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BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

Brazil is a country of young people, as 35.2% of Brazilians are aged 24 or under and more than half of the population is less than 35 years (Data Reportal, 2022). The median age is 34.3 years. The country has a population of approximately 214.7 million people, where 49.1% are men and 50.9% are women. The number of households in Brazil has been increasing. According to the latest data provided by the UN (2019), 12% of households consist of one person, 47% have two or three people, 32% four or five people, and 9% have six or more inhabitants. Good education is an important requisite for finding a good job in Brazil. However, 43% of adults aged 25-64 attained below upper secondary education in the country (OECD, 2020). Of those who have a degree, 46% of them are men, and 52% are women. Brazil is sparsely populated and the majority of the population lives along the coast, particularly around São Paulo and Rio de Janeiro. Throughout the country, most people live near or in urban areas. In 2022, 87.5% of the population of Brazil is urban. However, some areas of the country are essentially deserted, mainly in the Amazon region. The services sector employs almost 71% of the active workforce, while agriculture employs 9% of the country and industry sector employs 20% of the total active workforce (World Bank, latest available data).

Purchasing Power

In Brazil, GDP per capita reached USD 14,835 PPP in 2020, according to the latest data by the World Bank. The average monthly salary of a Brazilian is BRL 1,921 in 2021 (FDR). Brazil's Private Consumption Expenditure was reported at USD 259.890 billion in December 2021 (CEIC Data). Income inequality is a big issue in Brazil, a country where the six richest men have the same wealth as poorest 50% of the population (which is around 100 million people), and where the richest 5% of the population have the same income as the remaining 95%, according to Oxfam latest figures. Furthermore, the country's Gini coefficient is very high (48.9 in 2020, World Bank). According to IBGE, women in Brazil earned 28.7% less than men on average in 2019 (latest data). In addition, according to the World Bank, the labor force participation rate is 68% for men aged 15 to 64 in 2021, while the participation rate is 49% for women, but the long term trend is upward. Different regions of the country have different standards of living, with the best ones in the southern areas of Brazil and the poorest living conditions in the north and northeast.

Consumer Behaviour

Brazil has one of the largest consumer market sizes, with an overall population of 214.7 million of 2022 (Data Reportal). However, since the recession and the Covid-19 pandemic, spending habits have changed. Nowadays, Brazilians tend to save as much as they can when they go shopping. Economic conditions have resulted in the great majority of Brazilians looking for ways to spend less. Additionally, even though consumers usually remain loyal to their favourite brands, they only do it if the price is right. Indeed, 19% of consumers shop around to find retailers selling a specific brand's products at lower prices and 14% wait for sales. Brazilians tend to do product research and look for deals before making a purchase. To save money, Brazilian consumers often shop in popular discount chains. However, they still expect quality products. Furthermore, customers demand high-

quality sales service and customer support. Online customer support service is highly useful in maintaining contact with customers, but customers expect a fast response when they contact companies via social media, as they mostly hope to have a reply in under one hour. Consumers have more access to information than ever before, and they will likely search for reliable information about brands and products to assist in the purchase decision. Furthermore, the reputation and popularity of the brand matter more than before to the average Brazilian consumer nowadays. People tend to spend their money on experiences as much as they spend on products. Additionally, Brazilians spend a significant amount on electronics and beauty products, and the country is one of the biggest markets for beauty products in the world. According to the FGV (Fundação Getúlio Vargas), the consumer confidence index reached 78.6 in April 2022, the highest level since August 2021, following the announcement of anti-inflation measures and due to the diminution of the intensity of the Covid-19 pandemic.

Brazil has the largest and most developed e-commerce market in Latin America, ranking 15th in the world for e-commerce sales in 2021 (ecommerceDB). In 2021, the population spent \$26 billion on products sold online (ecommerceDB). The market is expected to grow by 22.2% in 2022 (LABS). Brazilian consumers are significantly influenced by social media comments, so if there is a significant number of negative reviews about a product on social media, they will consider not making the purchase. E-commerce has been growing steadily, and Brazilian consumers have been making purchases online more often than they do in-store. Rather than paying outright, Brazilians have a strong preference to pay for a purchase in instalments. That payment option strengthens consumers' purchasing power, and consequently boosts the average transaction value per customer. Three quarters of consumers commonly make payments in instalments, in an average of six payments per purchase, and one third of consumers will not make a purchase if the shop does not offer the option to pay in instalments.

