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Taxation in Brazil's Carbon Market: Advances and Unresolved Issues After Law 15.042/2024

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Law 15.042/2024 marks a significant milestone for Brazil's carbon market, establishing the Brazilian Greenhouse Gas Emissions Trading System (SBCE) as the country's regulatory framework for a national, regulated carbon market.

One of the most anticipated elements of the new legislation was its approach to the tax treatment of carbon credit transactions. Previously, the lack of clear guidance created legal uncertainty, discouraged private sector participation, and limited Brazil's potential to attract investment in this area.

Under Law 15.042/2024, gains from the sale of carbon credits—as well as other assets defined in the legislation, such as Brazilian Emissions Quotas (CBEs) and Verified Emission Reduction or Removal Certificates (CRVEs)—are subject to income tax: IRPF for individuals, and corporate income taxes IRPJ and CSLL for legal entities.

When carbon credits or related securities are sold on an exchange or organized market, the resulting gain is treated as "net gain", like exchange-traded shares, and taxed at a rate of 15%. Individuals are exempt from income tax on carbon securities gains if their total monthly sales do not exceed BRL 20,000.

For private (off-exchange) sales, the standard capital gains rules apply: individuals are taxed at progressive rates ranging from 15% to 22.5%, while companies are subject to a combined corporate tax rate of 34% (IRPJ/CSLL), regardless of whether they pay income tax under the "presumed profit" or "actual profit" system.

Expenses incurred to reduce emissions, together with administrative costs associated with trading carbon credits and securities, may be deducted for tax purposes by both companies (IRPJ/CSLL) and individuals (IRPF). These deductions remain available even if credits are later canceled because they are used to offset greenhouse gas emissions.

Income from these transactions is exempt from the federal gross revenues taxes PIS and Cofins—an important benefit introduced by Law 15.042/2024 to help reduce the overall tax burden on the carbon market sector.

The market had also hoped for more substantial tax incentives in the new law, such as a lower, fixed rate of income tax for corporate taxpayers on the profit from carbon credit transactions rather than the usual capital gains treatment, or even a general exemption for both individuals and legal entities.

Another important consideration is that the exemption under Law 15.042/2024 applies only to PIS and Cofins, which will be phased out in the coming years as part of Brazil's consumption tax reform, established by Complementary Law 214/2025 (CL 214/2025). CL 214/2025 will eliminate PIS and Cofins and introduce new taxes, IBS and CBS, under a dual VAT system. IBS and CBS will apply to transactions involving intangible assets, including rights. Securities are not subject to such taxes. Therefore, there must be a clearer guidance on the levy of such taxes on carbon credit transactions.

Without specific provisions in CL 214/2025 granting tax benefits for carbon credit transactions, there could be a significant increase in tax burden as the consumption tax reform rolls out. The impact will be felt especially by individuals and entities that are not required to collect and remit IBS and CBS, and entities that are not subject to the IBS/CBS system, such as investment funds, since they will have no way to offset IBS/CBS credits against amounts of IBS/CBS owed in other transactions.

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