

PwC Inbound/Outbound Event – Investing in Brazil

8 August 2019, Shanghai



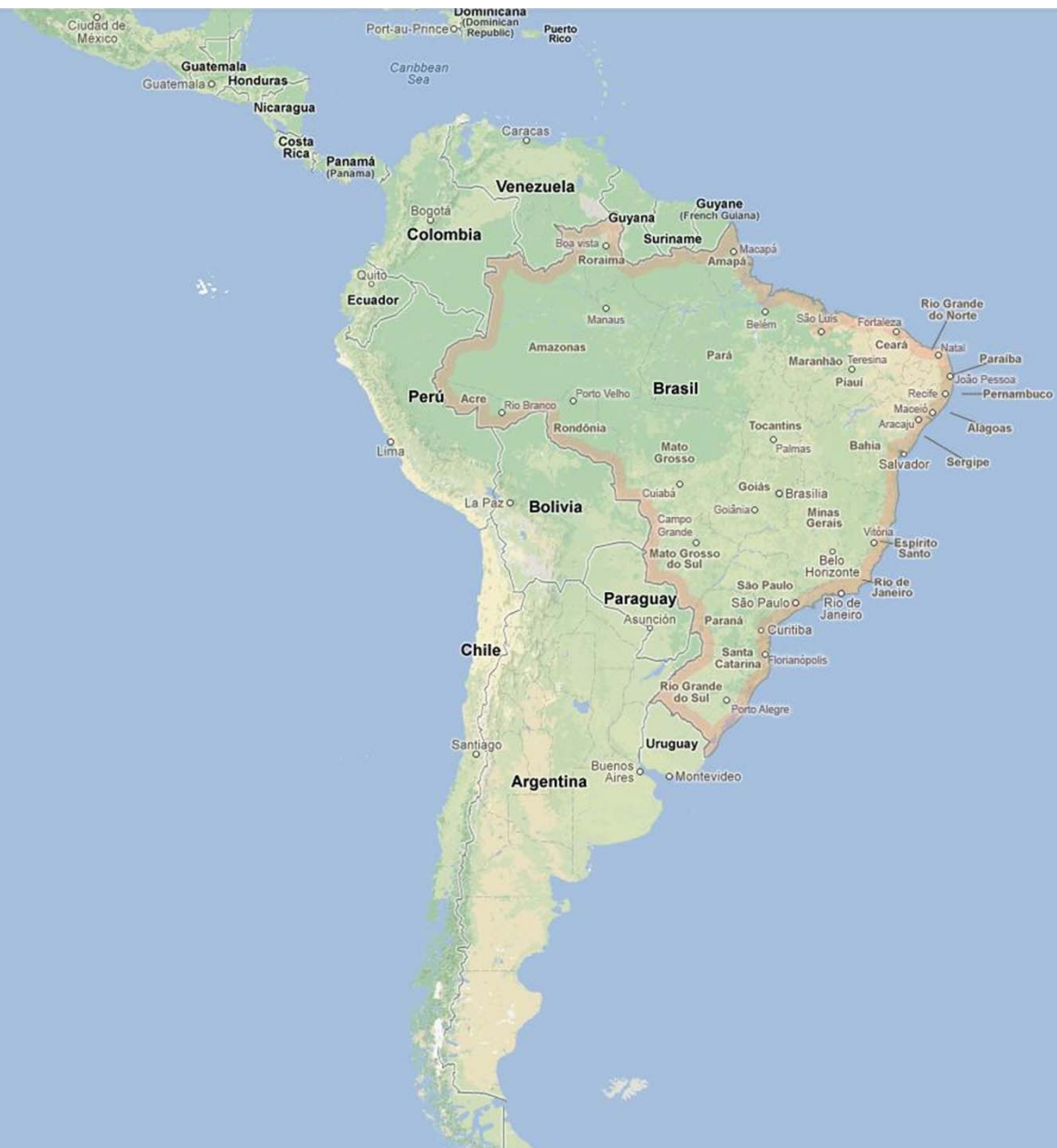
Brazil at a Glance

PwC
2019



Brazilian economic and political scenarios

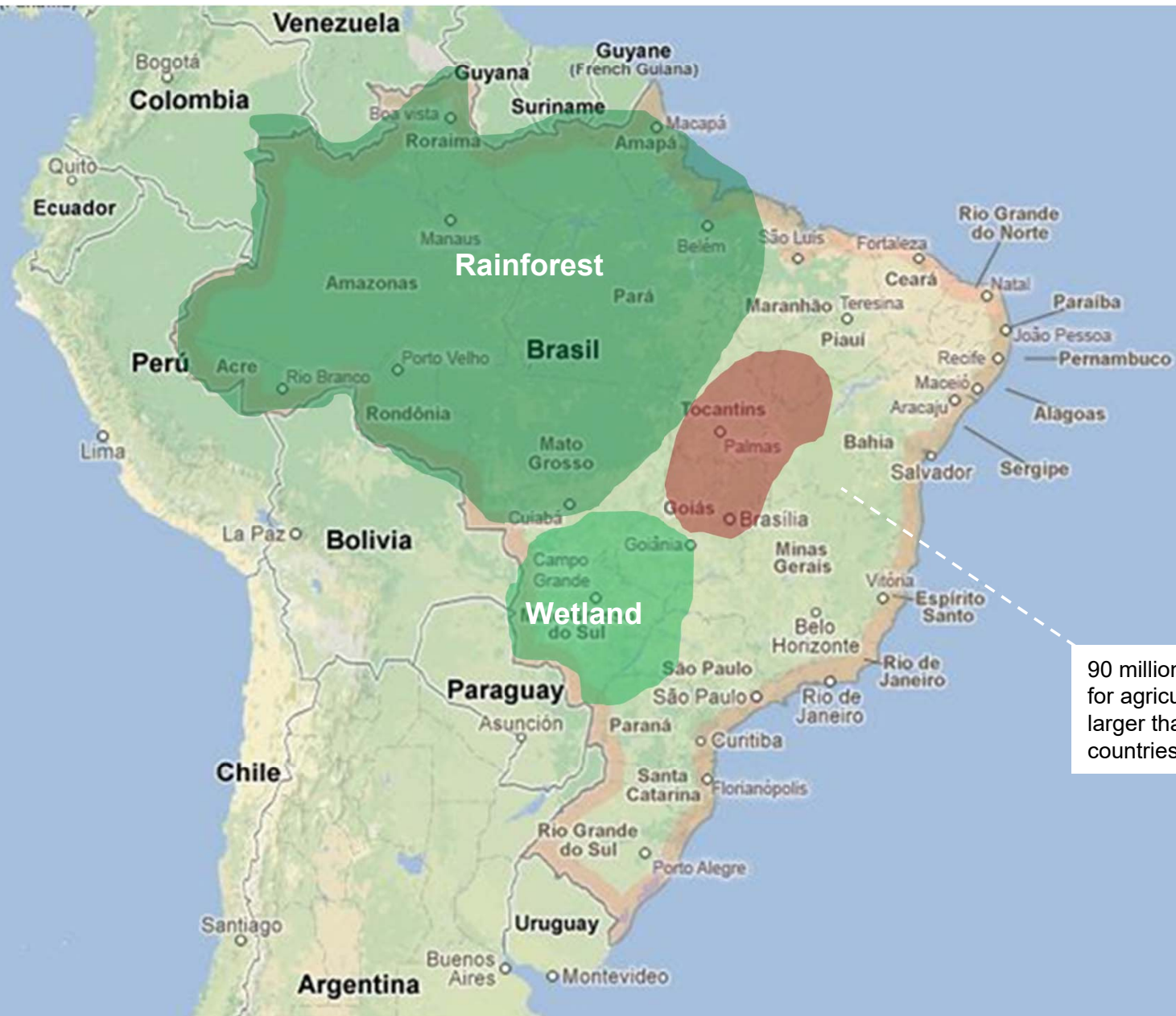






- Brazilian population is concentrated along the coast
- 17 cities with over 1 million inhabitants

From north to south:
7 hours flight



90 million hectares available for agricultural expansion - larger than some European countries

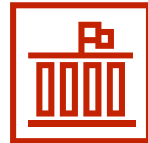
Overview



Portuguese as one language/one country (promotes national integration) despite being a “melting pot” society

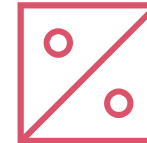


No ethnic, racial or religious tensions
No border conflicts
No terrorism threat



Strong and stable democratic institutions

- Rule of law
- Free press
- Freedom of assembly
- Highly independent branches of power (Executive, Legislative and Judiciary)



Sophisticated financial services sector and regulatory environment:

- Regulatory agencies cover all key sectors
- Ground breaking regulators (MFR, Tax e-reporting, Banking regs. tougher than Basel, etc.)



Vast clean and renewable energy sources:

- Hydro
- Ethanol
- Wind
- Solar
