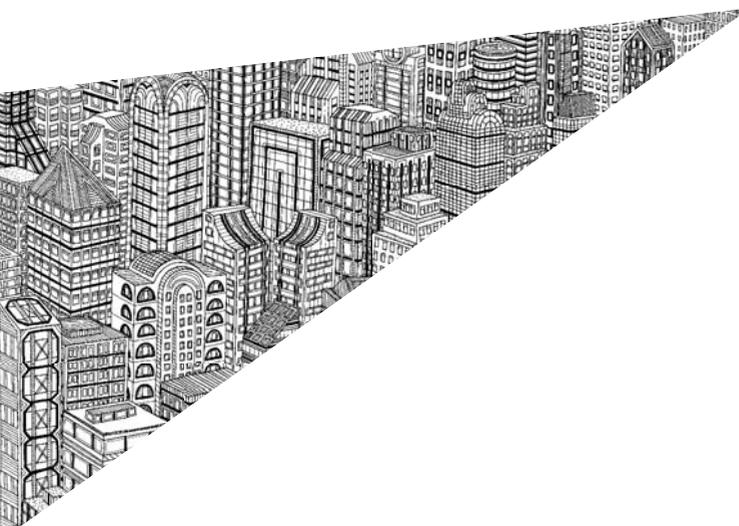


Expatriates

Overview of Brazilian Expatriates Taxation



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1. Introduction

This booklet intends to provide to expatriates working in Brazil or contemplating moving to Brazil basics guidance regarding the Brazilian Tax System. It will help them identify key factors that may be relevant regarding their tax requirements.

Readers should seek for Ernst & Young's professional advice before acting on any comment contained in this booklet. It is not intended to surpass the need of a formal advice case by case.

2. Basic Information

The Brazilian taxation system on individual's income is collected only by the Federal Government since there is neither a State nor a Municipal tax on individuals' income. Taxpayers are subject to a "pay-as you-earn" (PAYE) system, according to which the income tax liability rises in the date (January - December) when the income is received.

The Brazilian tax year follows the calendar year and tax residents are subject to taxation on a Monthly basis and also to observe the worldwide income principle.

Residents must register as individual income tax contributor before the Internal Revenue Service and obtain a Taxpayer Identification Number (CPF - Cadastro de Pessoa Física).

▶ 2.1. Who Is Liable for Income Taxation and the Concept of Tax Residence

Foreign individuals entering the country for professional purposes are deemed to be resident taxpayers:

(A) Upon completion of 183 days of physical presence in the country, uninterrupted or not, within 12 months countable as from the first entry date; or

(B) Immediately upon arrival.

The adoption of one or another depends on the type of visa the individual holds at the arrival date:

Type of Visa	Residency Acquisition
1. Temporary V without Local Labor Contract (Technical)	A
2. Temporary V with Local Labor Contract (regular employees)	B
3. Permanent 3.1. Directors	B
4. Business	A

Nonresidents are taxed only on their Brazilian sourced income. At this point, it is important to stress out that, according to Brazilian legislation, the source of the income is determined by the location of its payroll, regardless the place where the job is being performed.

3. Income Subject To Tax

Salary (and other employment income), interests, dividends, rental income and etc are subject to Brazilian taxation according to the following annual progressive tax rates schedule bands:

2008 Calendar year:

Anual taxable income (R\$)	Rate %	Deductible amount (R\$)
Up to 16.473,72	-	-
From 16.473,73 to 32.919,00	15,0	2.471,04
Over 32.919,00	27,5	6.585,84

2009 Calendar year:

Anual taxable income (R\$)	Rate %	Deductible amount (R\$)
Up to 17.215,08	-	-
From 17.215,09 to 25.800,00	7,5	1.291,08
From 25.800,01 to 34.400,40	15%	3.226,08
From 34.400,41 to 42.984,00	22,5	5.806,08
Over 42.984,01	27,5	7.955,28

2010 Calendar year:

Anual taxable income (R\$)	Rate %	Deductible amount (R\$)
Up to 7.989,80	-	
From 17.989,81 to 26.961,00	7,5	1.349,24
From 26.961,01 to 35.948,40	15,0	3.371,31
From 35.948,41 to 44.918,28	22,5	6.067,44
Over 44.918,28	27,5	8.313,35

4. Earnings Rising from Abroad

Earnings received abroad (paid by a non-Brazilian source or by an individual payer) are subject to taxation on a monthly basis.

It is taxpayer's responsibility the calculation and the payment of the tax due on the earnings received abroad, by the last business day of the following month, in which such income was earned. This tax payment, referred to as "Carnê-Leão"*, is mandatory.

