

A silhouette of the Christ the Redeemer statue on the peak of Corcovado Mountain in Rio de Janeiro, Brazil. The statue is positioned on the right side of the frame, set against a dramatic sky at sunset or sunrise. The sky transitions from a deep blue at the top to a bright yellow and orange near the horizon, with wispy clouds catching the low light. The mountain's silhouette is dark and detailed, showing the texture of the vegetation on its slopes.

Doing Business in Brazil



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An overview of the country

Geographical and demographical background

Location

Brazil is the fifth largest country in the world. It has an area of 3,287,000 square miles (8,514,000 square kilometers), which is equivalent to almost one-half of the entire South American continent. It borders all South American countries except Chile and Ecuador, a total of 9,777 miles (15,735 kilometers). The coastline runs for more than 4,578 miles (7,367 kilometers), almost all of it along the South Atlantic Ocean.

Brazil comprises 26 states and the Federal District of Brasilia, the capital city. Geographically, Brazil consists of five basic regions:

- North
- Northeast
- Midwest
- Southeast
- South

Population

The population is about 188 million (2007), being about 42 percent under 20 years of age and less than 8 percent is over 65. Approximately 70% of the people are concentrated in the Southeast and Northeast regions. São Paulo is one of the fastest-growing cities in the world, based on current international surveys.

Language

The official language in Brazil is Portuguese. There are no significant local dialects or other derivations from the official language, but a number of words and phrases vary from those used in Portugal. English is the most used foreign language in the business community.



The economy

General outlook

The Brazilian economy is large by almost any standard and hosts diversified activities. There is still considerable State and semi State participation in various strategic sectors, such as transport and utilities. Brazil has passed through several State owned companies privatization, mostly in 1998 when the telecommunication companies were sold.

Natural resources and agriculture have been the traditional mainstay of the economy, backed up by abundant human resources. Since the 1960s, however, emphasis has been placed on industrial development financed largely by international loans and investments.

The wealthiest areas of Brazil, in which industrialization and a modern regional economy have taken hold, are the Southeast and the South. In contrast, the Northeastern and Central Western regions are predominately agricultural and relatively poor because economic and social programs have not yet been modernized. The Northern region, dominated by the Amazon tropical forest, has a low population density and remains virtually unexplored.