- Oil & Gas (Pre-Salt Layer Reserve)

Brazil still presents some significant advantages in relation to most emerging markets

Well-established democratic institutional ecosystem (free elections, rule of law, freedom of speech, worship and assembly)

Ideologically diverse political parties

Strong public prosecutors and regulatory agencies

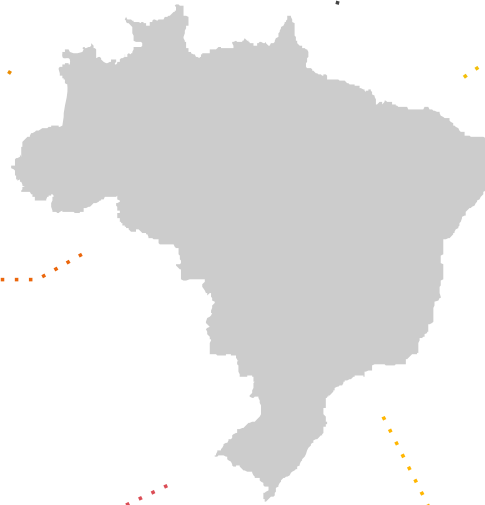
Improved corporate compliance rules and practices as well as free flow of investments

Free and vocal press, fiercely independent executive/ legislative/ judicial branches of government

The economy will scale to distance itself from mid-sized economies

No cultural hindrances – such as language barriers to its socioeconomic development

Mature civil institutions and consolidated democracy – increasing predictability and openness / internationalization of the economy



Brazil – some facts and figures

209 million people

Workforce > 104 million*

IBGE 2018 *Q1

3rd of Social
Media usage

- WhatsApp (115M)
- Youtube (108M)
- Facebook (127M)
- LinkedIn (50M)

www.translatemedia.com

9th GDP - 2.3Tr_(nominal)

Could be #5 by 2050 (World in 2050)

World Bank 2018 / PwC 2017

4th Non-cash
transactions
market

(credit and debit cards + electronic payments)

