WHT ON DIVIDENDS

NON-RESIDENT INVESTORS

On March 18, 2025, the government presented the Bill of Law 1087, which introduced a minimum individual income tax on high-net-worth individuals and imposes withholding income tax (WHT) on dividends paid by Brazilian legal entities to foreign investors.

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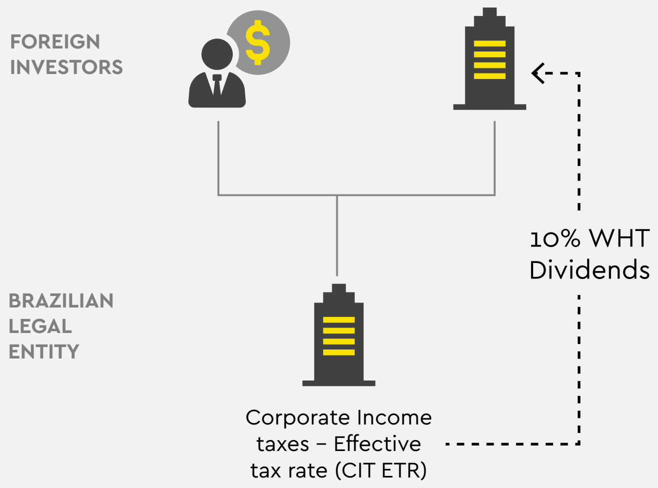

TAXABLE EVENT: Payment, credit, delivery, deployment or remittance of dividends to abroad

WHT RATE: 10%

RELIEF MECHANISM: If the sum of the CIT ETR borne by the Brazilian legal entity (+) the 10% WHT rate is higher than 34% (general nominal CIT rate; increased 40% or 45% applies to certain financial institutions and banks), a tax credit will be granted to the non-resident investor.

TAX CREDIT: Credit = Dividends x [CIT ETR + 10% (-) CIT nominal rate of 34%, 40% or 45%]

RECOVERY MECHANISM: Foreign investors can claim the credit within 360-day period counted from the end of each tax period.

HOW TO ASSESS THE CIT ETR? CIT effectively paid vis-à-vis accounting profits.

IMPORTANT TOPICS

- 10% WHT rate applies regardless of the residence of the beneficiary of the dividends (foreign investors in low tax jurisdictions should not be subject to an increased 25% rate)
- Burden to demonstrate the CIT ETR of the Brazilian legal entity is imposed on the foreign investor
- Tax treaty relief: the double tax treaties executed by Brazil do not provide for an effective relief below 10% WHT rate
  Exception: Brazil-UAE DTT provides for a 5% WHT rate on dividends paid to government and governmental bodies and agencies.
  Application of most favorable nation clauses in other DTTs, as well as tax sparing and matching clauses to be evaluated on a case by case basis.
- No update by Selic is proposed in connection with the tax credit. Also, the bill of law does not rule how the credit can be used to offset future tax liabilities (potentially derived from future dividend or interest on net equity distributions)
- Assessment of the CIT ETR is based on the accounting profits, generally reported on a consolidated basis. However, taxable profits are assessed on a standalone basis
- Non-resident investors most likely affected if they invest in: companies under the presumed profits regime, companies enjoying goodwill tax amortization or tax incentives such as accelerated depreciation. From a practical perspective, the effectiveness of such regimes may be reduced by dividends taxation.

NEXT STEPS

The Bill of Law will be analyzed by the Congress. If passed into law, effects will be in place as of January 2026.