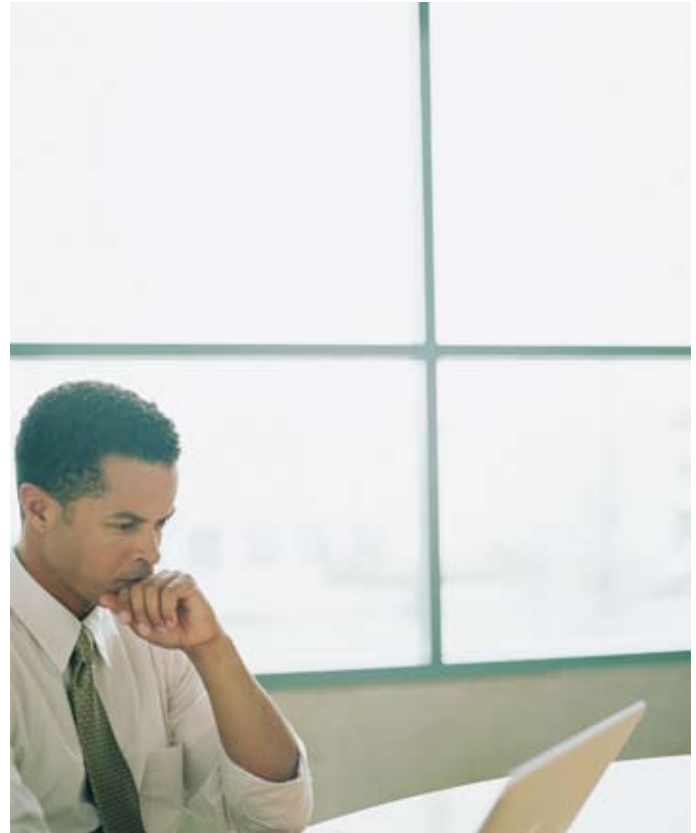
Some economic figures

	2007	2006	2005	2004	2003
GDP (US\$ Billion) at year-end exchange rates	1300	1067	880	664	552
GDP real (inflation indexed) growth (% per year)	5.3%	3.7%	2.9%	5.7%	1.1%
Unemployment rate (% of labor force)	9.5%	10.0%	9.8%	9.6%	10.9%
General price index - IGP-DI (% per year)	7.8%	3.8%	1.2%	12.4%	7.7%
Consumer price index – IPCA (% per year)	4.5%	3.1%	5.7%	7.6%	9.3%
Exchange rate at year-end (R\$ / US\$)	1.79	2.15	2.29	2.72	2.93
Exchange rate change (% per year)	(18.2%)	(6.1%)	(15.8%)	(7.2%)	(19.3%)
Public sector deficit (% of GDP)	2.1%	2.9%	3.0%	2.4%	4.6%
Public sector debt (% of GDP)	43.0%	44.9%	46.5%	47.0%	52.3%
in US\$ billion					
Exports	160.6	137.5	118.3	96.5	73.1
Imports	120.6	91.4	73.6	62.8	48.2
Trade balance	40.0	46.1	44.7	33.7	24.9
Current-account balance	4.8	12.9	14.3	11.7	4.1
International reserves	177.1	85.8	53.8	52.9	49.3
Foreign direct investment (inclusive of intercompany loans)	36.0	18.8	15.1	18.1	10.1
Total foreign debt	196.2	172.5	168.9	220.1	235.4

Doing business in the country

General business and investment climate

The Constitution establishes that foreign investments should be in the national interest, and foreign investment is welcome to the extent that it represents a long-term commitment to contribute to economic development, particularly in those areas that are high on the government's priority list. These include the development of agriculture, technology, laborintensive industries and the manufacture of products that are currently imported and those that will increase exports.



Form of foreign investment

Investment made by foreigners is normally implemented via the incorporation of new entities or acquisition of existing companies.

When setting up a new legal entity in Brazil, given that the incorporation of a branch requires authorization granted via a decree by the Executive power, the process is generally bureaucratic and lengthy. In view of this, the majority of foreign businesses in Brazil are set up under the form of subsidiaries. When incorporating a subsidiary in Brazil, the most common forms used are the Limited Liability Company (Sociedade Limitada - LTDA) or the Corporation (Sociedade por Ações – S/A).

Fiscal year

The financial year (12-month period) of Brazilian legal entities can be freely chosen for corporate purposes. Accordingly, certain Brazilian companies adopt the same financial year of the parent company, for corporate / reporting purposes (e.g., July 1st to June 30).

Nonetheless, as companies are required to observe the calendar-year (January through December) for tax purposes, most of the Brazilian entities choose the same period as their corporate financial year.

Regulatory environment

The main regulatory agencies regarding business activities are the following.

- Central Bank (BACEN): Responsible for the execution of monetary policy, exchange controls, registration and control of foreign capital and the regulation of banks and financial institutions.
- Securities Commission (CVM): Responsible for the securities markets and listed companies.
- Administrative Council for the Economic Defense (CADE): Responsible for investigating and suppressing unfair business practices and antitrust monitoring.
- National Institute of Industrial Property (INPI): Responsible for technological development. INPI has power over agreements for transfer of technology.
- Foreign Trade Department (DECEX) of the Bank of Brazil: Responsible for administration of foreign trade and control of export and import licenses.

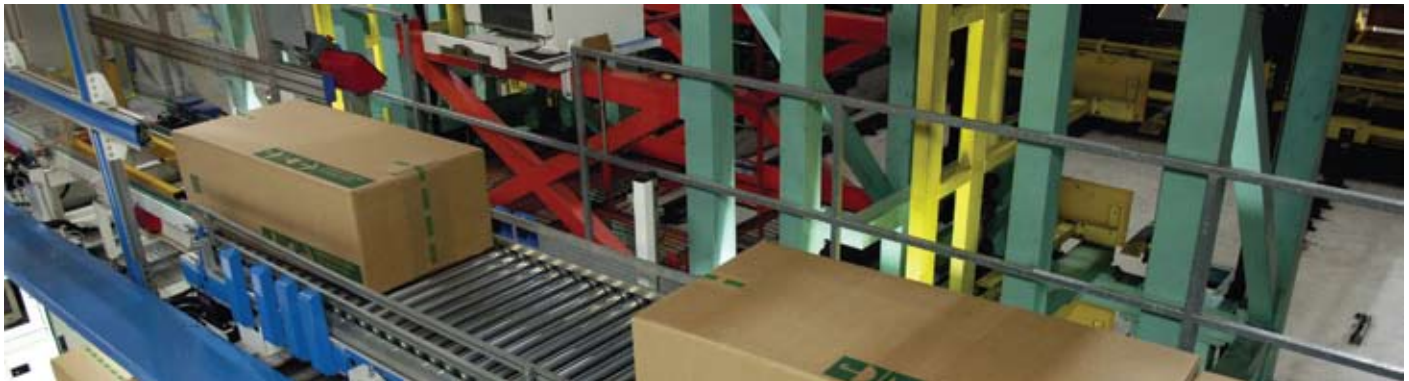
Considering the privatization of some public services implemented in the past few years, the Brazilian Government created regulatory agencies with administrative autonomy, aiming to supervise and regulate their activities, such as:

- Electricity services (ANEEL - National Electricity Agency),
- Telecommunication services (ANATEL – National Telecommunication Agency),
- Health services (ANS – National Health Supplementary Service).