Capgemini 2018



Brazil – some facts and figures

235 million
Mobile devices

Anatel 2018

3rd largest
producer of civil
aircraft

1st in regional/mid-sized jets

Flight International

120 million
Internet users

4th largest country in number of users

Agência Brasil 2018 / UN 2018

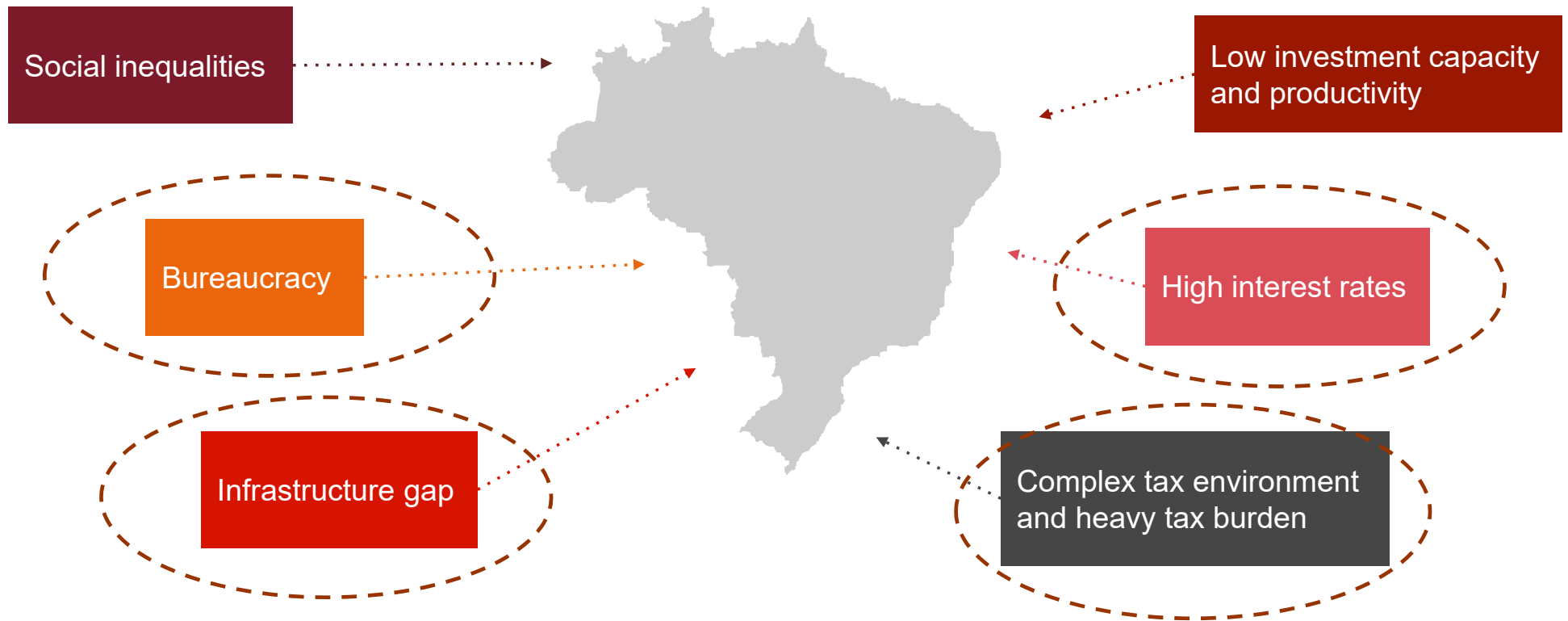
USD 2.0 billion

total household spending in 2018,
despite recession

Planet Retail 2018



Challenges



Current economic indicators

From **7.5% GDP** growth rate in 2010, the economy slowed down rapidly in 2013/2014

Sliding into a historical recession in 2015/2018 (**-7% GDP**)

After a low growth in 2018 (**+1.1%**)

Projections still indicate low growth in 2019 (**+0.9%**) with more robust economic results as from 2020 (**+2.5%**)

12% →
-of workforce-
Unemployment

33% →
- of GDP-
Tax burden

4.0% →
Inflation

6.0% ↘
Interest rate
(Basic)

IPCA Inflation rate : IBGE / Basic interest rate: Central Bank / <http://agenciabrasil.ebc.com.br> / IBPT, Heritage Foundation, 2018 / Projections for 2019: FMI and IBGE (Lafis Consulting) / <https://tradingeconomics.com>

Trade Balance

Imports (US\$ 181 Bn)*		Exports (US\$ 240 Bn)*	
Origin**	%	Destination**	%
Asia	33	Asia	39
Europe	23	Europe	20
North America	20	North America	15
South America	12	South America	14
Others	12	Others	12

*Agencia Brasil

**<http://www.mdic.gov.br> / Percentage for 2018

Over US\$ 400 Bn of Foreign Reserves***

***tradingeconomics

Asia is expanding its share of Brazilian trade

A broad range of exports including iron ore, soybeans, auto vehicles and aircrafts

The Brazilian economy is still largely domestically oriented. Foreign Trade, including through bilateral agreements, is expected to expand in the coming years - Recent Trade Agreement with EU

Foreign Direct Investments (FDI)



Source: Lafis Economic Report - Projection

Brazil is the top sixth destination of FDI, after USA, China, Germany, India and UK

Source: 22nd Annual Global CEO Survey

Current political scenario

Constitutional impeachment of President Dilma Rousseff in 2016:

- Main reason: non-compliance with “Fiscal Responsibility Law”
- Approved by two thirds majority vote in Congress (Lower House and Senate) with oversight of the Supreme Court

Vice President Michel Temer took office as President in August 2016

New President Jair Bolsonaro elected in November 2018

Committed to promote:

Pension reform - **in progress** (approved 1st round)

Deregulation

Tax Reform - **Short Term**

Bilateralism and International Trade

Privatisation - **Medium Term**

Political reform

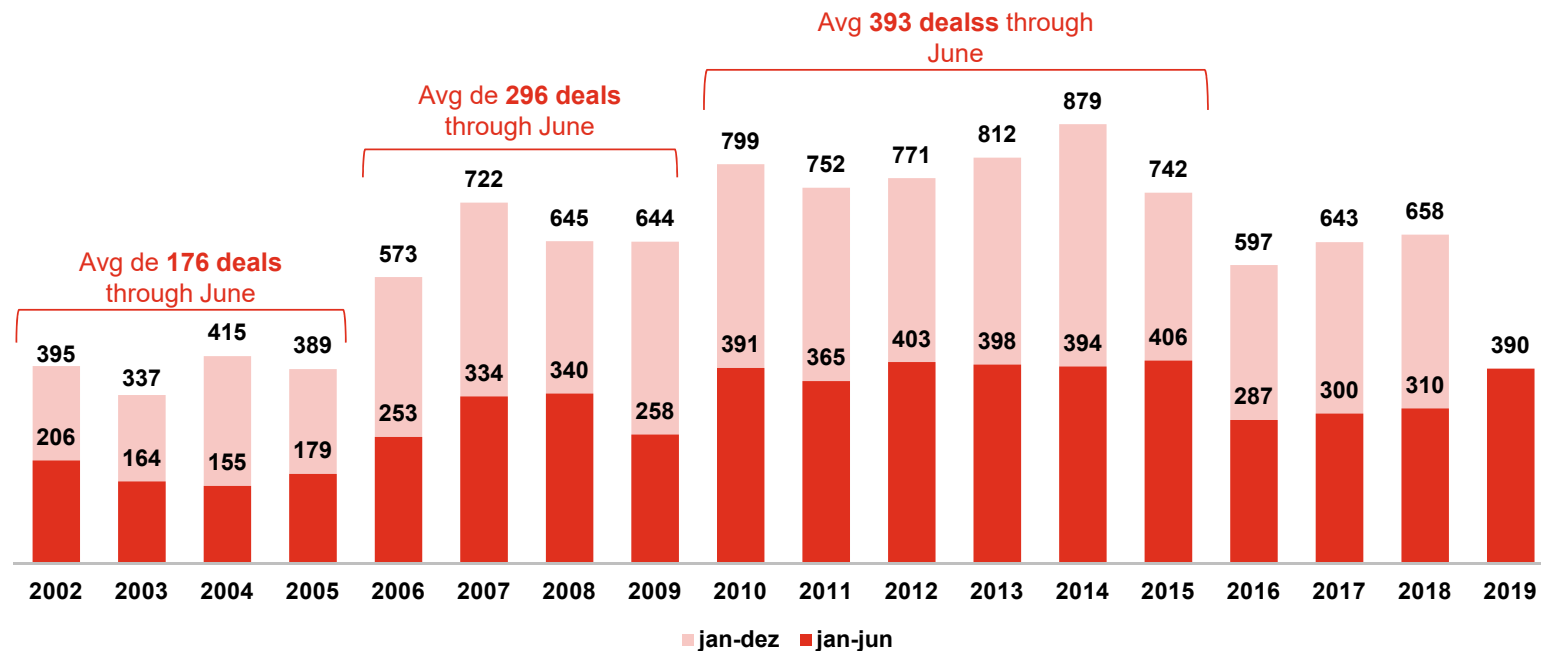
A Look ahead



Recent years have been marked by significant economic and political challenges

Despite the recent deep recession and political turmoil, the market has a clear vision of the country's upside potential – Brazil, when compared to other emerging markets, has significant headroom for growth

