Why Brazil?

Brazil is Latin America's largest economy, with a domestic market of around 215 million consumers and preferential access to the Mercosur trade bloc. Its strategic location, expanding port and logistics infrastructure, and skilled workforce in agribusiness, energy, technology and services make it a natural regional hub. The 2023 Tax Reform (Constitutional Amendment 132) is simplifying a historically complex indirect tax system into a dual VAT (IBS/CBS) by 2033, while targeted regional and sector incentives continue to offset Brazil's relatively high overall tax and labour cost burden.

1. Choosing your legal structure

Structure	Best for	Key considerations
LTDA / SLU (Limited Liability Company)	Most foreign investors, including single-shareholder structures	No minimum capital; limited liability; no mandatory board or shareholder meetings; estimated annual compliance cost of R$15,000-R$60,000.
S.A. (Corporation)	Multiple investors, capital-raising, regulated sectors	More robust governance (mandatory shareholder meetings, published financial statements); estimated annual compliance cost of R$20,000-R$72,000; CVM filings are required if shares are publicly traded.
Branch of a foreign company	Limited, specific cases where a separate Brazilian legal entity is not required	Requires prior authorisation by federal decree - a slower route that is rarely used in practice.

Typical recommendation: a Limitada (LTDA) - or its single-member variant, the SLU - is typically recommended for a long-term foreign investment: it requires no minimum capital, offers limited liability, and carries lighter governance and compliance requirements than a corporation (S.A.). Whichever structure is chosen, Brazilian law requires a Brazil-resident representative with powers to receive service of process even where directors reside abroad (Law 14,195/2021), the foreign capital must be registered with the Central Bank (BACEN) within 30 days of the inflow with periodic economic-financial declarations thereafter, and any foreign corporate shareholder must disclose its ultimate beneficial owners (UBOs) on the Brazilian tax registry (CNPJ) - failure to do so can suspend the entity's CNPJ. The right structure ultimately depends on the number of investors, capital-raising plans and the sector involved, and should be confirmed with tax and legal advisors.

2. Main business taxes

a. Corporation tax

- Corporate income tax (IRPJ) is levied at 15%, plus a 10% surcharge on monthly taxable profit exceeding R$20,000 (R$240,000/year) - an effective combined federal rate of up to 34% once the Social Contribution on Net Profit (CSLL) is added.
- CSLL: 9% for most businesses, rising to 15%-20% for financial institutions. Businesses on the Presumed Profit regime should note a 2026 rule (Law 224/2025) increasing the IRPJ/CSLL presumption base on annual gross revenue above R$5 million.
- The Tax Reform does not change corporate income tax directly, but the choice between Presumed Profit and Actual Profit should be reassessed as indirect tax credits shift during the 2026-2033 transition (see VAT / indirect tax below).

b. VAT / indirect tax

- Brazil does not yet have a single VAT: businesses currently pay separate federal, state and municipal indirect taxes - PIS/COFINS (3.65%-9.25%), IPI (variable by product), state ICMS (approximately 17%-22%) and municipal ISS (2%-5%) - a combined burden that can exceed 30% depending on the sector.

- Under the Tax Reform (Constitutional Amendment 132/2023 and Complementary Law 214/2025), these are being replaced by a dual VAT - CBS (federal) and IBS (state/municipal) - with a 0% rate or a 60% reduction for essentials such as basic food staples, healthcare and education.
- Transition: 2026 is a test year at a combined 1% rate (0.9% CBS + 0.1% IBS), fully offset against PIS/COFINS due, so there is no real increase in burden. From 2027 CBS replaces PIS/COFINS at its full rate; ICMS/ISS are phased out 10% a year between 2029 and 2032, with full replacement in 2033. The latest official reference-rate estimate is around 27.9% combined (legal ceiling: 26.5%) - among the highest VAT rates globally, and a key input for investment modelling.

c. Employment costs

On top of gross salary, mandatory employer charges add approximately 54%-56% outside the Simples Nacional regime, so the fully loaded cost of an employee is typically 1.5-1.7 times gross pay.

- **Employer social security (INSS): 20% of payroll, plus a work-injury insurance contribution (RAT) of 1%-3% and 'Sistema S' training-system contributions of approximately 5.8%.**
- Employers also fund FGTS severance contributions (8% of gross salary), a 13th-month salary (equivalent to 8.33%) and annual leave plus a constitutional one-third bonus (approximately 11.1%) - all included in the total employment cost above.