The overall environmental awareness of the Brazilian consumers has improved over the recent years. Among the top environmentally friendly attitudes among consumers are exchanging or donating products that they no longer use, avoiding printing documents, and turning off lights that are not being used. Brazil is home to many international collaborative platforms and use of Uber and Airbnb is very common.

Consumer Recourse to Credit

Cash is still the preferred payment method among Brazilian consumers, but the use of credit has been growing rapidly in the country - especially among the middle class. Most shops offer consumers the option to pay for their purchase in instalments spread over a period of time, which is usually done without charging interest. Among consumers, the value of the purchase is the main factor that determines whether to use credit. A concentrated banking sector and a history of rampant inflation and defaults have long pushed up borrowing costs in Brazil, where interest rates average more than 300% for unpaid credit card bills. According to the Brazilian National Consumer Indebtedness Survey, as of January 2017 over half (55.6%) of the Brazilian households had some type of debt. Credit card debt is by far the main type of debt in the country, with 77.3% of households having credit card debt, followed by car leases (14%) and mortgages (10%). Even though demand for credit is still weak, it should see a significant change with an eventual drop in interest rates. Additionally, Brazil has 55 million unbanked adults and more than 20 million people without access to any banking service whatsoever.

Growing Sectors

Agribusiness, automotive industry, renewable energy, iron and steel, environmental solutions, oil and gas, textiles, and healthcare.

Consumers Associations

[Instituto Brasileiro de Defesa do Consumidor](#) , Brazilian Institute for the Defence of the Consumer
[Associação Brasileira de Defesa do Consumidor](#) , Brazilian Association of Consumer Protection

IMPORTING & DISTRIBUTING

Import Procedures

Foreign exporters and Brazilian importers must register with the Foreign Trade Secretariat (SECEX), a branch of the Ministry of Industrial Development and Commerce (MDIC). Companies seeking to import goods into Brazil must obtain a RADAR licence. The RADAR licence grants a password to access the Brazilian Integrated Foreign Trade System (SISCOMEX). The SISCOMEX is an electronic integrated trade documentation system designed by the Brazilian Government to control and monitor the Brazilian Foreign Trade. The RADAR licence can be limited, unlimited or express depending on the amount of imported goods. Licence applications must be submitted to tax authorities and the type of licence is determined after a review of the financial capacities of the company. Other documents are necessary for custom clearance: the commercial invoice, incoterms, bill of lading and cargo manifest, certificate of origin, import declaration and proof of import. Depending on the product, Brazilian authorities may require more documentation.

Import costs include the Import Duty (II), the Merchandise and Service Circulation tax (ICMS) and the Brazilian Federal Value-Added Tax on Manufactured Products (IPI). Import duty is a federal product-specific tax levied on a CIF (Cost, Insurance, and Freight) basis. Rates usually vary between 10% and 35%. The IPI is a tax levied on finished products (whether foreign or domestic), resulting from some sort of industrial process. The IPI is not considered a cost for the importer, since the value is credited back to the importer. IPI rates range between 0% and 15%. The ICMS is the VAT levied by states and applies to the legal, physical, or economic circulation of goods, whether imported or not, the services of transportation and telecommunications. Although importers have to pay the ICMS to clear the imported product through Customs, it is not necessarily a cost item for the importer because the paid value represents a credit to the importer. ICMS rates vary from one state to another: in the State of São Paulo, the rate varies from 7-18 percent. Certain industries may qualify for a ICMS tax exemption.

Other minor taxes that apply to imports:

- PIS-Import and COFINS-Import are both federal contributions levied on the entrance of foreign goods into Brazilian territory.
- Freight Surcharge for Renewal of the Brazilian Merchant Marine (Adicional ao Frete para Renovação da Marinha Mercante – AFRMM) is a fee charged to support the development of merchant marine and shipping construction.

In order to attract investments, some Brazilian states grant tax incentives, consisting of total or partial reductions of ICMS on imports, which minimize tax costs of foreign trade operations.

For more information, please visit the [website of Brazilian Tax Authority](#).

Specific Import Procedures

It is necessary to obtain a specific agreement from the ministry concerned for the following products: beverages, pharmaceutical or veterinary products, arms and munitions, as well as many cosmetics, rare metals, radioactive products or those which can damage the environment, and petroleum and all its derivatives. The Ministry of Health regulates all products that may affect the human body, including pharmaceuticals, vitamins, cosmetics and medical equipment/devices. Such product can only be imported and sold in Brazil if the foreign company establishes a local Brazilian manufacturing unit or local office, or if the foreign company appoints a Brazilian distributor who is authorised by the Brazilian authorities to import and distribute medical products.