Industry incentives

Importation of capital goods, which are not available in the Brazilian market, might be subject to a reduction of the Import Duty, subject to governmental approval, as to stimulate the broadening, modernization, and restructure of the Brazilian industrial park. There is also a policy to reduce taxation imposed on capital goods.

The National Bank for Social & Economic Development (BNDES) offers low-cost financing, in order to support the implementation, expansion, modernization or relocation of plant, including capital goods acquisition and associated working capital.



Free-trade zones

The Manaus free-trade zone (Zona Franca de Manaus, Amazônia Ocidental e Área de Livre Comércio de Macapá / Santana) was created in 1967 to attract industries and commerce to the Amazon region. All imported foreign goods are tax free, provided they are consumed within the zone or are exported abroad. Sales or transfers of these goods to other parts of Brazil result in payment of the previously exempt taxes. Foreign-controlled subsidiaries may establish assembly / manufacturing operations and enjoy the same benefits as local companies. Sales from other parts of Brazil to the Manaus free-trade zone are also entitled to some tax benefits. These fiscal benefits are also applicable to certain specific areas of the Western Amazon region, which covers the states of Acre, Amazonas, Amapá, Rondônia and Roraima.

Restrictions on foreign investment

Prior government permission is required for the operation of certain types of business, such as banks and financial institutions, mining companies, oil refineries, maritime, road and air transport companies, as well as companies involved in health products and health care.

Restrictions on foreign investor participation exist in certain areas, such as:

- (i) communications (television, radio stations or newspapers);
- (ii) aviation (Brazilian airlines);
- (iii) participation in classified government contracts;
- (iv) coastal and freshwater shipping;
- (v) mining and hydroelectric energy, etc.

Furthermore, direct or indirect foreign ownership of rural land is regulated and subject to limitations as to total area. Ownership of land near Brazil's borders is subject to further restrictions.

Foreign exchange administration

Inward investment

General policy is to admit foreign capital and treat it in the same way as local capital. However, there are some restrictions on foreign investment in certain sectors. All inward investment must be registered with the Central Bank to ensure ultimate repatriation rights. There are no special exchange rates for specific transactions.

Foreign capital

The basic legal concepts regulating foreign capital in Brazil are defined in Laws 4,131 of 1962 and 4,390 of 1964, which were regulated by Decree 55,762 of 1965. The legal concept of foreign capital includes tangible and intangible assets.

An important concept in foreign capital legislation in Brazil is the one which refers to the constitutional principle (Federal Constitution, article 5) that guarantees equal treatment to all. This principle, in Law 4,131/62 and subsequent amendments to Federal Constitution, grants to foreign capital invested in Brazil legal treatment identical to that given to local capital, under equal conditions. Any discrimination not contemplated by this law and amendments is prohibited.

To qualify for the remittance of profits and to ensure ultimate repatriation rights, foreign capital entering Brazil must be registered with the Central Bank. Capital

remittances must be registered within 30 days. Such registration must be made by means of a electronic declaratory system named Electronic Register of Direct Foreign Investment (RDE/IED).

Non-residents companies that own shares/stocks in a company in Brazil are required to apply for and obtain an identification number.

All foreign loans shall be registered with the Brazilian Central Bank by means of a Electronic Declaratory Form (ROF).

Repatriation of capital and earnings

Capital may be repatriated without payment of tax up to the amount registered in foreign currency with the Central Bank. Amounts in excess are considered as capital gain and, therefore, are subject to withholding income tax of 15 percent (25 percent in case beneficiaries are domiciled in low tax jurisdictions).

Profits may be remitted abroad without limit, to the extent there is foreign registered capital and available retained earnings. As from January 1, 1996 profits / dividends distributed to nonresident beneficiaries relating to periods beginning on or after this date are not subject to withholding income tax.

Loans may be repatriated within the terms of the registered loan contract. Interest is freely remittable within the loan contract terms, subject to withholding income tax at the rate of 15 percent (25 percent in case beneficiaries are domiciled in low tax jurisdictions).

Import and export issues

All importers and exporters must be duly registered with the Foreign Trade Department (DECEX) of the Ministry of Development, Industry, and Foreign Commerce. Transportation in Brazilian vessels is obligatory for certain categories of imports, such as products enjoying exemptions from or reductions in import duties. Exports are encouraged by several incentives. Normally there are no restrictions on exports. However, licenses are generally required for both imports and exports.

