



Doing Business in Brazil

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Federal Incentives


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Information Technology Program (Lei da Informática)

Hardware and automation companies that invest in Information Technology Research and Development may apply to this tax incentive program related to Excise Tax (IPI) reduction. Under the Information Technology Law, companies are able to use part of the Excise Tax due to finance Research and Development projects.

In order to be eligible to the benefit, the product's NCM/SH (harmonized codes) must be listed on the qualifying products, provided by Decree n° 5.906/2006. It is important to note that softwares are not eligible once there is no incidence of Excise Tax on them.

The benefit is valid until 2019, covering all Information Technology hardware and automation goods produced in Brazil. All Brazilian regions qualifies for the benefit with the exception of Zona Franca de Manaus that has a specific tax legislation. The benefit ranges from 70% of Excise Tax reduction for industrial plants located at south and southeast regions to 85% Excise Tax reduction for the other regions (north, northeast and mid-west).

Products must meet the Brazilian PPB (Basic Productive Process), which determines the level of nationalization required for each type of product, since the initiative aims to encourage the national industry. The PPB is defined by joint decree of the Ministry of Science, Technology and Information and the Ministry of Development, Industry and Trade.

To apply for the benefit, the company must submit its application to the Ministry of Science, Technology and Information, which will analyze the plea and approve or refuse the request. The application must be comprised of information about the product, company and production process, R&D plan and a Results Demonstrative Report attesting company's expenses and investments.

The program establishes that investments in R&D must be 4% of the company's annual sales of incentivized products, discounted sales tax. Companies that have annual revenue inferior to BRL 15 million may perform all of the investments internally, however, companies with annual revenue superior to BRL 15 million are obliged to invest 2,16% internally and 1,84% externally with researches, universities, regional superintendence or other type of institution accredited by the Brazilian Government.

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Research and Development (Lei do Bem)

R&D incentive represents a direct relief of Corporate Income Tax and Social Contribution (IRPJ and CSLL) and may also represent a relief of the Excise Tax (IPI) in case of asset acquisitions.

The government's purpose is to encourage the development of new products and/or technologically advanced processes in Brazil.

Expenses carried out with technology research and innovation development accounted as operating expenses under the legislation of corporate income tax are deductible for income tax calculation purposes. Expenses with technological research and innovation development contracted in Brazil with universities, research institutions or independent inventors are also deductible for income tax purpose if the company making the expenditure takes the responsibility, enterprise risk, management and control of the use of expenditure's results.

Moreover, R&D incentive legislation allows entities to use from 60 percent up to 80 percent of the expenses incurred related to R&D to reduce their taxable income. An extra 20 percent deduction is allowed for the qualifying costs incurred in developing a patent,

however this deduction is only allowed when a patent is registered. Since those expenses are already a 100 percent deductible, the incentive can represent a super deduction of 160, 180 or 200 percent.

Regarding the IPI, corporate entities may apply to 50 percent relief of the tax levied on assets used in research and development activities.

Also concerning asset acquisitions, companies may also use the accelerated depreciation benefit, which consists of the full depreciation of machinery, equipment, devices, and instruments used in Research & Development activities at the time of their acquisition. Similarly, provide they are related to R&D activities, expenditures allocated to intangible assets can be fully amortized in the accrual period in which they are incurred.

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Ex-Tariff Regime

The Ex-Tariff Regime is a mechanism to modernize the Brazilian industrial production, by reducing the cost to import fixed assets and IT goods with no similar production in national territory. This regime consists in an Import Tax reduction, usually from 16% to 2%, for a period of 2 (two) years.

The process, to obtain the tax benefit, takes approximately 90 days. The requirement must be submitted to the appreciation of the Ministry of Development, Industry and Foreign Trade (MDIC), Brazilian legal entity. The document must refer to only one item (machine, equipment, etc.) containing the following information: technical aspects about the product, an estimate volume of import, the investments and the purpose of the request.

The plea is analyzed by the Foreign Trade Chamber (Câmara de Comércio Exterior - CAMEX) and its approval is issued through a Resolution at the Brazilian Official Gazette (Diário Oficial da União - DOU).

Special Tax Regime	Sectors	Activity	Benefits
REIDI Law 11.488/2007	Transport, port, energy, basic sanitation, irrigation.	Implements infrastructure projects approved by the Ministry of the respective sector.	PIS and Cofins suspension on the acquisition (imports or domestic) of machinery, devices, and equipment, as well as services.
REPES Law 11.196/ 2005	Software development or IT services.	Exports at least 50% of their annual gross revenue.	PIS, Cofins and IPI suspension on imports as well as domestic acquisitions.
PADIS & PATVD Law 11.484/2007	Production of semiconductors and digital television equipment.	Manufacturing and R&D projects.	Zero percent rate of PIS, Cofins and IPI on the acquisition (imports and domestic) of machinery, devices and equipment, and on the sale of products; Reduction on the CIT due on operating profit (Lucro da Exploração); For PADIS only, zero percent Import Tax (II) and CIDE on remittances abroad in relation to royalties is applicable.
REPETRO Decree 4.543/2002	Oil and gas exploration.	Imports of equipment destined to the exploration of oil and natural gas as well as its production.	Total suspension of federal taxes due on importation. * There may also be ICMS benefits, as well as the application of other custom special regimes.
RECAP Law 11.196/2005	Export companies.	Exports at least 70% of their annual gross revenue.	Suspension of PIS and Cofins on imports of equipment, instruments and machinery.
RECINE Law 12.599/2012	Movie theater industry.	Modernization and expansion of local movie theater industry.	Suspension of II, IPI and PIS/Cofins in case of domestic sales or import of new machinery, devices, instruments and equipment, for the incorporation on fixed assets and use in exhibition complexes, as well as materials for their construction.
REPORTO Law 11.033/2004	Ports and railroad concessionaires.	Modernization and extension of port structure.	Suspension of II, IPI and PIS/ Cofins, in case of domestic sales or import of new machinery and equipment. Benefit granted until 31st December 2020.
RET Law 10.931/2004	Real estate.	Real estate development.	IRPJ, CSLL and PIS/Cofins at a combined rate of 4%. *Reduced to 1% in case of residential projects with a social interest.

INOVAR-AUTO
Law
12.715/2012

Motor vehicle's supply chain.

Investments in R&D activities, safety measures, power efficiency, environmental measures and quality improvement of automobile industry.

IPI offset, through deemed credit, based on the cost related to the purchase of raw material, tooling, research, technological development, technological innovation, suppliers development, engineering, basic industrial technology and payments made to FNDCT (National Fund for Scientific and Technological Development). This Regime is available until December 2017.

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Reintegra Program

Law 13.043/2014 reintroduced and made permanent the Reintegra Program, originally introduced in 2011 to allow exporters to recover residual tax costs incurred in the export production chain. The Reintegra Program allows entities that export goods manufactured in Brazil to request a credit (which may be refunded or used to offset other federal taxes) that ranges from 0.1% to 3% of their total export revenue, depending on the fiscal year and type of goods exported.

Law 13.043/2014 also introduces the possibility of increasing the credit by an additional 2%, resulting in a total credit of up to 5%, provided the exporter can prove that the production chain for the exported goods generated additional residual taxes and certain other requirements are met.

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Special tax regimes

Special tax regimes are provided by Brazilian legislation to benefit some specific economic activity sectors. In most cases, taxpayers must comply with the application requirements due for each special tax regime, as well as other special requirements and ancillary obligations.

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