform but are not closely following its developments and changes. The remaining respondents categorized their firms as being in a *preparatory* or *more advanced* phase.

FIGURE 1:
Level of familiarity/preparedness



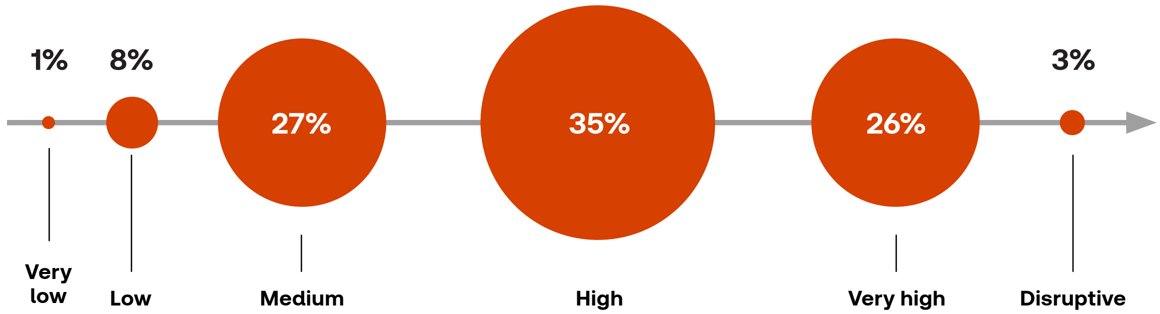
Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

The research results indicated that industry professionals expect the tax reform to impact their organizations to varying degrees, with the majority predicting a high impact. Additionally, 88% of respondents said they believe that their businesses will experience a *medium* to *very high* impact, with the remainder anticipating that the impact will be *very low* or *low* — or, on the other end of the spectrum, *completely disruptive*.

FIGURE 2:

Expected overall level of impact from the Tax Reform



Percentages may not total 100% due to rounding.

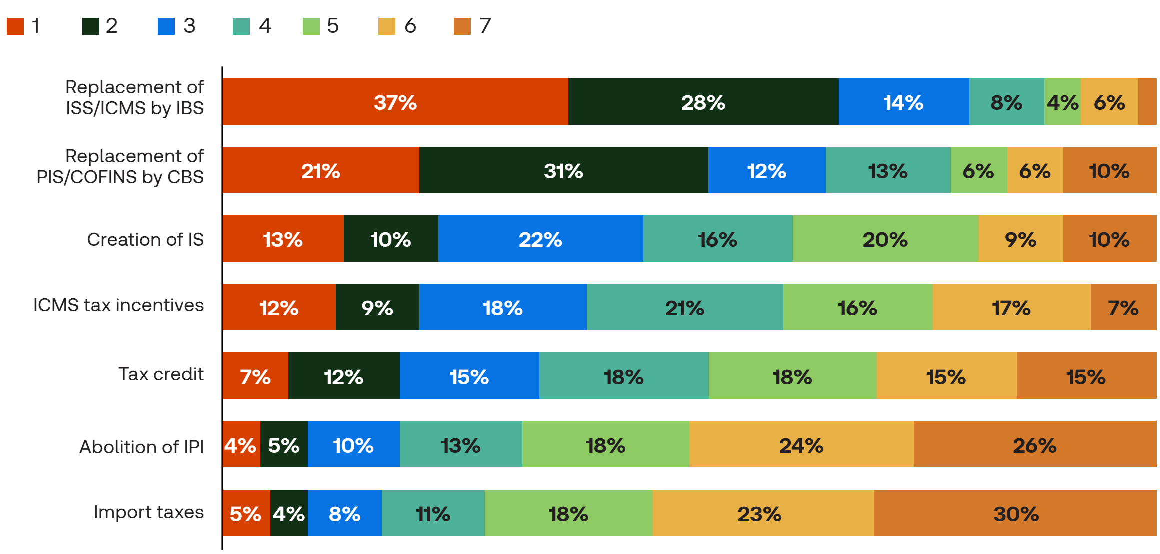
Source: Thomson Reuters 2024

To determine from what areas the impact of the reform might come, tax & accounting professionals were asked to select and rank various options based on their predicted level of impact. The replacement of the current ISS/ICMS taxes with IBS was identified by respondents as the *most impactful* change, followed by the replacement of PIS/COFINS taxes with CBS. The least impactful changes, according to these professionals, are expected to be the elimination of IPI[4] and import taxes.