For the taxes applicable on import transactions, please refer to the "Taxation of Legal Entities" section.

Labour supply

Employment and labor relations in Brazil are primarily governed by the Brazilian Federal Constitution, the Brazilian Labor Code – “CLT” and Collective Labor Agreements. The “CLT” imposes on the employer a series of obligations that protect employees, reflecting the paternalistic philosophy of the Brazilian Legal System.

Main employees’ rights

Remuneration

According to the Brazilian Labor Laws, an employment contract (written or verbal) must determine the remuneration package of the employee. In fact, the remuneration of an employee includes, in addition to the base salary, fringe benefits and bonuses, amongst others.

Government Severance Indemnity Fund for Employees (FGTS)

For individuals considered as employees, the company must make a monthly deposit to the Government Severance Indemnity Fund for Employees (FGTS), at an amount equal to 8% of an employee’s remuneration. In case of a dismissal without just cause, raised by the company, an employee may withdraw this fund with an additional penalty (to be paid by the employer) equivalent to 40% of the accumulated FGTS balance. The company must contribute with an additional 10% fine to the social fund.

13th Salary

The employer must pay annually to the employee, the 13th salary, which is a Christmas bonus due to employees, regardless of their remuneration. It corresponds to an additional one month salary and includes annual or semiannual bonuses and fringe benefits.

The payment occurs, most commonly, in two installments, 50% in November and 50% in December. An advance of the first installment may be requested when the employee leaves for vacation.

Social security contribution

Companies are subject to the following social charges, due on the employees’ monthly remuneration:

- Social Security contributions, equal to 20% (with no ceiling), plus:
- Corporate charges:

SESI, SESC, SEST	1.5%
SENAI, SENAC or SENAT	1.0%
INCRA	0.2%
SEBRAE	0.6%
Education Salary	2.5%
Work accident insurance (from 1% to 3%)	3.0%
Total (maximum rate)	8.8%

The corporate charges listed above vary according to the activity performed by the company.

In addition to the company’s contribution (20%), the employees are required to pay monthly social security contribution that vary from 8% to 11% on their monthly compensation, with a current set ceiling of R\$ 334,29 per month (this ceiling is altered from time to time).

Labour law requirements

Working conditions / Hours worked

The Brazilian Federal Constitution determines that the regular working hours should not exceed 8 hours per day and 44 hours per week. A series of constitutional and legal provisions establish a shorter working week for a variety of professional categories such as bank clerks, telephone operators and so forth, who are subject to different work shifts pursuant to specific regulations. Time worked in excess of the above is treated as overtime. In general, compensation for overtime work is paid at least 50% above the compensation paid for normal working hours.

Wages and salaries

All work of equal value must be remunerated at the same rate, irrespective of the nationality, age, sex, or marital status of the employee.

A minimum wage is established by law and is currently set at approximately US\$ 180 per month. It should be noted that the minimum wage serves mainly as a base index for adjusting wages and certain prices.

Foreign personnel

Legal entities, with 3 or more employees, are obliged to maintain a proportionality of 2/3 of Brazilian employees to 1/3 of foreign employees. The proportionality must also be observed in relation to the payroll / remuneration. Lower proportionality may be granted by the relevant authorities in specific circumstances (e.g. lack of Brazilian work force in a specific sector). For proportionality purposes, foreigners residing in Brazil for more than ten years who are spouse or parent to a Brazilian national, and those of Portuguese nationality, are considered as Brazilians.

The Immigration Authorities determine that a foreign individual may only enter the country, to be engaged in gainful activity, under certain types of visas (permanent and temporary, type V), which will vary depending on the kind of activity performed and the period of physical presence in the country.

Temporary visa

Business trip (temporary visa)

The business visa permits a foreign individual to enter Brazil for a short term on specific business assignments. The business visa is recommended to business owners or their representatives that come to Brazil exclusively to attend the interests of their companies, to offer / search products, to learn about the Brazilian market, to close or draw up agreements, among others.

Temporary visa V

With a labor contract - The foreign national who enters the country holding a temporary visa type V - with a labor contract, must have an employment relationship with a Brazilian company.

Temporary visa V

Without a labor contract (technician) - The foreign national entering the country without a labor contract and consequently, without an employment relationship with a Brazilian company, must be under a technology transfer and / or technical assistance contract.

Permanent visa

The permanent visa is granted to foreign individuals who intend to settle in Brazil and that satisfy specific requirements established by the National Immigration Council and / or the Labor Ministry.

Tax system

The main federal, state and municipal taxes are as follows.