The import of several types of meat is prohibited. The Brazilian requirements for [the importation of animal products](#) are defined by article 486 of Decree no. 9,013, dated March 29, 2017.

Distribution channels

According to USDA Foreign Agricultural Service latest report, in 2020, the food processing industry registered annual sales of R\$789 billion (US\$153 billion). Food represented 81% and beverages 19% of total sales. The Brazilian Supermarket Association (ABRAS) reported supermarket revenues of R\$554 billion (US\$107 billion) in 2020, representing 7.5% of the country's GDP. The food retail industry sales has recorded a constantly growing trend in recent years, despite the country's uncertain economic climate.

Brazilian consumers have changed their purchasing habits: decreasing brand loyalty during the recession period and abandoning more expensive habits. Shifting demand went from premium brands – the majority is imported – to more affordable products. As consumers are not willing to pay higher prices, retailers have changed the selection of products. Within the imported categories, retailers kept well-known brands and changed the mix of products, opting for less expensive items. Supermarkets are the most important segment for imported food and beverage products. This format presents more diversity, which is the most important characteristic to affluent consumers, behind proximity. Penetration of foreign goods is considerably higher in supermarkets, ranging from 30-60%.

Although the Brazilian retailing market is not considered concentrated, the top five Brazilian companies represent 31% market share (USDA, 2020).

Among the top Brazilian retailers there are Carrefour, Grupo Pao de Acucar, Walmart (Grupo Big), Cencosud, Grupo Muffato, SDB Alimentos, Supermercados BH, Companhia Zaffari and DMA distribuidora.

Distribution market players

According to latest data provided by ABRAS (Brazilian Association of Retail Stores), in 2020 the Brazilian retail market was composed of 91,351 retailer operators. The stores were divided into five categories: convenience, neighborhood stores, supermarkets, hypermarkets, and wholesale clubs. Hypermarkets and supermarkets are the most widespread. The top 50 retailers accounted for almost 52% of overall sales in 2020, reinforcing the concentration of the market. Supermarket purchasing accounts for almost 80% of the total self-service grocery stores in the country.

In 2020, the market was divided as follows:

- Carrefour: 13.5% market shares (Carrefour Mercado, Carrefour Bairro, Carrefour Express, Supeco, Atacadão).
- Assai: 7.1%
- GPA: 5.6% market shares (Pão de Açúcar, Minuto Pão de Açúcar, Extra, Mini Mercado, Assai)
- Grupo Mateus: 2.6%
- Cencosud: 1.7% market shares (G.Barbosa, Perini, Mercantil, Bretas, Presunic)
- Irmaos Muffato: 1.6% market shares (Super Muffato, Muffato Max)
- Supermercados BH: 1.6% market shares
- SDB Comercio: 1.5% market shares
- Companhia Zaffari: 1.1% market shares
- DMA Distribuidora: 1.0% market shares

Retail Sector Organisations

Brazilian Supermarket Association (Abrasnet)

OPERATING A BUSINESS

Type of companies

Sociedade de Responsabilidade Limitada (SARL): Limited Liability Company

Number of partners: 2 partners minimum.

Capital (max/min): No minimum capital requirement.

Shareholders and liability: Liability is limited to the amount of capital contributed. Partners are also jointly liable for the company's commitments within the limit of the capital remaining to be paid up.

Sociedade Anônima (SA): Public Limited Company.

Number of partners: 2 partners minimum.

Capital (max/min): No minimum capital requirement.

10% minimum of the issue price of the subscribed shares must be paid up in cash.

Shareholders and liability: The partners' liability is limited to the amount of capital contributed.

General Partnership

Number of partners: 2 partners minimum.

Capital (max/min): No minimum capital requirement.

Shareholders and liability: The partners' liability is limited to the amount of capital contributed.

Sociedade em Comandita Simples (SCS): Limited Joint-Stock Partnership

Number of partners: 2 partners minimum. There are two types of partners - active partners and the silent partners.

Capital (max/min): No minimum capital requirement.

Shareholders and liability: The liability of the active partners is unlimited. The liability of the silent partners is limited to the amount of capital contributed as long as they do not participate in the management of the company.

Setting Up a Company	Brazil	Latin America & Caribbean
Procedures (number)	11.0	8.0
Time (days)	16.6	25.2

Source: Doing Business - Latest available data.

Cost of Labour

Minimum Wage

BRL 1,212 per month (\$ 217.18 dollars) since the 1st of January 2022 (Agência Brasil).