3. Key tax incentives

Brazil offers a mix of federal and state-level incentives that are particularly relevant to international investors: import and distribution incentives in Espirito Santo, Brazil's extensive double tax treaty network, the long-standing Manaus Free Trade Zone regime, and federal R&D tax relief.

a. INVEST-ES (Espirito Santo)

- State ICMS incentive for Espirito Santo-based companies: ICMS deferral on imports of machinery and equipment and a presumed credit of up to 70% on interstate sales, cutting the effective rate to as little as ~1% on qualifying import, industrialisation and distribution operations.
- **Benefit levels are set by state resolution and are subject to compensation arrangements during the Tax Reform transition - confirm current terms before relying on them.**

b. Brazil's double tax treaty network

Brazil has tax treaties in force with 37 countries, reducing withholding tax and mitigating double taxation on cross-border income - a key planning tool for international groups structuring their investment through a treaty jurisdiction.

- **Treaty partners include South Africa, Argentina, Austria, Belgium, Canada, Chile, China, South Korea, Denmark, the UAE, Ecuador, Slovakia, Spain, the Philippines, Finland, France, Hungary, India, Israel, Italy, Japan, Luxembourg, Mexico, Norway, the Netherlands, Peru, Poland, Portugal, the Czech Republic, Russia, Singapore, Sweden, Switzerland, Trinidad and Tobago, Turkey, Ukraine, Uruguay and Venezuela.**
- Treaties typically reduce withholding tax on dividends, interest and royalties paid to treaty-resident shareholders and relieve double taxation via a tax credit mechanism in the investor's home jurisdiction.

- There is currently no treaty with the United States; payments to non-treaty jurisdictions are subject to standard domestic withholding tax rates, generally without bilateral relief (though a unilateral credit may apply in some cases).
- Treaty benefits generally require the recipient to be the beneficial owner of the income and tax-resident in the treaty partner country, and are subject to Brazil's transfer pricing and anti-abuse rules.

Most useful for international groups with shareholders, financing or IP based in a treaty jurisdiction, where the structure can materially reduce withholding tax leakage on dividend, interest and royalty flows back to the parent.

c. Manaus Free Trade Zone (Zona Franca de Manaus / SUFRAMA)

Companies established in the Manaus Free Trade Zone benefit from import duty and IPI exemptions or reductions on inputs and industrialised products, plus differentiated PIS/COFINS treatment; the regime has been expressly preserved under the Tax Reform (Law 15,273/2025) and remains Brazil's principal manufacturing incentive hub (notably electronics and two-wheelers) with full access to the domestic market.

d. Lei do Bem - R&D and innovation tax incentive

Federal R&D incentive (Law 11,196/2005) available to companies on the Actual Profit regime with positive taxable income: an additional deduction on qualifying R&D and innovation spend (payroll, prototypes, testing) worth an effective tax saving of approximately 20%-27%.

- Particularly relevant for technology, engineering or product-development operations in Brazil, subject to remaining tax-compliant and filing the required annual R&D report.

4. Key decision factors

Market access: Brazil is Latin America's largest economy and a natural gateway to the Mercosur trade bloc, offering scale that is hard to replicate elsewhere in the region.
Tax efficiency: the current indirect tax system is complex and the overall burden is high, though the Tax Reform under way should meaningfully simplify compliance by 2033.
Incentives: targeted regional programmes (Espirito Santo, Manaus) and federal R&D relief can materially improve project economics for the right activity.
Labour and employment costs: the workforce is skilled and increasingly digital, but mandatory employer charges add roughly 55% on top of gross payroll.
Regulatory complexity: company formation and ongoing compliance remain more bureaucratic than in many OECD markets, although digitalisation is improving turnaround times.
Risks: labour litigation is common and currency volatility should be factored into financial planning.

Brazil as a business location is best suited for

- Businesses seeking direct access to the Brazilian consumer market and the wider Mercosur bloc.
- Import, distribution and light-manufacturing operations that can leverage regional incentives in Espirito Santo or the Manaus Free Trade Zone.
- International groups with R&D, engineering or technology functions that can benefit from the Lei do Bem incentive and Brazil's treaty network when repatriating profits.

Overall assessment

Brazil combines one of the world's largest consumer markets with a strategic Latin American base, and the LTDA remains the simplest and most common entry structure for foreign investors. Corporate and indirect tax rates are high by international standards, though the Tax Reform under way should meaningfully simplify compliance by 2033. Well-targeted incentives - regional programmes in Espirito Santo and the Manaus Free Trade Zone, plus federal R&D relief - can materially improve project returns for the right activity, and Brazil's treaty network helps reduce withholding tax leakage for well-structured groups. Investors should budget for a mandatory Brazil-resident representative, Central Bank registration of foreign capital, and employer costs of roughly 55% above gross salary. This is a high-level overview only; specific tax and legal advice should be obtained before any investment decision.