

BRAZIL TAX REFORM BRIEFING PAPER

Summary

In 2023, Brazil's Congress approved the tax reform bill on consumption taxes (commonly, "VAT"). As of 2025 and moving forward, complementary regulations must be approved by Congress before the tax reform enters into force (*see below "run-down of legislative steps" and "entry into force timeline" sections*). To the extent possible, industry actions are focused currently on advocating to alleviate the impacts of the following approved changes:

- International traffic: Application of "VAT" (estimated at 26.5%) on international air tickets departing from Brazil (half of the 26.5% to be applied for the outbound portion of itinerary only). *See below potential economic impact.*
- Domestic traffic: Increase of "VAT" on domestic air tickets from 3.65% to estimated 26.5%. *See below potential economic impact.*

Background

- Under a transitional framework, the new tax law revoked the indirect taxes that currently applied (PIS/COFINS, ICMS, ISS and IPI), and created new taxes that are calculated more in line with the OECD rules for value added tax (VAT). The new taxes are:
 - CBS, replacing PIS/COFINS – federal taxes that will be extinct after 2033.
 - IBS, replacing ICMS and ISS – state and municipal taxes that will be extinct after 2033
 - Excise tax, which should levy on operations with goods that are considered a threat to the environment and to human health.

Run-down of legislative steps:

- Constitutional amendment (basis of tax reform) bill approved in December 2023.
- Supplementary laws (general regulations for new taxes):
 - Bill 68 – which contains the general rules for the new taxes (IBS, CBS, and excise tax) – was approved on December 17, 2024.
 - Bill 108 – contains regulations for the transitional period and rules of operation for the IBS Committee, still under discussion and expected to be approved in 2025.
- Other laws and regulations (providing operational details on how the system will work) – these await discussion in 2025.

Entry into force - timeline

- 2026 – testing phase, rate of 1% to be applied. There will be no effective tax payment. The sole objective of this phase is to test the new system and adjust whatever needs to be adjusted before its full implementation.
- 2027 – the reform comes into effect with the new CBS and the extinction of the PIS and COFINS. In this stage, the collection of the portion of federal taxes comes into effect.
- 2029 – gradual reduction of ICMS and ISS rates by 10%, with a proportional increase in the IBS to maintain collection. In this stage, the collection of the full rate comes into effect, along with the federal, state and municipal portions.
- 2033 – end of the transition period, with the complete unification of consumption taxes.

Possible impact of imposing VAT on air tickets

- The imposition of a 26.5% Value Added Tax (VAT) on both international and domestic airline tickets is projected to significantly impact passenger demand and affordability. It will also jeopardize the significant benefits that tourism and air transport deliver to Brazil and is contrary to international best practice, as set out by the [International Civil Aviation Organization](#).

- **Impact on Ticket Prices:** In this scenario, the proposed reform will increase the average cost of flying from USD 140 to USD 170 for domestic traffic, and from USD 780 to USD 985 for international traffic.
 - **Effect on Passenger Demand:** The higher ticket prices are estimated to reduce demand by approximately 21-29%, resulting in 2.4-3.2 million fewer international passengers. The increased costs are projected to decrease demand by around 18-24%, leading to 13-18 million fewer domestic passengers.
 - **Economic Implications:** International travel is vital for Brazil's economic development. The increased costs will reduce Brazil's competitiveness, harming the tourism sector and related industries. Similarly, domestic travel is crucial for the economic growth and connectivity of rural areas, where alternative transportation options are often limited. Higher travel costs will hinder this growth, exacerbating economic disparities between regions and impacting low-income earners the most.
- Air transport is key to the Brazilian economy. In 2023, it generated BRL 231.3 billion (USD 46.4 billion) of GDP (2.1% of GDP) and supported more than 1.9 million jobs. The importance of international tourist arrivals is highlighted by their spending, which totaled USD 6.8 billion in 2023.
 - In 2023 (latest available data), almost 87 million passengers departed from airports in Brazil (on an origin-destination basis), with 76.2 million departures (87% of the total) traveling domestically and 11.1 million passengers departing internationally (13% of the total).

Actions moving forward

- Government
 - Define VAT rate (estimated and "locked" at 26.5% currently) by the Senate. The full CBS rate will apply from 2027. The IBS will be determined in 2029.
 - Conclude discussions and formalize supplementary regulations as indicated above.
- IATA
 - Participate in regulating Article 298 of the tax reform, which indicates compliance with rules under international agreements. IATA will assess the possibility of including exemption clauses in the treaties that Brazil has with other countries, as well as evaluate possibilities of reciprocity based on other countries' practices over Brazilian carriers.
 - Develop alternatives until the effective start of tax collection, scheduled to begin partially in 2027 through a working group established for this purpose.
 - Reach main countries' embassies from most impacted airlines seeking support in advocating for VAT exemption in their operations (ie. USA, Argentina, Central EU countries).
 - Launch communication campaign with media on the negative effects the new tax will have on connectivity, airfares, jobs and economic and social impacts.
- ALTA
 - The contract for the first phase of tax reform process with the advocacy firm has expired. Local carriers are discussing possible actions to take, which might include renewing the agreement with the firm, or tasking ABEAR to lead this effort on their behalf to continue advocating their position in the complementary regulations that are yet to be issued.
- Local BAR (ABEAR)
 - Internal discussions among their members to define roles in supporting advocacy efforts with government and congress.
 - IATA will support once ABEAR defines course of action.