ITSNewsalert

Brazil leaves interest on net equity rules unchanged

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In brief

On March 9, 2016, the Brazilian Senate released a notice confirming that Provisional Measure 694/2015 (PM 694) expired as of that date and will not be converted into law. PM 694 would have added a new deductibility limit for interest on net equity (INE) for Brazilian income tax and social contribution tax purposes and increased the income tax withholding rate on INE payments to certain non-resident shareholders.

The proposed deductibility limit and income tax withholding increase therefore will not take effect.

In detail

The Brazilian Senate on March 9 released a notice confirming that that it will not approve PM 694, a necessary step for PM 694 to be converted into law.

The Brazilian Executive Branch had issued PM 694 on September 30, 2015. PM 694 would have imposed additional limitations on the deductibility of INE payments for Brazilian income tax and social contribution purposes.

The PM also would have increased the income tax withholding rate on INE payments to non-black-listed tax-haven jurisdictions from 15% to 18%.

The amendments in PM 694 would have taken effect on January 1, 2017, if the PM had been approved within 60 days after its publication, or an additional 60 days if extended by the Senate.

The Senate recognized the merit of the proposal as well as the interests of the Executive Branch, the states, and important economic sectors. Because PM 694 arrived at the Senate with only seven days for Senate review, however, the Senate decided not to approve it. The PM therefore expired on March 9, 2016, with the proposed amendments never coming into effect.

The takeaway

Multinational companies that own Brazilian entities should continue to monitor developments related to INE payments, as it is possible that the proposed amendments will be reintroduced in a future Provisional Measure.

Contacts

If you would like to discuss the implications for your organisation, please contact your usual PwC adviser or:

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