Federal

- Corporate Income tax (IRPJ).
- Corporate social contribution net income (CSLL).
- Withholding Income Tax (IRRF).
- Excise tax (IPI).
- Import tax (II).
- Social Integration Program Tax (PIS).
- Social Contribution on Revenues (COFINS).
- Financial operations tax (IOF).
- Contribution at the Economical Domain (CIDE).
- Export tax (IE).
- Rural property tax (ITR).

State

- Value-added tax on sales and services (ICMS).
- Inheritance and gift transfer tax (ITCMD).
- Automobile ownership tax (IPVA).

Municipal

- Service tax (ISS).
- Property taxes (IPTU and ITBI).

Corporate income tax (IRPJ)

The corporate income tax is determined based on the calendar year, with monthly tax payments, and is generally computed on the basis of annual or quarterly taxable income. IRPJ is charged at the rate of 15% plus a surcharge of 10% on annual taxable income in excess of R\$ 240,000 (approximately US\$ 104,000).

Please note that the Companies located in the North and Northeast regions of Brazil may apply for a tax incentive, which corresponds up to 75% reduction of IRPJ due.

Companies are required to file the corporate income tax return on an annual basis (generally up to the last working day of June of the subsequent year). Other corporate returns must also be delivered by legal entities.

Social contribution on net income (CSLL)

Brazilian tax legislation also provides for a social contribution tax on profits, which also has the nature of a corporate income tax. Its taxable basis is quite similar to the corporate income tax, but with certain distinct adjustments. CSLL is charged at the rate of 9%.

Tax losses carry forward (IRPJ and CSLL)

There is no time limit for the carry forward of tax losses. However, the taxable profit of each year can only be reduced by tax losses up to a maximum of 30%. Furthermore, it is neither possible to carry back tax losses nor transfer tax losses to other Brazilian companies. Tax losses of an acquired company cannot be carried forward to be offset against the taxable income of a new activity if the following two conditions are cumulatively met: (i) modification in the ownership of the company; and (ii) modification in the activity of the company.

Capital gains

Capital gains earned by local resident entities are taxed at the normal corporate rate (34%), while capital gains of non-residents are taxed at the rate of 15% (unless otherwise specified by international tax treaty).

Individuals are taxed at the rate of 15% on capital gains. Payments of any type made to residents in low tax jurisdictions are generally subject to withholding at a rate of 25%.

Distribution of profits to shareholders

Distribution of Profits to shareholders are not subject to the withholding tax, when paid out of profits generated as from January 1, 1996, regardless of being paid to resident or non-resident shareholders.

Withholding taxes (IRRF)

The current rates applicable to the following payments to non residents are:

i	Dividends	Not Taxable
ii	Interest	15% (*) (**)
iii	Royalties	15% (*) (**)
iv	Technical and Adm.Services	15% (*) (**)
v	Other Services	25% (*) (**)

(*) These rates are effective unless otherwise specified by tax treaty. Currently, Brazil has double tax avoidance treaties with the following jurisdictions: South Africa, Argentina, Austria, Belgium, Canada, Chile, China, Korea, Denmark, Ecuador, Spain, Philippines, Finland, France, Netherlands, Hungary, India, Israel, Italy, Japan, Luxembourg, Mexico, Norway, Portugal, Czech Republic, Slovakia, Sweden and Ukraine.

(**) Payments of any type made to low tax jurisdictions, defined as those that do not tax income or which tax income at a rate lower than 20%, are subject to withholding at a rate of 25%.

It should be noted that the tax authorities respect the exemption from withholding for all dividend payments, including those which are subject to withholding tax under the provisions of a tax treaty. In the case of royalties, the royalty contract has to be approved by the National Institute of Industrial Property (INPI) and registered with the Brazilian Central Bank.

Deductions for royalties are generally limited up to 5% of net sales of the relevant products or services, the percentage depends on the type of product or activity.

Import tax (II)

Import tax is levied on the CIF price. The rate varies in accordance with the degree of necessity and is defined by the product's tax code according to the Harmonized System. Taxes on importation are levied on top of one another, as follows:

- (i) Import tax is applied to the CIF price (FOB price plus insurance and freight).
 - (ii) IPI is levied on the total of (i) above (CIF price plus import tax).
 - (iii) PIS and COFINS are applied to the total of (ii) above (CIF price, import tax) plus ICMS due on imports and the contributions are included in their own bases.
 - (iv) ICMS is applied to the total of (ii) above (CIF price, import tax, IPI) plus PIS, COFINS and ICMS is included in its own basis.
- Import tax (II) is a cost to the company (not recoverable). ICMS, IPI, PIS and COFINS paid on imports are generally creditable.

Federal excise tax (IPI)

This Federal Excise Tax is due by manufacturers at the time of sale, either to another manufacturer who will further undertake manufacturing process or to the retailer who sells to the end user.