M&A market – 390 transactions announced during H1 19, up 26% from same period last year



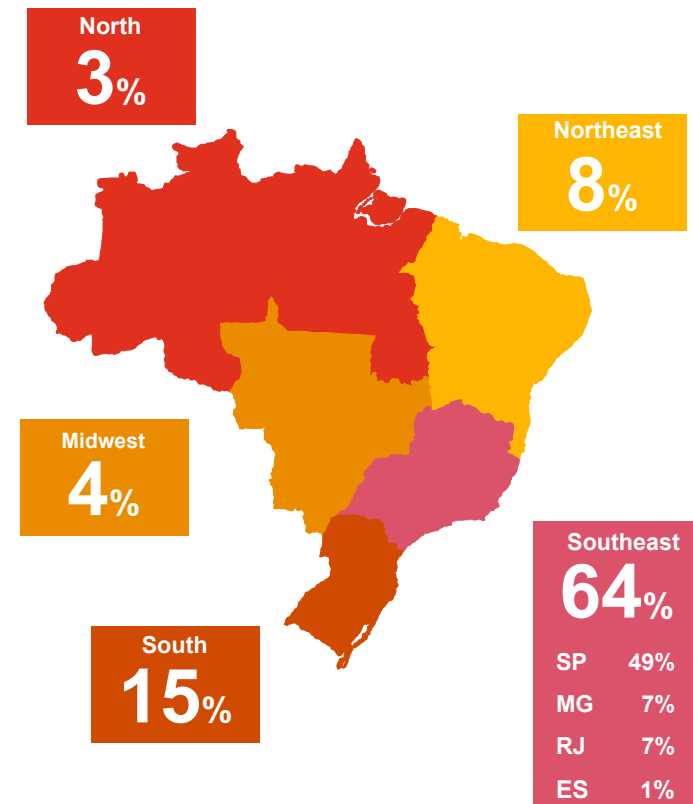
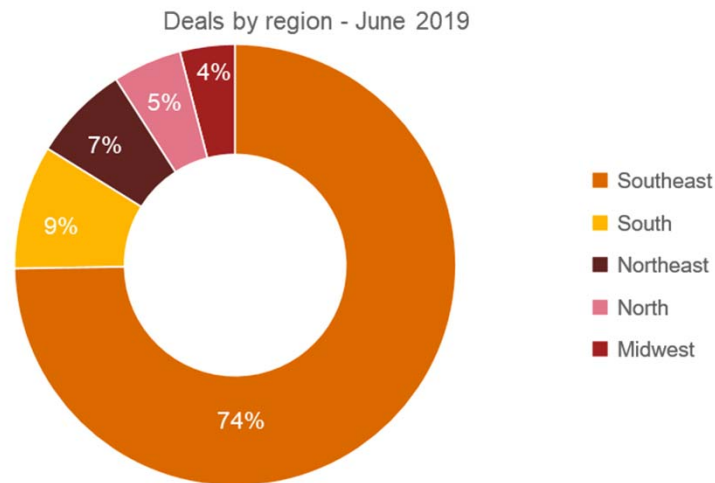
390 transactions have been announced during the first semester of FY19, a 26% growth compared to the same period last year (310 transactions). Only June 2019 has presented 68 deals, relatively flat compared to the same month last year (69 deals).

Southeast region accounts for 64% of deals announced during 1H 19

Southeast region accounted for **64%** of transactions announced. With 248 transactions to **June 2019**, it presents a 16% increase compared to the same period last year (2018 - 214 transactions).

During **June 2019**, 50 transactions were announced in the Southeast region, a 11% increase compared to the same period last year (June 2018 - 45 transactions).

The **State of São Paulo** accounts for 49% of deals announced during first semester of 2019, with 190 transactions (2018 - 161 deals), being 166 in the Capital e 24 in the Countryside.



Highlight Infra Projects

Brazil has the largest concession and privatisation programme in the world

- Pro market government
- Alignment at federal, state and city levels
- Several sectors
- US\$500bn+ opportunities
- Aggressive agenda with various assets already sold in 2019

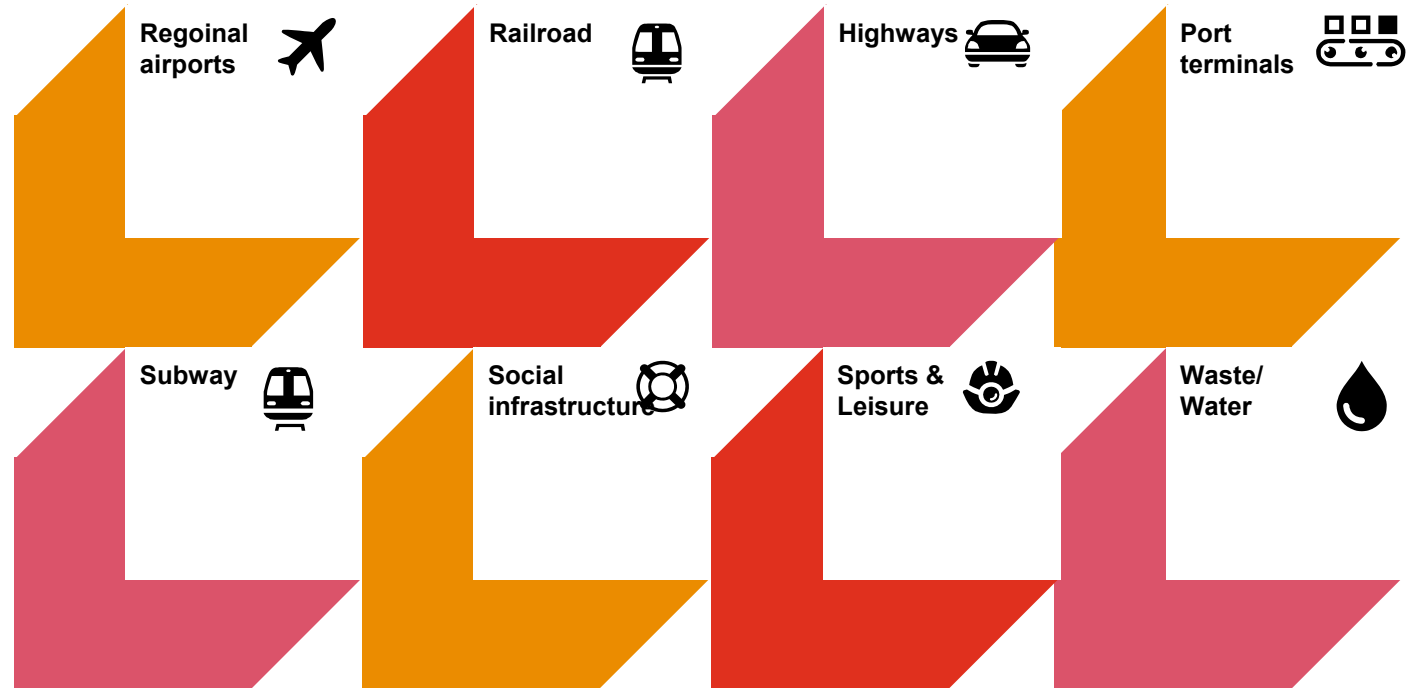
Source: Programa de Parcerias de Investimentos, Infrastructure Minister, Agencia Infra, Inframotion, BNDES and ANP



