Brazil’s Tax Reform and the Taxation of Environmental Impacts

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Topics

Tax Reform BMA Review

Brazil’s tax reform, implemented under Complementary Law 214/2025 (CL 214/2025), makes significant changes in the tax system, including the creation of the dual VAT, composed of the Goods and Services Tax (IBS – *Imposto sobre Bens e Serviços*) and the Goods and Services Contribution (CBS – *Contribuição sobre Bens e Serviços*). In addition to unifying taxation of goods and consumption, the new structure introduces environmental impact as one criterion for applying – or reducing – tax.

What has changed?

Under the new system, there are three ways of modifying taxation: the Selective Tax (IS – *Imposto Seletivo*), special rates, and special rules.

1. Selective Tax – IS

CL 214 creates the Selective Tax, which is an additional tax that applies to goods and services that are harmful to health or the environmental. The Selective Tax applies to items such as coal, automobiles, vessels, aircraft, and mineral commodities.

The taxation of automobiles depends on their carbon footprint, recyclability, and energy efficiency. For high environmental efficiency aircraft and vessels, for example, the IS rate can be as low as 0%. Extraction of mineral commodities will be subject to a maximum rate of 0.25%, except for natural gas used as an industrial input or as fuel for transportation, in which case the IS will be reduced to zero.

2. Special Rates

A) Incentives for urban rehabilitation

CL 214 provides an incentive for urban rehabilitation projects by offering reductions of up to 60% in the IBS and CBS on sales of goods and services related to the recovery of degraded areas and improvements to urban infrastructure. In addition, the rate for leases of properties located in rehabilitated zones will be reduced by 80%, to stimulate occupation and economic revitalization.

This system of incentives will boost nature-based solutions, contributing to the mitigation of global warning and encouraging the rehabilitation of brownfield contaminated areas.

B) Incentives for reverse logistics

Businesses that acquire solid waste from individuals, cooperatives and grassroots organizations can benefit from presumed IBS and CBS credits. The incentive excludes waste subject to mandatory reverse logistics under article 33 of the National Solid Waste Policy, medications, and scrap copper, but purchases of other types of waste will generate tax credits, thus reducing operational costs.

3. Special Rules

A) Reduced tax for biofuels and low-emissions hydrogen

Article 225§1(VIII) of the Federal Constitution provides for more favorable tax treatment of biofuels and low emissions hydrogen than for fossil fuels. CL 214/2025, in turn, establishes IBS and CBS rates for more environmentally-friendly fuels, which range from 40% to 90% of their fossil counterparts (art. 175§1), and provides that regulations to fix the rates must take into account energy equivalence, market conditions, and the environmental impacts of biofuels and low-emission hydrogen.

B) Reduced taxation for ethanol and biofuels produced by family farms

Special rules were also established for hydrous ethanol (EHC), using C gasoline as a reference, and for biodiesel (B100) produced by family farms, which can benefit from reduced rates fixed by presidential decree (art. 175§§3-6).

How can businesses prepare for the new tax reality?

These changes mean that businesses should assess their environmental impact and evaluate strategies to optimize their tax burden. Some actions that businesses can take are:

- Reviewing their chain of production to reduce environmental impacts;
- Investing in renewable energy and efficient production processes;
- Tax restructuring to make better use of tax credits;
- Establishing business partnerships with cooperatives and sustainable suppliers.

Now that sustainability has become a determining factor in competitivity, environmental taxation can an opportunity for businesses to minimize costs and position themselves strategically in the market.

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