The tax paid is stated separately on the sales invoice. Certain exemptions are given to goods considered to be of basic necessity to the country's economy. The rates are defined by the product's tax code according to the Harmonized System.

As mentioned above, when manufactured products are sold between producers, the IPI is imposed. However, the subsequent manufacturer is allowed a credit against its IPI liability (non cumulative tax).

IPI is also imposed on import transactions. Export revenues are tax exempt from IPI - however, the IPI tax credit recorded on the acquisition of inputs may be kept.

Contribution for the social integration program (PIS)

PIS, generally levied at 1.65%, is a Federal social contribution calculated as a percentage of gross revenue. Note that higher rates are imposed in certain sectors. A PIS credit system is meant to ensure the tax is applied only once on the final value of each transaction, which means that the company is granted a tax credit calculated on acquisition of inputs and on certain expenses (non cumulative system).

Note that there are certain companies which shall pay PIS under the cumulative system. The cumulative system imposes a lower rate (0.65%), however, it does not enable the company to record tax credits.

As from May 1, 2004 the PIS contribution applies also on the imports of goods and on the payment for services to non-residents. Export revenues are tax exempt from PIS. However, the PIS tax credit recorded on the acquisition of inputs and services may be kept.

Contribution for social security financing (COFINS)

COFINS, generally levied at 7.6%, is a monthly federal social security contribution calculated as a percentage of gross revenue. Higher rates are imposed in certain sectors. A COFINS credit system is meant to ensure the tax is applied only once on the final value of each transaction, which means that the company is granted a tax credit calculated on acquisition of inputs and on certain expenses (non cumulative system).

There are certain companies which shall pay COFINS under cumulative system. The cumulative system imposes a lower rate (3%), notwithstanding, it does not enable the company to record tax credits.

As from May 1, 2004 the COFINS contribution applies also on the imports of goods and on the payment of services to non-residents. Export revenues are tax exempt from COFINS (however, the COFINS tax credit recorded on the acquisition of inputs and services, may be kept).

Financial transactions tax (IOF)

As a general rule, foreign exchange transactions made in order to allow payments to non residents, considering royalties, technical services, technical, administrative and any other assistance or any other revenue, including the reimbursement of any costs, are subject to IOF.

Historically, these transactions were subject to an IOF rate of 25%. The current IOF rate for foreign exchange transactions (both inbound and outbound) is 0.38%. As a result, IOF may not be avoided if the payment requires a foreign exchange transaction from Reais to a foreign currency, or from a foreign currency into Reais.

IOF of 5.38% is charged on foreign loans with an average maturity term of less than 90 days. All other foreign loans are subject to IOF at 0.38% rate. The average maturity term is determined based on the balance of the loan relative to the number of days of the outstanding balance of the related loan.

Contribution for the intervention in the economic domain (CIDE)

Brazilian companies with royalty, license or service agreements with foreign entities, shall be subject to a 10% CIDE, based on the amount paid abroad.

State value-added tax (ICMS)

The Constitution of 1988 granted authority to the Brazilian States to collect the tax on the circulation of merchandise and on the supply of interstate and intermunicipal transportation services and on communications, even when the transaction and the rendering of services initiate in another country.

ICMS is not a cumulative tax, that is, the tax is only assessed on the increase in the price of the product in each stage of the circulation process. The calculation process involves a system that, in each payment period, the taxpayer must check the amount of debits and credits related to the State Value-added Tax and, if the taxpayer has more debits than credits, it will have to pay the tax on the respective difference.

It is a value-added tax and is collected by most States at the usual rate of 17%, except for the States of São Paulo, Minas Gerais and Paraná, which tax rate is 18% and Rio de Janeiro, which rate is 19%. Some products exceptionally trigger a higher rate (usually 25%) or a lower rate (automotive industry and other special industries are below 17% or 18%).

Intra-states transactions are subject to lower rates, depending on the State of origin and destination.

ICMS is also imposed on import transactions. Export revenues are tax exempt from ICMS - however, the ICMS tax credit recorded on the acquisition of inputs and services may be kept.

Please note that the industries located in certain States of Brazil, such as Mato Grosso, Goiás, Bahia, among others, may apply for State tax incentives, which correspond mainly to the reduction or deferral of tax due, or recording of presumed tax credits. It is important to mention that, as most of such incentives are not supported by the necessary agreements pre-approved by all States (CONFAZ meeting), these tax incentives may be questioned.

Service tax (ISS)

The ISS is a municipal tax imposed on certain services set forth by a Complementary Law. The applicable rates are determined by each municipality and can vary between 2% and 5%.

In general, the service tax is levied by the municipality in which the Company is headquartered. There are some exceptions to this rule for services involving assembly, construction, demolition, among others.

