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# *Latin American Tax Newsalert*

A Washington National Tax Services (WNTS)  
Publication

**Brazil**

**December 5, 2011**

## *New "IOF" Tax Rates on Certain Foreign Currency Exchange Transactions*

Once again, the Brazilian government has changed the Financial Transactions Tax ("IOF") tax rates levied on foreign currency exchange transactions related to certain investments made by non-residents in the Brazilian financial and capital markets. The changes, introduced by Decree 7632, are effective December 1, 2011.

Converting foreign currency (e.g., the US Dollar) to Brazilian currency (the Real) when acquiring quotas of Private Equity Funds ("FIPs") and Venture Capital Funds ("FIEEs") is now subject to a 0% IOF tax rate (the previous rate was 2%).

Decree 7632 also reduces the IOF tax rate from 2% to 0% in the following foreign exchange (inflow of funds) transactions:

- Variable income investments traded on the Brazilian Stock Exchange, such as listed shares, futures, derivatives and commodities markets;
- Acquisition of shares in IPOs of companies listed in the stock exchange;
- Exchanging depositary receipts (e.g., American Depositary Receipts, "ADRs") for publicly-traded shares; and
- Symbolic exchange transactions to switch the foreign investment registration regime with the Brazilian Central Bank from the "4131" (investments in privately-held companies) to the "2689" (investment in publicly-traded companies).

In addition to the above changes, the inflow of funds for listed bonds acquisitions related to investment projects and for quota acquisitions in funds that invest in debentures related to investment projects (according to the cases prescribed by Law 12431) is now subject to a 0% IOF tax rate.

This time, the Brazilian government made the IOF tax changes to encourage new foreign investment in the Brazilian market in light of the current global economic instability.

Currency market and global economic volatility may lead to other changes in the Brazilian IOF tax rate. Foreign investors and multinational companies with Brazilian operations should consider these new rules when moving funds in and out of Brazil.

Please refer to our [NewsAlert](#) dated January 20, 2011 for the previous changes to IOF rates on foreign investments.

We will monitor the legislative environment and keep you informed of further developments.

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