



## Doing Business in Brazil

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Brazil is one of the major markets in the 21<sup>st</sup> century. It is the sixth largest economy by nominal GDP and the fifth largest country in the world. In the past twenty-five years Brazil has transformed itself from an agrarian economy to an industrial economy because of its abundance of agriculture, minerals, and energy resources. The country has the largest economy in South America with both a diversified economy and infrastructure, along with a strong currency. The past ten years has seen the country lower its inflation rate and maintain a strong currency within the marketplace.

Like any foreign country, Brazil has very specific requirements which must be met in-order to operate a business in the country, whether it is in manufacturing, distribution, or in a trade industry. Much of the regulations have been enacted due to the 1988 federal constitution. Their constitution allowed existing laws to be enforced governing taxation, labor, and legal entities, which have made the rules of doing business in Brazil quite clear and specific.

Brazil has a very skilled and educated workforce. In recent years Brazil's universities have developed many programs related to science, technology, engineering, and mathematics, (STEM) which continue to support Brazil's growth in the industrial sector of their economy. The country is a leader in South America in diverse fields such as Health and Safety, Aerospace, and Environmental industries, to name a few. The country has professional skilled and unskilled workforces in all fields. Thus, new business entrants to the country are guaranteed a stable workforce. There are many institutions teaching skills in fields from automotive and electronics to healthcare and hospitality, and the government will assist in identifying, and locating labor for most industries as an incentive to investment in their country.

Labor is a major factor in doing business in Brazil. Thus, it is important to note that the country has minimum wage levels for each category of workers; skilled, unskilled and professionals. Along with minimum wage laws, there are also healthcare and holiday benefits that are mandatory. Overtime is regulated, not to exceed two hours per day, at fifty percent more than one's base hourly rate, one hundred percent during Sundays and holidays. The typical workweek is set at forty hours per week. In addition to normal pay, there is also a bonus salary requirement, known as the "thirteenth salary". Each worker in all categories is entitled to a bonus, which is to be paid during February and November, with the balance to be paid on December 20<sup>th</sup> of each year. This amount is predicated on the category of worker and their base pay, excluding overtime. It is highly recommended that a labor lawyer be consulted. All

labor law requirements such as termination, resignations, employment contracts, social security, and the unemployment guarantee fund (FGTS) must be met. Trade Unions are also considered a legal entity in Brazil. They are empowered to enter into bargaining agreements by the constitution. The constitution also adopts the “single union” concept which prohibits the existence of more than one union for each professional category, in a given geographical area.

In focusing on the security industry in Brazil, it's much the same as any country with specialties such as Access Control, CCTV, Intrusion, Monitoring, and Asset Tracking. The industry has approximately 4159 active companies in the security space, which includes dealers, distributors, manufacturers, and integrators, related to security in one form or another, right down to cable providers. The country has product availability in a market that is growing and has not experienced downturns in the economy. The market is very active in seeking new and innovative products, and capital is available for major projects. In addition to general security, fire and CCTV are growing at a substantial rate, outpacing other sectors because of mandatory new construction requirements and legislation. The economy is expanding, and the country is concentrating on infrastructure replacement and renewal, thereby reaching greater sections of the population which is stimulating construction and growth.

Under the Federal Constitution and local legislation, taxes can be established by the government. It's important to note that new companies planning to do business in Brazil should be aware of the tax laws or structure. In addition to understanding the tax structure, new entrants must have capital, in country banking relationships, and for non-Brazilian labor either a temporary visa or a resident visa must be in place.

The tax structure is formulated as follows:

<b>Tax</b>	<b>Tax-base and triggers</b>	<b>Rate</b>
Corporate income	Actual or estimated profits	15%
(IRPJ) Surcharge	Actual or estimated profits determined by tax authorities.	10% on income over \$240,000 per annum
Social contribution (CSL)	Adjusted Net Profits	9%
Profit Participation (PIS) Social Security Financing	Gross Revenues	1.65%
Contribution (COFIND)	Gross Revenue	7.6%
Tax on Industrial Goods	Point of Sale, or when goods leave the industrial establishment	Varies by product
Sales Tax (IICMS)	Transaction Value	7% to 25%
Service Tax (ISS)	Service Price	2% to 5%
Import Duty (II)	Product Value	0% to 35%
Income Tax withholding	Income / Capital Gains	15% down to 2%
Tax (financial) Transaction	Credit/Foreign and Securities	Variable by transaction

Export Duty	Products made in Brazil with domestic content leaving the country per CAMEX Tax	30% but can reach 150%
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The list of taxes noted above are the major tax contributions under the law, however, when establishing a business in Brazil, it is prudent to review your corporate structure with your legal counsel and banking institution, much like you would with your CPA here in the US. The taxes (Tributos) are divided into six categories and your company may not be subject to certain taxes depending on how their government views your products and services. While the tax legislation seems over complicated and ominous, the tax code offers many opportunities for deductions and incentives such as accelerated depreciation on domestically produced equipment, for certain intangible assets, and reduced withholding income taxed up to thirty percent for royalties, and technical service fees, to name a few. Again, engage professional assistance through a bank and legal counsel to take advantage of tax incentives.

For anyone starting a business in Brazil who will relocate to the country, a consideration of the quality of life afforded to residents must be considered. Brazil has a good infrastructure for roads, public transportation, and more than a good supply of housing and real estate. The country has all the amenities that are offered in all major cities throughout the world. From opera to rock concerts, beaches, professional sports teams, museums, and fine dining. The culture is vibrant, tolerant, and helpful and exciting with many opportunities to explore the country and to participate in activities. In addition, there are many private schools through the high school level, with excellent worldwide reputations. Brazil is also one of the top nations in the world with good medical and dental care. Anyone relocating can have a seamless transition to a local lifestyle.

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To learn more about the LSA, visit [www.lifesafetyalliance.org](http://www.lifesafetyalliance.org)

**NOTATIONS AND SOURCES:**

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