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

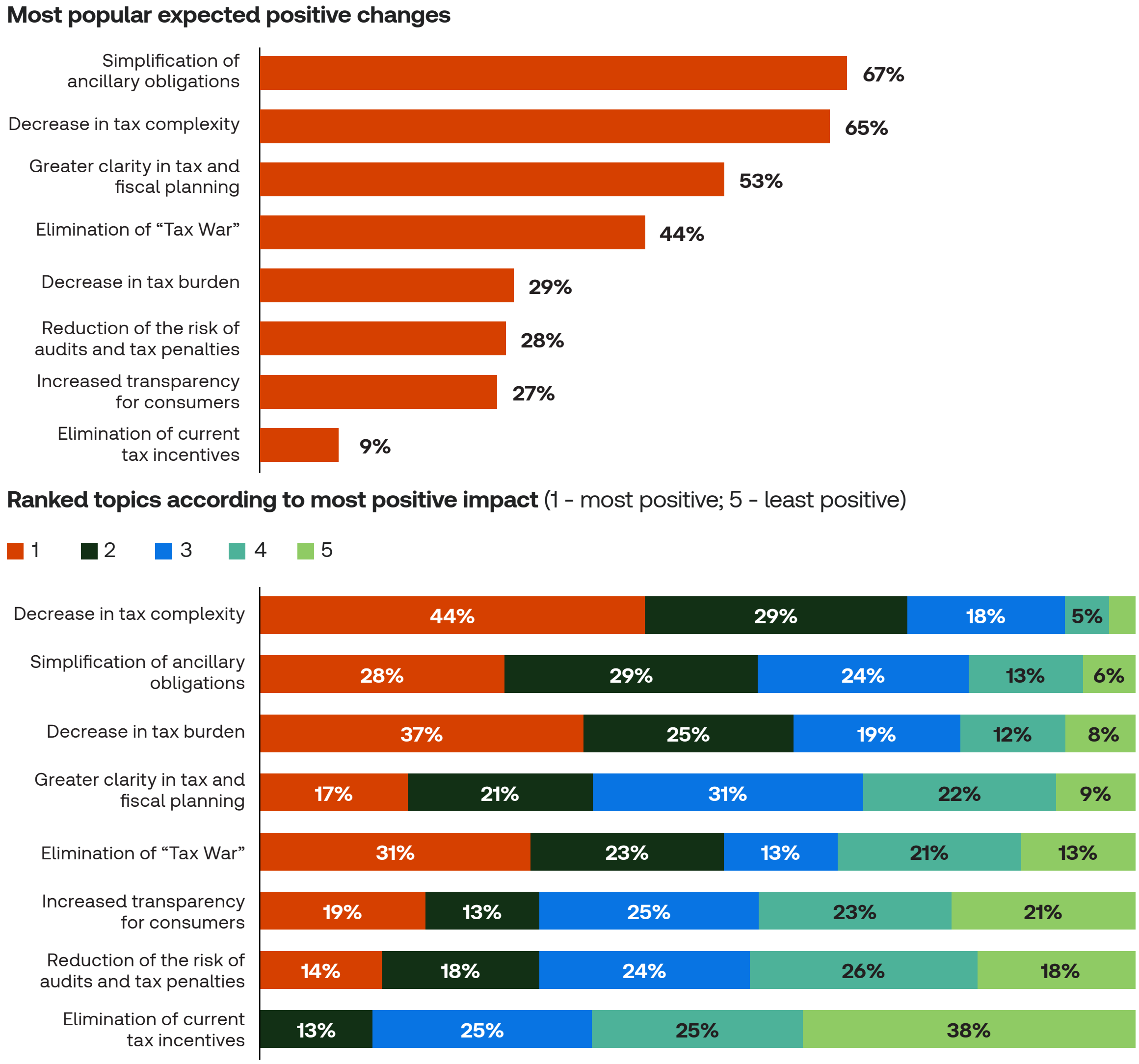
The main objective of the tax reform in Brazil is to address the inefficiencies and complexities of the existing system, but naturally, changes like this come with opportunities and challenges as well. For tax accountants, the three most popular anticipated *positive* changes from the reform are the simplification of ancillary obligations, the reduction of tax complexity, and greater clarity in tax planning and compliance.

4 Tax on Industrialized Products (IPI).

Most respondents also agreed that reducing tax complexity will be the most beneficial aspect of the reform. The simplification of ancillary obligations was considered the second most positive change, followed by a reduction in the tax burden.

FIGURE 4:

Expected positive changes



Source: Thomson Reuters 2024

Accounting professionals were also asked about the biggest *challenges* they expect to face with the reform. The three most cited negative changes were an overload of work during the transition period between the old and new models, increased costs associated with learning and adapting systems to the new rules, and an increase in the tax burden.