Average Wage

Gross average monthly wage: BRL 1,921 in 2021 (FDR)

Social Contributions

Social Security Contributions Paid By Employers: Employers are required to contribute 8% of an employee's wages for the severance fund, 20% to the public pension system, and a maximum of 8.8% for other social security taxes. In some business sectors, the 20% INSS contribution has been replaced by a contribution levied on gross revenue (temporary measure until 31 December 2023) (Deloitte, 2022).

Social Security Contributions Paid By Employees:

Employees contribute 8% to 11% to social security, depending on their salary categories (Deloitte, 2022).

Intellectual Property

National Organisations

The organisation in charge of the patent protection and trademarks in Brazil is the [INPI](#) (Instituto Nacional de la Propiedad Industrial).

Regional Organisations

[MERCOSUR](#) (Mercado Común del Sur); [UPOV](#) (International Union for the Protection of New Varieties of Plants)

International Membership

[Member of the WIPO](#) (World Intellectual Property Organization)

[Signatory to the Paris Convention](#) For the Protection of Intellectual Property

TAX RATES

Consumption Taxes

Nature of the Tax

ICMS (Tax on the circulation of goods and services), IPI (Tax on industrialized products), ISS (Tax on services), PIS-PASEP (Employees' Profit Participation Program), and COFINS (Social Contribution for Social Security Financing).

Tax Rate

1. ICMS rates vary across states from 0% to 35%. The standard rate is 18% in Sao Paulo and 20% in Rio de Janeiro. Special rates apply to interstate sales (from 2019, the interstate ICMS is levied exclusively by the state of destination)
2. IPI rates vary on how essential the product is considered to be, from 0% for the most essential and 300% for 'superfluous' or luxury items. The IPI tariff table contains more than 9,700 different classification codes and follows the Brazilian External Tariff Code (BTEC)
3. ISS varies across municipalities, generally from 2% to 5% (maximum rate set by law)
4. PIS-PASEP is 0.65% for taxpayers under the cumulative system and 1.65% for taxpayers under the non-cumulative system. Certain companies and products receive special tax treatment (such as the automotive industry which pays PIS-PASEP at a rate of 2% and COFINS at a rate of 9.6% on specific products)
5. COFINS: 3% (for taxable persons taxed under the deemed corporate income tax method of calculation, under the cumulative system); 7.6% (for taxable persons taxed under the annual actual income tax method, under the noncumulative system).

Consult the [Guide on Brazilian VAT](#) to find import duties and taxes which apply to your product.

Reduced Tax Rate

For ICMS, generally lower rates apply to interstate sales, with a 4%, 7%, or 12% rate (depending on the location of the supplier and client) applied on all interstate sales of imported goods.

COFINS and PIS may be reduced in certain circumstances (for example for financial revenues), and some

transactions are exempt (e.g. exportation of services or assets fulfilling certain requisites).

Reduced rates generally apply to items of basic necessity (e.g. IPI applies at 0% to wheat flour and rice, 8% to pipes and 300% to luxury products; horticultural products and wheat flour are PIS-PASEP and COFINS zero-rated).

Other Consumption Taxes

A tax on industrialised products (IPI) is also collected. An excise duty levied at the federal level, it applies to almost all sales and transfers of goods manufactured or imported in Brazil. The IPI rate can vary between 0% and 300% (between 5% and 15% on average). The least taxed products are basic foodstuffs, while the most taxed are alcohol and cigarettes.

A municipal property transfer tax (ITBI) is levied on the transfer of immovable property, with different rates according to the municipality in which the property is located.

PIS and COFINS are levied on imports at rates of 1.65% and 7.6%, respectively, for the import of services; and 2.1% and 9.65%, respectively, on the importation of goods.

Corporate Taxes

Company Tax

15% - using either the "actual profits" method (APM) or the "presumed profits" method (PPM)

Tax Rate For Foreign Companies

A company is considered resident in Brazil if it has been incorporated in Brazil, and its tax domicile is where its head office is located. The Brazilian legislation has a concept of "taxable presence" (instead of the more common "permanent establishment"), according to which a non-resident company may be treated as resident if it operates in Brazil either through: (a) a fixed place of business or (b) an agent who has the power to enter into contracts in Brazil in the name of or on behalf of the non-resident company.

Capital Gains Taxation

Capital gains are treated the same way as ordinary income (subject to restrictions on the offsetting of capital losses against ordinary profits in certain cases).

