

International Corporate Tax Brazil

Export Processing Zones tax benefits

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Law 11,732/08, enacted July 1st, 2008 created additional benefits applicable to the so-called Export Processing Zones (*Zonas de Processamento de Exportação* - ZPEs) regime.

ZPEs are industrial districts eligible to tax incentives with the aim of increasing exports and investments from export companies. According to Laws 11,508/07 and 11,732/08 a company established in a ZPE may be eligible for exemption of some federal taxes (such as Import Tax, Excise Tax, *PIS* and *COFINS* and the contribution for the renovation of the merchant navy) for up to 20 years. In the case of fixed assets, the incentive is applicable to new or used goods.

Additionally, ZPE companies located in the regions subject to *SUDAM* and *SUDENE* administrations may also be eligible for the regional Income Tax benefits. There is also exemption of *ICMS* on sales of input products to entities located in ZPEs.

The basic requirement applicable to ZPE companies in order to enjoy the tax incentives is that at least 80% of their gross revenues must directly result from exports.

Currently, none of the 17 authorized ZPEs have been officially implemented.

Tax benefit for holding companies

According to Law 11,727/08, starting January 2009 the use of leveraged holding vehicles will benefit from a deferral of the related interest allowances. For a typical holding company leveraged through debt, interest expenses would accumulate into net operating losses - which do not expire but are limited to 30% of the taxable income and are not adjusted for inflation.

Please note that the interest expenses must be accounted separately for each investment and should be considered as part of the acquisition cost for that specific investment in the case of future disposition including a merger or otherwise liquidation of the investment - at which time it will be treated as capital gain or loss.

New treaty with the UK

A new treaty with the United Kingdom was approved by the National Congress through the Legislative Decree nr. 188 enacted on July 15, 2008. According to the treaty, revenues or profits of companies engaged in the maritime or air transportation of merchandise in general or passengers are exempt from taxes on income - which in the case of Brazil includes the Social Contribution Tax on Income (*CSLL*).

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