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Brazil's Dual VAT Debut: The strategic role of IBS and CBS reporting requirements

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In 2026 – the "test year" for Brazil's consumption tax reform – the new Goods and Services Tax (IBS – *Imposto sobre Bens e Serviços*) and the Contribution on Goods and Services (CBS – *Contribuição sobre Bens e Serviços*), both with reduced rates,[1] will operate alongside the existing taxes they will replace: the municipal service tax (ISS), the state value-added tax (ICMS), the federal gross revenue taxes (PIS and COFINS) and the federal tax on manufactured goods (IPI).

During this initial transition year, taxpayers will be exempt from paying IBS and CBS if they correctly fulfill all tax reporting and recordkeeping obligations (article 348§1, Complementary Law 214/2025).[2]

This is a critical point: beginning in January 2026, information provided in the new tax documents will be used to determine CBS and IBS tax credits. Any errors in tax reporting or recordkeeping will be treated as an admission of debt, and failure to issue tax documents (or issuing documents with incorrect information) will be treated as a failure to report revenue, triggering liability for the new taxes.

Over the course of 2025, Brazil's Federal Revenue Service (RFB – *Receita Federal do Brasil*) published technical guidance to assist taxpayers in issuing the new tax documents and made a digital testing environment available. Despite these efforts, uncertainties remain, particularly because state governments did not participate in the regulatory process, and many municipalities have yet to issue instructions for service-related tax documents.

A positive step for tax compliance is the proposal to waive penalties for errors in fulfilling tax reporting requirements if those errors are corrected within 60 days of notification (amendment to article 348 of Bill PLP 108/2024, included by the Senate).

The percentage for tax reporting penalties has been reduced to 20% (Complementary Law 214), reflecting the Supreme Federal Court's stance against historically excessive fines – many of which were calculated on the transaction value and could be hundreds of times greater than the tax owed (General Repercussion Themes 487, 736, and 816).

Even though 2026 is considered a "test year" for IBS and CBS, taxpayers will still be subject to audits and verification of potential irregularities in their tax reporting requirements. Under the new rules (Constitutional Amendment 124), oversight of CBS falls to the federal government, while oversight of IBS is the responsibility of state governments, municipalities, and the Federal District. Despite promises of a simplified system, there is still no clear definition of how concurrent authority among these entities will be exercised for IBS assessment and collection, in a way that will comply with the principles of legality, transparency, and efficiency that govern government authorities (article 37, Federal Constitution).

If simultaneous or overlapping audits result in tax assessments and penalties as early as 2026, challenges to those assessments will be reviewed by the IBS Managing Committee (the Comitê Gestor, which is still being formed) and by CARF, Brazil's federal Administrative Tax Appeals Council. It remains to be seen whether these administrative instances will interpret the “dual VAT system” harmoniously, since IBS and CBS apply to the same taxable events and are calculated in the same way.

Additionally, the rollout of IBS and CBS introduces operational risks: without properly configured systems, taxpayers may encounter problems issuing tax documents, potentially leading to interruptions and losses in transactions involving goods and services.

Thus, while 2026 is positioned as a “test year” for IBS and CBS, the practical impact of tax reporting requirements will be significant. Ensuring compliance with these requirements is essential – not only to avoid substantial penalties, but also to prevent disputes and litigation as the new system is implemented.

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NOTES

[1.] 0.1% for IBS and 0.9% for CBS (art. 343 and 346, CL 214/2025).

[2.] Art. 60§1 and art. 335(I), CL 214/2025.

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