In general, a foreign tax credit may be taken in case other country grants reciprocal treatment for taxes paid in Brazil or in case there are lived Double Tax Treaties to avoid the double taxation up to the amount of Brazilian tax on the same income.

Late payment will result in a penalty at a daily rate of 0.33% of the tax due, up to a maximum of 20% and interests will be charged at approximately 1.5% per month.

In general, earnings received from investments in Brazilian Commercial Banks are taxed exclusively at source. The tax imposed is withheld from each payment and represents the total liability on such income.

5. Filing Requirements

► 5.1. Brazilian Annual Income Tax Return

The Brazilian tax year follows the calendar year. Tax residents should file an Annual Income Tax Return covering each tax year in order to adjust the tax amount paid during the year towards the annual tax liability.

This Tax Return must be filed by the last working day of April, of the following year, and no extensions are allowed.

The tax due's balance, if any, is payable either in a lump sum, or in eight monthly installments, calculated with the inclusion of interest Selic (approximately 1,5% per month).

Individuals who receive income from more than one source (eg. Brazil and abroad) may pay the difference between the tax paid or withheld at source and their total income tax liability in the annual income tax return.

** Please check in the Company's policy whether EY is authorized to prepare this service to you and in positive case who will be responsible for those payments.*

On the **annual federal income tax return** the taxpayer may elect between a standard deduction, corresponding to 20% of the total taxable income, up to:

- R\$ 12.194,86 - 2008 FY;
- R\$ 12.743,63 - 2009 FY;
- R\$ 13.317,09 - 2010 FY.

Or an itemized form, where it is allowed to use the following deductions. Please find below a list with the most important ones:

- Official Social Security paid;
- Fixed amount for dependents per year:
 - R\$ 1.655,88 - 2008 FY;
 - R\$ 1.730,40 - 2009 FY;
 - R\$ 1.808,28 - 2010 FY.
- Brazilian Pension Funds contributions, up to 12% of gross income;
- Schooling expenses limited of:
 - R\$ 2.592,29 - 2008 FY per individual;
 - R\$ 2.708,94 - 2009 FY per individual;
 - R\$ 2.830,84 - 2010 FY per individual.

- ▶ Medical expenses not reimbursed with no limit;
- ▶ Contributions to cultural and audiovisual activities and to the Children's Fund, up to 6% of income tax due on the income tax return.
- ▶ Social security taxes paid on behalf of domestic workers (up to R\$ 536.00 for 2007 FY per domestic employee).
- ▶ Amounts paid as alimony and pensions in accordance with a court decree;

Ordinarily, dependant's medical expenses are deductible on the annual federal return, but expenses that are covered by insurance or reimbursed to the taxpayer are not.

▶ 5.2. Central Bank of Brazil Declaration

Individuals resident in Brazil who hold assets abroad in the total amount equals to or more than USD 100,000.00, in December 31st of a given year, should file to Central Bank Report annually.

Penalties are imposed for failing to declare the required information or for submitting inaccurate declarations and depending on the case, can reach up to R\$ 250.000,00.

▶ 5.3. Departure Tax Process

Residents for tax purposes should obtain a Tax Clearance Certificate from the Brazilian tax authorities and file a Final Tax Return covering the period of January 1st of the departure year or the tax residency's start date (if incurred after that date), until the exit date and pay all taxes due before their definitive Brazilian departure.

Individuals leaving the country on a definitive basis from January 1st to March 31st, shall file the return by the last working day of April of the departure year. If the physical departure occurs on or after April 1st, the Departure Return must be filed within 30 (thirty) days from the individual's departure date.

By filing the departure return the individual will immediately cease his/her tax residence in Brazil and the income tax will only be calculated over income received from Brazilian sources.

6. Capital Gain

Gains realized on the sale of assets are subject to tax at a flat rate of 15%, regardless of whether the underlying assets are used in a trade or business. There are certain exemptions applicable to this taxation and our team should be contacted in order to analyze each individual's situation.

Assets purchased before the tax residence's period are exempt from this taxation.

Capital gains on one transaction each month are exempt from tax if the sale price does not reach R\$ 20.000,00 in case of shares listed on the Brazilian stocks exchange market and 35,000.00 in other cases.

Same day sale operations at Brazilian Stock Market is taxed on a flat tax rate of 20% on the capital gain.

7. Social Security

Earnings paid through Brazilian payroll are subject to local social security and will be withhold by the payer. Contributions are levied at on employees at rates ranging from 7.65% to 11%, depending on the amount received, up to a maximum required monthly contribution which changes on a yearly basis.

