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To tax or not to tax?

Brazilian TAX REFORM TRANSITION

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5 points about...
the transition in Brazilian tax reform

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01 Electronic documents

From 1st January 2026, companies will be required to calculate and display the IBS/CBS values (and Selective Excise Tax, when applicable) on their electronic tax documents. This means their fiscal and financial management systems (ERP, SAP, etc.) must be adapted to meet at least this requirement. Non-compliance will result in automatic rejection of issued invoices and consequently the respective commercial operation, with evident impacts on turnover and cash flow.

02 Ancillary Obligations

The year 2026 will be a testing period. Thus, the obligation to inform IBS/CBS/IS values will not require their payment. In 2026, payment will be optional, but only for taxpayers who comply with ancillary obligations regarding the new taxes. Such rules, however, have not yet been enacted, so it is highly recommended to closely monitor legislative developments. Companies under differentiated regimes will also be required to file specific declarations (DERE).

03 Accumulated credits and tax benefits

Another important measure will be to survey accumulated credit balances that can be utilised during the transition and tax benefits enjoyed by the company that will be extinguished. Both measures are necessary as they also have high potential to impact cash flow and turnover, potentially requiring price revision with customers, suppliers, and other stakeholders.

04 Introduction to Dual VAT

The replacement of current consumption taxes with IBS/CBS will bring profound changes. The adoption of full non-cumulativity, destination-based taxation principle, and "external" calculation alone will require extensive review of companies' value chains, indicating the need for all strategic sectors to be prepared to operate during the transition, not just fiscal departments.

05 “Split payment”

Split payment is a mechanism that will allow, in electronic payments, separation of the amount due to the tax authorities (which will be directly transferred) from the amount due to the seller, service provider, or holder of the right subject to the operation. The adopted system, which anticipates tax collection and payment to suppliers (while conditioning credit utilization to confirmation of IBS/CBS payment), is another factor that may impact companies' cash flow, requiring careful attention.

WHAT ARE WE TALKING ABOUT?

The Brazilian tax system, prior to reform, was unstable, with divergent interpretations, ancillary rules, and overlapping regulations, resulting in a chaotic and unpredictable structure.

Brazil ranked 154th among 160 countries in the World Bank's Doing Business ranking due to tax inefficiency: small companies spent 1,500 annual hours on ancillary obligations and there was a litigation backlog of R$ 5.4 trillion. Although the reform seeks to correct this, the transition will be challenging.

Despite starting with consumption taxes, the reform has broader scope: reorganizing the tax system, modernizing it, and aligning it with international best practices.

This is not a simple adjustment to existing taxes. It will be a structural reform requiring companies to make profound changes to their business models.

The dimension and complexity of the task will demand investment, planning, and coordinated action.

Therefore, companies' strategic sectors must be aligned and prepared to handle changes from 2026.

TRANSITION

The tax reform will be implemented gradually.

The transition to the new model will take 7 years to complete (2026/2032).

Approved by Congress in December 2023 (Constitutional Amendment 132/2023), the years 2024 and 2025 were reserved for voting on its regulation and for companies and government to have time to acclimatize to the changes.

The year 2026 will serve as a testing period.

In 2027, substitutions of current taxes (PIS/Cofins, IPI, ICMS, and ISS) with new ones (IBS, CBS, and Selective Tax) begin, extending until 2032, when the reform is expected to be fully implemented.

The transition will be a challenging period, but also an opportunity for companies to reassess the effective cost of tax burden on their activities and rethink their fiscal procedures in light of the new system and its promised improvements.

ELECTRONIC DOCUMENTS:

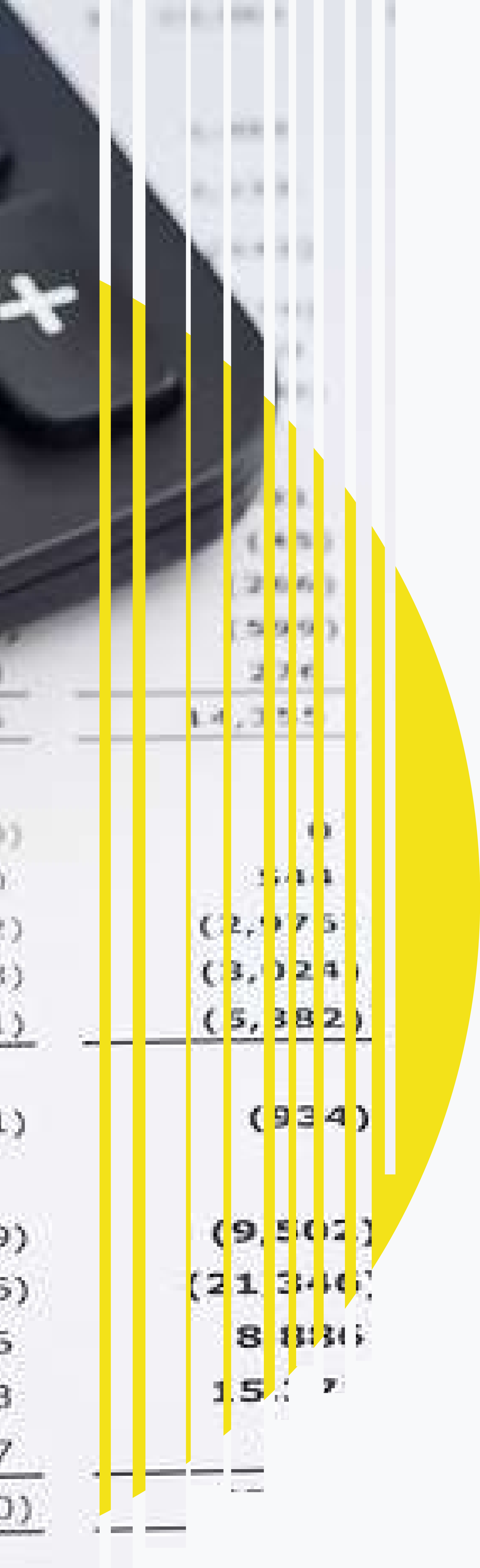
Technical adaptations

Adequate adaptation of ERP systems for fiscal and billing management will require technical reviews and layout updates.

Among necessary adjustments are:

- Review product and service registers to ensure updated fiscal codes
- Include new fields for IBS/CBS
- Insert new validation rules to avoid rejections
- Create events necessary for credit appropriation
- Adapt systems to receive the new alphanumeric Corporate Taxpayer Number - "CNPJ" (14 characters, check digit in module 11, applicable to new registrations from 07/2026)

Therefore, IT team training is essential.



ANCILLARY OBLIGATIONS

Complementary Law LC 214/2025 waives IBS/CBS collection from 2026, conditioning it to compliance with new ancillary obligations.

The main one is **symbolic highlighting of IBS/CBS** on invoices. Paid amounts may be offset against PIS/Cofins or other federal taxes, with reimbursement within 60 days.

Companies continue collecting PIS/Cofins. Under Simples Nacional, there is no IBS/CBS in 2026, but invoice layout adjustments will be necessary.

DERE — Electronic Declaration of Specific Regimes

Mandatory from 2026 for sectors such as financial, health, gaming, real estate, SAFs, fuels, cooperatives, tourism/hospitality, and regional aviation.

Aims to unify fiscal data in a single digital declaration, with progressive application and future regulation. Companies should adapt their accounting systems straightaway.

ACCUMULATED CREDITS AND TAX BENEFITS

PIS/Cofins credits calculated up to 12/31/2026: remain valid until 2031 and may be offset against CBS or other federal taxes, or refunded.

- Merchandise return credits: sold before 01.01.2027 and returned after that date generate CBS credit equivalent to PIS/Cofins levied on original sale, but with exclusive use for CBS offset (no reimbursement or cross-compensation).

- Depreciation/amortization credits in progress until 2026: will continue as presumed CBS credit, respecting original rules. Asset disposal before completion terminates future credits.

- Stock credit on 1st January 2027 (for cumulative regime companies): 9.25% on stock value, to be appropriated until 30th June 2027 and utilised in 12 monthly instalments, only against CBS.

Accumulated ICMS credits: existing at end of 2032 may be offset against IBS in up to 240 corrected installments from 2033, with possibility of transfer or reimbursement.

- Onerous ICMS tax benefits (granted until 31.05.2023): subject to compensation via Compensation Fund, through qualification with RFB between 2026 and 2028.

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OBJECTIVES AND CHALLENGES OF TAX REFORM

(a) tax neutrality

objectives

- **Adoption of full non-cumulativity regime, ending cascading incidence of consumption taxes and "internal calculation"**
- **Credit becomes financial and conditioned to extinction of debt in previous stage (payment, compensation, or split)**

In ICMS, the logic is physical credit: credit right arises when merchandise or input enters the establishment, even if the supplier has not effectively paid the tax. Therefore, credit follows the circulation of goods.