State of São Paulo program

Largest state program in Brazil

- Extensive track record on PPPs, concessions
- C.R\$100bn in opportunities
- Capital intensive projects – attractive to Chinese investors
- Strong delivery capacity



巴西投资的税务考量

Tax considerations on investment in Brazil



1. 巴西投资税务环境概览

Overview of tax environment on investment in Brazil

巴西税务环境简介

Overview of Brazilian taxation environment

- 巴西税种种类繁多，共有各种捐税70多种。一直以来，巴西复杂的税收体系给外国投资者带来了艰巨的挑战。
- The taxation system in Brazil is complex, with over seventy types of taxes. Brazilian tax system has always been a challenge for foreign investors.
- 巴西税收是由三个不同的层面税收法律制度组成的：1) 联邦税；2) 州税：巴西26个州和联邦特区每一个都有自己特定的立法；3) 市税：5,560个市中每一个市都有自己特定的立法。
- Brazilian taxation consists of three different levels of taxation system: 1) Federal taxes, 2) State taxes: each of the 26 states and federal districts has its own specific legislation; 3) Municipal taxes: each of the 5560 municipalities has its own specific legislation.

税收体系复杂，税种繁多，税负重

- Complex tax system, wide variety of taxes and heavy tax burden

法令、法规繁多、复杂，常出台临时措施

- Numerous and complex laws and regulations
- Temporary measures often introduced

可分为联邦税、州税和市税

- Three levels of taxes: federal taxes, state taxes and municipal taxes

分级征收和管理

- Hierarchical collection and management

巴西投资所适用的主要税种概览

Overview of major taxes applicable to Brazilian investments

联邦税 Federal taxes	州税 State taxes	市税 Municipal taxes
<p>基于交易征收:</p> <p>Based on transactions:</p> <ul style="list-style-type: none"> • A: 工业产品税 (IPI) • B: 进口关税 (II) • C: 社会一体化税 (PIS) • D: 社会安全税 (COFINS) • E: 金融交易税 (IOF) • F: 技术进口税 (CIDE) • G: 预提所得税 (IRRF) • H: 出口税 (IE) (*货物劳务出口通常不涉及巴西税费* goods and services are always exempt from Brazilian taxes) <p>• 基于企业利润征收:</p> <p>Based on profits:</p> <ul style="list-style-type: none"> • I: 企业所得税 (IRPJ) • J: 法人盈利税 (CSLL) 	<p>基于交易征收:</p> <p>Based on transactions:</p> <ul style="list-style-type: none"> • O: 货物流通税 (ICMS) • P: 货物流通税替代税 (ICMS-ST) <p>基于资产财产征收:</p> <p>Based on assets and properties:</p> <ul style="list-style-type: none"> • Q: 车船税 (IPVA) • R: 遗产及捐赠税 (ITCMD) <p>与雇员相关的捐税:</p> <p>Taxes related to employees:</p> <ul style="list-style-type: none"> • L: 个人所得税 (IRPF) (雇主代扣代缴 withheld by employers) • M: 失业保险金 (FGTS) (雇主缴纳 paid by employers) • N: 社会保障费 (INSS) (雇主缴纳 paid by employers) 	<p>基于交易征收:</p> <p>Based on transactions:</p> <ul style="list-style-type: none"> • S: 社会服务税 (ISS) <p>基于资产财产征收:</p> <p>Based on assets and properties:</p> <ul style="list-style-type: none"> • T: 城市房地产税 (IPTU) • U: 不动产转让税 (ITBI) • K: 农村财产税 (ITR)
联邦税		

巴西税收协定网络

Tax treaty Networking

巴西与全球多个国家/地区签订了双边税收协定。截止2019年，与巴西签订双边税收协定的国家/地区汇总如下：

Brazil has signed double tax treaties with various countries and jurisdictions around the world. As of 2019, the countries that have signed tax treaties with Brazil are summarized as below:

阿根廷 Argentina	奥地利 Austria	比利时 Belgium	加拿大 Canada	智利 Chile	中国 China, People's Republic of
捷克 Czech Republic	丹麦 Denmark	厄瓜多尔 Ecuador	芬兰 Finland	法国 France	匈牙利 Hungary
印度 India	以色列 Israel	意大利 Italy	日本 Japan	韩国 Korea, Republic of	卢森堡 Luxembourg
墨西哥 Mexico	荷兰 Netherlands	挪威 Norway	秘鲁 Peru	菲律宾 Philippines	葡萄牙 Portugal
俄罗斯 Russia	斯洛伐克 Slovak Republic	南非 South Africa	西班牙 Spain	瑞典 Sweden	特立尼达和多巴哥 Trinidad and Tobago
土耳其 Turkey	乌克兰 Ukraine	委内瑞拉 Venezuela			

