

## Brazil's Tax System and Benefits for Wealthy Individuals

The high tax burden on consumer and business activities in Brazil is widely known and criticized for inhibiting business development and economic growth. Brazil differs from other emerging economies, where lower tax burdens prevail. It also differs from countries where higher taxation is justified by comprehensive government-provided social services (i.e., the so called "welfare state").

While Brazil's tax system disproportionately burdens both the growing Brazilian middle class and business operations, it can make Brazil quite attractive to high net worth individuals as a residence for tax and estate planning purposes – particularly for individuals with significant passive income.

Taxation on inheritance and lifetime transfers in Brazil is quite low compared to other countries. The only tax levied in Brazil on inheritance or gifts between living persons is the ITCMD tax (*Imposto sobre Transmissão Causa Mortis e Doação de Quaisquer Bens ou Direitos*). ITCMD rates may vary depending on the state where the taxable event takes place, up to a maximum of 8%. Typically, ITCMD rates are lower than 8%. For example, a 4% rate presently exists in the State of São Paulo. Exemptions and tax reductions also apply in specific situations. The ITCMD calculation is based normally on the fair market value of the transferred assets on the date of the decedent's death or on the date of execution of the gift instrument.

No income tax is levied on inheritance or gift transfers as long as the transfer value is the same as the value reported on the transferor's last tax returns and remains the same on the transferee's tax returns. Transferor and transferee may choose to transfer the assets at fair market value, in which case the positive difference between the market value and the value indicated on the transferor's last tax returns is treated as a capital gain subject to 15% income tax.

Income tax rates for Brazilian resident individuals are also comparatively low, usually from 0% to the maximum of 27.5% on ordinary income and 15% on capital gains earned from Brazilian or foreign sources. While earned income may be taxed up to 27.5% for resident individuals, tax rates on financial investments usually range from 0% to 22.5% (for investments in Brazil) or 15% (for financial investments made in foreign currency overseas).

Another important tax benefit is granted to Brazilian resident individuals who become non-residents and later reacquire Brazilian residency status. These individuals receive an income tax exemption for any capital gains earned on the transfer, sale or redemption of assets (including financial investments) located abroad or otherwise treated as interests located abroad, acquired at any time while they were non-residents. Irrespective of Brazilian citizenship, Brazilian non-residents typically do not owe income taxes in Brazil, except for income derived from sources and assets located in Brazil.

And contrary to many other countries, Brazil generally does not tax resident individuals who own equity interests in overseas foreign corporate entities, funds or trusts until the income or capital gain earned by the foreign entity is distributed to the resident investor. In addition, Brazilian tax residents with investments or citizenship in other countries may also benefit from several treaties between Brazil and other nations.

The preceding tax benefits, as well as others not discussed in this article, complemented by Brazil's regulatory framework for its domestic capital markets and financial institutions, make it an attractive country for high net worth individuals who qualify for various tax and estate planning benefits built into Brazil's tax system.

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