In IBS (Tax on Goods and Services), created by tax reform (Constitutional Amendment 132/2023), the system will be financial credit: credit utilization only occurs when the previous stage tax is extinguished, i.e., after the supplier effectively paid, offset, or suffered tax split. Thus, credit is linked to tax disbursement and not just commercial operation.

challenges

- Greater compliance requirement – rigorous control of invoices and suppliers will be necessary to guarantee valid credits, under penalty of disallowances (credit loss due to improper documentation or usage)

- The anticipated taxable event – upon supply or payment, whichever occurs first – and mechanisms such as split payment may also cause cash flow mismatches, demanding additional financial planning
- Greater compliance requirement – rigorous control of invoices and suppliers will be necessary to guarantee valid credits, under penalty of disallowances (credit loss due to improper documentation or usage)

(b) end of fiscal war between states

- Adopted destination-based taxation principle, shifting IBS/CBS incidence to where goods are consumed rather than produced

- Uncertain federative transition – companies currently enjoying regional tax incentives may lose competitive advantages as these benefits are gradually eliminated
- Effectiveness of compensation funds to balance collection losses is still uncertain, potentially affecting some states' financial stability (risk of pressure for new local taxes or implementation delays)
- During transition phase (2026–2032), there will also be overlap of old and new systems, increasing short-term operational complexity for companies

(c) simplification and transparency

- adoption of the “outside” calculation of the IBS/CBS, avoiding the incidence of tax on tax and increasing the transparency of the burden

- Complex implementation and uncertainties – the promised simplification will not be immediate. LC 214/2025 delegates many details to regulation (there are more than 130 references to subsequent acts), opening the way for new exceptions or ambiguities that could recreate complexity and interpretative uncertainties.

- The adoption of the new model will require major internal adjustments: updating systems (NF-e/NFC-e with IBS/CBS fields), team training and process adaptation.

- in short, there is a risk of an initial increase in operating costs and legal uncertainty until the model stabilizes and is fully regulated in the coming years.

“SPLIT PAYMENT”

Split payment will allow automatic IBS/CBS collection in electronic payment settlement.

Credits will be segregated between IBS and CBS, with automatic compensation and accumulated balance reimbursement.

The system will transfer values directly to Federal Revenue and Management Committee, transferring only net amount to supplier.

An "apportionment engine" will calculate and distribute taxes in real time, integrated with fiscal documents and payment methods (PIX, cards, bank slips).

Credits are linked to effective payment, with reimbursement in 30, 60, or 180 days. The optional model starts in 2027, using real-time microservices.

Technology promises to reduce tax evasion by BLR 150 billion annually, bringing transparency and automatic debt extinction.

Direct impact: seller loses temporary possession of tax, reducing working capital. Buyer will only have credit if tax is collected, which occurs automatically.

Business Risk Dimensions in Brazilian Tax Reform

Critical indicators, thresholds, and mandatory actions to ensure resilience during the tax transition.

By monitoring clear and measurable indicators, it's possible to identify in advance when risk exposure exceeds acceptable limits. Based on these alert points, mandatory and immediate actions are defined to prevent losses of human capital, financial weakening, or erosion of competitive position in the market.

Dimension	Indicator	Critical Threshold	Diagnosed Risk	Mandatory Action
1. Human Capital The human factor is central to adapting to tax reform	**Fiscal team turnover**	> 20%/year	Loss of institutional memory and response capacity	Retention and career development program
	Technical training	< 40h/year per person	Knowledge gap in dynamic regulatory environment	Intensive training with external certification
	External consultancy dependence	> 30% of fiscal cost	Loss of autonomy and cost increase	Internalize critical competencies
2. Structural Finance It deals with the company's ability to absorb the impacts of the reform on its cash flow and balance sheet.	**Cash flow volatility**	Variation > 15%	Fragility against tax shocks (e.g., split payment)	Implement tax hedge and review working capital
	Tax credits in assets	> 10% of total assets	Excessive dependence on unrealized credits	Loss provision and active monetization
	Tax compliance cost	> 1% of net revenue	Inefficient fiscal process, reducing operational margin	Process reengineering for 30% reduction in 12 months
3. Competitive Position Measures the loss of relevance in the market due to failure to adapt to the reform	**Market share**	Loss > 2 p.p.	Competition adapts better to reform	Pricing review and defensive strategy
	EBITDA margin	Drop > 3 p.p.	Structural impact on profitability	Cost audit and margin recovery plan
	Competitive KPIs (relative)	Drop > 10%	Structural erosion of competitive position	Strategic repositioning and possible restructuring