巴西避税天堂及其税务影响

Brazilian 'tax havens' and relevant influences

基本概念 - Basic concepts

- 根据巴西税务机关颁布的NI 1,037/2010号法令，“避税天堂”（tax haven）是指对于所得收入不征税或者征税税率小于20%的国家/地区，以及对于资产权益的所有者信息不进行公开披露的国家/地区。
- According to NI 1,037/2010 issued by RFB, 'tax havens' are the jurisdictions that levies no tax or less than 20% tax on corporate income, or refuse to disclose information regarding shareholding and ownership of assets and rights.
- 巴西税务机关会对有关避税天堂的名单进行不时更新。
- The Brazilian tax authorities update the list of tax havens from time to time.
- 目前包括了61个避税天堂（由2002年原有的53个增加至61个）。
- There are 61 tax havens in the black list currently (increase from 53 in 2002).
- 卢森堡控股公司曾被认为是避税天堂企业，但从2011年3月起已经被排除出税收天堂的名单。此外，近期巴西也将哥斯达黎加从其避税天堂黑名单中除名。
- Luxembourg has been excluded from the list of tax havens since March 2011. In addition, Costa Rica has also been removed from the black list recently.

主要不利税务影响 - Major adverse tax implications

- 跨境支付（除股息外）需缴纳的预提所得税税率由15%增至25%；
- The withholding tax rate on cross-border payments (excluding dividends) will be increased from 15% to 25%;
- 对于向避税天堂支付的利息/净资产利息可能不得在所得税前抵扣；
- Interests/INE paid to tax havens cannot be deducted before income tax;
- 强制转让定价要求及文档准备；
- Mandatory transfer pricing requirements and documentation preparation;
- 较低的债资比（0.3:1 而不是 2:1）；
- Lower debt-to-equity ratio (0.3:1 instead of 2:1);
- 不得享受巴西政府有关财政及资本市场的税收优惠政策。
- Shall not enjoy any tax incentives granted by Brazilian government for financial and capital market.

巴西税法规定所指“避税天堂”包括但不限于以下国家/地区 - Countries/jurisdictions included in the list of Brazilian 'tax havens' include but not limit to:

美属维尔京群岛 The United States Virgin Islands	安道尔共和国 The Principality of Andorra	安圭拉岛 Anguilla	安提瓜和巴布达岛 Antigua and Barbuda
巴巴多斯 Barbados	伯利兹 Belize	百慕大群岛 Bermuda	英属维尔京群岛 The British Virgin Islands
库克群岛 Cook Islands	马尔代夫 The Republic of Maldives	塞浦路斯 Cyprus	吉布提 Djibouti
香港 Hongkong	英国属地曼岛 Isle of Man	美属萨摩亚 American Samoa	西萨摩亚独立国 The Independent State Western Samoa
列支敦士登 Liechtenstein	澳门 Macau	纽埃岛 The Island of Niue	圣赫勒拿岛 Saint Helena Island
阿曼苏丹国 The Sultanate of Oman	斯威士兰王国 Kingdom of Swaziland	瓦努阿图 The Republic of Vanuatu	汤加群岛 Tonga islands
阿鲁巴 Aruba	阿森松岛 Ascension Island	巴哈马群岛 Bahamas Islands	巴林 Bahrain
文莱 Brunei	意大利金皮庸（坎皮奥内） Campione d'Italia	开曼群岛 Cyman Islands	阿拉伯联合酋长国 United Arab Emirates
多米尼克国 Dominica	法属波利尼西亚 French Polynesia	直布罗陀 Gibraltar	格拉纳达 Granada
基里巴斯共和国 The Republic of Kiribati	纳闽岛 Labuan	黎巴嫩 Lebanon	利比里亚 Liberia
马绍尔群岛 Marshall Islands	毛里求斯群岛 Mauritius Islands	摩纳哥 Monaco	巴拿马 Panama
塞舌尔 Seychelles	所罗门群岛 Solomon Islands		

巴西“特惠税收机制”地区及实体类型

Regions and entity forms under ‘privileged tax regimes’

巴西法律还定义了“特惠税收机制”的地区及实体类型，巴西公司与位于“特惠税收机制”地区及实体类型之间的往来交易需面对更加严格的转移定价、资本弱化以及税前抵扣规定。相关“特惠税收机制”地区及实体类型包括但不限于如下地区的实体：

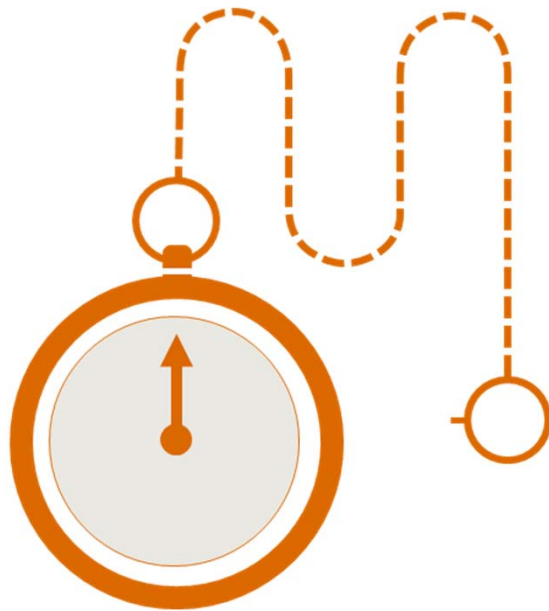
- 根据丹麦法律成立的无实质性经营活动的控股公司 根据荷兰法律成立的无实质性经营活动的控股公司
- 根据冰岛法律成立的国际贸易公司(ITC)
- 美国非居民个人/企业根据美国法律成立的且不缴纳美国联邦所得税的有限责任公司
- 根据马耳他法律成立的国际贸易公司（ITC）和国际控股公司
- 根据奥地利法律成立的无实质性经营活动的控股公司
- 设立于哥斯达黎加的对外贸易区
- 设立于葡萄牙马德拉的国际商务中心
- 根据西班牙法律成立的持有外国证券的公司（E.T.V.Es）
- 根据瑞士法律成立的控股公司、住所公司、辅助公司和混合公司以及其他受到瑞士税务机关管辖且适用低于20%综合税率的法律实体
- 根据新加坡法律成立的20种特定公司

In addition, Brazilian legislations has defined “privileged tax regimes” and related entity forms. Transactions between Brazil and the jurisdictions considered as privileged tax regimes are subject to stricter transfer pricing, capitalization, and tax deduction rules. The relevant “privileged tax regimes” and entity forms include, but not limited to :

- Holding companies incorporated under the law of Denmark, which do not carry out substantive economic activity.
- Holding companies incorporated under the law of the Netherlands, which do not carry out substantive economic activity.
- International trading companies (ITCs) incorporated under the law of Iceland.
- Limited liability companies (LLCs) incorporated under the state law of the United States, owned by non-residents and not subject to federal income tax.
- ITCs and international holding companies (IHCs) incorporated under the law of Malta.
- Holding companies incorporated under the law of Austria, which do not carry out substantive economic activities.
- Foreign Trade Zones located in Costa Rica.
- International Business Centre of Madeira (IBCM) in Portugal.
- Companies incorporated under the law of Spain which hold the securities.
- Holding company, domiciliary company, auxiliary company, mixed company, and administrative company incorporated in Switzerland and other legal entities subject to a ruling issued by the tax authorities that apply a combined tax rate lower than 20%.
- 20 different regimes of companies incorporated in Singapore.

