

Recent changes to Brazil-Belgium Double Tax Treaty

The Brazil-Belgium tax treaty to avoid double taxation had been amended on November 20, 2002 and now the changes were sanctioned by the President of Brazil through the Decree nr. 6,332 of December 28, 2007. Bellow are some of the main changes:

- CSLL (Social Contribution on Profits), a Brazilian federal tax levied on the net taxable income, is now explicitly included as a tax on income under the scope of the treaty.
- The withholding tax rate on dividends is limited to 10% (from previously 15%) of the gross amount if the beneficiary is related to the payer with a minimum of 10% investment in the latter's equity. Under domestic law Brazil does not impose tax on dividend payments.
- The withholding tax rate on royalties related to the use of trademarks is limited to 20% (previously 25%).

Brazilian Government announces changes in IOF and CSLL taxes

In the aftermath of losing the "battle" for the renewal of the CPMF tax – the tax is no longer charged effective January 1st, 2008 –, the Brazilian Government announced a new tax bill to make up for the alleged R\$ 40 billion shortfall in tax revenues. Effective immediately, the Decree nr. 6,339/08, increases the IOF (Financial Operations Tax) rates on several transactions. For example, some credit and insurance operations that were exempt will now be charged at 0.38%, while the annual rate for a few other operations will increase from 1.5% to 3%. In terms of foreign exchange operations, on the importation of services and the exportation of goods and services the IOF rate is increased from zero to 0.38%. Furthermore, the MP (Provisional Measure) 413/08 increases the CSLL (Social Contribution on Profits) tax rate from the current 9% to 15%, but this measure only applies to financial institutions, private insurance and capitalization companies and is effective starting May 1st, 2008.

Special tax regime extended

The applicability of REPORTO, a special tax regime for the modernization and development of the national ports infra-structure – created by Law 11,033 enacted on December 21, 2004 – was recently extended by MP 412/07 to be effective until December 31, 2010. The beneficiaries are granted with the exemption of IPI, PIS/COFINS and Import Tax on the acquisitions and imports of permanent assets (machines, equipments and other goods) to be used at the ports exclusively for loading, unloading and movement of merchandise.

New surtax on importation

Under MP 413/08 a new tax of R\$10 (ten Reais or approximately USD 6) per kilogram is now applicable to the importation of goods classified under tariff positions 22, 39, 40, 51 through 64, 82, 83, 90, 91 and 94 through 96 of the International Harmonized Code. This includes shoes, plastics, beverages, rubber, textile, furniture, tools, watches, optical and some medical equipment.

Taxation on freight of vessels for tourism

Another change under MP 413/08 is that cross-border payments related to freight, freight services, rental or lease of vessels for the purpose of tourism or in combination with cargo are now subject to PIS and COFINS at the combined rate of 9.25%. The freight, lease or rental of cargo vessels only remain exempt from those taxes.

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