

**FACT SHEET**

# PIS and COFINS taxes: The Brazilian VAT

15/05/2017

## OVERVIEW

The PIS (Program of Social Integration) and COFINS (Contribution for the Financing of Social Security) are federal taxes based on the turnover of companies. The PIS is intended to finance the unemployment insurance system, and COFINS to fund Social Security.

Next to Corporate Tax, it is COFINS which is the main budget revenue of the Federation.

All private sector companies are subject to this tax, except:

- Micro-enterprises,
- Small businesses who opted for the SIMPLES Corporate Tax method,
- Associations, unions, and federations,
- Co-operative companies.

Like the VAT encountered throughout western economies, these two taxes are non-cumulative. The company must pay any difference between the amount of COFINS / PIS collected on sales, and the amount paid on purchases.

However, for companies subject to the FORECAST method, this tax is “cumulative”!

## RATE

The rate of COFINS is 7.6% for companies subject to the REAL profit method. They have the right to deduct a credit of 7.6% of the amount of expenses incurred by the company and required for its activity (such as goods purchased for resale, raw materials used, rental expenses, energy expenditure or depreciation of capital) from the total COFINS collected on sales.

The rate of COFINS is 3% for the FORECAST method. This rate is much smaller than the 7.6% that applies for the REAL profit method. But, on the other hand, this tax is cumulative!

Likewise, the rate of PIS is 1.65% for companies subject to the REAL method (with the possibility of deduction); and is 0.65% for companies under the FORECAST method (without possibility of deduction).

## CALCULATION AND PAYMENT

Taxpayers are required to calculate and pay PIS and COFINS each month. The deadline is the last working day of the fortnight following the month of reference.

This calculation is based on monthly billings, defined as the turnover of sales of goods and services, whatever their nature and accounting classification, excluding the following:

- The IPI tax, if clearly identified on invoices,
- The ICMS tax if clearly identified on invoices,
- Canceled sales and unconditional discounts,
- Income and dividends received from financial investments,
- The proceeds from the sale of fixed assets,
- The turnover from exportation.

Financial income is included in the calculation basis.

## Case study

### Calculation and accounting of COFINS:

**Sale of goods in Brazil (all taxes incl.):** 1,500,000

**Services (all taxes incl.):** 700,000

**Total (a):** 2,200,000

#### Deductions allowed:

Cancelled sales: 50,000

Unconditional discounts: 30,000

IPI: 300,000

**Total Deductions (b):** 380,000

**Financial income (c):** 100,000

**Total basis for calculation (a – b + c):** 1,920,000

**Rate of COFINS:** 3%

**Amount of COFINS due for January:** 57,600

PIS and COFINS are not due on exports when they generate foreign exchange.