巴西税改 – 2019

Brazil tax reform - 2019



巴西政府目前正在研究将当前联邦层面、州层面、市层面分别征收的多种流转税进行减并的可行性，即，该税种将可能逐步替代目前巴西的如下流转税种：

The Brazilian government has been dedicated on the tax reform proposal, including the feasibility of merging and mitigating the tax burden at the current federal, state and municipal levels. In the future, a tax on Goods and Services Transactions (abbreviated IBS), may gradually replace Brazil's prevailing indirect taxes:

- 社会一体化税（联邦税 **Federal tax**）
- IPI - 工业产品税（联邦税 **Federal tax**）
- ICMS - 货物流通税（州税 **State tax**）
- ISS - 社会服务税（市税 **Municipal tax**）
-

相关税改目前仍在提案阶段，投资者需关注其立法动态。

The tax reform is still on the proposal stage, investors may need to keep an eye to the legislative developments in Brazil.

2. 中国企业投资巴西的主要税务考量点

Major tax considerations for Chinese companies investing in Brazil

中国企业投资巴西的主要投资模式

The major investment models for Chinese companies investing in Brazil

绿地投资

(Greenfield Investment)

新设企业，包括国际独资企业及国际合资企业

Establish new companies, including international owned enterprises and international joint ventures.

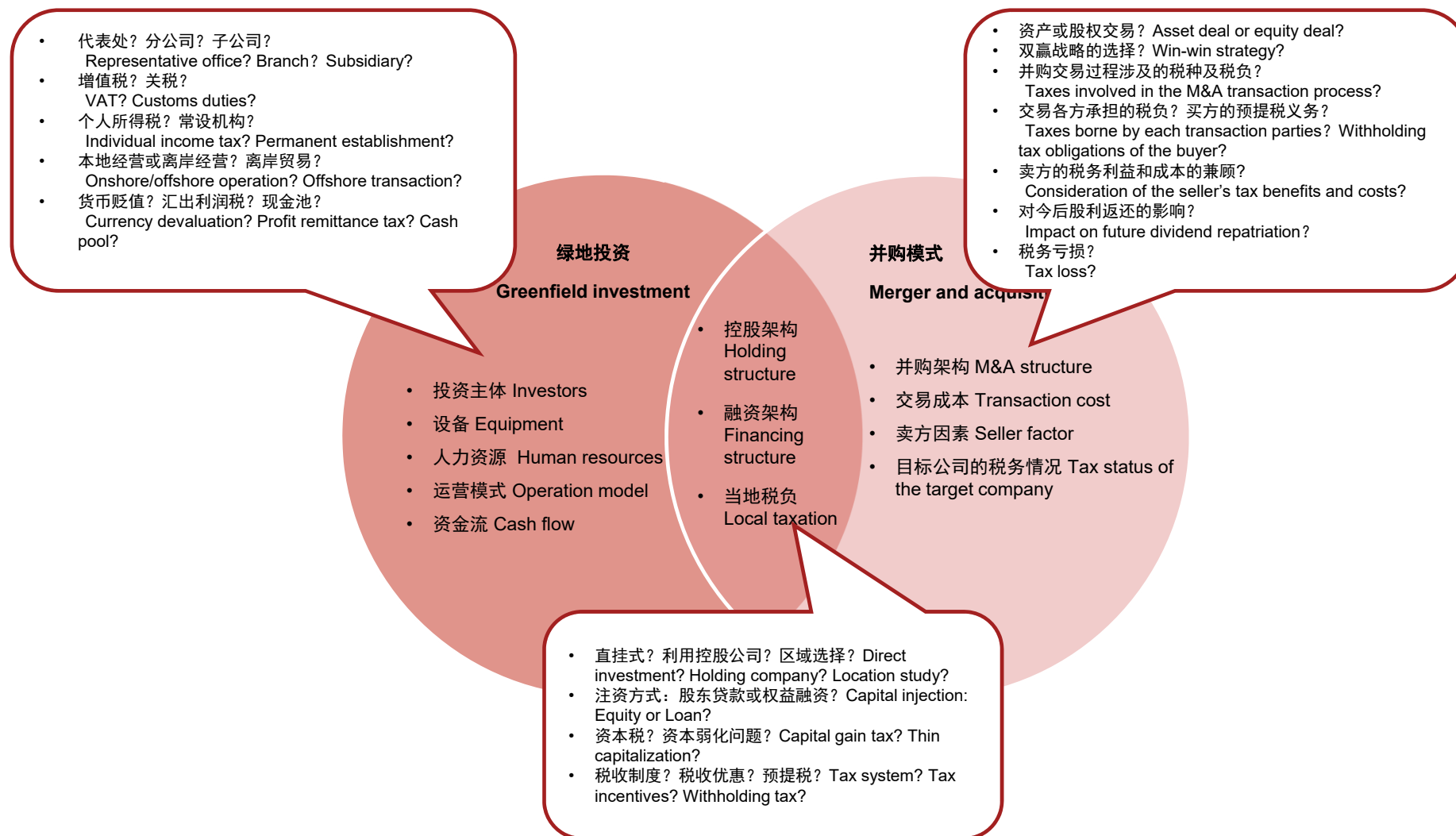
并购 (Merger & Acquisition)

寻找合适的海外当地企业作为目标企业，通过改变其所有权或控制权拥有该当地企业，包括资产并购及股权并购

Seek for suitable overseas target companies, and conduct acquisition activities via asset and equity acquisitions.