Self-employed individuals' contributions are calculated at a rate of 20% over the basic salary fixed by the government according to the date when the individual joined the social security system up to a maximum required monthly contribution which changes on a yearly basis.

Brazil has signed social security treaties with Argentina, Cape Verde, Chile, Greece, Italy, Luxembourg, Portugal, Spain and Uruguay.



8. Double Tax Relief and Tax Treaties

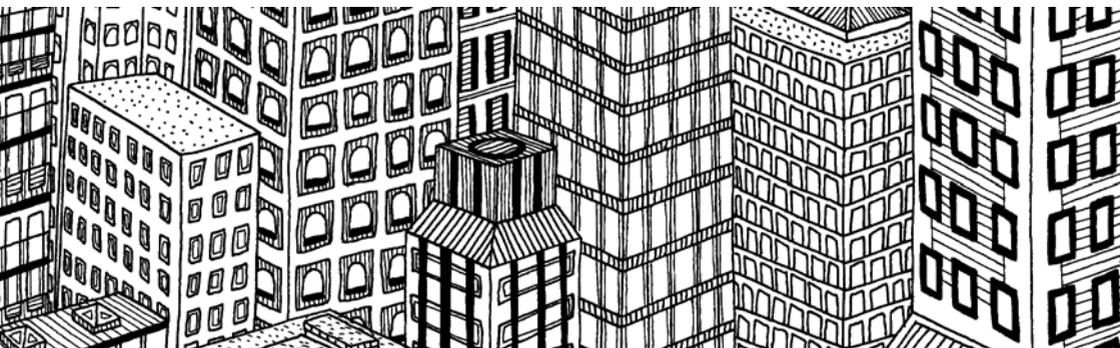
Nowadays, Brazil has signed double taxation treaties with 28 countries, as listed in Appendix II. These conventions are made in order to avoid that incomes are subject to taxes on both countries.

Additionally, taxes paid in other countries generally offset Brazilian income tax on the same foreign income since the other country grants reciprocal treatment for taxes paid in Brazil. The United States of America, the United Kingdom and the Federal Republic of Germany are the countries which the Brazilian authorities have established such kind of agreement.

APPENDIX I - TAX PAYMENT VOUCHER

The official payment voucher of the Brazilian Internal Revenue Service is known as DARF (Documento de Arrecadação de Receitas Federais).

 MINISTÉRIO DA FAZENDA SECRETARIA DA RECEITA FEDERAL DO BRASIL Documento de Arrecadação de Receitas Federais DARF	02 PERÍODO DE APLICAÇÃO →	
	03 INTERVENÇÃO ORÇAMENTAL →	
	04 CÓDIGO DA RECEITA →	
	05 MÊS DE REFERÊNCIA →	
	06 DATA DE VENCIMENTO →	
	07 VALOR DO PRINCIPAL →	
	08 VALOR DA DESLTA →	
	09 VALOR DO JUROS E IOB EM CAPÍTULOS - 102000 →	
	10 VALOR TOTAL →	
	11 AUTENTICAÇÃO: BANCA RFB - GABINETE RFB - P. 4.21.000	
01 NOME / TELEFONE		
Veja no verso instruções para preenchimento		
ATENÇÃO É vedado o recolhimento de tributos administrados pela Secretaria da Receita Federal do Brasil (RFB) cujo valor total seja inferior a R\$ 10,00. Ocorrendo tal situação, adicione esse valor ao tributo de mesmo código de períodos subsequentes, até que o total seja igual ou superior a R\$ 10,00.		



APPENDIX II- INTERNATION TAX TREATIES

The list of the current countries with which Brazil has income tax treaties to avoid double taxation is provided below:

- ▶ Argentina
- ▶ Austria
- ▶ Belgium
- ▶ Canada
- ▶ Czech Republic *
- ▶ Chile
- ▶ China
- ▶ Denmark
- ▶ Ecuador
- ▶ Finland
- ▶ France
- ▶ Hungary
- ▶ India
- ▶ Israel
- ▶ Italy
- ▶ Japan
- ▶ Korea
- ▶ Luxembourg
- ▶ México
- ▶ Norway
- ▶ Philippines
- ▶ Portugal
- ▶ Sweden
- ▶ Slovakia *
- ▶ South Africa
- ▶ Spain
- ▶ The Netherlands
- ▶ Ukraine

* Brazil currently recognizes the previously-existing treaty with Czechoslovakia.

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