As from January 2004, important changes to the ISS legislation were made. The original list, of the services subject to the tax, was expanded and the import of services is now subject to ISS. Additionally, ISS is not levied on exports of services, except when the services are rendered in Brazil or the results of these services are applied in Brazil.

Personal income tax

Residents of Brazil are taxed on their worldwide income, and nonresidents are taxed exclusively at source on their Brazilian-source income. The source of income is determined by the place where the income payer is located, irrespective of where the work is performed.

Foreigners, intending to live and / or work in Brazil, whether for a short or a long period, will become tax residents depending on the type of visa:

1. Permanent visas—Holders of permanent visas are considered residents as from the date of arrival in Brazil.
2. Temporary visas — Holders of temporary visas are also considered residents as from the date of arrival in Brazil, as long as they have an employment contract in Brazil. Otherwise, they will become tax residents as from their 184th day of presence in Brazil within any given 12-month period.

Tax rate - Income tax is normally withheld at source, at rates varying from 0% to 27.5%, depending on the income bracket. The final liability is determined upon filing the tax return. Any difference between the amount as determined by the tax return and that withheld at source must be paid or is refunded to the taxpayer. The Brazilian Tax Authorities have issued a monthly tax table applicable to income tax payable during tax year 2009, as follows:

Monthly Income Basis - in R\$	Tax Rate %	Amount to be Deducted from Tax - in R\$
Up to R\$ 1.434,59	Exempt	-
From R\$ 1.434,60 up to R\$ 2.150,00	7.5%	R\$ 107,59
From R\$ 2.150,01 up to R\$ 2.866,70	15%	R\$ 268,84
From R\$ 2.866,71 up to R\$ 3.582,00	22.5%	R\$ 483,84
Above R\$ 3.582,00	27.5%	R\$ 662,94

Local residents are required to file an income tax return on an annual basis (generally up to the last working day of April of the subsequent year).

Accounting and audit requirements

Audit requirements

Audited financial statements are required for listed companies, financial institutions and insurance companies. Listed companies with total annual gross revenue above R\$ 100 million must present quarterly information reviewed by independent auditors. Other regulated segments might require audited financial statements. All these entities and also all limited liability corporations are required to publish their annual financial statements in a newspaper. Finally, with a recent change in the Corporate Law from 2008 all entities, independently of their statutory structure or whether they are listed or regulated entities, must have their financial statements audited by independent auditor if they are considered as of large size. Large size companies are defined as those which gross revenue in the last year was greater than R\$ 300 million (in December 2008, approximately US\$ 130 million) or total assets over R\$ 240 million (in December 2008, approximately US\$ 105 million) within Brazil. These limited are applicable not only to individual legal entities but also to a group of entities under common control, even if the control is abroad. Please note that the analysis considers the operations in Brazil only.

Accounting practices adopted in Brazil

The Accounting Practices Adopted in Brazil (BR GAAP) are based on the Corporate Law. By the end of 2007 a new law was issued (Law 11.638) modifying the Brazilian Corporate Law, coming into force for 2008. This Law has approximated the BR GAAP to International Financial Reporting Standards - IFRS, although there still are many remaining differences. Although the starting point for the BR GAAP is the Corporate Law, there were inconsistency in accounting treatment between different companies in Brazil due to the lack of guidance in the Law, which is very superficial on accounting issues. The Brazilian Stock Exchange Securities (CVM), and other regulators, including the Brazilian Federal Council of Accountants – CFC, used to issue accounting guidance to the entities regulated by them. After a round of negotiations, from 2008 this problem tend to disappear once was created the Brazilian National Standard Setter (CPC – Comitê de Pronunciamentos Contábeis), which from now on will be responsible for issuing the new Brazilian accounting standards, which will be subject to the endorsement from the different regulators. Once the regulators are usually part o the CPC, it is supposed that most of the standards, if not all, will be approved by them as soon as they are issued in final form.

The CVM, the Brazilian Central Bank (BCB) and Insurance Regulator (SUSEP) has issued regulation determining that entities under their rules must prepared consolidated financial statements in accordance with IFRS by 2010. Stand-alone financial statements must, so far, be prepared in accordance with BR GAAP.

The format of the financial statements in Brazil is similar to IFRS. Disclosure in BR GAAP is very limited if compared with disclosure requirements prescribed by IFRS.

As mentioned above, despite the important movement towards IFRS, BR GAAP still differs from International Financial Reporting Standards – IFRS Brazilian in many different accounting treatments. Below we are describing some of current most relevant differences:

Start-up costs

In accordance with BR GAAP these costs must from 2008 be expensed immediately. For amounts capitalised before 2008 management has the option to apply the new rules retrospectively or prospectively.

