



Tax News

New Tax Bill Introduced in Congress – WHT on Dividends

On March 18th, the Executive Branch submitted a new tax bill to Congress. This bill primarily targets individual taxpayers residing in Brazil, focusing on the taxation of dividends paid to individuals, and the taxation of high-net-worth individuals.

However, the bill also introduces a **10% withholding income tax (WHT) on dividends paid to foreign investors**. To partially offset this tax, the bill provides a **credit mechanism** for foreign investors under certain conditions.

Credit Mechanism for Foreign Investors

The **credit applies when the Brazilian legal entity's effective tax rate (ETR) plus 10 percentage points exceeds Brazil's nominal corporate income tax (CIT) rate**.

The nominal CIT rate in Brazil is **typically 34%**, though financial institutions (as defined by the legislation) are subject to 40% or 45%.

Initial Considerations

Legislative Process: The bill is subject to Congressional review and potential amendments.

Regulatory Details: If approved, the Federal Revenue Service (RFB) will issue detailed regulations to clarify implementation.

Enforceability: The new WHT on dividends will take effect in 2026 if enacted.

Tax Treaties: Tax treaty provisions must be analyzed carefully, considering aspects such as treaty shopping, beneficial ownership rules, and the principal purpose test. Brazil has not signed the MLI (Multilateral Instrument), so specific treaty provisions remain relevant.

Pillar 2 – QDMTT Impact: Brazil has recently introduced Qualified Domestic Minimum Top-up Tax (QDMTT) rules aligned with OECD Pillar 2. The new WHT will influence Brazil's overall Pillar 2 tax calculations.

Impact on Tax-Incentivized Entities: If a Brazilian entity benefits from tax incentives (e.g., VAT exemptions or regional incentives like SUDENE/SUDAM), its ETR may be significantly lower than the nominal CIT rate (34%). As a result, the credit mechanism will have little to no impact, and the new 10% WHT could effectively increase the overall tax burden on foreign investors.

Transfer Pricing: Brazil recently aligned its transfer pricing (TP) rules with OECD guidelines. The introduction of this WHT and credit mechanism should be factored into TP policies, ensuring proper allocation of profits across jurisdictions within the same economic group.

Goodwill and Premium – M&A: Since such items, which frequently arise in M&A transactions in Brazil, tend to significantly lower the Brazilian entity's ETR, the said credit mechanism might not be triggered, meaning that the 10% WHT will directly

affect the overall tax burden in Brazil.

FIP, FII, FIDC and Other Investment Funds: Investments made in Brazil through such specific investment funds are not affected by this new tax bill.

INE – Interest on Net Equity: Not affected by this new Bill. Thus, the importance of assessing INE versus regular dividends becomes even greater.

How KPMG Can Assist

The **KPMG Brazil Tax team** can support you in:

Assessing the impact of this new tax framework on your business operations in Brazil.

Modeling the tax implications for valuations and structuring decisions.

Advancing compliance strategies and optimizing tax efficiency.

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For more details on how this tax reform could affect your business, reach out to KPMG Brazil Tax experts.

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