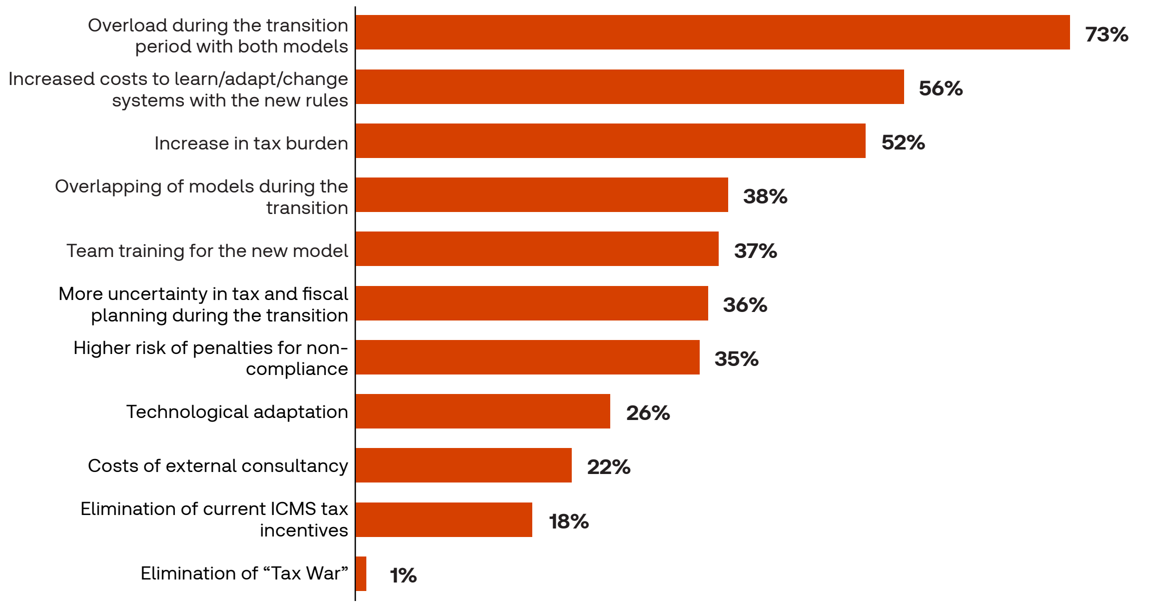
Regarding the degree of impact, respondents identified the potential overload during the transition period between both models as the *most expected* negative change. This finding may be related to the expectation that firms will need to complete their transition and adaptation to the new model within seven years. During this period, the workload required not only to fully adapt to the new structure but also to ensure compliance with the existing model before it is phased out will demand considerable time and effort from industry professionals.

The survey results also indicated that the second and third most significant negative changes caused by the reform are expected to be an increase in the tax burden and the overlap of the two models during the transition period.

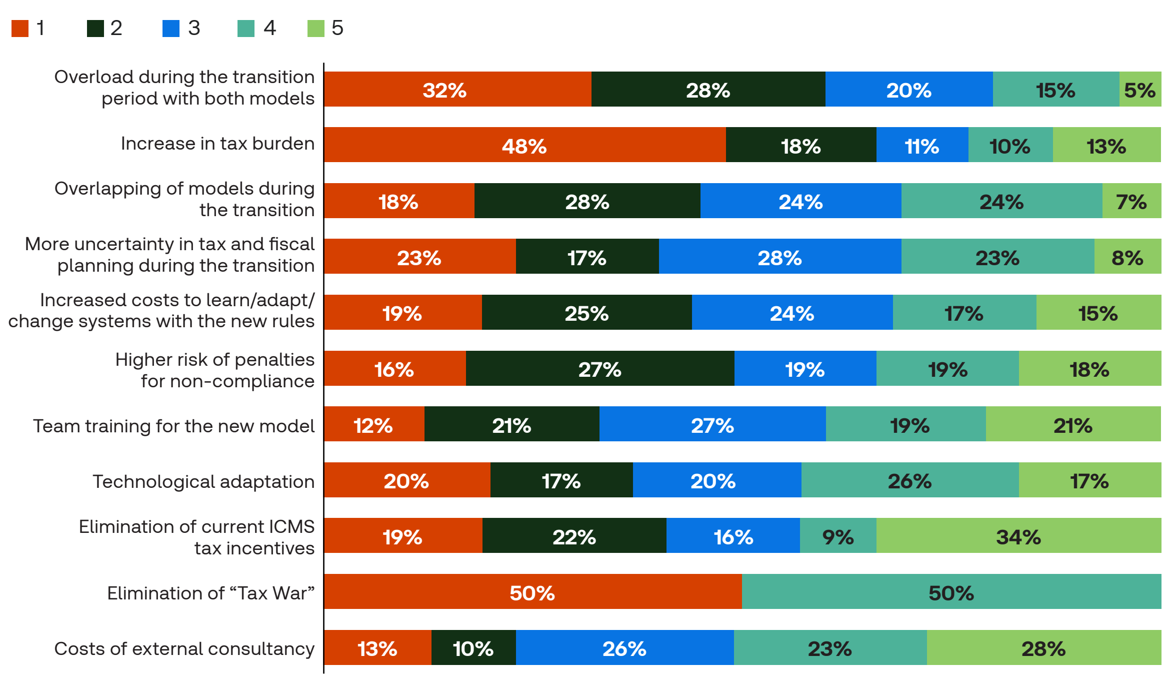
FIGURE 5:

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

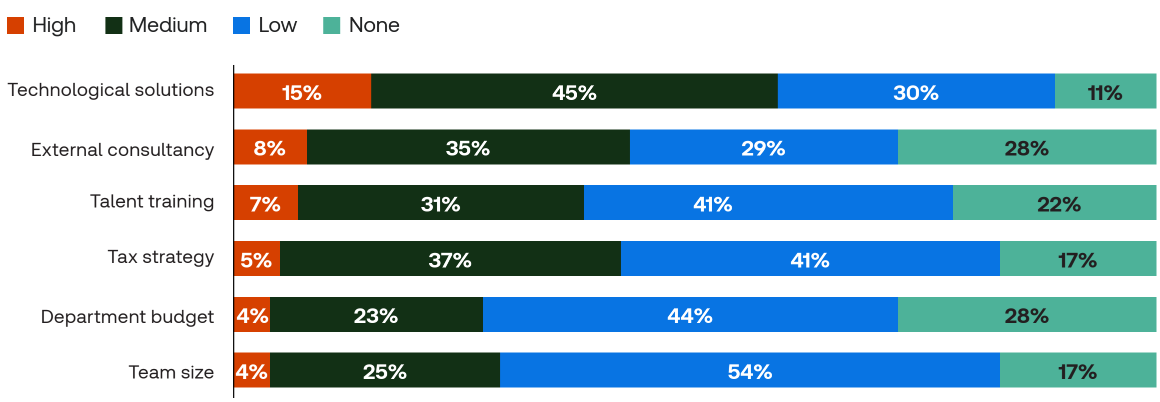
As key players in the reform, it is important to understand whether tax & accounting professionals feel comfortable with the support they are receiving from their firms to face future challenges. When respondents were asked about their levels of satisfaction with their organization's current plan to deal with the reform, the results revealed that satisfaction is lower in the areas of team size and department budget, representing a significant opportunity for improvement for many tax & accounting firms.

These challenges make it even more urgent for firms to adopt strategies for resource optimization and process efficiency improvement, as well as professional training and qualification. One area of opportunity lies in investing in advanced technologies that automate processes and optimize tax management, ensuring the continuous integration of the new tax regulations in an agile manner. Additionally, it is crucial to promote training that is focused on maximizing the use of these tools and understanding the reform, allowing the existing team to more effectively manage increasing demands.

This approach may not only alleviate budget pressure, but also could prepare the organization to respond more competently to the challenges imposed by the reform.

FIGURE 6:

Satisfaction with the organization's transition planning



Source: Thomson Reuters 2024

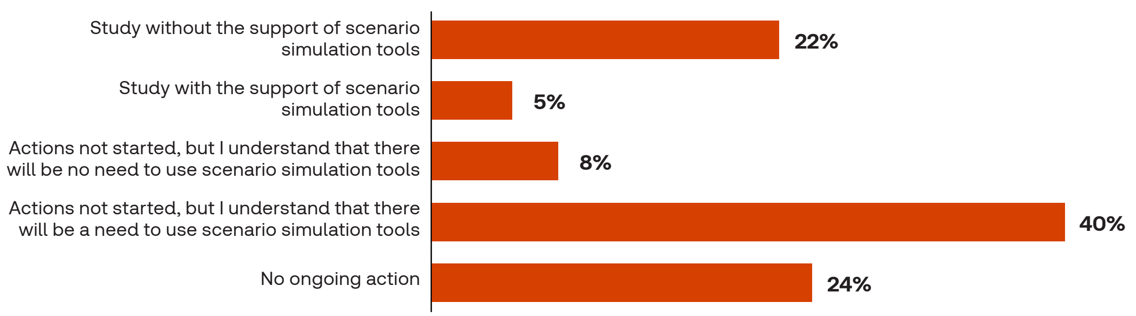
Ongoing actions

When asked about the current actions their firms are taking to account for the impact of the reform on the prices of their products and services, the survey results were mixed. While 27% of respondents said that their firms are already studying this issue, the remainder reported that their organizations do not have any activities underway to address this at the moment.

