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Brazil's Selective Tax

A Practical Guide

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1. WHAT IS THE SELECTIVE TAX?

The Selective Tax is part of Brazil's consumption tax reform, which is replacing a number of existing federal, state and municipal taxes with a new tax structure. At the center of the reform is a dual VAT comprising the IBS (Tax on Goods and Services – *Imposto sobre Bens e Serviços*), a state and municipal tax, and the CBS (Contribution on Goods and Services – *Contribuição sobre Bens e Serviços*), a federal tax. The CBS replaces the federal PIS and Cofins gross receipts taxes, while the IBS replaces the state VAT (ICMS) and the municipal services tax (ISS).

The reform also largely phases out the IPI (Manufactured Goods Tax – *Imposto sobre Produtos Industrializados*), a federal tax on manufactured products, subject to special rules for products manufactured in the Manaus Free Trade Zone.

For an overview of the broader reform, see our ***Practical Guide to Brazil's Consumption Tax Reform***.

The Selective Tax (IS – *Imposto Seletivo*) sits alongside the IBS and CBS in the new system, applying to specified goods and services considered harmful to health or the environment. The IS is charged on the production, extraction, sale and importation of those goods and services, and is administered by the Brazilian Federal Revenue Service (RFB – *Receita Federal do Brasil*).



* Except for products manufactured in the Manaus Free Trade Zone.

LEGAL FRAMEWORK

Federal Constitution	Article 153(VIII), added by Constitutional Amendment 132/2023
Complementary Law 214/2025	Book II, Articles 409–438
2027 tax rates	Provisional Measure 1.399/2026

DID YOU KNOW?

Estimated IS revenue will be factored into the calculation of the CBS reference rate for 2027, helping to reduce the rate.

2. WHAT DOES THE SELECTIVE TAX APPLY TO?

The IS applies to the following categories of goods and services:

CATEGORY	COVERED GOODS AND SERVICES*
Vehicles	Automobiles (87.03) and light goods vehicles under heading 87.04, except trucks
Aircraft and vessels	Aircraft under heading 88.02 (except 8802.60.00) and motorized vessels under heading 89.03
Tobacco products	Products under headings 24.01 to 24.04, including unmanufactured tobacco; cigars, cigarillos and cigarettes; and other tobacco and nicotine products
Alcoholic beverages	Products under headings 22.03, 22.04, 22.05, 22.06 and 22.08, including beer, wine, vermouth, other fermented beverages, spirits and other alcoholic beverages
Sweetened beverages	Products under code 2202.10.00, including water, carbonated or otherwise, containing added sugar, sweeteners or flavoring, and soft drinks
Mineral products	Iron ores and concentrates (2601), crude petroleum oils (2709.00.10), liquefied natural gas (2711.11.00) and natural gas in gaseous form (2711.21.00)
Lotteries and betting	Lottery games, fixed-odds betting, horse-race betting and other betting activities, as well as fantasy sports

*Product classifications in the table refer to the Mercosur Common Nomenclature (NCM), which is based on the international Harmonized System (HS).

WORTH NOTING

Vehicles. Pickup trucks are subject to the IS: under Provisional Measure 1.399/2026, they are not treated as trucks, regardless of gross vehicle weight. Trucks themselves remain outside the scope of the tax, as do operational vehicles used by the Armed Forces and public security services.

Tobacco products and alcoholic beverages are subject to the IS only when packaged for sale to the final consumer.

Lotteries and betting. This category includes lotteries, fixed-odds betting and horse-race betting; the same rules apply to fantasy sports.

The IS does not apply to electricity or telecommunications. Also outside its scope are goods and services that benefit from reduced IBS and CBS rates under the tax reform, which include education and healthcare services, medicines and medical devices, accessibility devices, food, basic hygiene and cleaning products, agricultural and aquaculture products and inputs, public transportation, cultural productions, and goods and services related to national security and cybersecurity.

3. HOW DOES THE SELECTIVE TAX WORK?

The IS is generally charged once, at a specified point in the supply chain, and does not generate tax credits. Its main features are summarized below.

When does it apply?	On the first supply of a taxable good and in certain other events, including importation, auction sales, transfers without consideration, use or consumption by the manufacturer, and mineral extraction. For services, the IS applies on supply or payment.
Who pays?	Depending on the taxable event, the manufacturer, importer, auction purchaser, producer-extractor or service provider, including a service provider resident outside Brazil.
What is the taxable amount?	For sales, the transaction amount, excluding IBS, CBS, IS, ICMS and ISS, as well as unconditional discounts. For imports, the customs amount plus Import Tax; the IS is paid when the import declaration is registered.
Does the IS generate tax credits?	No. The IS is charged only once and does not generate credits at earlier or later stages of the supply chain.
How is it assessed and paid?	The IS is assessed monthly on a consolidated basis across all the taxpayer's establishments and paid centrally. IS owed may be paid through the split payment mechanism.

WHY IT MATTERS

Because the IS does not generate tax credits, purchasers cannot recover the tax. The tax therefore becomes a cost, with potential repercussions for pricing throughout the supply chain.