CRITICAL (immediate action) **ATTENTION (action plan)**

TECHNOLOGICAL PREPARATION CHECKLIST

SYSTEMS AND TECHNOLOGY (Weight: 40%)

□ ERP updated for NF-e 4.00
□ IBS/CBS fields implemented
□ Integration with payment gateways
□ Functional split payment API
□ Operational backup and contingency

Score: ___/25 points

PROCESSES AND CONTROLS (Weight: 35%)

□ Complete credit mapping
□ NF-e validation procedures
□ Tax rate controls by state
□ Automatic tax reconciliation

Score: ___/20 points

HUMAN CAPABILITY (Weight: 25%)
□ Team trained in new legislation
□ Updated procedure manuals
□ Operational contingency plan

Score: ___/15 points

RESULT

Total: ___/60 points

60-54: Ready | 53-42: Preparing | 41-0: Critical

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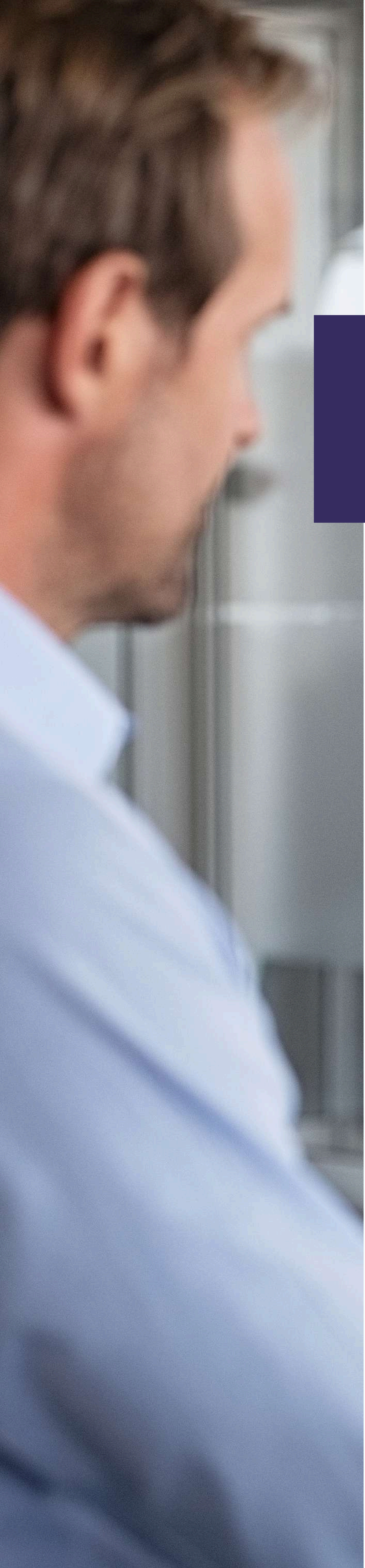
DECISION FUNNEL

PHASE 1: DIAGNOSIS
├─ Tax credit mapping
├─ Sectoral impact analysis
└─ Current compliance audit

PHASE 2: THRESHOLD FILTERING
├─ Revenue > R$ 10MM → Mandatory Split Payment
├─ Credits > R$ 500k → Specialized audit
└─ SKUs > 1,000 → Specialized ERP

PHASE 3: CRITICAL ACTIONS
├─ Corporate restructuring
├─ Technology investment >R$ 1MM
└─ Anticipated credit assignment

PHASE 4: RADICAL TRANSFORMATION
├─ Business model change
├─ Geographic relocation
└─ Strategic mergers and acquisitions



CONCLUSION

Brazilian tax reform IBS/CBS represents historic transformation that will demand significant investment in technology, processes, and training.

Companies that anticipate preparation can transform this complex challenge into lasting competitive advantage, while postponing adaptation will result in growing risks of non-compliance and high emergency adaptation costs.

Positive points: Radical simplification, elimination of cascading effect, greater transparency, fiscal justice mechanism via cashback, alignment with international best practices.

Identified challenges: Tax rate among world's highest, eight-year transitional complexity, risk of exception multiplication raising general rate, dependence on robust technological implementation.

Critical success factors: Government system stability, adequate team training, effective organizational change management, legislative discipline in containing additional benefits, effective federative coordination.

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