Notably, more than two-fifths of respondents (45%) said they are already using or planning to use scenario simulation tools to assess the impact of the new model on the prices they charge clients. By contrast, 30% said they are neither using nor planning to use scenario simulation tools for this assessment, and 24% did not disclose any information about their position on these tools.

FIGURE 7:

New model impact assessment



Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

Tax credit balance

During the reform's transition period, the previous tax categories will be gradually replaced and phased out by 2033. During this period, if tax accountants' clients hold ICMS credits, for example, they can use them to reduce their IBS liability over a period of 240 installments, equivalent to 20 years.

We asked tax & accounting professionals to identify the actions their firms intend to take to compensate for these credits for their clients. The survey showed that 71% of respondents said they plan to engage in tax planning; 48% said they intend to request refunds and/or credit transfers; and just 2% said they plan to secure commercial agreements to avoid increases in tax credit balances.

FIGURE 8:

Actions to reduce or eliminate ICMS credit

Source: Thomson Reuters 2024

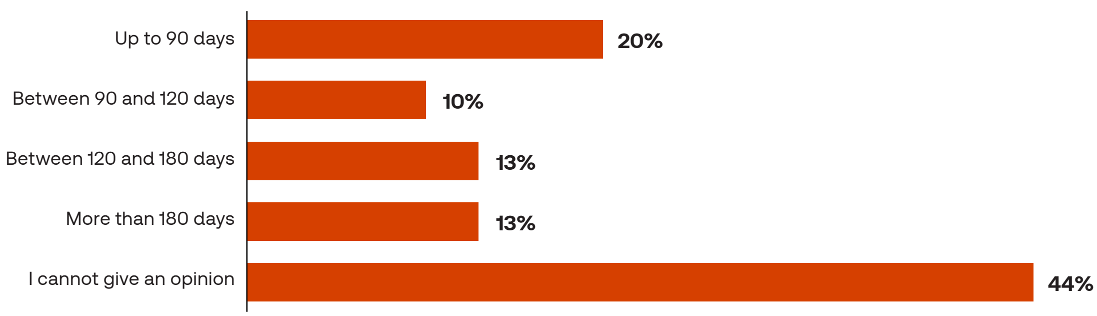
Tax management systems

Tax management systems are software solutions designed to help professionals and companies efficiently manage their tax processes and comply with legal tax obligations. These systems are particularly beneficial for ensuring accuracy, saving time, and reducing the risk of human error or non-compliance. Additionally, these systems play a crucial role in helping tax & accounting firms and their clients optimize the time and costs involved in transitioning between different models, especially in the context of the Brazilian tax reform.

When we asked tax professionals to estimate the time their firms would need to adapt their tax management systems to the new regulations — following the publication of Complementary Laws and other regulatory norms related to the new tax obligations introduced by the reform — the timeline expectations varied among respondents. While 44% of professionals preferred not to comment, 20% said they believed that the adaptation would take up to 90 days. Another 13% expected a timeline of 120 to 180 days; while an equal percentage predicted more than 180 days. Finally, 10% estimated that the adaptation period would be between 90 and 120 days.

FIGURE 9:

Timeline expectations to adapt tax management systems



Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

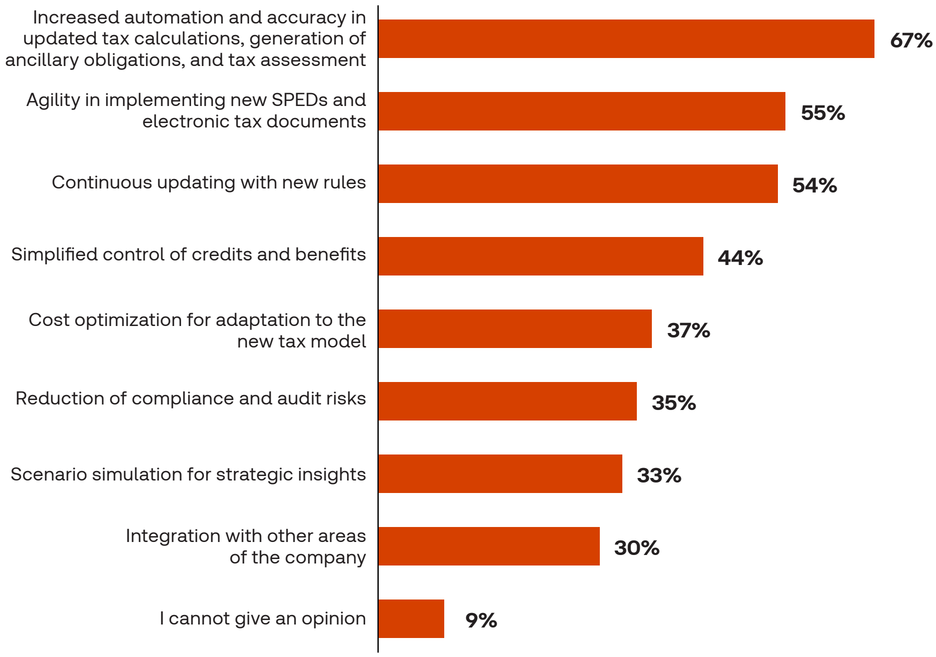
Tax professionals were also asked to rank their expectations regarding tax management solutions in light of the reform's impact. The most popular expectation was that tax management solutions could provide greater automation and accuracy, especially in updated tax calculations, generation of ancillary obligations, and tax assessments. This was followed by agility in implementing new SPED documents[5] and other electronic tax documents, and the continuous updating of these systems with new rules. These top expectations were also ranked the highest in terms of importance, including the reduction of compliance and audit risks.

5 SPED (*Sistema Público de Escrituração Digital*) is Brazil's public system of digital bookkeeping that was created in 2008 to standardize and modernize the country's tax administration and replace paper copies of invoices and tax records.

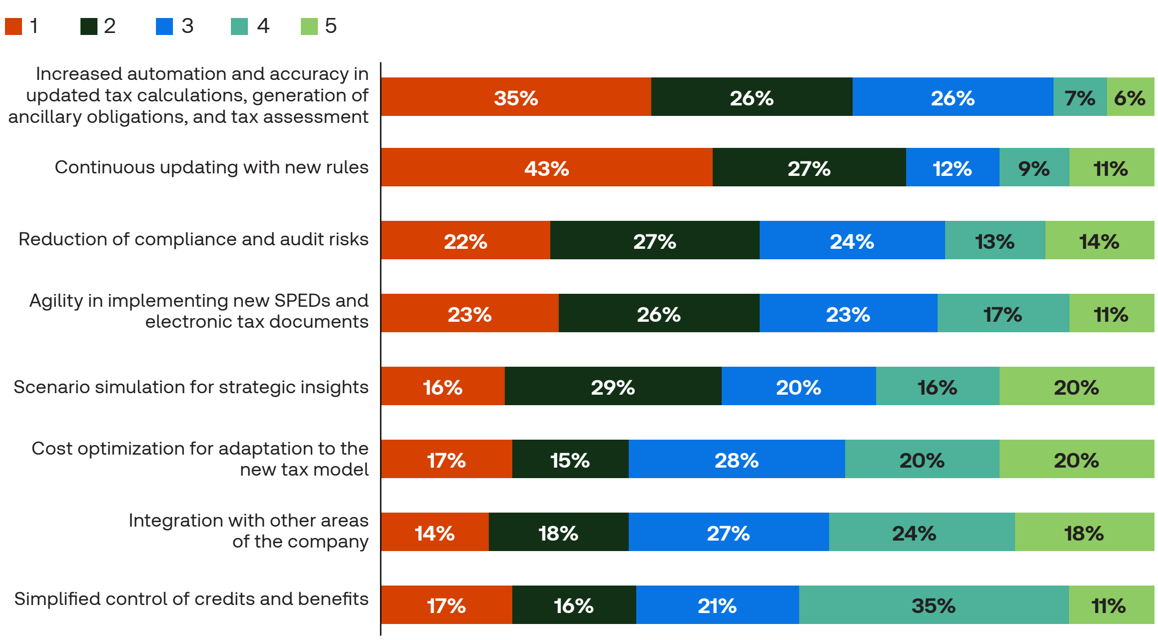
FIGURE 10:

Expectations regarding tax management systems

Most popular expectations



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

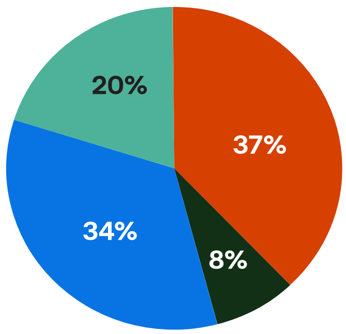


Source: Thomson Reuters 2024

Finally, we explored the perceptions of tax & accounting professionals on how the introduction of new taxes such as IBS, CBS, and IS would affect existing electronic tax documents. The most common response, with 37% of participants agreeing, was that the current tax documents would be replaced by a new model that incorporates both old and new taxes. On the other hand, 34% of respondents indicated that the current tax documents would be maintained, and new ones would be created.