Capital gains derived by a non-resident on an investment registered with the central bank are subject to progressive rates, as follows:

- 15% until BRL 5 million;
- 17.5% from BRL 5 million to BRL 10 million;
- 20% from BRL 10 million to BRL 30 million;
- 22.5% over BRL 30 million
- a 25% rate applies if the gains are derived by a resident of a tax haven.

Main Allowable Deductions and Tax Credits

In principle, all the expenses necessary for company activity are deductible. Start-up and pre-operational expenses may be deferred and amortised on a straight-line basis over a period of minimum five years. R&D expenditures may be deducted when incurred or deferred until termination of the project and then amortised over a period of not less than five years, at the company's choice. Losses on bad debts are tax-deductible (conditions apply), except for those arising from inter-company transactions. Charitable contributions are

deductible if the recipients are registered as charitable institutions (limits apply). Expenses of group medical care and health insurance programmes for employees, as well as contributions to private supplementary pension schemes, are considered deductible if supplied to all employees indiscriminately. When properly documented and substantiated, travel expenses related to business activities can be deductible. Taxes, contributions and related costs are generally deductible on an accrual basis.

Brazilian corporate income tax law allows a deduction for interest on net equity (INE) paid or credited to shareholders, limited to 50% of the current year's net profit or 50% of the company's retained earnings, whichever is higher. The amount available for the deduction is computed by multiplying the company's net equity balance by an official remuneration rate published by the Brazilian Central Bank.

Tax losses can be carried forward indefinitely. Nevertheless, the loss carry-forward is capped at 30% of taxable income (before the deduction of net operating losses). Loss carryback is not permitted.

Exemptions and reductions of corporate income tax are provided for businesses in certain less developed areas.

Foreign tax credit is available for resident companies on foreign income tax paid, generally limited to the amount of CIT and SCT on the foreign income.

Other Corporate Taxes

There are numerous other taxes levied in Brazil, including:

- **Municipal Property Tax (IPTU):** levied annually based on the fair market value of property in urban areas. Rates depend on the municipality and location of the property
- **Municipal property transfer tax (ITBI):** levied on the transfer of immovable property, with rates varying according to the municipality where the property is located
- **Tax on Financial Operations (IOF):** levied on certain financial operations, such as loans, foreign exchange operations, insurance, and securities, as well as operations with gold (as a financial asset) and foreign exchange instruments. The applicable rate will vary depending on the operation, with the general rate set at 0.38% (for cross-border loans of less than six months, the rate is 6% of the principal amount)
- **Social Integration Programme (PIS) tax:** a federal social contribution calculated as a percentage of revenue; it is levied at the rate of 1.65% (which may be reduced under certain circumstances)
- **Social Security Financing Contribution (COFINS):** a monthly federal social assistance contribution calculated as a percentage of revenue, is levied at the rate of 7.6%
- **Import Tax:** rates generally vary between 10% and 20% (the maximum being 35%)
- **PIS and COFINS on imports:** 1.65% and 7.6% on the import of services, respectively; 2.1% and 9.65%, respectively, on the importation of goods
- **Municipal Service Tax (ISS):** imposed on a cumulative basis (it is not creditable), and the rates may vary between 2% and 5%, depending on the type of service (rates to be stipulated on a municipal basis)
- **Social Security Contribution (INSS):** generally levied at a rate of 20% over the employees' payroll (certain entities may be eligible to calculate INSS at a range of 1% to 4.5%, applied on the company's gross revenue rather than being calculated upon the company's payroll)
- **Severance Pay Indemnity Fund (FGTS):** levied on an employee's salary at the rate of 8%
- **Contribution for Intervention in the Economic Domain (CIDE):** levied at the rate of 10% on remittances made by corporate taxpayers for royalties and for administrative and technical services provided by non-residents.

Other Domestic Resources

Federal Revenue of Brazil (RFB)

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed

International tax treaties signed by Brazil

Withholding Taxes

Dividends: 0%; Interest: 15%/25% (for residents in tax havens); Royalties: 0% (for residents)/15% (for non-residents)/25% (for residents in tax havens).

The interest earned on local loans is linked to fixed-income investments and is subject to withholding tax rates that decrease as the loan term increases. For instance, interest due for a period of up to 180 days is subject to a 22.5% withholding tax rate, while interest due for a term between 181 and 360 days is subject to a 20% rate. Additionally, interest due for a period between 361 and 720 days is subject to a 17.5% withholding tax rate, while interest due for a term greater than 720 days is subject to a 15% rate.