中国企业投资巴西的主要投资模式（续）

The major investment models for Chinese companies investing in Brazil (cont'd)



利用合理的控股架构 Holding structure

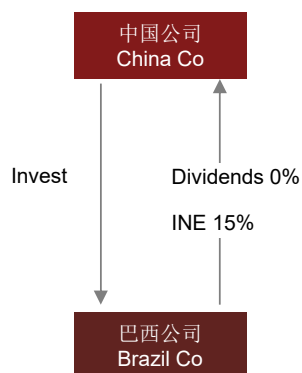
建立合适的海外投资控股架构，可在有效控制海外投资收益的税务成本的同时，提升海外投资的商业灵活度和收益水平。两个主要的控股架构选择包括直挂型或间接控股型架构。

The establishment of appropriate overseas investment holding structures can not only control the tax cost of overseas investment income effectively, but also improve the business flexibility and income level of overseas investment. There are two main options for holding structures: Direct investment or Indirect holding structures.

案例-Example

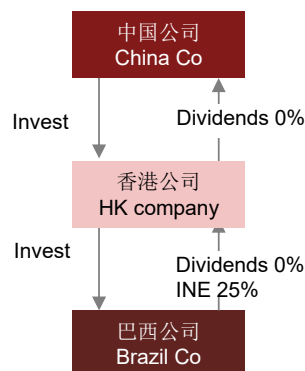
方案一：直接投资

Option 1: Direct Investment



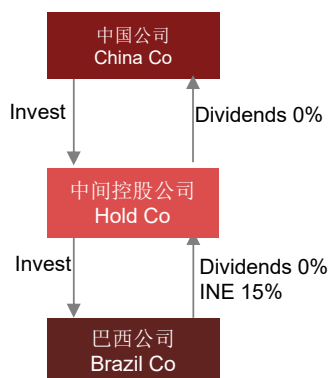
方案二：香港投资

Option 2: Invest via HK Holdco



方案三：通过设立中间控股公司

Option 3: Invest via other intermediate holding companies



可能涉及的税项 Taxes	方案一 Option 1	方案二 Option 2	方案三 Option 3
股息/INE预提所得税 WHT on Dividends/INE	0%/15%	0%/25%	0%/15% 若中间控股公司所在地不在避税天堂国家 -If the Hold Co is not located in the 'tax haven'
资本利得税 Capital gain tax	15%-22.5%累进税率 progressive tax rate	0%/25%	0%/15%~22.5%
税务监管 (转让定价, 税务稽查, 等) Tax regulation (transfer pricing, tax audits, ect)	一般 Common	严苛 Strict	一般 General 若中间控股公司所在地不为避税天堂或灰名单国家/地区 -If the Hold Co is not located in the 'tax haven'

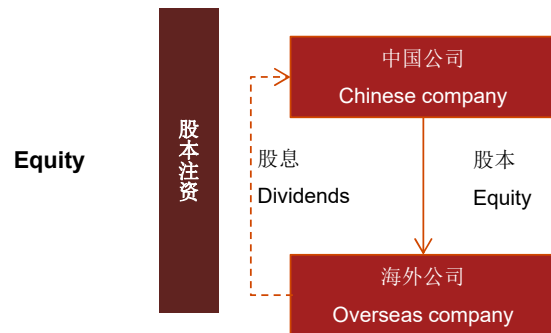
其他关注点 - Other considerations:

- 税基侵蚀和利润转移 (BEPS)
- 受控外国企业 (CFC)
- 商业实质 (Commercial substance)
- 间接转让股权被巴西税局看穿的实务风险高低 (Potential risk of indirect share transfer being looked through by Brazilian tax authority)

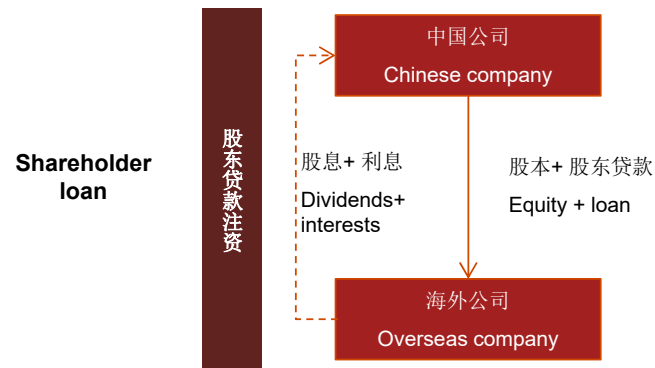
*资本利得税累进税率 The progressive income rates of capital gains are as following:

- | | |
|------------------------------|------------------------------|
| • ≤500万, 税率为15%; | ≤5 million, 15%; |
| • 超过500万但不超过1000万, 税率为17.5%; | 5 million~10 million, 17.5%; |
| • 超过1000万但不超过3000万, 税率为20%; | 10 million~30 million, 20%; |
| • >3000万, 税率为22.5%。 | > 30 million, 22.5%. |

选择合适的融资方式 Financing Structure



- 股本注资的方式较为直接，但股本回收可能会受到法律程序上的约束。
- The method of equity injection is relatively straightforward, but the recovery of equity may be subject to legal restrictions.
- 股本注资会以税后股息的方式得到回报。
- Equity injection will be rewarded in the form of after-tax dividends.
- 海外公司所在地有可能会对派出股息征收股息预提税。
- Tax authorities of the overseas companies located may impose withholding tax on the payment of dividends.



- 用股东贷款的好处包括：
- The benefits of using shareholder's loans include:
- 贷款的注资不一定要由股东承担，因此增加了集团内现金流动的灵活性。
- Loans can be granted by other investors (other than shareholders), which increases the flexibility of cash flow within the group.
- 贷款回收的方式比较直接。
- Pay back of the loan is relatively straightforward.
- 海外公司支付的相关利息费用可以在海外公司企业所得税前扣除。
- The relevant interest expense paid by overseas companies can be deducted before overseas corporate income tax.
- 海外公司所在地有可能对利息支出征收利息预提税。
- Tax authorities of the overseas companies located may impose withholding tax on the payment of interests.
- 股本仍可以通过税后股息的方式得到回报。
- Equity injection can still be rewarded in the form of after-tax dividends.
- 资本弱化税法？
- Thin capitalization?

选择合适的融资方式(续) Financing Structure (cont'd)

股本 Equity

- 股息分配0%预提所得税
- Dividends are subject to 0% WHT
- 如果企业尚未盈利，可通过支付INE的形式向股东方支付，15%-25%。
- If the company is not profitable yet, INE could be paid to share holders (15% -25%)

股东方贷款 Shareholder loan

- 跨境利息需支付15%-25%的预提税
- Cross-border interests payment are subject to a 15%-25% WHT
- 受较严格的转让定价及外汇政策监管
- Subject to more strict transfer pricing and forex regulation