FIGURE 11:

Expected impact on current electronic tax documents



Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

Investment and budget to support changes

As the new tax structure approaches, it is natural for organizations to begin their financial planning for the optimal implementation of the new system. To that end, we asked tax & accounting professionals about their expectations of business investment adjustments in their firms. The goal was to understand how these firms plan to ensure compliance, minimize risks, remain competitive, and adapt to future changes. We asked respondents whether they thought investment in various categories in their companies would increase, decrease, or remain constant over four distinct periods: the next 6 months, 6 months to 2 years, 2 to 4 years, and 4 to 9 years.

While most tax & accounting professionals foresee their firms increasing investment in the next 6 months to 2 years, their investment expectations differed over time across the various areas selected.

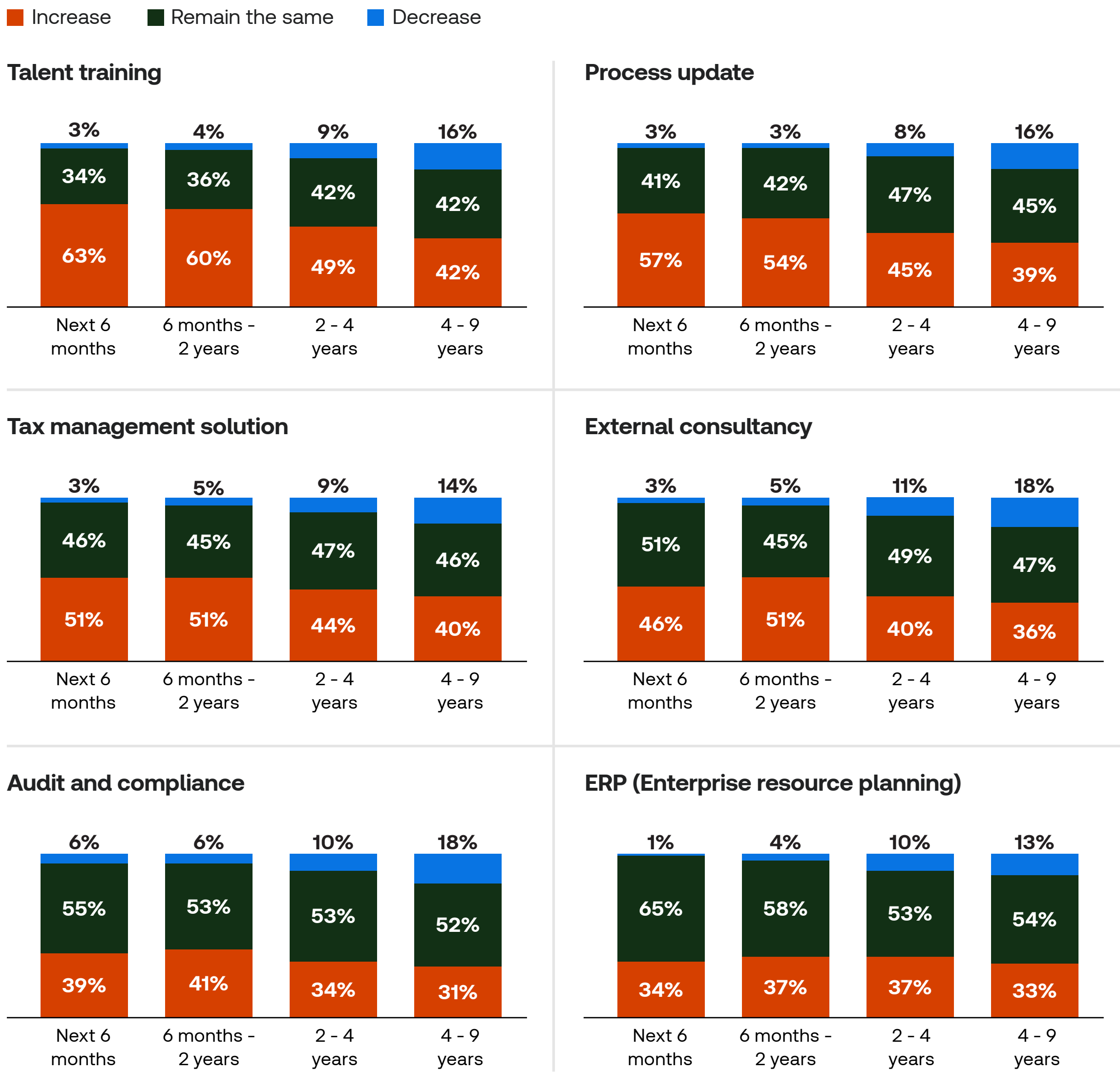
In the next six months, for example, the three main categories in which most respondents said they expected to see investment increase were talent training (63%), process updating (57%), and tax management solutions (51%). For the period of the next six months to two years, the survey results remain similar. During this period, the main categories anticipated to experience an increase in investment were talent training (60%), process updating (54%), accounting management solutions (51%), and external consulting (51%).

