FACT SHEET

Brazilian Corporate Tax: REAL

15/05/2017

OVERVIEW

This profit is the result of consolidated accounting entries, called “Accounting result” adjusted with required additions and deductions (non-deductible expenses and non-taxable incomes) to arrive at the net result before tax. The adjustments made to derive the net result before tax, must be detailed in a separate document called “Lalur”, and kept available to the administration.

CALCULATION

Major additions to the accounting result:

- Losses resulting from the change in value of the participation in subsidiaries (using the equity method),
- Diminution of the reserve of valuation,
- Non-deductible expenses,
- Non-deductible provisions (such as those on clients receivable).

Key deductions:

- Gain resulting from the change in value of the participation in subsidiaries (using the equity method),
- Received dividends,
- Reversals of non-deductible provisions.

The actual outcome may, depending on the choice of the company, be calculated quarterly or at the end of the tax year.

Quarterly calculation:

After having calculated the quarterly accounting result, the company will add gains on the disposal of assets, financial income and extraordinary income. Once these additions are made, it is possible to calculate the tax due.

The tax is calculated by applying the rate of 15% to the basis of calculation: accounting result, adjusted with additions and deductions, plus gains and losses on the disposal of assets, and other income. On top of this 15%, there is an additional 10% that applies to a similar basis (20K R$ must be previously removed from the basis if monthly calculation – or 60K R$ if quarterly calculation).

The following must be deducted from the basis of calculation:

- Tax benefits granted by the authorities,

- Corporate Tax (IRPJ and CSLL) paid or retained at the source on billings and already included in the calculation of net profit,
- The possible overpaid taxes incurred during the previous year.

Payment is made in one time, before the end of the month following the end of the fiscal quarter.

Yearly calculation:

Companies can choose to calculate their taxable income on an annual, rather than on a quarterly basis. However, the payment of tax is made each month (the deadline is the last business day of the following month). In this case, companies, in order to determine the amount to pay, must not base the calculation of tax due on the amount calculated the previous year (as in many Western countries), but must calculate an estimated result, based on the turnover of the current year.

The calculation of the estimated corporate tax is made from the gross turnover (plus, where applicable, gains/losses on disposal of assets, and other income received) of each activity, to which we apply the following rates:

- 8% for industrial and commercial enterprises,
- 32% for services,
- 1.6% for companies selling fuel and natural gas,
- 8% for medical services and industrial transport,
- 16% for other transport services,
- 16% for financial institutions.

These rates apply to the turnover (from which must be withdrawn cancelled sales, unconditional discounts, and IPI tax collected on sales).

To the outcome of this first calculation, it is necessary to add the gains on the disposal of assets, financial income and exceptional income.

The difference between the amount of monthly tax paid, and the final amount calculated after the closure of the tax year, will be a “correction” to be settled the following year. The amount of this “correction” must be communicated through a dedicated software application available on the website of the Treasury.

Why select the quarterly rather than the yearly calculation; or vice versa?

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REPORT OF LOSSES

In the case of accumulated net losses in the balance sheet, it is possible to reduce the current year’s corporate tax by offsetting current profit with past losses.

Past losses can be applied to reduce future Corporate Tax, and must be disclosed and explained in the LALUR.

The use of previous losses in order to decrease the current year's tax burden is limited to 30% of the current year's net profit.

For example, a company making a 100 R$ profit during the year 2012, and with a 200 R$ accumulated loss in the balance sheet, will be authorized to decrease its basis of calculation by a maximum of 30 R$. Corporate tax will be calculated on 70 R$. There will be 170 R$ left of accumulated loss, which could be used during the following years.

Example:

1. 2012 Taxable net result – before compensation of prior years losses
100,000
2. Prior years' losses – Part B of the LALUR
200,000
3. Maximum amount of prior years' losses used (100.000 x 30%)
30,000

There is no time limit to use these accumulated losses.

As mentioned above, for the method of quarterly calculation of taxable income, each quarter is considered a separate period. This means that – within the same fiscal year – the Corporate Tax paid with respect to one quarter cannot be offset against following quarters. So with the quarterly method, you might end up with a higher tax burden (but you get a tax credit)!

The retroactive compensation for losses is not permitted.

Example of calculation of Corporate Tax:
(see next page)

Calculation of earnings "real" net IRPJ and CSLL Activity: Industry, trade and service		
Sales of finished products Resale of goods Services Total sales: Deductions from sales PIS COFINS ISS ICMS Total sales net of tax:	 742.5 3,420 1,000 5,400	20,000 20,000 20,000 60,000 (10,562.5) 49,437.5
Costs Cost of Production Cost of merchandise sold Cost of services provided Administrative costs and taxes Financial incomes and expenses Net profit excluding exceptional	 5,000 5,000 5,000 4,000 1,000	 (20,000) 29,437.5
Non-operating income Sale of assets NBV of assets disposed Profit before tax	 9,000 (5,310)	 3,690 33,127.5
Non deductible expenses Dividends received Net income Previous losses carried forward Net taxable income	1,100 (100)	 1,000 34,127.5 (1,000) 33,127.5
Provision of IRPJ (15%) Provision of additional IRPJ (10%) Provision of CSLL (9%)	(4,969.1) 0 (2,981.5)	 (7,950.6)
Net profit after tax		25,176.9