Segment reporting

BR GAAP does not require companies to present segment information.

Biological assets

These assets are usually measured at historical cost for BR GAAP purposes, although in limited circumstances used of fair value is permitted.

Consolidated financial statements

Similar to IFRS, but without considering currently exercisable potential voting rights.

Revaluation of property, plant and equipment

Revaluation from 2008 (prospectively) is no longer allowed. Historical cost must be used.

Equity instruments vs. financial liabilities

BR GAAP is based on the form of the transaction instead of on the substance. As a result, many financial instruments might be accounted for as equity instrument in BR GAAP and would be accounted for as financial liabilities under IFRS. On the other hand, compound instruments (e.g. convertible bonds) are usually treated as financial liabilities with no equity component.

Investment property

For BR GAAP they are usually treated as property, plant and equipment i.e. at historical cost less depreciation and impairment, when applicable.

Earnings per share (EPS)

BR GAAP does not have the concept of diluted EPS. EPS is determined as the result of the net result for the year divided by the outstanding number of shares at the end of the year.

Embedded derivatives

There is not guidance in the BR GAAP on this issue. Usually the contracts with embedded derivatives are not split and the derivative is not separately recognized.

From 2008 the following differences between BR GAAP and IFRS were eliminated or reduced due to the changes in the Corporate Law referred above:

Issue	Accounting treatment – before the Law 11.638	Accounting treatment – after the Law 11.638
Business combination	Goodwill was usually determined as the difference between the book value and the amount paid, with no purchase price allocation.	Purchase price allocation is now required and amortisation of the goodwill for accounting purposes will likely not be allowed any more.
Operating lease	All lease contracts are considered and accounted for as operational lease.	An assessment must be carried out and the accounting treatment is similar to IFRS.
Government grants	Many of them use to be accounted for within equity, as if it was a contribution from the governments to the company.	The accounting treatment is similar to IAS 20.
Functional currency	The functional currency is the currency of the country where the entity is located.	Similar to IFRS.
Present value of financial instruments	Financial instruments were usually accounted for using their nominal value.	Similar to IFRS.
Measurement of financial instruments	Usually are measured at amortised cost. Derivatives are disclosed in the financial statements only. Recognition when settled only.	Three categories of financial assets: held for trading, available for sale and others. The two first have accounting treatment similar to IFRS. The last one is measured at amortised cost.
Share based payments	Disclosed only.	Accounted for similar to IFRS 2.

Please note that the comments on the column “Accounting treatment – after the Law 11.638” is our best estimate of the accounting treatment, since the change in the Corporate Law is quite recent and all the changes are in process of being regulated. Although there is a strong orientation towards IFRS, there might have differences when the final new local accounting standards are issued.

Also it is important to mention that these changes will also require the change in the local culture, mindset and training standards for all professional involved with accounting and finance issues. Therefore, there still might be few differences in practice between BR GAAP and IFRS. As the time passes there is a trend of BR GAAP being more and more close to IFRS, although convergence will take a long time to be completed for companies with no relevant public interest.

The text above might not be the only source of assessment of the main differences between BR GAAP and IFRS. We strongly advise you to seek for help from your accounting consultants when assessing the differences.

Reference information

Practical tips for business visitor

Local government agencies

BACEN - Brazilian Central Bank – www.bcb.gov.br

CFC - Federal Accounting Council – www.cfc.org.br

Confaz - National Council of Fiscal Policy – www.fazenda.gov.br/confaz

CVM - Securities Commission – www.cvm.gov.br

INSS - National Institute of Social Security - www.previdenciasocial.gov.br

Receita Federal do Brasil - Federal Internal Revenue Department – www.receita.fazenda.gov.br

SUSEP - Superintendence of Private Insurances - www.susep.gov.br

PwC key contacts

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International time zone

Eastern Brazil GMT -3

Western Brazil GMT -4

Daylight saving time is generally observed between October and February.

Statutory holidays

Official holidays are as follows.

New Year's Day	January 1
Shrove Tuesday (Carnival)	Variable
Good Friday	Variable
Tiradentes Day	April 21
Labor Day	May 1
Corpus Christi	Variable
Independence Day	September 7
Brazil's Patron Saint Day (N.S.Aparecida)	October 12
All Souls' Day	November 02
Proclamation of the Republic	November 15
Christmas Day	December 25

In addition to the above, municipal authorities may decree three additional holidays, normally on dates of local significance. The most celebrated of these is Carnival (Mardi Gras) in February / March each year, when business virtually comes to a standstill Monday through Wednesday.

Weight and measures

Brazil uses the metric system, but some traditional or unusual measures still appear in real estate transactions.



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