

IOF/EXCHANGE – REDUCTION OF RATES APPLICABLE TO FOREIGN INVESTMENTS IN THE BRAZILIAN FINANCIAL AND CAPITAL MARKETS

The IOF/Exchange is a tax levied on the liquidation of currency exchange (FX) agreements with the Brazilian Central Bank, related to inflows and outflows of funds to and from Brazil.

Decree No. 7,632/11, published in an extra edition of the Brazilian Official Gazette released on December 1st, 2011, reduced to zero percent the rates of IOF/Exchange applicable to certain FX agreements in connection with investments in the Brazilian financial and capital markets. The new zero percent rates only apply to FX agreements that are executed from December 1st, 2011 onwards, as follows:

LINE N°	TYPE OF FX AGREEMENT	PREVIOUSLY APPLICABLE RATE OF IOF/EXCHANGE	CURRENTLY APPLICABLE RATE OF IOF/EXCHANGE
1	Inflow of funds for floating rate investments carried out in a Brazilian stock exchange environment or in a Brazilian future and commodities exchange environment (mainly shares), according to the rules issued by the National Monetary Council, except for transactions that involve derivatives and that result in pre-determined income.	2%	Zero
2	Inflow of funds for the acquisition of shares of Brazilian companies in either (a) a public offer of shares that is registered with the Brazilian Securities and Exchange Commission (CVM) or that is not required to be registered with the CVM, or (b) subscription of shares, provided that, in both cases (a) and (b), the Brazilian company issuing the shares is entitled to trade its shares in a stock exchange environment.	2%	Zero
3	Inflow of funds for the acquisition of quotas in private equity funds (<i>fundos de investimento em participações, or FIP</i>), emerging company funds, or funds that invest in quotas of such funds. This includes investments that are carried out by means of simultaneous FX agreements, without involving any actual flow of funds.	2%	Zero
4	Inflow of funds for investments in shares that may be traded in a stock exchange environment, through the cancellation of depositary receipts that are traded outside Brazil.	2%	Zero
5	Inflow of funds deriving from a change in the modality of the investment registration from a direct foreign investment registered pursuant to the rules of Law No. 4,131/62 to an investment in shares that may be traded in a stock exchange environment pursuant to the rules of the National Monetary Council.	2%	Zero
6	Inflow of funds for investments in long-term bonds or securities (such as debentures) that are issued by Brazilian companies pursuant to the rules of Law No. 12,431/11, or for acquisitions of quotas in funds that invest in such types of bonds or securities also pursuant to the rules of Law No. 12,431/11.	No specific rule	Zero
7	Inflow of funds for investments in the Brazilian financial and capital markets, other than the particular types of investments described in lines 1 to 6 above. This includes investments that are carried out by means of simultaneous FX agreements, without involving any actual flow of funds.	6%	6% (no change)
8	Outflow of funds related to the exit of foreign investments from the Brazilian financial or capital markets (lines 1 to 7 above).	Zero	Zero (no change)

Applicable rates of IOF/Exchange must be confirmed on a case-by-case basis. Different rates of IOF/Exchange apply to other types of FX agreements, and they may be modified without prior notice to taxpayers.

This newsletter is merely informative, presenting only a general overview of the subjects. Thus, it is not a legal opinion.

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