

AUXADI

COMPLEXITIES IN NEW MARKETS

BRAZIL





In this series, we discuss some of the complexities to consider when expanding your business across borders, or if you're looking at multinational investment. There are many general issues, and different countries have very different legislation, regulation and tax regimes.

Here, we review complexities to keep in mind when expanding or investing into Brazil.

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Background

With a population of 211 million and a land mass covering about half of South America, Brazil is the world's fifth-largest country by area and the sixth most inhabited. And when we add a strategic position which simplifies access to Latin and South America, excellent value on exchange rates, and a large reserve of labour, it's easy to see why Brazil is very attractive investment destination for investors – particularly Spanish investors.

However, Brazil ranks badly in the ease of doing business (124/190). The complex and cumbersome tax system, inflexible labour laws, and heavy bureaucracy, mean companies need local expertise to navigate a business launch with efficiency.



Opportunities

Brazil is increasingly asserting itself in aeronautics, pharmacy, automobile, iron and steel and chemical sectors. Petrobras has potential, and Brazil is the largest market in Latin America for renewable energies.

The main exports are agriculture (sugar cane, coffee, oranges, soya, bananas, walnuts, cashew nuts, corn, pineapples and peppers), beef, poultry, tobacco leaves and mineral ores (iron and aluminium).

Opportunities exist, notably in the development of airports and more generally in the public-private partnership targeting infrastructure development, as the [Projeto Crescer](#). Also, the Brazilian government has launched an [investment program for infrastructure development](#). Thanks to the growth of the middle-class, the franchising sector is booming in Brazil.

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- [Comprasnet](#), Tenders
- [TendersOnTime](#), Tenders Worldwide



FDI

Brazil is 9th most attractive country in the world for FDI (the first in Latin America and Caribbean) and the majority of investments come from the Netherlands, the United States, Germany, Spain, the Bahamas, and Luxembourg.

Investments are mainly oriented towards oil and gas extraction, the automotive industry, financial services, commerce, electricity, and the chemical industry.

Brazil is an attractive market for international investors, thanks to a domestic market of nearly 210 million inhabitants, availability of easily exploitable raw materials, a diversified economy that is less vulnerable to international crises, and a location that allows easy access to other South American countries.

Investment in Brazil remains risky, though, because of cumbersome and complex taxation, bureaucratic delays, and heavy, rigid labour legislation.

Tax & Accounting / Regulatory

The World Bank's Ease of Doing Business ranking puts Brazil at 184/190 for taxation – it's one of the most difficult systems in the world, and takes an estimated 1,958 hours per annum. (The LATAM average is 330 h/pa.)

Brazil has over 90 different taxes, and companies must comply with tax regulations at municipal, state and federal levels, and double taxation agreements are in place with c. 30 countries. Taxes are categorised as Income, Consumption, Rent, Property, Salaries and Other – and rates can vary according to taxable income.

There is also a high tax burden for imports, applying to both products and services, and Brazil does not follow OECD principles on transfer pricing.

On the accounting side, Brazil has its own GAAP (BRGAAP), though it's based on IFRS. Official books are submitted electronically by an authorised accountant who is registered with the Regional Accounting Council (CRC). Consolidated accounts (of both investor and investments) have strict rules too, though there are exemptions available.

Regulatory aspects of incorporation in Brazil also have 'traps for new players'. The Central Bank of Brazil (BCB) is proactive in researching the accuracy and validity of companies' financial reporting, particularly in relation to foreign capital. The BCB can apply hefty fines for incorrect reporting; lack of awareness is not an excuse and could prove costly.



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Doing business ranking & establishing a company

Brazil's current ranking on the World Bank's Ease of Doing Business index is 124/190 – meaning there are many roadblocks and possible blind alleys for businesses to navigate. The current president has plans for improving Brazil's ranking, implementing reforms to reduce the number of days needed to create a company from 79.5 days down to the regional average of 30 days.

There are 3 main corporate structures in Brazil – though non-resident partners must appoint a local administrator and legal representative. Sole proprietorships are possible, but the most common structure types are:

	Limited Partnership	Sociedade Anonima De Capital Fechado (S.A.)	Sociedade Anonima de Capital Aberto (S.A.)
Capital	Established by members in nominative instalments – no minimum capital requirement	Established with own resources by action – no minimum capital requirement	Established by partners in a social contract. Exchange traded. No minimum capital requirement.
Liability	Limited to the capital contributed. Joint liability up to total share capital.	Limited to the price paid for shares.	Limited to the price paid for stocks.
Administration	Administrator indicated in the agreement or elected by assembly	Management and/or Board of Directors. Board must have minimum 3 members, 2 must be resident. Management term limited to 3 years	At least one president and Board of Directors of 3 shareholder members. May be represented by a person authorised by the Articles (e.g. CEO) as well as the President.

There are also stringent rules concerning Ultimate Beneficial Ownership (UBO). UBO information needs to be provided to Brazil's Receita Federal (RFB) within 90 days of incorporation. Failure to report, or incorrect reporting, carries a severe penalty – suspension of a company's National Corporate Taxpayer Registration (CNPJ), which effectively stops business operations.





Banking

Expect it to take around 2 months to open your Brazilian business bank account. Be aware that this may also affect how soon you can hire employees.

You can only apply for an account after submitting the incorporation documents with the commercial registry and the registration of the company with the Brazilian Federal Revenue.

The documentation requirements are lengthy, and include: Corporate chain & UBO information; operational information (expectative of employees, location, etc.); your business plan, including revenues for next years, suppliers and commercial partners; FATCA and AML information.

Labour / Payroll matters

The Brazilian labour market is heavily regulated and includes: 8hrs work per day, minimum wage, third salary at year end, restaurant/food vouchers, 26-28% social security costs, and a requirement to deposit 8% of an employee's monthly salary into a government account owned by the employee.

Brazilian companies can hire foreigners, but the count of foreign workers cannot exceed 33% of the count of national employees. Visas are required for foreign workers and linked to employment or administration contracts with the company.

33%



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Conclusion

The issues for Doing Business in Brazil are far outweighed by the benefits, given Brazil's enviable position as a stepping-stone to the region.

As complexities and issues are often triggered by certain movements or business functions, however, local guidance is essential.



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