In two to four years, talent training is the only category in which a larger share of respondents said they expect investment to grow (49%) rather than remain constant (42%). Comparatively, an equal share of respondents said they expect investment in four to nine years in talent training to increase (42%) and remain the same (42%).

These results may suggest that many tax & accounting firms may have already started investing in human capital to build up this valuable asset. The data could suggest that, along with increased investment in human capital, firms may be anticipating that an expansion in investment in process updating and tax management solutions can help their professionals with status updates and optimization during the transition to the new tax regime.

Those firms following these strategies are likely to have the most prepared personnel in the market, not only to design and execute the company's own transition plan but also to offer their services to clients and help them develop a plan for their businesses to adapt to the new tax structure.

FIGURE 12:
Investment expectations



Percentages may not total 100% due to rounding.

Source: Thomson Reuters 2024

Conclusion

Tax & accounting professionals will be crucial in guiding businesses in Brazil through the transition to the new tax regime, which is expected to significantly impact firms' current operational and administrative structures. Despite the tax reform still being in its early stages, professionals and their accounting firms can begin by adopting strategies that may help facilitate and optimize the transition.

To effectively navigate the tax reform, it is important for organizations in the tax & accounting sector to stay informed through continuous monitoring of reports, complementary laws, regulations, and discussions to understand the coming tax changes and their implications. Accounting firms can also consider implementing scenario planning and impact analysis to develop flexible strategies and assess how different business areas will be affected by the reform.

Tax & accounting professionals in Brazil that plan their strategies in advance will be better prepared to face the challenges and benefit from the opportunities that the tax reform will bring.

Additionally, leveraging technology in its multiple forms — such as tax management systems — can save time and costs, ensure compliance, and minimize risks and human errors. Finally, while firms may already have plans to increase their investment in talent training, they also should consider expanding the size of their teams to optimally distribute the increased workload among their professionals.

The cost in terms of time, labor, and effort for tax & accounting professionals will be very high during the transition period of the tax reform. In Brazil, these professionals will be at the forefront of this transformation, guiding businesses to successfully adapt to the new changes. Therefore, those professionals who analyze and plan their strategies in advance will be better prepared to face the challenges that the reform will bring, as well as benefit from the opportunities that arise from it.

Strategic recommendations for firm leaders to keep in mind

- **Stay informed and updated** — Make sure your team is continuously monitoring information related to tax reform through the press and other reports, as well as the progress of new complementary laws being discussed in the Brazilian National Congress. Understanding the proposed changes and their implications will be crucial for planning and ensuring compliance with all new rules.
- **Conduct scenario planning and impact analysis** — Develop scenarios based on possible outcomes to create flexible strategies that can be adjusted as tax regulations change and conduct consultative and strategic impact analyses for clients.
- **Optimize technology and automation** — Invest in and leverage technology tools and software to help your professionals adopt to the new system, while optimizing time and costs, ensuring compliance, and minimizing risks and human errors. Integrated systems and automated, real-time workflows will be a differentiator for firms seeking a more consultative and strategic role for their accountants.
- **Train and develop talent** — Ensure that your teams are well-trained and up to date with the latest regulations. Encourage your team to be open to change and ready to implement new strategies as tax reform evolves.
- **Establish leadership partnerships** — Collaborate with external consultants and market specialists to gain deeper insights and specialized knowledge. This can ensure the production of comprehensive analyses and risk mitigation strategies that address all fundamental aspects for clients, securing a leadership position to support them and integrate those strategies effectively.
- **Manage high-level relationships** — The reform presents an opportunity for firms to intensify the advisory role of their accountants as key partners. Act as the focal point of information for clients, offering continuous guidance and support during the transition, and developing transition plans that help clients adapt to the new tax structure.

Methodology

The data for this report were collected from tax & accounting professionals in Brazil, focusing on their awareness, expectations, and readiness for the upcoming tax reform. A total of 179 industry professionals participated in the survey. To collect this data, a 7-minute online survey was conducted between April and May 2024. Additionally, an open survey link was made available on a Thomson Reuters website for respondents to include their additional insights.

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