4. SELECTIVE TAX RATES IN 2027

The IS does not have a single rate. Its rate structure reflects the selective nature of the tax: rates vary by product and, in some cases, according to characteristics linked to health or environmental impact.

For 2027, however, the system is transitional. For many products, existing IPI rates serve as the starting point, with adjustments to reflect differences in the amounts on which the IPI and the IS are calculated. Other categories have their own rate-setting rules: alcoholic beverages may be differentiated by category and alcohol content, while vehicle rates incorporate criteria such as propulsion technology, energy efficiency, power and recyclability.

The 2027 rates are therefore a first step rather than the final IS rate structure. New legislation will be required to set the rates applicable from 2028 onward.

HOW THE RATES VARY

Alcoholic beverages. Rates vary by category, ranging in 2027 from 4.2% for malt beer to 24% for certain spirits. The legislation also allows rates to vary with alcohol content, although the specific component based on alcohol content and volume is set at zero for 2027. Small producers meeting specified volume thresholds benefit from temporary reductions through the end of 2027.

Tobacco products. Cigarettes and cigarillos are subject to both an ad valorem rate of 66.7% and a specific charge of BRL 3.50. Other covered tobacco and nicotine products are taxed at 37.5%.

Vehicles. Vehicle rates depend not only on the type of vehicle but also on characteristics including powertrain, energy efficiency, engine power, structural and driver-assistance performance, and recyclability. The applicable adjustments can increase or reduce the starting rate. Certain qualifying vehicles, including specified vehicles acquired by persons with disabilities and certain lower-emission vehicles, qualify for a zero rate.

IN PRACTICE

For a gasoline-powered passenger car with a 100 kW engine that does not meet the criteria for energy efficiency, structural performance or recyclability, the initial rate would be 13.55%: the 6.3% base rate, plus 6.5 percentage points for the powertrain and 0.75 percentage points for engine power. Applying the 1.21 conversion factor produces a final IS rate of approximately 16.40%.

The same car with a flex-fuel engine would have an initial rate of 7.05%: the 6.3% base rate plus 0.75 percentage points for engine power, with no powertrain adjustment. After application of the conversion factor, the final rate would be approximately 8.53%.

Aircraft and vessels. Aircraft covered by the IS are generally subject to a 6.8% rate. Rates for motorized recreational or sporting vessels are 7.8% or 12%, depending on their classification. Zero rates apply in specified cases, including qualifying low-emission vessels and aircraft and those used for agricultural, commercial aviation or tourism purposes.

Mineral products. Complementary Law 214/2025 caps the IS rate on extracted mineral products at 0.25% and provides a zero rate for natural gas used as an industrial input or transportation fuel. As a transitional measure, however, the rate for extracted mineral products is zero through 31 December 2027.

Lotteries and betting. The rate is 0.5%, applied to the operator's own revenue, broadly corresponding to amounts collected less prizes and other amounts that must be allocated by law.

Imports. Different rules apply to imported goods. When the IS is calculated on the basis of the customs value of goods plus Import Tax, an additional adjustment is made to the applicable rate. For 2027, the adjustment factor is 1.17 for vehicles, aircraft and vessels and 1.45 for alcoholic and sweetened beverages; other products are not subject to an additional adjustment.

IN PRACTICE

The adjustment can result in a higher effective IS rate on an imported product. For example, malt beer otherwise subject to a 4.2% rate is taxed at approximately 6.09% on importation after application of the 1.45 adjustment factor.

2027 SELECTIVE TAX RATES AT A GLANCE

PRODUCT/CATEGORY	2027 RATE
Sweetened beverages	**2.6%**
Malt beer	**4.2%**
Wine and other fermented beverages, subject to specified exceptions	**8.0%**
Vermouth and other beverages under heading 22.05	**12.0%**
Madeira, port and sherry; certain stronger fermented and other beverages	**16.0%**
Rum and sugar-cane spirits, except spirits obtained from molasses	**20.0%**
Other alcoholic beverages under heading 22.08	**24.0%**
Cigarettes and cigarillos	**66.7% + BRL 3.50 specific charge**
Other tobacco and nicotine products	**37.5%**
Automobiles	**Rate determined by vehicle characteristics**
Light goods vehicles	**Rate determined by vehicle characteristics**
Aircraft	**6.8%**
Certain motorized vessels	**12.0%**
Other covered motorized recreational or sporting vessels	**7.8%**
Extracted mineral products	**0% through 31 December 2027**
Lotteries and betting	**0.5%**

5. TIMELINE

The IS will continue to evolve after it takes effect in 2027. The rates and several of the transitional rules will change as Brazil moves through the broader consumption tax transition.

