Brazil’s New Taxpayer Defense Code and the Habitual Defaulter

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In January of this year, Brazil adopted the Taxpayer Defense Code (*Código de Defesa do Contribuinte*) under Complementary Law 225/2026, establishing general rules governing the relationship between tax authorities and taxpayers. The Code forms part of a broader effort to modernize Brazil’s tax and administrative framework, emerging from a coordinated legislative reform initiative under which a commission of jurists was convened to develop draft legislation across multiple areas of the tax and administrative system.

Against this backdrop, the Code seeks to redefine the taxpayer–State relationship by articulating rights, guarantees, and duties on a nationwide basis, promoting greater transparency, cooperation, and predictability in tax administration.

The Code introduces two new concepts that merit special attention. The first is “taxpayers in good standing” (*contribuinte bom pagador*). While the label suggests a broad range of benefits for taxpayers in this category, in practice the only advantage is access to simplified service channels. This falls well short of expectations, as many had anticipated priority reviews or expedited refunds.

The second is the concept of the “habitual defaulters” (*devedor contumaz*): taxpayers whose defaults are *substantial, repeated, and unjustified*, and which – after due administrative process – are subject to severe sanctions that may effectively prevent them from continuing to do business.

At the federal level, a default is considered *substantial* where a taxpayer has outstanding tax liabilities classified as “irregular” that total more than BRL 15 million and exceed the taxpayer’s known assets; *repeated* where default occurs in at least four consecutive tax periods or six non-consecutive periods in any 12 month period; and *unjustified* where there are no legitimate grounds for treating the default as anything other than habitual. The Code classifies tax debts as “irregular” where the taxpayer has not provided security for payment, deposited the amount of the debt into court, or obtained a judicial measure to suspend enforcement.

Habitual defaulters are exposed to a range of sanctions, including exclusion from tax incentives; restrictions on the use of tax losses for corporate income tax purposes (IRPJ and CSLL); and disqualification from participation in public procurement processes. More significantly, they cannot apply for judicial reorganization, and if they are already under reorganization, the tax authorities can request that the proceedings be converted into bankruptcy – a possibility that the Superior Court of Justice has upheld.   Perhaps the most drastic sanction in practical terms is the suspension of the habitual defaulter’s tax registration, which effectively brings its business operations to a halt.

Corporate groups should pay especially close attention. Complementary Law 225/2026 provides that entities related to the debtor taxpayer can also be classified as habitual defaulters. Moreover, the ratio between a taxpayer's debt and assets – which forms part of the legal test for substantial default – can be affected by asset revaluations and provisioning, potentially triggering classification as a habitual defaulter, even in the absence of new tax debt.

If the new Taxpayer Defense Code introduces harsher measures against defaulters, it also creates opportunities for companies with robust tax governance. The Federal Revenue Service has already introduced compliance incentive programs such as Confia (an OECD-inspired cooperative compliance program aimed at large taxpayers), Sintonia (which operates like a kind of "credit score" for corporate taxpayers) and OEA (a customs compliance program), and in public procurement processes, compliance now serves as a tie-breaker.

In Brazil, tax compliance is emerging as a strategic asset.

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