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Proposed new Framework Legislation for Startups

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Brazil's federal government has submitted Bill PLC 249/2020 to National Congress. The Bill contains the Administration's proposal for a Framework Law for Startups and Innovative Entrepreneurship.

The Bill proposes important changes in the law governing companies, tax, employment, investment, and government contracting and procurement, focused around four main themes: (i) the business environment, (ii) facilitating investment in startups, (iii) employment relationships and collaboration in the new economy, and (iv) the role of the State as an agent for development.

Under the proposed Framework Law, startups are defined as enterprises that have an innovative business model, are less than six years old, and have annual revenue of up to BRL 16 million, among requirements.

The main proposals under the Bill include:

- a definition of startups based on the enterprise's annual revenue, length of existence, and use of innovative business models or registration under the Inova Simples simplified tax regime for innovative businesses;
- rules on instruments for investment in innovation that provide greater protection for angel investors, who will not have any liability for the business's debt, even in the case of judicial reorganization, and are shielded if the startup's corporate veil is pierced;
- provisions on regulatory sandboxes that will allow participants to develop innovative business models and test experimental techniques and technologies;
- provisions that facilitate government contracting of innovative solutions, establishing specific rules for competitive contracting procedures and "Public Contracts for Innovative Solutions";
- simplified procedures for corporations, with the possibility of replacing corporate books with mechanized or electronic records, executive management composed of a single officer rather than a minimum of two, and electronic publication of corporate acts for a larger number of privately-held corporations;
- amendments to Complementary Law 123/2006 to create the Inova Simples regime for startups, among other changes.

The Administration's proposal has been attached to Bill PLC 146/2019, an earlier proposal on incentive measures for startups presented by a member of the Chamber of Deputies.

The expectation is that the two proposals will be considered and voted on in the Chamber of Deputies this year.

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