DATE	WHAT CHANGES
2 February 2027	The Provisional Measure setting the 2027 IS rates takes effect.
By 31 May 2027	A bill setting the IS rates from 2028 onward is to be submitted to Congress.
31 December 2027	Several transitional rules expire, including the temporary rules for tobacco products, small producers and certain zero-rated products.
From 2028	New IS rates will apply, under legislation to be enacted.
2029–2033	IS rates for tobacco products and alcoholic and sweetened beverages will be gradually adjusted to offset the reduction in the state VAT (ICMS) as it is phased out.
Through 31 December 2032	The state VAT (ICMS) and the municipal service tax (ISS) are not included in the amount on which IS is calculated.

AN OPEN ISSUE FOR EARLY 2027

The Provisional Measure establishing the 2027 IS rates takes effect on 2 February 2027, creating uncertainty over the treatment of taxable events occurring between 1 January and 1 February 2027. Proposed Constitutional Amendment PEC 22/2026, discussed in Section 7, proposes a transitional solution.

6. WHAT BUSINESSES SHOULD WATCH FOR

As businesses prepare for the IS, the headline rates are only part of the picture. Product classification, pricing and contracts, compliance procedures and rules still to come can all affect the practical impact of the new tax.

NCM classification matters

For goods, NCM classification can determine both whether the IS applies and the applicable rate. Businesses should review the classification of potentially affected products, particularly where products could fall close to the boundary between covered and excluded categories.

Pricing and contracts may need to be revisited

Because the IS does not generate tax credits, purchasers cannot recover the tax, which therefore becomes a cost. Businesses should consider the potential effect on pricing and review contractual provisions dealing with taxes and the allocation of tax costs.

Related-party transactions require particular care

For related-party transactions subject to an ad valorem rate, where no reference value applies, the amount on which the IS is calculated cannot be lower than market value.

Electronic tax data will drive IS compliance

The RFB will use information reported in electronic tax documents to calculate taxpayers' IS liability automatically. The calculation will be made available to the taxpayer for review and any necessary adjustments before payment. How taxpayers respond to that calculation will have legal consequences: confirmation or adjustment constitutes acknowledgment of the amount due, while failure to respond within the applicable period results in the calculated balance being presumed correct.

Some existing IPI rules will continue to matter

Provisions of the IPI Regulations that are not specific to the IPI will continue to apply to the IS. One practical example is the minimum retail price for cigarettes.

Important details are still to come

Further regulations and guidance from the Brazilian Federal Revenue Service will be needed on a number of operational points, including IS rebates when invoices are cancelled, rounding of rates and rate reductions for small producers.

The IS rates are not yet settled

The 2027 rates were established by a Provisional Measure, which must still be converted into ordinary legislation. Rates from 2028 onward will require new legislation. Businesses affected by the IS should therefore expect the rules to continue evolving as implementation progresses.

7. A PROPOSED CHANGE TO THE 2027 TRANSITION

At present, there is a gap in the transition from the IPI to the IS. Under the current constitutional rules, most IPI rates are due to fall to zero from 1 January 2027, while the IS rates established for 2027 take effect only on 2 February.

To address that gap, on 5 November 2026 the Brazilian government submitted **Proposed Constitutional Amendment 22/2026 (PEC 22/2026)** to the Chamber of Deputies. The proposal would keep the IPI in effect for products that are also subject to the IS until the new IS rates take effect.

What would change?

If approved, the proposal would change the transition in two important respects:

- IS would begin to be charged when the legislation setting its rates takes effect, rather than simply by reference to the 2027 start date in the existing constitutional transition rules; and
- IPI would continue to apply to specified products within the scope of the IS until that point, avoiding a period in which neither tax is effectively charged on those products.

For 2027, MP 1.399/2026 currently provides for the IS rates to take effect on 2 February 2027. The proposed constitutional amendment does not itself fix that date, however: it links the transition from IPI to IS to the date on which the IS rates actually take effect.

Which products would be affected?

The proposal applies only to products that are currently subject to IPI and will also fall within the scope of the IS:

- vehicles;
- aircraft and vessels;
- tobacco products;
- alcoholic beverages; and
- sweetened beverages.

Why is the change being proposed?

The government identifies two consequences of allowing IPI rates to fall to zero before the IS takes effect.

First, the gap could temporarily reduce the relative prices of products targeted by the IS, including tobacco, distilled alcoholic beverages and vehicles subject to environmentally-differentiated IPI rules, potentially encouraging consumption during the transition.

Second, the resulting loss of IPI revenue could temporarily affect the CBS reference rate. Because revenues from the IPI and the IS feed into the calculation of the CBS reference rate during the transition, the government argues that the shortfall could require a temporary increase in the CBS reference rate for other goods and services, followed by an adjustment in subsequent years.

What remains uncertain?

PEC 22/2026 is only a proposal. It must pass the constitutional amendment process in Congress before it can take effect. At present, the proposal is awaiting action in the Chamber of Deputies.

The timing also interacts with MP 1.399/2026 and its conversion into ordinary legislation. Businesses affected by both IPI and IS will therefore need to follow both PEC 22/2026 and MP 1.399/2026 to determine which tax applies during the transition.

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Our expertise across the most diverse areas of law allows us to propose creative solutions to our Brazilian and international clients and ensures the security of their activities.

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